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ASEAN+3 Trade Reporter is a monthly round-up of trade developments in the Southeast Asia and East Asian regions. It is published by ITS Global, Australia's leading consultancy on international trade and environmental policy developments in the Asia-Pacific region. Alan Oxley is the Principal of ITS Global. He is a former Ambassador of Australia to the GATT (predecessor to WTO) and is Chairman of the Australian APEC Study Centre at RMIT University. Further information on ITS Global activities and current projects is available at www.itsglobal.net.

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Commentary by ITS Global

Services are drivers of economic growth and trade

The latest WTO Trade Policy Review for Malaysia cites the relaxation of restrictions on foreign investments in services as a contributor to recent economic growth. This is a positive achievement and a relevant consideration for other economies in the region. Trade restrictions limit foreign investment and impede expansion of the services sector.

Competitive and open services are particularly important for continuing growth in the Asia-Pacific region. In industrialised economies like Australia, more than 80 per cent of economic growth is generated by the services sector. Lower-income economies depend less on services. They generate about 40 per cent of Indonesia's economy. As incomes rise, the services sector becomes more important. Yet even the more advanced Asian economies have been reluctant to open their transport, telecommunications and finance industries to foreign investors.

Without competition and investment in these sectors, key drivers of competitiveness in every economy, growth will tail off. Foreign investors are deterred where finance is not readily available and telecommunications and transport costs are high.

China economy to slow, risks to trade and growth

While China's economy has grown strongly over the past year, Premier Wen Jiabao has warned against interpreting the economic turnaround as a fundamental improvement in the economic situation, noting that "there is insufficient internal impetus driving economic growth". China's growth has been driven by a surge in state bank lending, largely for infrastructure. Commentators now point to the risks of rising inflation.

Increasing demand for commodities and manufactures has fuelled trade with many Asia-Pacific countries. Recent GDP growth in Thailand and Taiwan is attributed to strong exports to China. China's resource needs have buoyed the Australian economy.

The rate and nature of the economic recovery will determine whether this can

continue. It matters. Global trade fell by 12 per cent in 2009, the largest reduction since WWII, principally due to falling demand. While the WTO expects the recovery of this year to continue to be driven by increased demand from China, its Director-General, Pascal Lamy, has similarly warned that it may be modest and that it is potentially unsustainable. How China handles the difficult task of balancing the risks of overheating in the economy with continued and sustained growth will be crucial.

Asia-Pacific

TPP negotiations begin in Melbourne

[Article](#), The Age, 15 March

Negotiations for a Trans Pacific Partnership (TPP) began on 15 March in Melbourne. Over 200 delegates from eight nations met in a plenary session, discussing the proposed structure for the negotiations. Working groups have met to discuss areas such as intellectual property, technical barriers to trade and agriculture. For running updates on the progress of negotiations, see the USTR's [blog](#).

China to overtake Japan as second largest economy

[Article](#), Financial Times, 15 February

China is likely to overtake Japan as the world's second largest economy. In 2009, Japan's total GDP was US\$5.1 billion; China's was US\$4.9 billion. If the International Monetary Fund's predicted ten per cent growth for China holds true, China's GDP will soon surpass that of Japan. China is Japan's biggest trading partner and export market. See also: [China's economic rise has silver lining for Japan](#), *The Age*, 16 February.

Australia requests IRA in wake of removal of ban on beef imports

[Press Release](#), Australian Minister for Agriculture, Fisheries and Forestry, 8 March

The Australian Government has withdrawn the blanket ban against beef imports from countries that had previously been affected by bovine spongiform encephalopathy (BSE), commonly known as mad-cow disease, but has since requested that an Import Risk Analysis (IRA) be performed before imports from BSE-affected countries can resume. The IRA will take two years and include a formal process of community consultation and scientific examination.

ABAC conference held in Melbourne

[Article](#), The Age, 13 February

Delegates from APEC Member Economies met in Melbourne in February for the biannual APEC Business Advisory Council meeting. The forums encourage business and political dialogue. Issues discussed included Public Private Partnerships (PPPs), food and energy security and the need for increased market integration. Australian representatives Lindsay Fox (LinFox) and John Denton (Corrs Chambers Westgarth) stated that Australia has a significant role in sharing business models with the region.

Japan reduces export expectations amid Toyota recall

[Article](#), The Wall Street Journal, 24 February

Japan's Ministry of Trade has reduced export expectations for 2010 following Toyota's recall of over eight million vehicles world-wide. Toyota's recall is expected to hit automobile exports with a resultant major impact on total exports; shipments of cars and automobile parts account for approximately 15 per cent of Japan's total exports. The reduction in exports could singularly reduce Japan's nominal GDP by 0.12 per cent.

USTR review on IP enforcement with trading partners

[Press Release](#), USTR, 12 January

The United States Trade Representative (USTR) is conducting a review of Intellectual Property (IP) law enforcement amongst its trading partners. The "Special 301" review, which is conducted annually, analyses IP market access and enforcement in foreign countries. The review process will this year include the provision of more information to the public on IP law and increased business participation through public forums.

ASEAN

Indonesian and Australian leaders discuss trade

[Article](#), Time, 13 March

Indonesian President Susilo Bambang Yudhoyono visited Australia in early March. He held talks with Australian Prime Minister Kevin Rudd, during which the two leaders discussed Mr Rudd's proposed Asia-Pacific Community as well as a possible bilateral FTA. More time may be needed before agreement to negotiate an FTA is reached, as Indonesia focuses on implementing the recently concluded ASEAN-China FTA. See also: [Australia-Indonesia joint statement](#), 10 March.

Trade reform needed to further growth – Malaysia TPR released

[Report](#), WTO, 27 January

The WTO has released a Trade Policy Review (TPR) of Malaysia. The Review found that Malaysia has achieved significant growth because of a relaxation of restrictions on foreign investment in services. The report suggests that this approach be extended to the trade in goods, and that reforms be introduced domestically to promote competition.

Trade leads to strong GDP growth for Thailand, Taiwan

[Article](#), Financial Times, 22 February

Taiwan and Thailand achieved increases in GDP of 9.2 per cent and 5.8 per cent, respectively, for the fourth quarter of 2009, in comparison to the corresponding period in 2008. This was largely due to the growth in export demand from China; China's economy grew by 10.7 per cent in the fourth quarter of 2009. Thailand's exports to China grew by 94 per cent from 2008 to 2009. Exports to China comprise 29.2 per cent of Taiwan's total exports, up from 17.8 per cent at the beginning of 2009.

Indonesia to limit palm oil exports

[Article](#), Business Times, 9 February

Indonesia is planning on limiting its crude palm oil exports in order to generate more domestic activity in value-added products. The Secretary-General of the Indonesian Palm Oil Association, Joko Supriyono, said that the capacity of the domestic Indonesian market to absorb the output of refined products, as well as the Government's definition of what constitutes refined palm oil products, are key. The limit will be set at a maximum of 50 per cent of output in 2015, and 20 per cent of output in 2020.

Trade Agreements

Australia-Korea FTA negotiations continue

[Press Release](#), Australian Minister for Trade, 15 March

The fourth round of negotiations between Australia and the Republic of Korea (ROK) for an FTA commenced on 15 March in Seoul. Korea is currently Australia's third largest trading partner. Exports are valued at over A\$21 billion annually and are expected to increase as ROK's economy grows. A study released in 2005 found that an FTA would boost the Australian and Korean economies by A\$30 billion and A\$39 billion, respectively, over 14 years.

Australia and China resume free trade talks

[Transcript](#), Australian Minister for Trade, 24 February

Australia and China have resumed negotiations on an FTA after talks had stalled for 14 months. In late February, Australian Trade Minister Simon Crean met with delegates from China in Canberra. Mr Crean said that the negotiations were continuing, but did not set a date for their conclusion. Topics discussed included agriculture and beef safety standards. Mr Crean said that Australia would not accept standards less than those agreed with New Zealand under the AANZFTA.

WTO Developments

Drop in world trade “biggest since WWII”

[Article](#), The Independent, 25 February

Total world trade fell by 12 per cent in 2009. According to the Director-General of the WTO, Pascal Lamy, the drop is greater than any annual reduction since WWII. Lamy says that this was a result of significantly reduced demand during the global financial crisis. He expects that a recovery in 2010 will be driven by increased demand in China, but that it will only be modest and potentially unsustainable.

WTO dispute progress

[News item](#), WTO, 18 February

The Dispute Settlement Body (DSB) of the WTO met on 18 February. The DSB adopted a report regarding Thailand's dispute against the United States' anti-dumping measures for retail carrier bags. The US has six months to implement the findings. The Board also referred an EU request for retaliation against the United States' zeroing measures for products including steel, chemicals and pasta to arbitration. The request was made after the US failed to implement previous findings within the reasonable period of time allocated.

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