



# ITS Trade Reporter

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ITS Trade Reporter is a monthly round-up of trade developments from around the world. It is published by ITS Global, one of Australia's leading consultancies on international trade, economics and public policy. Information on ITS Global activities and current projects is available at [www.itsglobal.net](http://www.itsglobal.net)

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- **A weird trade move on Chinese exchange rates**
- **Are China's SOEs illegal subsidised under trade rules?**

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## Commentary by ITS Global

### 2011 – a year for US trade policy?

The United States hosts APEC this year. US officials are indicating they want the proposed Trans Pacific Free Trade Agreement (TPP) adopted to mark the year.

Positive interest by the Obama Administration in trade is welcome. It has not featured much in the Administration to date. There are signs as well the Administration is planning to secure Congressional support for the stalled FTAs with Columbia and South Korea.

The downside is the price to be paid for these advances. Take the FTAs first. Although the Republicans have regained control of the Senate, US unions and protectionist Democrats remain in a position in both Houses to demand these agreements incorporate labour and environmental provisions. These advance the "Blue/Green" goal of conditioning market access under FTAs with compliance with labour and environmental policies. Republicans are likely to tolerate some of these – they did in the last Trade Promotion Authority Bill passed by the Bush Administration – in order to get the Authority through Congress.

The TPP has some promising aspects – as well as including

Australia, Brunei, Chile, Singapore, NZ, Peru and the US, Malaysia and Vietnam have joined the negotiations. Canada, the Philippines, Taiwan, Japan and South Korea are interested in joining.

The current Japanese Government has shifted away from the traditional opposition of its predecessors to any formal liberalisation of agriculture. Vietnam's interest in negotiating further FTAs is also welcome.

This now suggests the TPP could evolve into a trans-APEC FTA. This would over time be preferable to sub-regional FTAs which are hubbed around China and which exclude the US. The problem is that the negotiations are nowhere nearly advanced enough to chart them as a signature direction in the US APEC year to demonstrate a fundamental direction in which APEC should move.

### **A weird trade move on Chinese exchange rates**

A Bill has been introduced to the US House of Representatives which would overturn a ruling of the US Department of Commerce that Chinese currency manipulation does not constitute an export subsidy for Chinese exports. The effect of the change could permit them to be declared illegal under WTO rules. This is weird. Holding the yuan down does make Chinese exports more competitive, but the policy intention is as much to manage the domestic Chinese economy.

The state of the trade imbalance between the US and China is a direct function of the financial imbalances. Trade policy and monetary policy should not be intertwined.

The real surprise is that Fred Bergsten of the International Institute for Economics, a long time free market Democrat, is backing such changes to the Bill. Bergsten's Institute two years ago also proposed changes to the WTO that would exempt any climate change measure clashing with a WTO regulation from challenge under WTO disputes procedures. That idea died as support for emissions trading collapsed.

Until now the Obama Administration has followed fairly mainstream positions on trade policy, but has been able to stick to that position because it has done almost nothing. Union and Green interests inside the Administration have a different agenda. The year could be interesting as well as messy.

### **Are China's SOEs illegal subsidised under trade rules?**

China's treatment of its state owned enterprises (SOEs) may be more likely to offend WTO subsidy rules than currency manipulation. A WTO disputes panel recently held China's SOEs to be public bodies potentially producing subsidised products. The consequences are significant - all utilities, energy, and telecommunications services, and many other sectors in which the state dominates could be subject to countervailing action.

The panel decision is currently being appealed by China at the WTO.

## Global Developments

### Global economic recovery still driven by developing countries

January 12, World Bank, [Press Release](#)

Recent estimates released by the World Bank predict a slowdown in global GDP growth to 3.3 per cent in 2011, following a 3.9 per cent increase in 2010. According to the Bank's Global Economic Prospects 2011 report, growth in developing countries will continue to outstrip growth in high-income countries, growth in the former is predicted to be more than twice the rate projected for the latter.

### Global FDI stagnant in 2010

January 17, UNCTAD, [Press Release](#)

UNCTAD has released its 5th Global Investment Trends Monitor Report. It notes global foreign direct investment (FDI) remained stagnant in 2010 at US\$1,122 billion. This figure is 25 percent below the pre-crisis average between 2005 and 2007. The report notes that for the first time in history, in 2010 developing and transition economies attracted over half of total global FDI.

### Export restrictions stem rising food prices

22 January, WTO, [Speech](#)

The Director-General of the WTO, Pascal Lamy, referred in a speech to the Berlin Agriculture Minister's summit to the role of export restrictions in food price rises. He emphasised that the best way to counter food shortages is by freeing up trade to lead to improvements in efficiency.

## Asia-Pacific

### Japan's Trade Minister to resist protectionism

20 January, Financial Times, [News Item](#)

Japan's newly appointed Trade Minister, Banri Kaieda, has noted that agricultural competition should not be a barrier to Japan joining a regional trade group. Mr Kaieda referred to the decline of the industry as many farmers reach old age, and the rise of trade deals among nations such as South Korea and the EU/US. He suggested developing industries such as tourism and marketing the sale of high-quality produce overseas are mechanisms to boost the industry, rather than protectionism. Meanwhile, the Japanese government has confirmed it will wait until June this year to take a decision on joining the Trans-Pacific Partnership Agreement (TPP).

### China posts strong foreign investment and narrowing of trade surplus

January 10, BBC, [News Item](#) and January 18, AFP [News Item](#)

According to the China's General Administration of Customs (GAC), China's trade surplus for 2010 fell for the second consecutive year, by 6.4 per cent. While foreign direct investment in China hit a record

\$105.7 billion (with investment by overseas companies rising 17.4 per cent in a year), more than a fifth of this money has flown into the Chinese property sector. Official data published by the National Bureau of Statistics reveal China's GDP for 2010 grew faster than expected at 10.3 per cent. High inflation continues to be a problem. Although inflation dropped to 4.6 per cent in December from a 28 month high of 5.1 per cent the month before, it still remained higher than the markets had anticipated.

#### **India and Indonesia strengthen bilateral ties**

24 January, The Hindu, [News Item](#) and Financial Times, [News Item](#)

India and Indonesia are set to sign 17 infrastructure and construction deals worth more than \$15 billion during a visit to India by Indonesian President starting January 24. Projects to be implemented include the construction of airport terminals on Indonesia's island of Bali and the city of Yogyakarta by Indian infrastructure developer GVK, and the building of a 270km railway and a coal terminal in southern Sumatra for \$1.6 billion. Other deals include the building of coal-fired power plants, railways and shipyards. The two countries recently completed a joint study for a Comprehensive Economic Partnership Agreement (CEPA).

#### **President Hu and President Obama discuss global economy, currency**

20 January, Financial Times, [News Item](#)

On a recent state visit to the US, Presidents Hu and Obama discussed issues including the global economy and China's currency policy. The openness of the Chinese market and intellectual property rights, and North Korea's nuclear programme were also discussed. President Hu defended China's currency policy saying that the Chinese economy has helped create 14 million jobs around the world through its growing imports, and has helped save US consumers \$600 billion through the export of "quality and inexpensive" products. The Deputy Chief of China's central Bank, Zhu Min, was forced to defend China's currency policy at the World Economic Forum in Davos.

#### **Indonesia commits to lowering barriers in the ASEAN Economic Community**

12 January, Xinhua News, [News Item](#)

As part of its chairmanship of ASEAN for 2011, Indonesia has committed to lowering the legal barriers which prevent the formation of the ASEAN Economic Community (AEC). The slow pace of ratification by some ASEAN countries of economic integration agreements among themselves has slowed progress towards the AEC. There are also regulatory burdens in ASEAN economies stymieing economic integration which Indonesia says it will encourage member states to rectify in 2011.

#### **South Korea imposes pork tariffs to counter local conditions**

25 January, Xinhua News, [News Item](#)

South Korea has imposed an import tariff of 25 percent on imports of pork. The move is an effort to stabilise supply conditions following an outbreak of foot and mouth disease which has resulted in the culling

of over 2.5 million livestock. Up to 600,000 tonnes of pork will be subject to the tariff, which might be increased to 40 percent if required by the South Korean government.

### **China seals billion dollar soybean deal with the US**

21 January, Reuters, [News Item](#)

China has signed a \$6.7bn purchase deal with the US for the purchase of soybeans. The size of the deal, 11.5m tonnes of soybeans and more than half 2010's total trade volume, came as a shock to the market. It is seen by some commentators as an attempt by China to avoid rising food prices in 2011. China is expected to soon overtake Mexico as the US's second largest buyer of agricultural goods.

## **Australia**

### **Australian trade surplus continues, but hurdles ahead**

11 January, DFAT, [Media Release](#)

According to figures released by the Australian Bureau of Statistics, Australia reported its 8th consecutive monthly trade surplus for November, recording a seasonally adjusted trade surplus of \$1.9 billion. However, the impact of the strong Australian dollar is being felt, particularly in the services sector, with travel services down 3 per cent.

### **Australian floods damage food, mining industries**

24 January, Financial Times, [News Item](#)

Key Australian industries have suffered due to extreme weather conditions in Queensland, New South Wales and Victoria. Consumer confidence in Australia has fallen to a seven month low. According to Australian Treasurer Wayne Swan, Australia's coal exports are likely to be one of the biggest casualties as several mines have been shut down, costing the industry \$2.3 billion. Similarly, the impact on agricultural production has seen the price of local food goods rise as the availability of undamaged produce falls. It is estimated that annual agricultural production will fall by as much as \$600m as a result.

### **Emerson talks trade and investment in India**

23 January, Australian Minister for Trade, [Press Release](#)

Craig Emerson visited India in January for discussions with Indian counterparts on bilateral trade, as well as the repayment of Indian debts to Australian contractors following the Commonwealth Games in Delhi. Emerson attended an Economic Summit entitled "New Partnerships for Economic Resurgence" and met with company leaders who currently have investments in Australia. Talks to encourage the expansion of bilateral investment beyond energy and resources will be a priority.

### **AWU launches campaign to for trade action against Chinese imports**

25 January, Australian Workers Union, [News Item](#)

The AWU will launch a campaign entitled "Don't dump on Australia"

at the AWU's national conference in February. The campaign is directed at pressuring the Gillard government to take action to tackle low-priced imports from China. Anti-dumping duties are permitted to be imposed on imports which are being unfairly sold at low prices in foreign markets. The campaign follows the release of an AWU poll which showed that very few Australian workers are aware of anti-dumping processes in Australia, but once aware, 4/5 of surveyed workers believed protecting Australian jobs was more important than facilitating free trade.

## WTO Dispute Settlement

- For current WTO disputes, [see here](#):
- For a complete guide to Australia's disputes, [see here](#).

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