



**ITS Global**

Consultants on Global Issues

# ITS Trade Reporter

November 2010 Edition

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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, Australia's leading consultancy on international trade and environmental policy developments in the Asia-Pacific region. Information on ITS Global activities and current projects is available at [www.itsglobal.net](http://www.itsglobal.net).**

## Latest Issues

### **G20 failure presages threat of rising protectionism**

The failure of G20 leaders at the recent meeting in Korea to agree to reduce finance and trade deficits will generate pressures for resort to new trade barriers.

### **Rising dollar not the only threat to exporters**

Food producers have noted the higher dollar is reducing exports as do all other exporters of manufactures. The mining boom will not last forever. Jobs and continuous prosperity also require globally competitive businesses in agriculture, manufacturing and services. Current policy settings in Australia do not provide for that.

### **Who runs FTA policy- the PM or the Finance Department?**

Julia Gillard told APEC Leaders Australia wants to bring negotiations with South Korea over an FTA to conclusion. But has anyone told her the Finance Department has given DFAT a direct disincentive not to do so?

## Commentary by ITS Global

### **G20 failure presages threat of rising protectionism**

The failure of G20 leaders at the recent meeting in Korea to agree to reduce finance and trade deficits will generate pressures for resort to new trade barriers. While China continues to hold its currency down and the US sustains unsustainable debt levels and starts to print dollars, the financial deficits between the two will increase, so will trade deficits and so calls for new trade barriers.

The likelihood this would encourage **climate change trade barriers** has diminished somewhat with public interest in climate change continuing to plummet in the US, the UK and now Australia.

However the conversion of the climate change debate into an anti-forestry crusade by the EU and NGOs does mean pressure will continue to use trade restrictions to pursue the agenda of groups like Greenpeace and WWF. Hence the focus on anti-dumping on paper products from Indonesia and China and pressure border restrictions on illegal timber.

### **Rising dollar not the only threat to exporters**

Food producers have noted the higher dollar is reducing exports as do all other exporters of manufactures. It has also shrunk education exports. In these circumstances, governments need to reduce costs to exporters. Yet in Australia a series of measures are having the opposite effect. New immigration controls have restricted foreign students and rising electricity costs, the result of building a global grid and mandating use of renewable power,

are increasing costs for producers. Measures proposed to reduce carbon emissions will reduce competitiveness further.

The mining boom will not last forever and nor should be wholly reliant on it. Jobs and continuous prosperity also require globally competitive businesses in agriculture, manufacturing and services. Current policy settings do not provide for that.

### **Who runs FTA policy- the PM or the Finance Department?**

Julia Gillard told APEC Leaders Australia wants to bring negotiations with South Korea over an FTA to conclusion. But has anyone told her the Finance Department has given DFAT a direct disincentive not to do so?

On 8 November, David Coorey reported in the SMH that the Finance Department had decided last year that if FTAs negotiated by DFAT resulted in loss of tariff revenue, DFAT would be required to show how it would compensate for the loss of government revenue by achieving savings in its own budget. He wrote that senior ministers confirmed this.

This the sort of loopy measure one would expect from a Chavez or Mugabe Government, not any mainstream western government or one that aspired to practice responsible economic management. However those familiar with the Canberra bureaucracy say this is not out of place in the Finance Department.

That doesn't explain the apparent concurrence in this by the Treasury and the Prime Minister's Department who, in the past have similarly been regarded as harbingers of economic and fiscal common sense.

The economics are ridiculous. The gain from an FTA is the increased economic activity derived from liberalizing the economies. If Finance wanted to be consistent over this, it should reward DFAT for producing results that expanded the economy. And since tariffs are taxes, there is also the reward for the economy for reducing taxes. DFAT should also be rewarded for that.

The effect of this measure is to give DFAT direct disincentive to complete the South Korea FTA and negotiate any other.

## **Global Developments**

### **Global Currency Concerns continue amid ineffective G20**

[Article](#), The Telegraph, 12 November

Intervention in currency markets is not a phenomenon existing in Chinese policy alone. Japan, Colombia and now the US have all introduced policies in recent months which have either indirectly or directly affected their local currency value. Other countries including South Korea, Malaysia and the Philippines are also considering interventions to stabilise currency fluctuations. Despite global pressure to resist protectionist currency policy, the recent G20 Meeting resulted only in a guarantee to refrain from 'competitive devaluation' of participating economies. The statement included "indicative guidelines" to work towards a more open exchange market and address global trade imbalances. Assessments of economies will be conducted in 2011.

### **Greatest decline in trade in more than 50 years**

[Press Release](#), WTO, 20 October

The WTO's publication of International Trade Statistics 2010 reports that world merchandise trade took a major tumble in 2009, dropping by 23 per cent compared with 2008. Trade started to grow again in the second quarter of 2009. The data can be downloaded [here](#). The WTO has also released the World Tariff Profiles 2010, providing comprehensive tariff

information on all WTO members and other countries.

### **APEC focuses on job creation and integration**

[Article](#), Wall Street Journal, 14 November

APEC Ministers meeting in Yokohama have advanced a new strategy to invigorate regional growth and integration, in order to generate greater employment in APEC economies. Ministers issued warnings that the risk of a double-dip recession still existed, and that temptation for protectionist policies should be averted. Ministers also pledged, before the APEC summit, to extend an existing commitment that they would not impose any trade barriers until 2013.

### **IMF to undergo historic reform**

[News Item](#), Financial Times, 23 October

A historic reform of the IMF was agreed to at the meeting of G20 Leaders held in South Korea from October 22-23, which gives a bigger voice to developing countries. European countries will give up two of their eight seats on the 24-member board. Over 6 per cent of IMF voting power will be transferred to underrepresented countries at the fund. After the changes take effect, Brazil, Russia, India and China will be included in the fund's 10 biggest shareholders.

## **Asia-Pacific**

### **Structural Reform in the Asia-Pacific**

[APEC ministerial Joint Statement](#), 15 November

The recent APEC summit also saw commitments by APEC economies to regional structural reform; an agenda promoted by Australia. As one aspect of the Leaders Growth Strategy, the Minister's Declaration states that the structural reform agenda (APEC New Strategy for Structural Reform – ANSSR) will be a key process leading towards Balanced and Inclusive Growth in the region. The reform agenda is an extension of the continuingly successful progress of the Leaders' Agenda to Implement Structural Reform (LAISR).

### **Japan enacts new Trade Policy**

[Cabinet Decision](#), METI, 9 November

A recent Cabinet Decision in the lead up to the APEC summit in Yokohama foreshadows a marked change in Japan's trade policy. The decision expresses Japan's fears that it is "falling behind" other nations such as South Korea in expanding trading networks and progress towards liberalisation. Japan has resolved to open up its markets, and is also now considering joining negotiations for the Trans Pacific Partnership Agreement (TPP), a move which has been welcomed by the United States. Cabinet Secretary Yoshito Sengoku said that the Government will be focusing on finding new markets for Japan's agricultural sector.

### **Economic outlook for Asia and Pacific positive**

[Press Release](#), IMF, October 21

According to IMF's latest [Regional Economic Outlook \(REO\)](#) for Asia and the Pacific, Asia remains firmly in the lead of global economic recovery. The Fund has revised up its 2010 growth forecast for the region to 8 percent - nearly a percentage point higher than its April forecast. However, along with strong economic growth in the region, new policy challenges, such as inflationary pressures, are emerging. The World Bank's East Asia and Pacific Economic Update also refers to emerging risks which may pose challenges to macroeconomic stability in the region.

### **Fund Management Industry Regulation reform gathers support**

[Article](#), The Australian, 15 November

A recent report commissioned by the Financial Services Council has discovered overwhelming support for regional regulation of the \$2.7 trillion fund management industry

within Asia. Prime Minister Gillard released the report at the APEC Summit, labelled an Asian region funds passport. The multilateral regulatory framework would facilitate access across funds markets in the Asia-Pacific region, which has been inefficient in the past.

### **China's export embargo of rare earth minerals continues**

[Article](#), New York Times, 10 November

Despite recent claims of lifting the embargo, Chinese ports still refuse to export crucial rare earth minerals to Japan. The unofficial ban was imposed in late September against Japan – purportedly to secure the release of a detained Chinese fishing captain – and against the US and EU in October. Following heavy criticism, Chinese officials claimed that it had been lifted in late October; however it is now apparent that only the bans against exports to the US and the EU have been lifted and port officials continue to block shipments to Japan. China holds over 95% of the minerals, which Japan relies on for the production of goods including wind turbines, hybrid vehicles and Smartphone's. Japan is the world's largest exporter of rare earth minerals.

## **Trade Agreements**

### **APEC summit gives support to growing Free Trade Area**

[Leaders Declaration](#), 18 th APEC Economic Leader's Meeting, 14 November

At the 18th APEC Economic Leader's Meeting in November, Ministers furthered their commitment towards the creation of a regional free trade area in the Asia Pacific. The idea was generated in 2006 It is hoped it can be concluded by 2020. The Leaders Declaration from the Meeting "instructs" APEC economies to take concrete steps towards the creation of the free trade area and to ensure it is a "comprehensive, high quality" agreement, addressing trade issues which affect the "next generation". The leaders envisage the FTA will build on existing regional groupings including the ASEAN+3, ASEAN + 6 and the Trans Pacific Partnership.

### **Gillard uses G20 to push for Free Trade Agreement with Korea**

[Article](#), Business Spectator, 11 November

With the US-South Korea FTA yet to be concluded, Australian Prime Minister Julia Gillard has used the G20 Meeting in November to further promote an Australia-South Korea FTA. Negotiations on the FTA began in 2006. South Korea is Australia's fourth-largest overall trading partner, and Gillard sees an opportunity for jobs growth in Australia in finalising the FTA.

### **India advances FTAs in Asia Pacific**

[News Item](#), The Strait Times, 25 October, [News Item](#), The Japan Times, 25 October

India and Malaysia have signed an 'in-principle' comprehensive trade opening agreement during Indian Prime Minister's recent visit to Kuala Lumpur. The bilateral Comprehensive Economic Cooperation Agreement (CECA) is expected to enter into force by July next year. India will shortly announce the launch of formal negotiations for comprehensive free trade pacts with Indonesia and Thailand. It has already entered into a market opening agreement with Singapore. India and Japan also officially agreed on a broad economic partnership agreement aimed at increasing trade.

### **Malaysia joins Trans-Pacific Partnership FTA negotiations, Japan to consider**

[News Item](#), WSJ, 7 October, [Article](#), Japan Times, 16 November

Momentum is gathering for a U.S. supported free-trade pact in the Pacific, with Malaysia to join negotiations on the Trans-Pacific Partnership (TPP) (currently under negotiation with Australia, Brunei, Chile, New Zealand, Singapore, Peru, the US and Vietnam). Japan is yet to commit to the TPP, but on 9 November the Japanese Cabinet agreed to begin preliminary talks. During meetings with negotiating countries antecedent to the APEC summit, leaders put pressure on Japan to make a final decision to enter negotiations before the APEC

Summit in Hawaii in 2011. Analysts have estimated that membership of TPP would mean a 0.65 per cent rise in GDP for the Japanese economy, but it faces resistance from the farming lobby.

## Australia

### **DFAT report: APEC Region, Trade and Investment 2010**

[Report](#), Department of Foreign Affairs and Trade

The Department of Foreign Affairs and Trade (DFAT) has released a report detailing Trade and Investment within the APEC region, and in particular, Australia's trading and investment relationship with APEC. The report reveals that total trade has increased by over 10% each year between Australia and APEC since 2004, representing almost 70% of Australia's total trade in 2009.

### **Australia to thank emerging Asia for growth**

[Report](#), IMF, 1 November

In a new report, the IMF notes the growth of emerging economies in Asia has been responsible for much of Australia's recent economic success. Using the Global Economy Model (GEM), the IMF estimates that 25% of Australia's growth can be attributed to Asia's growth differential. As a result, the report suggests that Australia's growth in the future will be heavily influenced by the balance of growth throughout the region and across the tradeable and non-tradeable goods sectors.

### **Soaring Aussie dollar hurts exporters**

[Media Release](#), Australian Institute of Export, 4 November, [News Item](#), The Australian, 1 November

After the excitement of the Australian Dollar reaching parity with the US Dollar for the first time since 1983, Australian export industries are starting to feel its affect. The rise to parity has occurred off the back of Australia's strong economic performance in the mining sector in particular, as well as the recent monetary stimulus program in the United States. In a survey conducted by the Australian Institute of Export, 61% OF Australian export companies have been negatively impacted by the rising dollar. Executive Director Ian Murray has said that more companies are likely to be affected in the future if the dollar continues to rise, especially alongside domestic interest rate increases. The manufacturing sector contracted in September for the first time this year and production levels have dropped since March.

### **Australia makes progress towards full trade liberalisation**

[Media Release](#), Minister for Trade, 10 November

Minister for Trade Craig Emerson has labelled Australia one of the world's "strongest and most open economies" after releasing a report showing Australia's progress in achieving the Bogor Goals established in 1994. Australia has halved its average tariff rate from 7% in 1996 to 3.5% in 2008, below the current APEC average of 6.6%.

## World Trade Organisation

### **WTO releases report on the developmental aspects of the Doha negotiations**

[WTO](#), 28 October

The latest WTO report on the developmental aspects of the Doha round of negotiations provides a brief summary of the status of negotiations in goods, services and other areas. It also describes potential gains which could accrue to developing countries from the conclusion of the negotiations.

## **US Investigation into China's Policies Affecting Trade and Investment in Green Technologies**

[Press Release](#), USTR, 15 October, [Article](#), Financial Times, 18 October

In the latest development of the US-China Trade War, The US has initiated an investigation into acts, policies and practices of the Government of China, alleging that China employs a wide range of WTO-inconsistent policies that protect and unfairly support its domestic producers of green technology products. The investigation was launched following a petition by the United Steelworkers Union, under section 301 of the 1974 Trade Act which directs the Administration to investigate and respond to countries engaging in unfair trading practices. Chinese officials claim that the US' latest move shows a lack of support for China's investment in green technology.

### ***WTO Disputes***

For a complete list of the WTO's disputes [click here](#).

### **Australia's current involvement in WTO dispute settlement system**

For a complete guide to Australia's disputes, [click here](#).

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