



ITS Global

Consultants on Global Issues

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, 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.

Latest Issues

Major Tasks for Craig Emerson

Commentary by ITS Global

Major Tasks for Craig Emerson

Green protectionism

Craig Emerson has redrawn the line in the sand Simon Crean drew just after he became trade minister. Environmental trade barriers will not be part of Labor trade policy. Rightly so.

While represented as helping domestic industries to cope with competition as they adopt high cost environmental measures, green tariffs are in fact the exercise of trade coercion against trading partners – adopt our environmental policies or we will restrict your trade. It reverses 60 years of depoliticization of trade through GATT and WTO rules and threatens to undermine the prosperity that system has fostered.

Emerson has two other major challenges – Strengthening the authority of the WTO and giving momentum to continuing economic integration in APEC

Opening services markets

Simon Crean did his level best to re-energize the stalled Doha Round talks. But the Doha Round is fundamentally busted. With none of the US, the EU, China or India ready to engage in across the board liberalization, it just will not happen. The climate change negotiations have a better prospect of success, and that is zero for them.

Emerson's first international activity was to consult with US officials about the possibility of initiating liberalization of services. This can be done within the WTO and alongside or outside the stalled Doha Round process.

Promoting liberalization of services is the most important way to maintain and deepen commitment to building competitive domestic markets through trade. While services industries are generally open in most industrialized economies, they are not in developing economies.

It is possible for some countries to liberalize together some services without having negative economic impacts on those who do not participate. The key result sought is

an increase in contestability in domestic services markets.

Delivering this result out of the WTO would demonstrate its capacity to support further liberalization and begin to energize developing countries to liberalize their services sectors.

Advancing structural adjustment in Asia Pacific

Average trade barriers are lower in the Asian Pacific region than in Africa or Latin America, but the importance of actively encouraging structural adjustment as a core government economic strategy in members of the APEC region is still not grasped by the non-industrialized economies.

Investment and services sectors need to be liberalized, but this should be seen in a setting where the overall aim is to manage national economies so they will automatically adjust as they grow and the global economy alters. The rise of China has altered the competitive environment in manufacturing for most countries. This will continue.

Australia made a major effort to encourage APEC to build this goal into its programs when it hosted and chaired in 2007. This was just the beginning. Australia needs to keep driving APEC in this direction. This is the activity which will achieve the level of economic integration in the region that will guarantee continuing growth and rising living standards.

Australia, and Australia's Trade Minister, are the parties best placed to drive this. Not very glamorous, but fundamental.

Global Developments

WTO: Upward revision of trade growth forecast

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

The WTO has revised upwards its projection for world trade growth in 2010 to 13.5 per cent following a faster than expected recovery in global trade flows in the year to date. Merchandise export volumes from developed economies are forecast to expand by 11.5 per cent while the rest of the world will see an increase of 16.5 per cent for the year, making this the fastest year-on-year expansion of trade recorded since collecting this data began in 1950. The WTO, however, cautions that such a large growth rate should be viewed in the context of the severely depressed level of trade in 2009, when world exports had fallen by 12.2 per cent.

UNCTAD: Survey reveals confidence in FDI recovery growing

[Press Release](#), UNCTAD, 6 September

According to the latest annual survey of transnational corporations (TNCs) release by UNCTAD, World Investment Prospects Survey 2010-2012, those surveyed are increasingly optimistic about the international investment environment and their own prospects of undertaking further foreign direct investment (FDI) for the current year and beyond. The results also suggest a shift in TNCs' strategies and geographical focus towards developing and transition economies. Nine of the top 15 priority FDI destinations for TNCs surveyed for the period ending 2012 are developing or transition economies. More information is available [here](#).

The state of global economic recovery

China's trade surplus dropped in August as a result of a surge in imports. According to latest government data, domestic demand remains robust. Both industrial

production and retail sales grew more quickly in August than in July, as opposed to the slow-down experienced in the previous four months. Foreign direct investment in China climbed for the thirteenth straight month in August (see [article](#)). The upbeat data have helped ease concerns the Chinese economy might slow down as the post-crisis emergency stimulus is withdrawn.

Meanwhile, concerns of a slow economic recovery are on the rise elsewhere. In the US, the latest labour department figures show initial jobless claims increased by 12,000 in the week ended September 18 (see [report](#)). While there has been a stronger-than-expected gain in existing home sales last month (see [report](#)), lingering economic uncertainty will make for a slow housing market recovery (see [article](#)).

Data on the pace of growth in the euro zone have also been disappointing. Ireland has reported a contraction in activity, with declines in second-quarter GDP. While Germany's private sector expanded at a much slower pace this month. There has been a larger than expected dip in the composite euro zone purchasing managers' index (PMI), falling to a seven-month low in September (see [article](#)).

Asia-Pacific

EU and S. Korea free trade deal to go ahead

[News Item](#), Wall Street Journal, 17 September

The EU has agreed to a wide-ranging free trade deal with South Korea, its first with an Asian partner. Six months later than the date initially planned, the deal is now due to be signed at an EU-South Korea summit meeting in early October and will enter into force from July 1, 2011. The deal was held up by opposition from Italy due to concerns about the implications of the treaty for European automakers. Italy has since withdrawn its objections after additional concessions were granted. Touted to be the second-biggest free-trade pact ever, after the 1994 US\$1-trillion North American FTA among the US, Canada and Mexico, the deal will eliminate 1.6 billion Euros annually in South Korean import duties, and European levies worth 1.1 billion Euros.

China and U.S. trade row

[News Item](#), USTR, 15 September

The U.S. has filed two cases against China at the WTO – one concerning China's imposition of antidumping duties and countervailing duties on imports of a type of steel used in power-generating industries, and the other regarding China's discrimination against U.S. suppliers of electronic payment services.

Pressure over China's currency policy escalates

[News Item](#), NY Times, 24 September

The US is maintaining its strong disapproval over China's currency policy. Even after the June 19 decision by China to unpeg its currency against the dollar, the US Treasury Secretary claims the yuan remains undervalued due to heavy intervention. Experts say it is artificially weakened by 20 to 25 per cent. Democrats in the House of Representatives have said they will move ahead with a bill allowing the US to retaliate against China for allegedly manipulating its currency. The bill defines currency undervaluation as an export subsidy, and would allow estimates of currency undervaluation to be used to calculate "countervailing duties" against imports that were deemed to be state-subsidised. President Obama, during his recent meeting with Chinese Premier Wen, has put increased pressure on China to revalue its currency with immediate effect. The Chinese Premier has replied that a major appreciation of the Chinese currency would cause job losses and bankruptcies in China without creating jobs in the US.

Japan intervenes in the currency market

[News Item](#), Financial Times, 16 September

The Japanese government has intervened for the first time in more than six years in the currency market, with the Bank of Japan selling yen and buying an estimated 20 billion US dollars. This has caused the Japanese currency to weaken by Y3 against the US dollar. The unilateral yen-selling intervention has also attracted criticism, as it complicates the matter for the US, and the G20 for that matter, which have been pushing China to appreciate the renminbi at a faster pace to help reduce large global trade imbalances.

Philippines re-opens market to UK beef

[News Item](#), Europa, 8 September

The Philippines has lifted its ban on imports of beef and beef products from the United Kingdom. In 2000, the Philippines imposed an import ban on beef of European origin, citing a risk of Bovine Spongiform Encephalopathy.

China embargo on rare earth exports to Japan

[News item](#), New York Times, 22 September

An incident in disputed waters of the East China Sea claimed by both China and Japan has sparked retaliatory action affecting trade in rare earth minerals. In response to Japan's arrest of a Chinese fishing boat, Beijing ceased discussions on bilateral air services cooperation, as well as co-operation in the coal industry and joint exploration of gas reserves in the East China Sea. China also prevented shipment of exports to Japan of rare earth elements used in products like hybrid cars, wind turbines and guided missiles. The move focuses attention once more on China's increasingly tight quotas on rare earth exports. China mines 93 per cent of the world's rare earth minerals.

Australian Developments

RBA: Impact of development in Asia on the Australian economy

[News Item](#), The Australian, 16 September

Senior Reserve Bank official, Philip Lowe, has told a recent Australian Bureau of Statistics conference that although Australia has emerged from the global downturn in good shape thanks in large part to Asia's strong growth in demand for raw materials, economic risks remain. The Australian economy is now more dependent on what happens in China (and in future, India) than it has been at any time in the past, and therefore needs to be alert to the risks involved and how best to manage them. More information is available [here](#).

WTO Dispute Settlement

New Disputes

[DS414](#) China — Countervailing and Anti-Dumping Duties on Grain Oriented Flat-rolled Electrical Steel from the United States (Complainant: United States of America)

[DS413](#) China — Certain Measures Affecting Electronic Payment Services (Complainant: United States of America)

[DS412](#) Canada — Certain Measures Affecting the Renewable Energy Generation Sector (Complainant: Japan)

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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