**L5X303AN Introduction to International Affairs: the regulation of international trade**

Le cours a pour objectif de familiariser les étudiants avec les aspects institutionnels et pratiques du commerce international. Le semestre 5 (TD d'1h30/semaine) sera consacré à l'étude des relations commerciales internationales, dans le cadre d'accords multilatéraux (OMC) ou régionaux (ALENA), ainsi que de questions liées à la mondialisation. Le cours s'appuiera sur un recueil d'articles de presse.

Le semestre 6 (TD d'1h30/semaine) abordera ensuite les aspects pratiques de la démarche export.

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  http://moodle.univ-paris4.fr/

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# The best since sliced bread

**Giant emerging-market firms continue to advance everywhere**

Jan 19th 2013 | *The Economist* - From the print edition

GRUPO BIMBO is on the prowl in *el Norte* again. In 2009 the Mexican baking giant bought part of Weston Foods for $2.3 billion, becoming the biggest baker in the United States. Two years later it bought Sarah Lee's American baking operations for $960m. In the past month it has been in a battle over the tastiest bits of Hostess Brands' bread business, as that once-iconic and now-bankrupt company winds up its affairs.

Bimbo brings more than a shopper's eye to its expansion. It is a master at bread-related breakthroughs. It helped introduce Spaniards to sliced loaves and pioneered the packaging of bread in clear cellophane. It is also a master of efficiency and logistics: Bimbo lorries with their teddy-bear logo are familiar sights in Mexico and Central America. The combination of savvy dealmaking and relentless cost-squeezing has made Bimbo a behemoth of baked goods, with $10.8 billion of sales in 2011.

Together the emerging-market countries now have more than 1,000 firms with annual sales above $1 billion. Many are content to stay at home—after all, their markets are growing at least twice as fast as the rich world's. But some, like Bimbo, are determined to venture abroad, invading foreign markets and buying foreign companies. They are sharpening old skills and acquiring new ones. And in the process they are reconfiguring entire industries.

The Boston Consulting Group (BCG) has been producing an annual study of the top 100 such "global challengers" from emerging markets since 2006. To qualify, besides having revenues above $1 billion, challengers must have a broad global footprint, with foreign revenues equal to at least 10% of the total, or $500m. Their global aspirations must also be credible, as measured by a combination of objective criteria and a poll of industry experts. BCG's 2013 list provides an unusually sharp insight into what Marxists called "the correlation of forces" in the global economy as it begins to recover from the financial crisis.

First, the new list is notable for its variety. In 2006 it was dominated by 84 companies from the four BRIC countries—Brazil, Russia, India, China—including 44 from China alone. In 2013 it includes firms from 17 countries, up from ten in 2006, and only 30 Chinese ones. In 2006 the list was dominated by heavy industries. Today it looks more consumer-oriented, with firms in financial services (China UnionPay), e-commerce (Alibaba Group, also Chinese), health care (South Africa's Aspen Pharmacare) and food manufacturing (Indonesia's Golden Agri-Resources).

Also, the challengers are no longer simply competing on price. They are investing in innovation: almost half of the 150,000 staff at Huawei, a Chinese electronics firm, work in research and development. They are producing new business models: Alibaba has overcome the main problem in online selling—low trust—by creating an escrow-payment system, Alipay. They are gobbling up foreign firms, to acquire new skills or enter new markets: LAN, a Chilean airline group, has bought TAM of Brazil to create South America's biggest carrier, LATAM; Aspen Pharmacare recently bought 25 brands in Australia from GlaxoSmithKline.

What is also striking in the latest league table of emerging-market challengers is that the number of state-controlled firms has slipped from 36 in 2006 to 26 now. It is too early to pronounce the death of state capitalism: there are after all nine new state firms on BCG's latest list. But some may have realised that they have a comparative advantage only in their home market. Some may have been ordered to return by their state owners, for reasons of domestic politics. Others have retreated after failing to crack foreign consumer markets, or losing out to nimbler private companies in takeover battles.

Still, emerging-market multinationals are advancing on all fronts against their Western rivals. They are seeking a lock on other developing economies: Chinese contractors control 37% of Africa's construction market, for

example. They are pushing into the rich world too: Alibaba has been buying e-commerce sites in America. And they are forging alliances with each other, such as the ones Naspers, a South African media group, has with Russian and Chinese internet firms.

**Reddy's, steady, go**

For the rich world, such emerging giants represent opportunity and growth as well as competition and disruption. For a start, they employ lots of Western workers. Tata Group of India employs 45,000 people in Britain (and announced 800 new jobs at Jaguar Land Rover, its luxury-car maker, this week). Wanxiang, a Chinese maker of car parts, employs 6,000 in America.

Emerging-market multinationals are big customers for rich-world firms: Huawei bought about $6.6 billion-worth of parts from American companies in 2011. They are injecting a huge amount of dynamism into the world economy: besides buying $1.7 trillion of goods and services each year, they collectively account for $330 billion in capital spending. They can make good partners too. DuPont of America has formed a joint venture with the China National Chemical Corporation to share skills. Merck of Germany has struck a deal with Dr Reddy's Laboratories of India to develop cheap versions of cancer treatments whose patents are expiring; in a twist to the normal pattern, Dr Reddy's is doing the product development and testing, and Merck is doing the manufacturing.

The top ranks of the emerging-market multinationals are a more volatile bunch, thus far, than their Western peers. Only half the companies that appeared on BCG's original list in 2006 appear on the latest version. But there is no doubt that there are plenty more would-be giants waiting to take their place—and that these will be even more sophisticated and ambitious than those who came before them.

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http://um.dk/en/tradecouncil/barriers/what-is/. 24 June 2012.

Ministry of Foreign Affairs of Denmark.

## What is a Trade Barrier?

Trade barriers are measures that governments or public authorities introduce to make imported goods or services less competitive than locally produced goods and services. Not everything that prevents or restricts trade can be characterised as a trade barrier.

A trade barrier may be linked to the very product or service that is traded, for example technical requirements. A barrier can also be of an administrative nature, for example rules and procedures in connection with the transaction. In a number of areas, special international ground rules have been agreed, which limit the ways in which countries can regulate trade. It means that some barriers are legal while others are illegal.

Trade barriers within the EU are subject to special rules that apply to the internal market of the EU.

Sometimes it may also be possible to assist companies that face obstacles to trade that do not fall under the definition of actual trade barriers.

**Trade Barriers**

Trade barriers are measures that governments or public authorities introduce that prevent or restrict overseas trade and investment. These measures need not necessarily take the form of legislation or a specific decision. They may also take the form of current practice. As a result of these measures, domestic companies receive a competitive advantage relative to their foreign counterparts.

It is accepted that in many cases, products are liable to customes duties when imported into a market and that imported products ought to be accompanied by the correct documentation. In some cases, however, customs duties may be unreasonably high or customs clearance may take an unreasonably long time.

Trade barriers may take the form of, for example:

- **Customs duties**
- **Customs procedures**
- **Technical regulations, standards, etc. -** for example for the purpose of consumer protection, health protection, protection of the environment, etc
- **Veterinary and phytosanitary measures -** barriers based on health and safety regulations
- **Restrictions on access to primary products** - for example in the form of export levies that drive up prices artificially or special export prices that are higher than the price of the same primary products for use in national processing industries
- **Insufficient protection of intellectual property rights -** both with respect to the scope of protection and with respect to the possibilities of legal protection. This includes, for instance, protection of patents, copyrights, trademarks and geographical indications of origin
- **Barriers to trade in services -** for example in the form of discriminatory conditions
- **Restrictions on access to investment -** for example through national participation requirements or restrictions on access to repatriation of profits
- **Unfair application of state aid and other forms of subsidies**

Due to globalisation, trade restrictions have become increasingly significant.

At the same time, traditional trade obstacles such as tariffs and import restrictions have been reduced, as a result of international trade liberalisation. In the period following the Second World War, average tariffs for industrial goods have been reduced from approx. 40 percent to less than 5 percent.

As a consequence, other trade restrictions have become of relatively greater significance. These other trade restrictions are often based on regulations and principles relating to qualitative matters, for example: product quality requirements and product packaging requirements ostensibly for the purpose of consumer protection; education and qualification requirements for providers of services; or rules relating to patent and trademark protection.

This has contributed to making it more difficult for companies to gain an overview of rules and changes to rules, making the handling of trade barriers more complicated, as barriers touch on matters that are subject to internal national legislation or regulation in the export markets.

**Legal and Illegal Trade Barriers**

Through the World Trade Organisation (WTO) and agreements made by the EU with other countries, some general rules have been established for trade with countries outside the EU. These ground rules set the limits as to what trade barriers can be put in place.

As such a trade barrier may either be:

- **Illegal** - it violates international agreements and rules; or
- **Legal** - it does not violate rules and agreements.

Nevertheless, whether legal or not, trade barriers prevent or restrict imports or investments to the market in questions. A barrier may be legal in principle, but still be open to criticism. This is the case, for instance, if the conditions on which a decision was based have changed. For example:

- **Customs duties**: if they exceed an agreed level ("bound duty rates"), they are illegal. If they are below the agreed level, they are legal, but trade restrictive.
- **Customs procedures**: they are in principle legal, but a burden on trade. If procedures become more burdensome than necessary, they may be illegal.
- **Technical regulations, standards, etc**.: they are in principle legal, for example for the purpose of consumer protection, health protection, and the protection of the environment, etc. However, in some areas there are international standards that must be complied with, and there may also be special procedural rules. If they are not complied with, a measure may become illegal.

With regard to other types of trade barriers, including intellectual property rights, state aid, or rules relating to the provision of services, it can be more difficult to draw a clear line between what is legal and illegal.

## Types of trade barriers

http://um.dk/en/~/media/UM/Danish-site/Documents/Eksportraadet/Markeder/Barriersenglish.ashx

Types of Trade Barriers

| Is it concerning ... | Is it connected to ... | .. has it character of ... | ... description of the problem | ... it is called |
|---|---|---|---|---|
| ... trade with products | ... Imports of products into another country | Tariffs and taxes | Import tariffs are higher than is normally the case, or compared with the tariffs imposed on goods from other countries. (NB: imports from developing countries may according to special rules be subject to easier terms.) | Tariff Levels |
| | | | Import tariffs are low until a certain volume of the product has been imported. Tariffs are then raised (normally according to the "first-come-first-served" principle), and it takes place on an unclear basis, or sales of the imported product are subject to special restrictions. | Tariff Quotas |
| | | | Internal (national or local) direct or indirect taxes (for example VAT, excise duties) make imported goods more expensive than locally manufactured products and thus less competitive. | Internal Taxation |
| | | | Special duties levied on imported goods that allegedly are sold at too low prices (dumping) unless it takes place according to a previous procedure, or if the duty exceeds the difference between the product's "normal price" (production price) and the actual selling price. | Anti-dumping Measures |
| | | | Special duties levied on imported goods to counter subsidies granted in the exporting country unless it takes place according to a previous procedure, or if the duty exceeds the value of the subsidy. | Countervailing Measures |
| | | | Special duty (may be combined with a tariff quota) levied on imported goods to protect an industry in the importing country against a sudden and heavy increase in imports unless it takes place according to a previous procedure and unless it has been published in advance. | Safeguard Measure |
| | | | Any other provisional duty that is not normally levied. | Other Trade Defense Instruments |

| | | | | |
|---|---|---|---|---|
| | | Regulation and procedures concerning import | Procedures in connection with customs processing which – directly or indirectly – prevent trade, for example unnecessary delays, inspection requirements, documentation and registration requirements. | Registration, Documentation and Customs Procedures |
| | | | Imports restricted through import prohibition or quantitative import restrictions, including quotas, import licences and non-automatic import surveillance. | Quantitative Restrictions and Related Measures |
| | | Rules and standards | Local competition rules (for example minimum prices or quantitative restrictions) restrict imports and sales of foreign products or restrict the sale of these to a higher extent than the sale of local products. | Competition Issues |
| | | | Requirements of goods in the form of standards and technical regulations to protect the health of human beings, animals and plants, and which affect imported goods more severely than locally produced goods. | Sanitary and Phytosanitary Measures |
| | | | Requirements of goods in the form of standards and technical regulations (apart from requirements related to the health of human beings, animals and plants), including labelling and packaging requirements that affect imported goods more severely than locally produced goods. | Standards and Other Technical Requirements |
| | | | As a result of rules or due to common practice, locally produced goods take precedence over imported goods in connection with procurement by public authorities (state, regional or local authorities), including if public tendering and procurement procedures are not fair and transparent. | Government procurement |
| | | | Subsidies (state aid) that are granted either directly or indirectly (for example tax breaks) to local producers, and which give these a market advantage over imported products. | Subsidies |

| | | | | |
|---|---|---|---|---|
| | | | Other measures which mean that locally produced goods take precedence over imported goods. | Other Non-Tariff Measures |
| | … exports of products from another country | | Export Prohibition and restrictions or economic incentives not to export (primary products, intermediate products or finished products) from a country. | Export Prohibition and Other Quantitative Restrictions |
| | | | Direct or indirect taxes or duties levied in connection with exports of a product (primary products, intermediate products or finished products). | Export taxes |
| | | | Export licence requirements or other permit requirements for exports of a given product where neither licence nor permit is issued automatically or where local and foreign companies are treated differently. | Discriminating Export Licensing |
| | | | Business support (state aid) that is granted to a producer on condition that the goods produced are exported. | Export Subsidies |
| | … patents, trademarks and the like | | No or only limited protection of patented technology and inventions. | Legislation on Patents |
| | | | No or only limited protection of the rights of authors, composers, painters and other artists in relation to their works, including also the protection of computer programmes and films from illegal copying and use. | Legislation on Copyright and Related Rights |
| | | | No or only limited protection of signs and symbols that distinguish the products of one company from other companies' products, and which enable consumers to choose between different products. | Trademark Legislation |
| | | | No or only limited protection of indications showing that a product originates in a particular location giving the product special characteristics and which enable consumers to choose between different products. | Legislation on Appellations of Origin and Geographical Indications |

| | | | | |
|---|---|---|---|---|
| | | | No or only limited protection of industrial design. | Industrial Design Legislation |
| | | | No or only limited protection of layout designs of integrated circuits. | Legislation on Layout Designs of Integrated Circuits |
| | | | No or only limited means to enforce compliance with rules governing intellectual property rights. | Enforcement Problems on IPR |
| | | | Other problems related to the registration, protection or exploitation of intellectual property rights. | Other IPR related Problems |
| … investment in another country | | | A local content requirement or a prohibition against imported content in a physical investment (for example the set-up of a factory or the establishment of production facilities). | Trade Related Investment Measures |
| | | | Restrictions or demands on a foreign investor in connection with the establishment and operation of a company (for example limitations regarding the volume of investment, restrictions on the repatriation of profits or quotas and other restrictions that imply poorer business conditions for a foreign investment than a local investment). | Foreign Direct Investment Limitations |
| … trade in services | | | Restrictions regarding the possibility of providing services in another country, irrespective of whether the service is provided directly from the exporting country or through a presence in the importing country. | Market Access (quantitative) Restrictions |
| | | | Direct or indirect discriminatory treatment where a national provider of services enjoys better conditions than a foreign service provider. (NB: discriminatory treatment may depend on whether the foreign service provider is present in the country or provides services from abroad.) | Discriminatory treatment |
| | | | National regulations mean – intentionally or unintentionally – that a foreign service-provider enjoys poorer conditions than national service providers. (NB: discriminatory treatment may depend on whether the foreign provider is present in the country or provides services from abroad.) | Non-quantitative, non-discriminatory measures (domestic regulation) |
| | | | Other measures that reduce the competitive position of foreign service providers in relation to national service providers. | Other Trade in Services Issues |

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# CASE STUDY: RUSSIA

## Link on EU / Russia trade:

http://ec.europa.eu/trade/policy/countries-and-regions/countries/russia/

## Russia was most protectionist nation in 2013: study

**By Tom Miles - GENEVA Mon Dec 30, 2013 11:10am EST**

(Reuters) - Russia put more protectionist policies in place than any other country in 2013, closely followed by neighboring Belarus, according to data from Global Trade Alert (GTA), a leading independent trade monitoring service.

Russia alone accounted for 20 percent of the protectionist policies identified worldwide by GTA, with steps ranging from cuts in foreign worker quotas to state support for the rare earth metals industry, agriculture and aircraft makers.

With 78 such trade restrictions, Russia also accounted for almost a third of the protectionism imposed by G20 nations.

Russia, Belarus and Kazakhstan have linked their trade policies in a single customs union, an emerging trading block that was jointly responsible for 33 percent of worldwide trade protectionism during the year, GTA data shows.

President Vladimir Putin is trying to persuade Ukraine to join Russia's customs union also and Ukrainian President Viktor Yanukovich's pivot towards Moscow and away from closer trade ties with the European Union has sparked huge protests.

"The customs union was responsible for 15 times as many protectionist measures as China while having only an eighth of the population," said GTA's coordinator Simon Evenett, a professor at the Swiss Institute for International Economics.

"Russia's policy of economic restructuring is nothing more than a potent mix of rampant subsidization and aggressive protectionism. With this record Russia isn't a poster child for the WTO (World Trade Organization) accession process."

Russia joined the WTO in August 2012 while Kazakhstan is at an advanced stage of negotiating its own membership. Belarus is also negotiating but at a much earlier stage.

Although the WTO also monitors protectionism, GTA casts the net wider and covers policies that fall outside the scope of WTO rules, which were drawn up two decades ago and do not cover many newer forms of protectionism.

Global trade growth has slowed to a near standstill during the economic crisis that began in 2008. Pascal Lamy, who stepped down as head of the WTO at the end of August, said this year that governments were turning to protectionism because they had failed to achieve economic growth with other policies.

"It looks like 2013 will confirm the surge in protectionism seen in 2012. No amount of wishful thinking can hide the fact that there is little restraint built into the system," GTA's Evenett said.

GTA data also showed that Brazil, India, Japan and the EU together accounted for a quarter of world protectionism.

http://www.reuters.com/article/2013/12/30/us-trade-protectionism-idUSBRE9BT0GP20131230

**PART I : ADDITIONAL INFORMATION**

# The hidden persuaders

**Protectionism can take many forms, not all of them obvious**

**Oct 12th 2013 |*The Economist***

LAST SUMMER FRED HOCHBERG, head of America's government-backed Export-Import Bank, joined the chief of Westinghouse on a sales trip in the Czech Republic. A Czech official, he recalls, told him they would not even consider Westinghouse's bid to expand a nuclear power plant without finance from his bank. Russia's state-owned nuclear-energy company, Rosatom, had already offered to fund half the project. Mr Hochberg promised to do the same if Westinghouse, an American unit of Japan's Toshiba, won the bid.

"It's time to drop the fantasy that a purely free market exists in the world of global trade," Mr Hochberg told an American audience shortly after returning from Prague. "In the real world our private enterprises are pitted against an array of competitors that are often government-owned, government-protected, government-subsidised, government-sponsored or all of the above." Russia was particularly active, pledging $38 billion to finance Rosatom's global ambitions.

The rival loans from America and Russia to win the Czech Republic's business do not fit the usual definition of protectionism. Indeed, conventional protectionism of the tariff and quota kind has been remarkably, and blessedly, quiescent in recent years. In the past decade the number of incidents when countries have punished dumping (selling below a "fair" price) by slapping tariffs on imports from the offending trade partner has been running at about 200 a year, fewer than in the late 1990s.

One reason for the decline in traditional protectionism is that countries hit by recession are able to let their exchange rates fall. In the 1930s countries on the gold standard did not have that option, so they resorted to tariffs instead to ward off imports. The WTO can also take some credit. Since its creation in 1995 big trading countries have regularly brought cases to it, and have respected its rulings when they have lost.

**Beyond tariffs and quotas**

But another reason why there is less overt protectionism is that the practice has crept back in other guises, often to avoid running foul of WTO rules. The WTO concentrates on measures designed to keep out imports. Global Trade Alert (GTA), a monitoring service operated by the London-based Centre for Economic Policy Research, defines protectionism more broadly as anything that hurts another country's commercial interests. It thus includes government bailouts of domestic companies, wage subsidies, export and VAT rebates, export credits and financing from state-owned banks. For example, it classifies France's loan guarantee to the financing arm of PSA Peugeot Citroën, a carmaker, as protectionist because, by helping sales of the company's cars, it hurts their competitors' sales. It reckons that at least 400 such "beggar-thy-neighbour" policies have been put in place each year since 2009, and that the trend is on the rise.

GTA's Simon Evenett, who is also a business professor at Switzerland's University of St. Gallen, thinks the WTO undercounts protectionist activity, both because of its narrow definition and because many countries do not complain about covert protectionism because they are guilty of it themselves: "The reaction of many trading partners to illegal subsidies is to have subsidies of their own."

GTA's data start only in 2009, making it hard to prove that such protectionism is on the rise, and some experts are sceptical of Mr Evenett's alarmist take. Researchers at the European Central Bank point out that a small number of countries, accounting for only 13% of G20 imports—Argentina, Brazil, India, Indonesia, Russia, South Africa and Turkey—were responsible for 60% of the measures recorded by GTA since 2009. But GTA's data do make it clear that countries have found ways other than traditional protectionism to help domestic industry, keep out imports and boost exports, often under the guise of industrial policy.

Brazil has perfected the art. Last year, looking for a way to reduce car imports, it introduced a new programme to encourage innovation, Inovar-Auto. Designed to stay within WTO rules, this requires Brazilian car manufacturers (all foreign-owned) to invest in local innovation and engineering and to meet certain fuel-efficiency standards by 2017, or else face higher excise taxes and import tariffs on domestic sales. This has boosted domestic investment in engineering and fuel-saving technology.

Brazil has also used state-controlled companies and banks to encourage domestic innovation and industry. Over the past decade it has required Petrobras, the state-controlled oil company, to meet ever tougher domestic-content requirements. BNDES, the state-owned development bank, has expanded its lending and equity investment since 2007 by 140%. Recepta, a biotech company, has received a grant, a low-interest loan and, last year, a direct equity investment by BNDES worth about $15m. José Fernando Perez, who founded Recepta in 2006, does not like the Brazilian government's propensity to meddle in markets, but he makes an exception for innovation policy, noting that Australia, Britain and America all subsidise basic biotech research. "I could not have survived if I'd paid commercial interest rates." Even so, he complains about the thickets of red tape that make it hard for his company to develop and test its new drug.

It is no surprise that the BRIC countries figure prominently in GTA's record of covert protectionism. Thanks to their embrace of state capitalism, the line between industrial policy and export subsidy is blurred or non-existent. China has long used compulsory joint ventures, technology transfer and access to cheap land and loans from state-owned banks to boost companies in strategic sectors. In the mid-2000s it invited foreign manufacturers, including Germany's Siemens and Japan's Kawasaki, to supply locomotives for its high-speed rail network. Later it switched to Chinese companies, which now compete with Siemens and Kawasaki in foreign markets.

A similar story unfolded in wind power. A decade ago foreign companies such as Spain's Gamesa had a significant share of China's market for wind-power turbines, but now Chinese companies, many using skills acquired as partners or subcontractors to Western suppliers, along with subsidised land and credit, dominate the Chinese market and compete fiercely with those original Western suppliers. […]

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## PART II : MULTILATERAL NEGOTIATIONS: THE WORLD TRADE ORGANISATION

# Timeline: World Trade Organization

**A chronology of key events:**

See MOODLE or:

http://news.bbc.co.uk/2/hi/europe/country_profiles/2430089.stm

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**The World Trade Organisation**

# Unaccustomed victory

**Global trade talks yield a deal for the first time in almost 20 years**

Dec 14th 2013 | From the print edition - *The Economist*

IT WAS perhaps only appropriate that, as the culmination of 12 years' haggling, the negotiations on global trade rules held on the island of Bali in Indonesia on December 3rd-6th ran over time. Early in the morning of December 7th delegates to the World Trade Organisation's powwow rose to applaud the first deal among all its members to expand its scope since the WTO's inception in 1995. But the agreement leaves the future of global trade cloudier than might have been hoped.

The deal was the first success of the "Doha round", an effort initiated in 2001 to bring down tariffs and various other trade barriers, which has come close to collapse several times over the years. When trade officials resuscitated talks last year they opted to keep the agenda as simple and attractive as possible. They dropped intractable topics such as intellectual property and trade in services, to concentrate on humbler ones such as "trade facilitation"—an attempt to cut red tape in customs.

Even this less ambitious agenda, however, proved thorny. Cuba nearly scuppered the deal at the last minute by threatening to oppose any agreement that failed to chip away at America's embargo. In the run-up to the meeting Roberto Azevêdo, the director-general of the WTO since September, repeatedly warned that this or that disagreement posed a mortal threat to negotiations. Yet at each turn he kept the parties at the table until a compromise could be reached.

The trade-facilitation measures agreed in Bali could cut the cost of shipping goods around the world by more than 10%, by one estimate, raising global output by over $400 billion a year, with benefits flowing disproportionately to poorer countries. They nonetheless proved contentious. Some countries raised concerns about their ability to pay for the required improvements to their customs procedures, and talks briefly stalled as arrangements for assistance were worked out.

Not all disputes were resolved so smoothly. As ever, agriculture was the sorest subject. India spearheaded an effort to allow poor countries to subsidise staple crops in the name of "food security". In the months leading up to the meeting India had already wrung concessions from rich-world economies in this regard, including a four-year "peace clause" that would have granted developing countries temporary immunity at the WTO from challenges to such measures. Not satisfied, it later threatened to derail the talks unless the reprieve was made indefinite.

Several other disputes received a similar papering over. Indeed, although the trade-facilitation agreement should help to boost world trade, the deal is unlikely to convince sceptics that the multilateral process can produce ambitious reforms. The main problem is that those least committed to progress—in this case, India—can hold proceedings hostage until their demands are met.

Relief at having at last reached a deal will therefore turn quickly into hand-wringing over what should follow. Mr Azevêdo emerges from Bali with his stature enhanced. He must now decide what reforms to pursue and how.

Plenty remains on the Doha agenda. The most glaring item is agriculture. Not only is the WTO theoretically in search of a permanent substitute for India's waiver on subsidies; it also pledged long ago to scrap rich countries' farm-export subsidies. Yet ploughing back into such territory risks wasting the momentum of the Bali deal. Mr Azevêdo might instead seek to open discussions on fresher subjects. Investment is one possibility: the WTO could work to rein in subsidies and set rules protecting cross-border investment. Trade in environmental goods and services, which covers everything from air filters to green consulting, is another candidate.

Not all subjects need be negotiated among all WTO members, as the Bali deal was. Some can be passed to those countries that are eager to press forward ("plurilateral" talks, in the jargon, as opposed to multilateral ones), as long as other WTO members are free to sign up to any resulting agreement. Negotiations on services and on information technology already fall into this category. In Bali China's trade minister endorsed the use of the plurilateral approach as a way to move liberalisation forward.

That should help the WTO provide a more inclusive alternative to the various regional trade blocks being negotiated around the world. These are often more ambitious in scope, but their smaller memberships carry the threat of a Balkanised global trading system. The most prominent such grouping, the Trans-Pacific Partnership, suffered a setback this week when its putative members abandoned the goal of completing an agreement this year. Big groups or small, sweeping deals or narrow, trade liberalisation is never easy, alas.

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# CASE STUDY: CHINA IN THE WTO

**Ten years of China in the WTO**

## Shades of grey

**It was right to let China in. Now the world's biggest trader needs to grow up**

**The Economist - Dec 10th 2011 | from the print edition**

CHINA'S efforts to join the World Trade Organisation (WTO) dragged on for 15 years, long enough to "turn black hair white", as Zhu Rongji, China's former prime minister, put it. (His own hair remained Politburo-black throughout.) Even after membership was granted, ten years ago this week, Mr Zhu expected many "headaches", including the loss of customs duties and the distress of farmers exposed to foreign competition.

Yet the bet paid off for China. It has blossomed into the world's greatest exporter and second-biggest importer. The marriage of foreign know-how, Chinese labour and the open, global market has succeeded beyond anyone's predictions.

It is instead China's trading partners who now contemplate its WTO membership with furrowed brows. They have a variety of complaints: that China exports too much, swamping their markets with cheap manufactured goods, subsidised by an undervalued currency; that it hoards essential inputs, such as rare earths, for its own firms; and that it still skews its own market against foreign companies, in some cases by being slow to implement WTO rules (notably on piracy), in others by suddenly imposing unwritten rules that are unfavourable or unknowable to foreigners. The meddling state lets multinationals in, only to squeeze them dry of their valuable technologies and then push them out.

Much of this criticism is right. China made heroic reforms in the years around its WTO entry. That raised expectations that it has conspicuously failed to meet. It signed up for multilateral rules, but neglected the rule of law at home. Free trade did not bring wider freedoms, and even the trade was not exactly free. It is in China's interest to liberalise its exchange rate further, to prevent local officials from discriminating against foreigners and

above all to do far more to support the global trading system. The WTO is undermined when any member flouts the rules, never mind one as big as China.

**Too big to be a bystander—or to be kept out**

But China's sins should be put into perspective. In terms of global trade consumers everywhere have gained from cheap Chinese goods. Chinese growth has created a huge market for other countries' exports. And China's remaining barriers are often exaggerated. It is more open to imports than Japan was at the same stage of development, more open to foreign direct investment than South Korea was until the 1990s. Its tariffs are capped at 10% on average; Brazil's at over 30%. And in China, unlike India, you can shop at Walmart, most of the time.

As for the hurdles foreign firms face in China, they are disgraceful—but sadly no worse than in other developing countries. The grumbles are louder in China chiefly because the stakes are higher. Foreigners may have won a smaller slice of China's market than they had hoped, but China is a bigger pie than anyone dared to expect. Had China been kept out of the WTO, there would have been less growth for everybody. And the WTO still provides the best means to discipline and cajole. Rather than delivering congressional ultimatums, America and others could make more use of the WTO's rules to curb China's worst infractions.

So celebrate China's ten years in the WTO: we are all richer because of it. But, when it comes to trade, China's rulers now badly need to grow up. Their cheating is harming their own consumers and stoking up protectionism abroad. That could prove to be economic self-harm on an epic scale.

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## CASE STUDY: RUSSIA IN THE WTO

**Russia and world trade**

# In at last?

**After 18 years Russia is on the verge of joining the World Trade Organisation**

**The Economist - Nov 5th 2011 | *MOSCOW* | from the print edition**

THERE was disbelief this week when Arkady Dvorkovich, adviser to President Dmitry Medvedev, told journalists that Russia was close to joining the World Trade Organisation (WTO). Russia has been "close" for ages, but the timing has always slipped. Yet after 18 years of talks, it seems that membership now beckons.

Both America and the European Union have long agreed, as have all the other 153 WTO members bar Georgia, a small former Soviet republic which fought a brief war with Russia in August 2008 and is still partly occupied. Georgia had insisted, quite reasonably, on placing international observers to monitor the movement of goods at its sovereign border, which includes the territories of Abkhazia and South Ossetia.

Russia, which has recognised the independence of Abkhazia and South Ossetia, said this compromised their status. Swiss mediators have found a deal that does not mention their status, refers to the border as a corridor and provides for monitoring not by a government agency but by a private foreign company accountable to the Swiss government. Now Georgia has said "yes", clearing the way for Russia's entry.

After a few days, Russia also accepted the deal. There is no doubt that Mr Medvedev would like to go down in history not just as somebody who tinkered with Russian time zones but as the man who took his country into the WTO. The final decision still lies with Vladimir Putin, Russia's prime minister and likely future president, though he is unlikely to block it now.

As *Vedomosti*, Russia's business daily, points out, Mr Putin has always been the real obstacle to Russia's entry into the WTO. In 2009, when talks between Russia and America were going full steam, Mr Putin unexpectedly thwarted them by saying that Russia would join only with Belarus and Kazakhstan, with which it has a customs union. Mr Putin, initially eager for Russia to be in the big international clubs, has come to see some WTO demands as a politically motivated nuisance.

The benefits of WTO membership are debatable. Some estimate that Russia could gain at least $50 billion a year. Others argue that Russia would do better to stimulate exports before joining. As it is, two-thirds of exports are oil and gas, not covered by WTO rules. Apart from extractive industries and metal, few Russian goods are competitive. A World Bank report notes that Russian exporters have trouble not just entering foreign markets but surviving in them.

The real problem, however, is not trade barriers to Russia's goods, but the country's own inefficiency, institutionalised corruption and stifled competition. None of these problems can be solved by WTO membership. But Sergei Guriev, head of the New Economic School in Moscow, says that it would at least expose corruption and increase competition, deeply alien to Russia's ruling bureaucracy. Indeed, the main benefit of WTO membership may be political. "It will be a sign that Russia is moving towards the civilised world," says Mr Guriev, "not away from it."

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## PART II : ADDITIONAL INFORMATION

# A guide to GATT

THE trade talks known as the Uruguay round are the eighth in the history of the General Agreement on Tariffs and Trade. Only 23 countries took part in the first, which were held in Geneva in 1947 and finished within the year. By contrast, the current round has 116 participants and has lasted more than seven years.

Each round builds on the work of those that came before it. In the early days the main job was cutting tariffs, and then cutting them again. The average tariff has fallen from almost 40% when the GATT was founded to 4.7% now—and will be as little as 3% if the Uruguay round succeeds. GATT has gradually moved into other areas too. The Kennedy round introduced rules against dumping exports. The Tokyo round made it harder for countries to manipulate technical standards, import licences and customs regulations in order to keep imports out. Some countries also signed agreements on government procurement, civil aircraft, and beef and dairy products.

If there is a single principle at the heart of GATT, it is that discrimination poisons trade. Every country in GATT opens its markets equally to every other. In practice, once a country and its largest trading partners have agreed to cut a tariff, usually in exchange for an equivalent cut elsewhere, the cut is automatically extended to every other country (the "most-favoured-nation" principle). The new tariff cannot later be raised except by negotiations in which all other countries are compensated. Other, murkier forms of protection are banned.

Small countries enjoy better access to bigger countries' markets through GATT than they could ever have negotiated by themselves. Trade tension is defused because protectionist lobbies have less opportunity to manipulate bilateral trade (though America's tortured relationship with Japan shows that this does not always happen). And GATT holds that countries should treat foreign businessmen as they do locals, banning bogus rules designed to circumvent this principle of "national treatment".

There are few permitted exceptions to discrimination, but they are increasingly prominent. Regional trading areas are allowed as long as they cover most trade and do not raise trade barriers to outsiders. Countries can discriminate in favour of developing countries; and they can increase protection temporarily in emergencies—when an industry is in dire trouble, or when a country suffers from an unmanageable current-account deficit.

The Uruguay round's seven predecessors have had a profound effect on the world economy. Between 1950 and 1975 the volume of world trade expanded five-fold and the world economy more than doubled in size. But since growth in trade and output slowed in the 1970s, GATT's rules have been undermined. The Uruguay round seeks to put this right in four ways: further cuts in tariffs; reforming GATT as an institution; eliminating damaging exceptions to GATT's universal coverage of goods; and bringing in new items to make GATT more relevant.

Nothing in the Uruguay round is agreed on until all countries initial the entire package. But much has been settled provisionally over the past seven years. The details are contained in the "draft final act", 450 pages long and comprising 28 separate agreements. The act's main provisions would aim to:

- Write for the first time a set of rules to cover trade in services. A framework would exist for the liberalisation, not only of the $900 billion-worth of services that cross borders, but also the $3 trillion-worth of services that are provided domestically around the world—insurance, for example. The modest progress sought in this round would supply a platform for more liberalisation in future rounds.
- Protect all kinds of intellectual property, including patents, copyright and trademarks. That would be good for developed countries, which can collect higher royalties; but some of the developing countries might lose.
- Phase out over ten years the bilateral quotas which make up the multifibre arrangement for textiles and clothing. Tariffs will be cut. Developing countries should benefit.
- Forge a comprehensive agreement in GATT's biggest exception, farm trade. The details are unresolved, but the principles are clear: replace quotas with tariffs; and cut subsidies, especially export subsidies
- Cut tariffs by at least a third. Tariffs imposed by the big economies on some important items will be eliminated altogether. Special attention has been given to a few very high tariffs; and to helping developing countries by cutting tariffs on tropical products.
- Try to reform (successfully) the rules against subsidies.
- Try to curb (minimally) the misuse of rules on dumping.
- Try to prevent (hopelessly) the use of voluntary export restraints—a sort of import quota which is operated by an exporter under pressure from an importing country.
- Tidy up rules on shipment, including inspection, customs, import licensing, technical standards and rules of origin.
- Phase out trade-related investment measures, such as the requirement that foreign investors buy supplies locally.
- Build on earlier agreements in government procurement and civil aircraft.
- Speed up the arbitration of disputes between GATT members. Countries will also find it harder to dissent from judgments.
- Clarify a raft of GATT rules.
- Transform GATT from a provisional agreement (it was never ratified by America) into a full institution called the Multilateral Trade Organisation.

**Services league**

Leading exporters of commercial services

| 1991 | $bn |
|---|---|
| United States | 148 |
| France | 84 |
| Germany | 60 |
| Italy | 56 |
| Britain | 53 |
| Japan | 46 |
| Holland | 32 |
| Belgium/Luxembourg | 32 |
| Spain | 31 |
| Austria | 25 |

Source: GATT

**Goods league**

Leading exporters of merchandise

| 1992 | $bn |
|---|---|
| United States | 447 |
| Germany | 428 |
| Japan | 340 |
| France | 236 |
| Britain | 191 |
| Italy | 175 |
| Holland | 140 |
| Canada | 135 |
| Belgium/Luxembourg | 120 |
| Hong Kong* | 118 |

*Includes re-exports and imports for re-export
Source: GATT

The Economist, 4 Dec. 1993

**PART III : FREE TRADE AREAS AND CUSTOMS UNIONS – BILATERAL NEGOTIATIONS**

# In my backyard

**Multilateral trade pacts are increasingly giving way to regional ones**

***The Economist* - Oct 12th 2013**

UKRAINE, LONG PULLED back and forth between east and west, is feeling the tug again, this time between rival trade blocks. Next month it hopes to sign a free-trade agreement with the European Union. But Russia wants Ukraine for its own customs union, which already includes two other former Soviet republics. So earlier this year, in a clumsy effort to change its neighbour's mind, the Kremlin banned Ukrainian sweets because they allegedly contained carcinogens, then imposed long, intrusive customs checks that slowed Ukrainian exports of steel, machinery and chemicals to a crawl.

The tiff has geopolitical undertones: Russia does not want Ukraine, with which it has deep cultural and political ties, to drift into the West's sphere of influence. But it also points to a change in the world trading system. Russia joined the World Trade Organisation in 2012, but it is less interested in strengthening the multilateral trading system than in building its own regional trade block. Fyodor Lukyanov, editor of *Russia in Global Affairs*, a foreign-policy journal, notes that with America trying to conclude sweeping trade agreements with its neighbours in the Pacific Rim and with Europe, "the whole structure of world trade is changing towards a more fragmented system. That's why Russia is trying to build something of its own."

Free-traders in the West worry that the proliferation of regional trade agreements (RTAs) is gutting the multilateral trading system. Arvind Subramanian of the Peterson Institute for International Economics calls the rise of ever larger RTAs an "existential threat" and gives warning that "multilateral trade as we have known it will progressively become history."

The debate about whether RTAs help or hurt the multilateral trading system has gone on for decades. Supporters argued that wherever two countries entered into an RTA, they would create incentives for others to join or to negotiate their own RTA. Trade barriers around the world would fall, one by one, and political support for multilateral deals would increase. Detractors claimed that once inside an RTA, countries would discriminate against outsiders and lose interest in multilateral liberalisation, undermining the authority of the WTO. They would divert as much trade as they created and introduce big distortions.

For most of the post-war period, the optimistic view prevailed as regional and multilateral liberalisation proceeded in tandem, albeit unevenly. The forerunner of the European Union was established in 1957, even as members of the General Agreement on Tariffs and Trade, the WTO's predecessor, continued to cut tariffs. In the 1990s Bill Clinton signed the North American Free-Trade Agreement just as the Uruguay round of trade liberalisation was completed. In the early 2000s China joined the WTO and the EU expanded into eastern Europe.

In the past decade, though, RTAs have increasingly looked like an alternative, not a complement, to multilateralism. The Doha "development" round, which began in 2001, immediately ran into trouble as emerging markets chafed at the central bargain: big cuts in their industrial tariffs in exchange for more access to rich-world agricultural markets. Talks faltered in Cancun in 2003 and finally collapsed in Geneva in 2008. One negotiator recalls going to dinner that night convinced that a deal had been struck, only to learn the next day that it had failed.

As Doha began to founder, the appeal of RTAs grew. The number concluded rose from 104 in 1958-2001 to 154 since then. Many of these are tiddlers, but the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) have the potential to become mega-RTAs accounting for a huge share of global trade. TPP "wasn't initially seen as the big alternative to WTO," says Gary Hufbauer of the Peterson Institute, "but…the US position is, 'If emerging market countries don't want to play ball in the WTO, we have alternatives'."

**In need of protection?**

The biggest obstacle to more multilateral trade deals is the changing balance of global economic power. Brazil, Russia, India and China (the BRICs) see themselves as countries still poor enough to need protection for their industries while the rich ones lower their own barriers, especially to agriculture. But the rich world increasingly views the BRICs as full-fledged economic competitors whose state capitalism is incompatible with a free and open global economy.

"For too long, much of the economic force and sacrifice in Geneva to produce global trade agreements has come at the expense of the US and EU," says Ron Kirk, who was Mr Obama's first trade negotiator. "We have been lectured over and over by our colleagues from the emerging markets that they have the economic heft and prestige to demand a seat at the table. And we agree." But that, he says, means they too need to make sacrifices by opening up further to America and Europe.

These divisions became clear in the race to elect a new WTO director-general this year. The contest between Herminio Blanco, Mexico's former trade minister, and Roberto Azevedo, Brazil's ambassador to the WTO, became a referendum on Mexico's liberal preferences versus Brazil's protectionist stance. Rich countries backed Mr Blanco while emerging markets plumped for Mr Azevedo, the eventual victor. Mr Azevedo has stressed that he represents the interests of all members.

The emerging markets are not monolithic. They often want protection not just from rich countries but from each other, particularly China. Roberto Giannetti da Fonseca, an official with FIESP, Brazil's largest industrial association, ran a trading company in the 1980s that sold Brazilian manufactured products to China. He struggled to find anything worth buying from China, often settling for arts and crafts. "I could not imagine that 20 years later they'd be invading Brazil with hundreds of products and we'd be crying that we cannot compete." His organisation is a vocal critic of China's mercantilist practices and has urged the Brazilian government to negotiate free-trade agreements with North America and Europe.

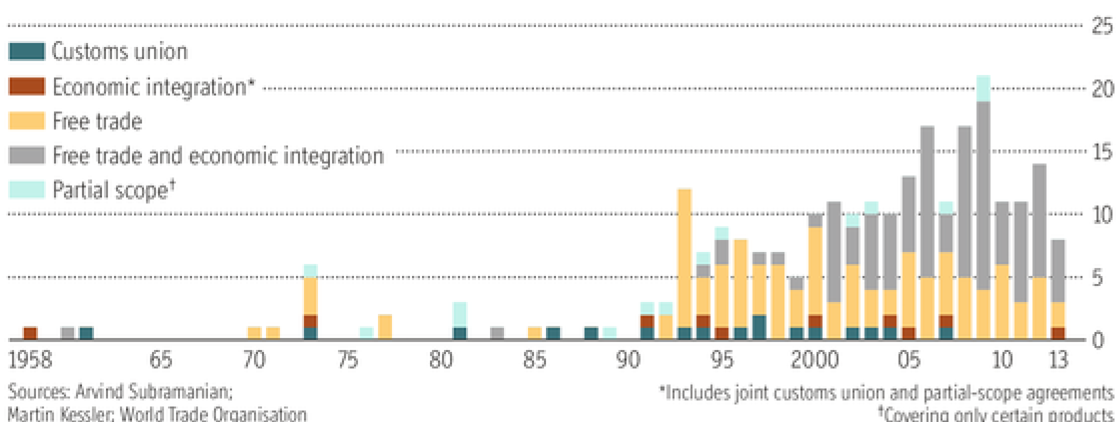
Trade liberalisation is now proceeding along two different tracks. One, preferred by America, goes "behind the border", focusing on things such as harmonising safety, health and technical standards, currencies, national treatment of foreign investors, the protection of intellectual property, services such as telecommunications, and enforcement of labour and environmental protection. The other, preferred by China, concentrates on reducing tariffs—outside sensitive sectors.

America started on its track in 2007 when Democrats in Congress struck a deal with President George W. Bush that in future trade agreements, signatories' adherence to environmental and labour standards would be subject to the same dispute-settlement rules as commercial disputes. Sandy Levin, a Democratic congressman who helped negotiate that deal, notes that people like himself who were intent on correcting market failures at home were also keen to use trade policy to do the same abroad. Their goal, he said, is "to shift the equation that has dominated discussions of trade as 'free trade' versus 'protectionism' to one of 'free trade' versus 'free and fair trade'."

In practice, this means America is most likely to strike deals with countries at a similar stage of economic development, such as the European Union and Japan, or with developing countries willing to meet rich-world standards in exchange for market access, such as Mexico and Chile. America's comprehensive free-trade deal with South Korea is the model for the TPP.

China, by contrast, has pursued a variety of bilateral deals with its neighbours, mostly in the hope of persuading them "that it sought a peaceful rise as an emerging superpower", says Chin Leng Lim, a trade-law expert at Hong Kong University. China's free-trade agreements are numerous but shallow, often leaving out sensitive sectors and subjects. Its agreement with the Association of South-East Asian Nations, for example, allows signatories to classify 400-500 tariff categories as sensitive and thus eligible for slower tariff reduction.

Regional trade liberalisation is better than no liberalisation at all, yet it interferes with globalisation in several damaging ways. By excluding sensitive sectors or imposing onerous rules of origin, it complicates life for multinational companies whose supply chains cross multiple borders.




And even global agreements have their limitations. One of the most successful global trade pacts has been the Information-Technology Agreement (ITA), signed in 1996 under the WTO's auspices to liberalise international trade in technology products. But it is becoming less useful as technological development creates new products that are not covered by it. For example, it includes computer monitors and gaming software but not televisions and game consoles. As flat-panel televisions increasingly double as computer monitors for users to go online, and as video games migrate from consoles and personal computers to hand-held devices, the ITA's scope is narrowing. WTO members had been negotiating for a year to update the pact to include 256 extra products, many of which did not exist in 1996. But in July China asked for more than 100 of these products to be taken off the table, including audio and video products. In effect, that put a stop to progress on a new ITA.

The WTO is in part a victim of its own success. Thanks to earlier rounds of tariff reductions, further liberalisation offers progressively less economic benefit. Mr Hufbauer, Jeffrey Schott and Woan Foong Wong reckon that a comprehensive (and improbable) Doha deal would lift participants' output by a mere 0.5%. The Uruguay round in the 1990s is thought to have produced a gain of 0.5-1.3%. Even the TPP will boost participants' output by only 0.5%, much the same as Doha would, reckons one study by Peter Petri of Brandeis University and Michael Plummer of Johns Hopkins.

In theory, a successful TPP or TTIP could become a magnet for other countries, eventually achieving multilateral trade liberalisation by default. In practice that seems unlikely. China's and Russia's interventionism and attachment to state capitalism are difficult to reconcile with the "behind-the-border" liberalisation America and Europe are seeking. And having had no say in designing the pacts, China and Russia may be reluctant to join later.

The decline of multilateralism may not make much difference to big countries able to negotiate regional agreements on their own terms. Small countries without such leverage may be harder hit. But the marginalisation of the WTO as a deterrent to protectionism would hurt everyone. And increasingly such protectionism is taking on new forms that are hard to deal with.

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# CASE STUDY: AMERICA - EU

**Transatlantic trade talks**

## Opening shots

**Trade negotiations between America and the European Union will not be smooth**

### Jul 6th 2013 | Washington, DC | From the print edition – *The Economist*

BEGINNINGS have been more auspicious. The roughly 150 European and American trade negotiators who are due to start work on the Trans-Atlantic Trade and Investment Partnership (TTIP) in Washington, DC, on July 8th will do so in the wake of reports that America's intelligence dragnet targeted European Union officials. In the ensuing uproar François Hollande, the president of France, suggested that TTIP talks should be delayed until questions about the spying allegations were answered. That idea seems to have been ditched. But the risk that one of the biggest trade deals in decades could be derailed by mistrust or bickering has been underlined.

Together America and the EU account for around $30 trillion in annual output, almost half the world total. Freer exchange between them could boost global GDP by 0.6% a year, or more if knock-on effects on productivity are included. The impact would be bigger still if a TTIP deal spurred multilateral efforts to cut trade barriers.

A comprehensive agreement that includes non-tariff barriers (NTBs) would be especially enticing. Post-war trade liberalisation has mostly meant slashing tariff rates. Duties between America and Europe are low already. More cuts wouldn't hurt, but NTBs are the biggest hurdles to trade.

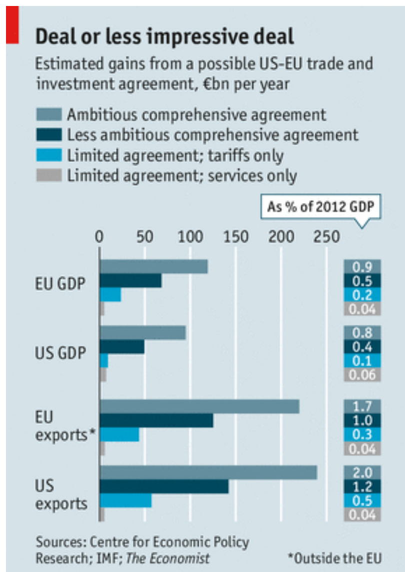
These non-tariff obstacles include outright discriminatory measures like import quotas and the sort of "Buy American" government-purchasing rules so beloved of politicians. But they also include basic regulatory standards. Separate drug-approval processes in Europe and America add to the burden of operating across the Atlantic, for example. Different consumer-product safety standards or inspection procedures have similar effects. Common standards, or mutual recognition of each other's regulatory processes, could deliver an economic boost.

The Centre for Economic Policy Research (CEPR), a think-tank in London, reckons that current NTBs are far more burdensome than tariffs. Chemical exporters to America face a tariff rate of 1.2%, for example, and non-tariff barriers equivalent to a 19.1% duty. European NTBs add what amounts to an additional 25.5% duty on top of the 8% tariff already levied on American car imports.

An ambitious trade deal would therefore produce big benefits. CEPR suggests an agreement that eliminates all remaining tariffs and cuts NTB costs by 25% would lift annual EU output by roughly 0.9% and American GDP by 0.8% (see chart). Annual exports for each economy could rise by nearly 2% of GDP. A less ambitious deal that left some tariffs in place and cut NTB costs by 10% would yield gains around half that size. One that only slashed tariffs would bring gains less than a fifth of those for a comprehensive deal.

Achieving a broader agreement will not be easy. Both sides have well-known sensitivities. Europeans are prickly about American agricultural practices, like the use of genetically modified foods. Americans will cling to carve-outs for domestic shipping and transport firms. The recent revelations about American espionage activities may complicate discussions on data-protection standards.

Political leaders have tried to keep the scope of talks as wide as possible, leaving maximum room for compromise and consensus. That strategy has already encountered hiccups. France refused to support giving a mandate to EU negotiators until it had secured protection for "cultural diversity"—code for subsidies to the French film industry. But, in an encouraging sign for the discussions to come, the French position drew scorn from normally sympathetic EU members and restraint from American officials and interest groups.




The opening round of talks in Washington are designed to craft an agenda that offers the best chance of a comprehensive deal. Early discussions will focus on things like the sequencing of topics—tariffs must wait, for example, until America concludes an impact study later this year—and the frequency of meetings. The wrangling proper may only start in the autumn.

An agreement by November 2014 remains the target, although given the technical nature of the issues, with teams of regulators niggling over thousands of topics, talks may stretch into 2015. The important thing will be to maintain a sense of haste. Trade talks rarely improve with age. The prize on offer is a grand one; now it's up to the negotiators to grab it.

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# CASE STUDY: NAFTA

**NAFTA at 20**

## Deeper, better, NAFTA

**North America's trade deal has delivered real benefits. But the job is not done**

Jan 4th 2014 | From the print edition – *The Economist*

A STEP to rival the creation of NATO, or a mortal threat to American jobs from cheap Mexican labour? The arguments for and against the North American Free-Trade Agreement (NAFTA) before its launch on January 1st 1994 were hyperbolic. Twenty years on, NAFTA's backers have won the argument.

The American and Canadian economies were already pretty well integrated before the creation of NAFTA, so there was no great leap in trade between the two. But America's trade with Mexico increased by 506% between 1993 and 2012, compared with 279% with non-NAFTA countries. In 2011 America traded as much with Canada and Mexico as it did with the BRIC countries (Brazil, Russia, India, China), Japan and South Korea combined. The "giant sucking sound" that Ross Perot, a presidential candidate, predicted would be heard as Mexico hoovered up American jobs never materialised; if jobs have moved anywhere in the past two decades, they have gone to China, not Mexico. Industries from aerospace to cars have woven supply chains back and forth across North America's borders. Some 40% of the content of imports from Mexico into the United States, and 25% of the content of

imports from Canada, originated in the United States itself. Helped by rising energy production in all three countries, Factory North America is being created (see article).

Of the trio, Canada's GDP per person has grown fastest over the past two decades, but Mexico—an emerging market hitched to two larger, rich ones—has been NAFTA's biggest beneficiary. Import competition has improved Mexican manufacturing productivity; foreign direct investment has surged. More important, membership of NAFTA has shored up Mexico's domestic political commitment to open markets, and provided a template for the country's other free-trade agreements (14 and counting). The deal has not closed the vast income gap with Canada and America (see article), but it has helped make Mexico more stable and prosperous. That should be a cause for celebration on both sides of the border.

However, the biggest gains in trade were early in NAFTA's life; momentum has waned in recent years. If the agreement is to progress, three things need to be done. First, the business of shipping goods across borders needs an overhaul. Crossing from Mexico to the United States, waiting times are far too long; much of the infrastructure is antiquated; railway and haulage crews still change over at the border. Measures to allow the pre-clearance of goods before they reach the frontier are held up by America's needless insistence that its customs agents should be allowed to carry guns, against Mexican laws, when they operate south of the border.

**Bridges, not moats**

NAFTA could also do more to avert the negative effects of regional trade deals. Such deals risk diverting trade from countries outside the club to those inside it. NAFTA should show how regional deals can be bridges to wider liberalisation. The United States, Canada and Mexico have each pursued free-trade agreements with the European Union separately, for example; instead, they should act in concert. NAFTA itself should also map out a way to invite in new members from Central America, the Caribbean and Latin America, to spread free trade across all the Americas.

Third, the bloc should embrace the freer movement of people. NAFTA had virtually nothing to say about labour mobility at its launch, beyond creating a visa category for "professionals". The United States is not about to embrace European-style open borders, but more generous dispensations for frequent travellers from Mexico would be a start.

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## PART III : ADDITIONAL INFORMATION

**Free exchange**

# Arab spring cleaning

**Why trade reform matters in the Middle East**

Feb 25th 2012 | From the print edition - *The Economist*

A YEAR after the start of the Arab spring, no government in the Middle East has attempted serious economic reform even though it is obvious both that economies are distorted and that discontent over living standards has played a big part in the uprisings. The main reaction by governments has been to buy off further protests by increasing public spending. Saudi Arabia boosted government spending by over 50% between 2008 and 2011.

Although higher oil prices have been enough to finance these rises, much of the extra spending has gone into public-sector wages and consumer subsidies. Food and fuel subsidies are often huge: over 10% of GDP in Egypt. In the region as a whole, fuel subsidies rose from 2.3% of GDP in 2009 to 3.2% in 2011.

These subsidies benefit the rich, keep loss-making firms alive and damage the economy. According to the IMF, the richest fifth of Jordanians capture 40% of fuel-subsidy gains; the poorest fifth get 7%. More important, subsidies exacerbate the region's most important economic problem, which, argue Adeel Malik of the Oxford Centre for Islamic Studies and Bassem Awadallah*, a former Jordanian finance minister, is “that it has been unable to develop a private sector that is independent, competitive and integrated with global markets”. By distorting domestic prices, subsidising energy-guzzling firms and increasing public-sector wages relative to private-sector ones, the past year's actions have made it even harder to develop a flourishing private sector.

It was hard enough before. The Middle East has strikingly few private companies, less than one-third of the number per person in eastern Europe. Everywhere the state dominates the economy. In Egypt the public sector accounts for 40% of value-added outside agriculture—an unusually large share for a middle-income country. Such private firms as do exist tend to be large and closely connected to the state. The average Middle Eastern company is ten years older than in East Asia or eastern Europe because new entrants are kept out by pervasive red tape. The authors reckon it costs roughly 20 times the average annual income to start a firm in Syria and Yemen (assuming anyone would want to), just over twice the average globally. In a few Arab countries, like Tunisia, some notorious personifications of crony capitalism have fallen foul of political change but the practice has by no means ended.

The weakness of the private sector is typically seen as a domestic problem with domestic solutions, notably privatisation and deregulation. Earlier attempts to strengthen private businesses by pursuing those policies were in practice half-hearted or skewed towards well-connected insiders, tainting the whole process of reform. The risk of the same outcome is a big reason why, in the aftermath of the Arab spring, risk-averse governments have shied away from further efforts to privatise or cut red tape. But, argue Messrs Malik and Awadallah, there is also a regional aspect to the private sector's weakness—the failure to develop regional markets. Here, reform may be politically easier.

Arab companies are globally uncompetitive. The Middle East accounts for less than 1% of world non-fuel exports, compared with 4% from Latin America (a region with a comparable population). Turkey exports five times as much as Egypt, which has a population of similar size. Despite its favourable geographical location the Middle East is rarely part of global supply chains. And of its modest global exports, inter-Arab trade accounts for less than a tenth, barely more than in 1960.

The usual explanation for the failure to trade is the region's resource curse. Because it is so easy to export crude oil, Arab countries have failed to develop significant merchandise exports. And because so many export the same thing—oil—they naturally do not trade with each other. Even if that were the whole story, the region would still need to develop competitive manufacturing or services to cope with demographic change. Oil cannot generate the tens of millions of new jobs that predominantly young Arab countries will need. But it is not the whole story. Arab countries could trade with each other more than they do, and part of the reason that they do not is self-inflicted.

Obstacles to regional trade are legion. Costly “trade logistics”—non-tariff barriers, red tape and poor infrastructure—add 15% to the value of Egyptian clothes and 10% to the total value of all goods shipped in the region. It costs companies an average of 95 man-days a year just to deal with trade bureaucracies. It takes longer and is more expensive to ship goods between two Middle Eastern ports than to send them from the Middle East to America. Such market fragmentation, the authors argue, is the consequence of the region's centralised, state-led economic policies.

**Just start somewhere**

More trade would have familiar benefits: larger markets should enable firms to reap greater economies of scale, increase returns to investment and adopt more new technology. Just as important in the Middle Eastern context, more open trade would begin the process of dismantling over-centralised states and create a constituency for further economic change.

Of course, trade liberalisation is no substitute for privatisation, financial reform and other domestic measures. But it has a political advantage over those reforms. Because the steps required are relatively small ones (reductions in red tape, for instance) they should provoke less resistance from insiders; and because regional trade can be presented as

a pan-Arab goal, it does not have the same taint of "Westernisation" that discredited earlier reform efforts. Regional trade would be only a start. But the main thing is to start somewhere.

* "The economics of the Arab Spring", OxCarre Research Paper 79, Department of Economics, Oxford University, December 2011.

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**PART IV : IMPORTANT TOPICS IN TRADE RELATIONS**

**The spread of counterfeiting**

# Knock-offs catch on

**Fake goods are proliferating, to the dismay of companies and governments**

**Mar 4th 2010 | NEW YORK | From the print edition - *The Economist***

IMITATION is supposed to be the sincerest form of flattery, but that is not how most brands see it. On March 1st Philip Morris, a tobacco giant, sued eight American retailers for selling counterfeit versions of its Marlboro cigarettes. Thanks to the rise of the internet and of extended international supply chains, and more recently, to the global economic downturn, counterfeit goods are everywhere. Fake Porsches and Ferraris zoom along the streets of Bangkok. A German bank has discovered an ersatz gold ingot made of tungsten in its reserves, according to a German television channel investigating persistent reports that many of the world's financial institutions have been similarly hoodwinked. NASA, America's space agency, has even bought suspect materials.

Counterfeiting "used to be a luxury goods problem", says Therese Randazzo, who is in charge of protecting intellectual property at America's customs service. Now people are trying to traffic counterfeit items that have a "wider effect on the economy", she says, such as pharmaceuticals and computer parts. A new study by America's Department of Commerce shows that fakes have even infiltrated the army. The number of counterfeit parts in military electronics systems more than doubled between 2005 and 2008, potentially damaging high-tech weapons.

The OECD estimates that the international trade in counterfeit and pirated goods was worth around $250 billion in 2007. The International Anti-Counterfeiting Coalition (IACC), a lobby group, says the true figure is actually closer to $600 billion, because the OECD's estimate does not include online piracy or counterfeits that are sold in the same country as they are made. Counterfeit goods make up 5-7% of world trade, according to the IACC.

Several factors have contributed to the growth of counterfeiting in recent years. The shift of much of the world's manufacturing to countries with poor protection of intellectual property has provided both the technology and the opportunity to make knock-offs. The internet in general, and e-commerce sites like eBay in particular, have made it easier to distribute counterfeit goods. MarkMonitor, a firm that helps companies defend brands online, estimates that sales of counterfeit goods via the internet will reach $135 billion this year.

The recession in the rich world may also have given a boost to counterfeit goods. Frederick Mostert of the Authentics Foundation, an anti-counterfeiting group, has noticed a "spike" in knock-offs this recession, as consumers short of money trade down from the real thing. Cost-cutting measures may also have made firms' supply chains more vulnerable to counterfeit parts. In 2008 the value of fake goods seized at America's borders increased by nearly 40% over the year before. It subsequently fell by 4% last year—far less than the 25% decline in imports overall (see chart). In Europe in 2008 customs services confiscated more than double the previous year's haul of counterfeit goods.

Businesses, which feel the revenues lost to counterfeiters all the more acutely in a downturn, are making an even greater effort to root out impostors. Complaints from Louis Vuitton, a luxury-goods firm, for example, led to nearly 9,500 seizures of knock-offs last year, 31% more than in 2008. Lawsuits brought by companies against manufacturers and distributors of counterfeits are at an all-time high, says Kirsten Gilbert, a partner at Marks & Clerk Solicitors, a British law firm.

The technology used to counter pirates is also becoming more sophisticated. Holograms are a cheap way to distinguish real items from fakes, although counterfeiters are getting better at copying them. Special inks, watermarking, and other "covert" technologies (meaning those invisible to the naked eye) are becoming more popular as a result. Many "brand protection" firms have also started to peddle radio-frequency identification (RFID) technology to help companies track shipments. This allows firms to tag boxes and crates with chips which send out signals identifying them as authentic.

The most foolproof technique for identifying genuine goods involves incorporating materials with special genetic markers into the packaging or product itself. Firms or officials can then literally check an item's DNA to ensure that it is real. This is more expensive than other anti-counterfeiting measures, but companies with very valuable wares, such as the grandest wineries, are splurging on it. James Hayward, the boss of DNA Applied Sciences, which sells such technology, insists that new clients are "knocking down our door", in spite of the recession.

Online brand-protection services, which track counterfeiters on the web for their clients, are also thriving. OpSec Security, which provides physical and online brand protection, has seen revenues from its online monitoring business grow by more than 20% annually for the past two years, even as revenues for its shipping services declined (because companies are shipping fewer items). MarkMonitor raised the price of its online brand-protection service by 18% last year because demand was so high. America's biggest firms spend $2m-4m a year to combat counterfeiting on average—a figure that is growing along with internet shopping.

Governments are also boosting their efforts to crack down on counterfeiting, which deprives them of tax revenue in addition to harming legitimate businesses. Counterfeiting and piracy cost G20 economies €62 billion ($85 billion) a year in lost taxes and higher spending on unemployment benefits, according to a study by Frontier Economics, a consultancy. For every dollar invested in the fight against counterfeiting in America, the government receives $5 in extra tax revenue, estimates the US Chamber of Commerce, a business lobby. In recent years France and Italy, among others, have enacted laws that threaten consumers who buy fake goods with steep fines and even imprisonment.

America appointed its first "IP tsar" last autumn and is developing a new enforcement strategy. The European Union has formed an anti-counterfeiting "observatory" to collect better data and disseminate tips on how best to detect fake goods. The EU, America and Japan, among others, are also discussing a new treaty, called the Anti-Counterfeiting Trade Agreement (ACTA), that would strengthen international controls on counterfeits and piracy. It is expected to be launched later this year.

But in China, where 80% of the world's fake goods are thought to be produced, officials are loth to crack down on a thriving local business. China is not expected to sign ACTA—undermining it before it has even been unveiled. Perhaps China could make a just-as-good fake treaty instead.

# CASE STUDY: TURKEY AND COUNTERFEIT GOODS

### Turkey cracks down on counterfeit goods

**Authorities in 'republic of fakes' target burgeoning market worth $6bn in anything from knockoff handbags to honey**

Constanze Letsch in Istanbul - guardian.co.uk, Monday 17 October 2011 21.00 BST

In a small workshop hidden away on the third floor of a narrow building close to one of Istanbul's busiest shopping arteries the smell of leather and textile paint hangs in the air, patches of material are scattered across workbenches, design samples decorate the walls. The room is barely big enough for the three workmen, the piles of textiles, the machines and the tools. A small radio transmits a live football game. One of the men is sewing together patches for a Mulberry handbag. The fabric comes from Bursa, while accessories such as zips are made in metal-coating workshops in Istanbul. The bags they are making are fakes.

"Customers demand brand names, they simply don't buy anything else," explains the owner, who does not wish to be identified. In 2002 he spent three months in jail for making counterfeit Louis Vuitton bags. "Colleagues who make fake bags are forced to do so. They need to make the money to feed their families, they have no choice. That's why there will always be counterfeit products."Even before we started to produce fakes, Turkish artisans often copied designs they had seen in French and Italian magazines. The lack of courage to try something new and original seriously impedes the development of the industry."

The Turkish counterfeit market is booming – it is expected to be worth $6bn (£3.8bn) this year, up from $3bn in 2010. "We are a republic of fakes," a Turkish newspaper recently lamented. Now the government is accelerating a crackdown against the flourishing trade in knock-off products that encompasses everything from electronics, cosmetics and accessories to pharmaceuticals, textiles and alcohol – even olives blackened with shoe polish or honey extended with starch and paraffin.

Asaf Savaş Akat, economics professor at Istanbul Bilgi University, says: "There are two types of fake markets. One is the market for counterfeit goods of low quality that are sold on the street all over Turkey. These goods are very cheap and often imported from China. On the other hand there is an upscale market for fake products: for example high-quality leather Gucci bags that are hard to distinguish from the original and that cost several hundred dollars." Handbags are the most common counterfeit products made and sold in Turkey. Lawyers such as Vehbi Kahveci say that brands have to be more responsible and go after the counterfeiters. "In Turkey crimes of counterfeiting are only prosecuted if someone denounces a certain seller or producer. There still is a reluctance to invest in the legal infrastructure, in lawyers and inspectors. Some brands even tolerate knockoffs as a means to raise brand awareness."

His office – representing brands such as Burberry, Hermès and Louis Vuitton – suffered in 2009, when infringement law reforms led to the closure of 9,000 court cases. But, he says, things have been looking up since then: "There are now special courts that deal solely with counterfeiting and piracy, and the police forces dispatch special teams that we help to educate." This year his office founded the Association of Registered Trademarks to unite brands such as Adidas, Longchamp and Levi's around the problem of the counterfeit market. But, he says, the main problem is the mindset of the consumer: "People here don't see the fake goods trade as a crime."

Turkish laws concerning trademark infringement were tightened considerably in 2009, and the government increasingly clamps down on those involved in the fake goods trade. Melih Çuhadar, speaker of the Ankara Chamber of Commerce, told the Guardian: "Legal measures have been significantly improved over the last years, and fines for infringement have increased." In April the Istanbul police conducted a large-scale operation against counterfeiters for the first time, raiding 137 stores inside the Grand Bazaar. The largest covered market in the world, which has catered to travellers, tourists and shoppers since the 15th century and is arguably the best-stacked knockoff market in the city, yielded more than 14,000 counterfeit handbags. Ninety shop owners were arrested. Ever since, Kahveci says, smaller raids on three or four stores at a time are conducted weekly. "You will never completely eradicate the fakes", he says, referring to the piles of Lacoste T-Shirts, Burberry scarves and Gucci bags still on display everywhere in the bazaar. "But you can install fear in those who sell them, and create public awareness that selling and buying counterfeited goods amounts to theft." One shop owner in the bazaar who was convicted for selling counterfeit handbags once in 2008 now falls back on a simple trick. "You must change three different things on a designer bag to be in the clear," he says. "If three details are different, and you don't use the actual

brand logo, they cannot fine you." His current bestseller is a shopping bag mimicking a French brand: "I added plastic reinforcement on the handle, and two kinds of zippers on the inside." But he is no cheat, he says. "I am a good Muslim. I sell fakes to my customers but I never lie about that. I never tell anybody that these are original."

Kahveci says that counterfeiters are increasingly resorting to more ingenious tactics to avoid discovery and arrest: "If you have an arrest warrant for a certain address, they simply move their goods into the neighbour's shop." And, he adds: "Many workshops now work behind closed blinds over the weekend, when they appear to be closed. By Sunday night a truck picks up the goods, and by Monday morning, when the workshop opens, there is not even a trace of evidence any more."

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**China's economy and the WTO**

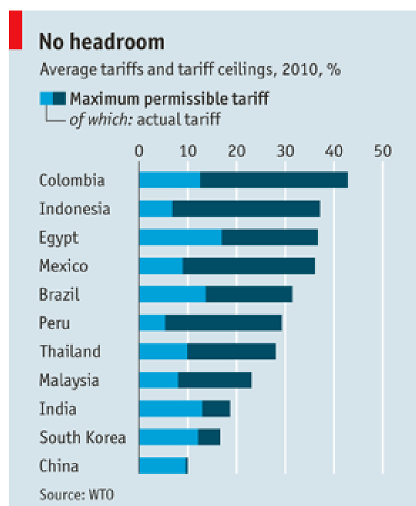
# All change

**In two articles, we examine how China has been altered by its entry into the WTO ten years ago. First, the economy.**

**The Economist - Dec 10th 2011 | *HONG KONG* | from the print edition**

THE World Trade Organisation (WTO), like many clubs, denies patrons the right of automatic readmission. Having quit the organisation's predecessor shortly after the Communist revolution of 1949, China had to wait 15 long years to gain entry after reapplying in the 1980s. The doors finally opened on December 11th 2001, ten years ago this week.

The price of re-entry was as steep as the wait was long. China had to relax over 7,000 tariffs, quotas and other trade barriers. Some feared that foreign competition would uproot farmers and upend rusty state-owned enterprises (SOEs), as to some extent it did. But China, overall, has enjoyed one of the best decades in global economic history. Its dollar GDP has quadrupled, its exports almost quintupled.




Many foreigners also prospered. American foreign direct investment reaps returns of 13.5% in China, compared with 9.7% worldwide, according to K.C. Fung of the University of California, Santa Cruz. China imposes lower tariffs on average than Brazil or India. The gap between what it can charge, under WTO rules, and what it does charge is also unusually small. So unlike its peers, China could not raise tariffs much even if it wanted to (see chart).

Yet in America, China's single biggest trading partner, sentiment towards the country has turned starkly negative. In a recent poll, 61% of Americans said that China's recent economic expansion had been bad for America; just 15% thought it had been good. This partly reflects China's controversial currency regime. By keeping the exchange rate down, China's critics allege, it has gained a substitute for the mercantilist measures it gave up to join the WTO.

Foreign frustration is partly a sign of China's success. As its economy has grown and matured, the stakes have risen. Foreign firms lament losing trade battles they might not bother to wage in a less lucrative market. They also face competition from local upstarts in markets where no such rivals previously existed.

Electronic payments are one example. China's first ever payment card was issued in 1986 by MasterCard. Foreign brands remained dominant at the time of China's WTO entry. But shortly afterwards, China's central bank established a domestic competitor, China UnionPay, and gave it a de facto monopoly over the handling of local-currency payments between merchants and banks. This setback might have been easier to take for foreign companies had the market not since grown tenfold, to $1.6 trillion, according to The Nilson Report, an industry newsletter.

China's economy has evolved faster than anyone hoped. But its economic philosophy has not. Long Yongtu, who helped China win admission to the WTO, recently said that China is now moving further away from the organisation's principles. To modernise its economy, it has remained wedded to industrial policies, state-owned enterprises, and a "techno-nationalism" that protects and promotes home-grown technologies.

Many foreign companies feel they must compete not with Chinese firms but with the Chinese state. Between them, China's central and local governments own over 100,000 companies and implicitly favour many more. Thanks to the WTO, foreign firms are no longer required to hand over technology in exchange for entry to China's market. But many still feel an informal pressure to do so. China is also keen to promote its own firms by enforcing its own technological standards, such as for 3G mobile phones.

Many of these interventions violate the spirit, if not always the letter of WTO rules. In response, America often pushes back bilaterally rather than in Geneva, according to a former American trade negotiator. This is partly because companies worry they will face retribution from China's government if they provide evidence against it in a trade case. It is also because much of what China does falls into a grey area that is not easy for the WTO to police.

China, on the other hand, is growing more comfortable with the WTO machinery. In its early years as a member, it shied away from confrontation, points out Henry Gao of Singapore Management University. In 2006, for example, America threatened to file a complaint over China's duties on kraft linerboard. China lifted the duties the next working day. But now the Chinese have learned the ropes, they have also become more proactive. "Now they defend themselves," says Nicholas Lardy of the Peterson Institute, a Washington think-tank. "They initiate cases. And when they lose, they comply."

In some cases the discrimination is no worse than before, it is simply more visible. As part of its WTO agreement, China now circulates draft laws and regulations for 30 days to collect comments. That has made it easier for foreigners to spot foul play. America recently complained that China had failed to notify the WTO of nearly 200 subsidy programmes, such as those supporting green-energy technology. It knew this in part because China, following its newly transparent practice, had disclosed many such programmes online, the former negotiator said: "Similar policy announcements were *neibu* (for limited distribution) in the past."

China's trade policies may look a little uglier than WTO members had hoped when they opened the club's doors ten years ago. But that is partly because the lights have been turned on.

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# China loses its allure

**Life is getting tougher for foreign companies. Those that want to stay will have to adjust**

**Jan 25th 2014 | *The Economist***

ACCORDING to the late Roberto Goizueta, a former boss of The Coca-Cola Company, April 15th 1981 was "one of the most important days…in the history of the world." That date marked the opening of the first Coke bottling plant to be built in China since the Communist revolution.

The claim was over the top, but not absurd. Mao Zedong's disastrous policies had left the economy in tatters. The height of popular aspiration was the "four things that go round": bicycles, sewing machines, fans and watches. The welcome that Deng Xiaoping, China's then leader, gave to foreign firms was part of a series of changes that turned China into one of the biggest and fastest-growing markets in the world.

For the past three decades, multinationals have poured in. After the financial crisis, many companies looked to China for salvation. Now it looks as though the gold rush may be over.

More pain, less gain

In some ways, China's market is still the world's most enticing. Although it accounts for only around 8% of private consumption in the world, it contributed more than any other country to the growth of consumption in 2011-13. Firms like GM and Apple have made fat profits there.

But for many foreign companies, things are getting harder. That is partly because growth is flagging (see article), while costs are rising. Talented young workers are getting harder to find, and pay is soaring.

China's government has always made life difficult for firms in some sectors—it has restricted market access for foreign banks and brokerage houses and blocked internet firms, including Facebook and Twitter—but the tough treatment seems to be spreading. Hardware firms such as Cisco, IBM and Qualcomm are facing a post-Snowden backlash; GlaxoSmithKline, a drugmaker, is ensnared in a corruption probe; Apple was forced into a humiliating apology last year for offering inadequate warranties; and Starbucks has been accused by state media of price-gouging. A sweeping consumer-protection law will come into force in March, possibly providing a fresh line of attack on multinationals. And the government's crackdown on extravagant spending by officials is hitting the foreign firms that peddle luxuries (see article).

Competition is heating up. China was already the world's fiercest battleground for global brands but local firms, long laggards in quality, are joining the fray. Many now have overseas experience, and some are developing inventive products. Xiaomi and Huawei have come up with world-class smartphones, and Sany's excellent diggers are taking on costlier ones made by Hitachi and Caterpillar. Consumers will no longer pay a hefty premium just because a brand is foreign. Their internet savvy and lack of brand loyalty makes them the world's most demanding customers (see article).

Some companies are leaving. Revlon said in December that it was pulling out altogether. L'Oréal, the world's largest cosmetics firm, said soon afterwards that it would stop selling one of its main brands, Garnier. Best Buy, an American electronics retailer, and Media Markt, a German rival, have already left, as has Yahoo, an internet giant. Tesco, a British food retailer, last year gave up trying to go it alone, and entered a joint venture with a state-owned firm.

Some of those who are staying are struggling. IBM this week said that revenues in China fell by 23% during the last quarter of 2013. Rémy Cointreau, a French drinks group, reported that sales of its Rémy Martin cognac fell by more than 30% during the first three quarters of last year because of a plunge in China. Yum Brands, an American fast-food firm, said in September last year that same-store sales in China had fallen by 16% in the year to date. Its

problems were partly the result of a government investigation into alleged illegal antibiotic use by its chicken suppliers.

Investors no longer celebrate firms with big investments in China. Our Sinodependency Index weights American multinationals by their China revenues. Sino-dependent firms used to outperform their peers, but in the past two years their share prices have done worse than others'.

As Jeffrey Immelt, the boss of GE, puts it, "China is big, but it is hard…[other] places are equally big, but they are not quite as hard." Companies that want to stay in China will have to put in even more effort. Many will have to change strategy.

**One China is over**

First, rising costs mean that bosses must shift from going for growth to enhancing productivity. This sounds obvious, but in China the mentality has long been "just throw more men at the problem". One way to get a grip on costs is to invest in labour-substituting technology, not only in manufacturing but also in services. Also, multinationals are falling behind local firms like Alibaba and Tencent in exploiting a surge of big data coming from e-commerce and smartphones.

Second, tighter control is another must. GSK's bosses in London admitted that its problems in China were partly the result of executives acting "outside of our processes and control". Managers in headquarters must ensure that executives' behaviour and safety standards are as high as anywhere else in the world. Chinese consumers are even more active on social media than those in the West, so any scandal is instantly broadcast nationally.

Lastly, a One China policy no longer makes sense. Most firms set up their local offices when China's economy was smaller than $2 trillion. Although it will soon be five times that size, many still try to run their operations from Shanghai. That makes little sense when tastes in food, fashion and much else vary between provinces and mega-cities that have populations as big as European countries. Some 400m Chinese do not speak Mandarin. So even as CEOs need to keep a closer eye on standards and behaviour, they should localise marketing and perhaps product development.

China is still a rich prize. Firms that can boost productivity, improve governance and respond to local tastes can still prosper. But the golden years are over.

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## CASE STUDY: SELLING FOREIGN GOODS IN CHINA

# Impenetrable

**Despite widespread hope that China will help pull the world out of recession, foreigners are finding it as arduous as ever to do business there**

**Oct 15th 2009 | Shanghai | From the print edition - *The Economist***

EVERY year, says Paul French, head of Access Asia, a research firm based in Shanghai, the same company buys the same report from him on the market for a particular product in China. That is because each year the company in question sends a new executive to China with instructions to break into the local market, who soon departs in despair—having failed to find an opening given the (brief) time and (insufficient) resources allotted.

Mr French's customer is not alone. China accounts for less than 2% of the global sales of drugs giants such as Pfizer, AstraZeneca and Bayer, estimates IMS, another research firm. Procter & Gamble (P&G), a consumer-goods giant, is reckoned to generate only a bit over $3 billion annually in China, less than 5% of its overall sales. Unilever

is thought to sell less than half as much; its local operations are barely profitable. AIG, an American insurance firm, was founded in Shanghai and has won greater access to China than many of its competitors. But its operations are still restricted to just eight cities. Analysts suspect its revenues in China are less than in Taiwan, a country with 2% of the population and stiffer competition.

The promise—and frequent disappointment—of doing business in China has been a common theme since at least the 19th century, when weavers in Manchester were said to dream of adding a few inches to every shirttail in China. Thanks to recession at home, foreign firms are keener than ever to capitalise on China's growth. But Europe and America's exports to China have remained broadly flat over the past year and amount to less than 7% of the total, even though shrinking exports to other countries flatter the figure. Even if the Chinese economy grows by the official target of 8% this year, the impact on Western firms' total sales would be little more than a rounding error, says Ronald Schramm, a visiting professor at the Chinese European International Business School.

Many foreign firms, of course, are doing well in China, especially at the two extremes of the value chain: things like luxury goods, fibre-optic cable and big aeroplanes on the one hand, and oil, ores and recyclable waste on the other. But in between, both explicit legal impediments and hidden obstacles continue to hamper access to Chinese customers, despite China's promises of reform when it joined the World Trade Organisation (WTO) in 2001. Publishing, telecommunications, oil exploration, marketing, pharmaceuticals, banking and insurance all remain either fiercely protected or off-limits to foreigners altogether. Corruption, protectionism and red tape hamper foreigners in all fields.

Recent reports from three lobbies for foreign businesses, the American Chamber of Commerce in Shanghai, the European Chamber of Commerce in China and the US-China Business Council, bear out this gloomy view. Their biggest gripes have nothing to do with typical business concerns, such as the availability of good staff or high costs. Instead, they complain about subsidised competition, restricted access, conflicting regulations, a lack of protection for intellectual property and opaque and arbitrary bureaucracy.

To operate in China, the Council itself must provide documents from America's State Department, the Chinese Embassy in America, the cities of Washington and Shanghai, the local tax authorities and the local branch of the State Administration for Industry and Commerce. It takes six months to obtain a one-year licence. At least there is an established procedure, albeit a costly and cumbersome one. Others are not so lucky: upon joining the WTO, China agreed to allow foreign firms to compete to offer booking systems to local airlines, but according to the European Chamber it has not yet produced the necessary regulations.

Local officials go to great lengths to protect companies on their patch, often by giving them preferential access to land or credit, or by easing bureaucratic constraints for them. All the red tape would at least provide plenty of work for multinational law firms, were they permitted to employ Chinese lawyers—which they are not. The government, by dint of its control of the media, also controls advertising rates. That makes the cost of reaching a consumer in China higher than in many Western countries, although the potential rewards are much lower since most Chinese are so much poorer, says Tom Doctoroff, the boss of JWT, an advertising firm. There is little reliable business news (see article).

Firms that have managed to overcome these obstacles tend to produce locally in China; their products are perceived to be of high quality (few foreigners succeed by undercutting prices) and they have invested tremendous amounts of time and effort building distribution networks and raising awareness of their brands. Take Goodyear, an American tyremaker. It has had to find local partners for all of its 760 dealerships in China, who in turn had to obtain permits from the authorities. It has got around the state monopoly on advertising by deploying its trademark blimps, and pre-empted objections to that by using them to advocate a worthy cause: safe driving.

As always, there are local tastes to consider too. Chinese consumers seem to have even more of a taste for variety than most. P&G produces its Crest brand of toothpaste in a mouth-watering array of flavours, including lemon, tea, strawberry, salt and honey. A similar proliferation of offerings has served Nokia, the world's biggest handset-maker, well too.

One strategy that has brought success to several foreign firms has been to charge high prices—a surprise, given that earnings in China remain quite low. A survey by the Nielsen Company concludes that Chinese believe that foreign brands are more expensive, even when they are not. That suggests that they should aim to compete on quality rather than cost. At any rate, Apple, General Motors and Levi Strauss all sell certain products at higher prices in China than elsewhere. So do many luxury brands. But relatively few foreign firms have managed to reap such rewards.

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http://gulfnews.com/business/general/uae-prioritises-food-security-1.1151259

# UAE prioritises food security

**Reduce waste to feed the 1 billion hungry people worldwide**

- **Gulf News Report - Published: 15:20 February 26, 2013**

Dubai: A reduction in food waste could feed most of the one billion hungry people worldwide every day.

One in every seven people are starving every day in different parts of the world — while growing food waste due to lack of infrastructure and food habits remains a concern for world leaders.

The United States generates 90 billion pounds of food wastes annually that could feed all the hungry people in Africa, officials say.

“A large amount of food is wasted in India due to lack of infrastructure to store and transport perishable products,” said Essa Al Ghurair, Vice Chairman of Al Ghurair Investments, whose company stores 300,000 tonnes of food grains.

He said, his company is partnering with the UAE government in the country’s food security initiatives. Al Ghurair Foods, one of the largest importers of foodstuff and food processors in the UAE, is dedicating 10 per cent of its storage facility to the UAE government’s food programme.

“Although it is the responsibility of the government to ensure food security, the government cannot do it alone. The private sector should participate and share the responsibility,” he said.

With rising demand in foodgrain, fluctuation in food price, volatility and climate change issue, the UAE has initiated a food security measure that will see the country develop a strong buffer stock to feed its population in need.

“About 90 per cent of the Gulf’s food demand is met with imports as agriculture is restricted due to climatic conditions and land use restrictions,” said Shaikha Lubna Al Qassimi, UAE Minister of Foreign Trade, said at the inaugural session of Gulfood conference. UAE’s total food imports were $7.7 billion last year, which is expected to reach 9 billion this year.

“The UAE has become a major global hub for rice, coffee and tea trading, due to its strong connectivity,” she said.

What you eat is how long you are going to live — is becoming more important to individuals on the one hand, while on the other, feeding a billion hungry people is becoming an increasing challenge worldwide, officials say.

While growth in global food demand is going to come from the developing world – which will see the population grow from 7 billion to 9.5 billion by 2050 – changing food habits in the new urban centres in the emerging economies will complicate things if sufficient food grain is not produced worldwide to feed them.

“Increasing population and the improved quality of food consumption pattern will put increasing pressure on the global food demand,” Don Glickman, former US Secretary of Agriculture, said at the Gulfood Conference on Monday.

About 75 per cent of the world’s water reserves are being used for agriculture and food production, resulting in decline in water levels globally — that is affecting the climate.

“We are seeing extreme weather variations in different parts of the world that was never seen before in modern history. Climate change is a major problem globally,” he said, urging people to “Water Up”.

He said, reduction in waste is critical in ensuring food security. “However, we also need to grow more food on less land, water and other resource by developing food technology and initiating green revolution where the consumers will benefit from high yield crops,” he says.

“Free trade is important to ensure greater food security. Food should be made a freely traded commodity that could move across borders without barriers.”

In this regard, he criticised export bans by some countries to protect domestic markets.

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# U.S. and Brazil Reach Agreement on Cotton Dispute

**By SEWELL CHAN – NEW YORK TIMES - April 6, 2010**

WASHINGTON — The United States and Brazil have reached an agreement aimed at settling a long-standing trade dispute over American subsidies to cotton growers, officials in both countries said Tuesday. The announcement came one day before Brazil was to begin imposing up to $830 million in sanctions with authorization from the World Trade Organization. The trade body had ruled last August that American subsidies to cotton growers had violated global trade rules.

Under the preliminary deal, Brazil would hold off on retaliation in exchange for American concessions that include the modification of an export loan program and the establishment of a temporary assistance fund for the Brazilian cotton industry. The broader issues in contention would be deferred until Congress takes up the next farm bill, most likely in 2012. The Brazilian sanctions were to include $591 million in higher tariffs on a wide array of goods, including autos, pharmaceuticals, medical equipment, electronics, textiles and wheat.

The case was also closely watched because Brazil would have been the first country to violate American intellectual property rights in retaliation for unfair trade policies under the approval of W.T.O. arbitrators.

Brazil had threatened, for example, to stop charging its farmers technology fees for seeds developed by American biotechnology companies and to break American pharmaceutical patents before their scheduled expiration. Those retaliatory actions would have cost American businesses up to $239 million.

“Traditionally, retaliation in trade has been the preserve of the largest developed countries, which have market power,” said Robert Z. Lawrence, a professor of international trade and finance at the Harvard Kennedy School. “But this mechanism — suspending intellectual property protection — gives smaller, developing countries a way to enforce their rights under trade rules.”

The compromise was reached after Miriam Sapiro, a deputy trade representative, and James W. Miller, an under secretary of agriculture, met last Wednesday with Brazilian officials.

Under the agreement, the Agriculture Department will modify a program that guarantees loans extended by American banks to approved foreign banks for purchases of American agricultural products by foreign buyers.

The United States will also set up a technical assistance fund of $147.3 million a year. The amount represents the value of the retaliation the W.T.O. had authorized for American payments to cotton producers under a marketing loan program and a countercyclical loan program. The fund would remain in place until passage of the next farm bill or a mutually developed solution, whichever occurs first.

Finally, the United States agreed to evaluate whether fresh beef can be imported from Brazil while preventing the introduction of foot-and-mouth disease. The authorities will move to recognize Santa Catarina, a state in southern Brazil, as free of the disease.

Both sides said they hoped to agree by June on a process to conclusively resolve the dispute, although such a resolution would probably await action by Congress.

The United States trade representative, Ron Kirk, and the agriculture secretary, Tom Vilsack, announced the deal. It was applauded by lawmakers, including the top Democrat and the top Republicans on the Senate and House Agriculture Committees.

Eddie Smith, a cotton producer in Floydada, Tex., and the chairman of the National Cotton Council of America, called the agreement “a positive development in this very long dispute.”

He said in a statement the deal “avoids the immediately harmful economic effects of trade retaliation and it puts the serious discussion concerning changes in the U.S. cotton program before Congress in the 2012 farm bill.”

The Brazilian government said the preliminary agreement “may establish the basis for a future and final mutually satisfactory solution for the dispute.” In a statement, the government said it “expects the parties to reach an understanding that makes it unnecessary to adopt the retaliation measures authorized by the W.T.O.”

The Brazilian government, under pressure from its cotton growers, filed the case in 2002. In 2005, and again in 2008, the W.T.O. found that the American agricultural subsidies violated trade agreements.

Cotton is grown in at least 17 states, from Virginia to California, with Texas accounting for nearly half of production. The country produces between 12 million and 20 million bales of cotton a year, and exports about 70 percent of the crop, worth roughly $4 billion, according to the National Cotton Council, which represents most of the 20,000 or so cotton growers.

Spending on the nation’s cotton program has subsided recently because rising commodity prices have reduced the need for the support.