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Time running out for global trade deal

ANN/ THE KOREA HERALD

Developments in global trade talks in the next one to two weeks are crucial for successfully finalising a trade deal in Hong Kong next month, but experts here say the prospects look dim.

"Member countries have sped up negotiations to reach a consensus, but I'm a bit sceptical about whether there will be significant developments in the next week or two," said Lee Chung-won, senior deputy director of the Agriculture Ministry's Multilateral Agricultural Negotiation Division.

"But every World Trade Organisation member feels pressured to reach a deal at the next ministerial meeting."

The delay is blamed on the failure to agree on a set of trade guidelines in the area of agriculture. Experts say the European Union's resistance to agreeing to reduce farm subsidies tariffs would obstruct efforts to conclude a world trade deal during the Hong Kong meeting scheduled from Dec 13 to 18.

The EU is being pressured to make further concessions on farm subsidies. U.S. Trade Representative Robert Portman has been reported as saying that "the responsibility at this point rests squarely with the EU."

Australian Trade Minister Mark Vaile also agreed recently, saying that the EU's failure to make a "meaningful proposal on access to European markets had brought the Doha round to the brink of collapse."

The EU, comprised of 25 member states, plays a major role in the WTO and is considered one of the "driving forces" behind the multilateral trade talks in the Doha Development Agenda.

The DDA round of trade negotiations was introduced during the WTO's fourth bi-annual ministerial conference in Doha, Qatar in November 2001. The objectives are further trade liberalisation and making new rules with the aims of increasing assistance to developing countries and combat poverty. The ensuing ministerial meeting in September 2003 in Cancun, Mexico also failed, as WTO members could not agree on agriculture and non-agriculture market access.

Korea, which like the EU has importing-nation status in the area of agriculture, is also reticent about cutting tariffs and domestic support. Korea is represented under the group of 10 nations in the area of agriculture importers, which includes Japan, Norway and Switzerland. The G-10 wants the tariff ceiling at a minimum and as many import waivers as possible.

"We just want more time to help our agriculture industry adapt to the opening of our market," said Seo Hae-dong, director of the Agriculture Ministry's Multilateral Agricultural Negotiation Division.

"But the G-10's voice is comparatively weak, and we're being driven to the corner by the other bigger negotiating groups."

PHOTO: RAHIMAFROOZ SUPERSTORES

Niaz Rahim, managing director of Rahimafrooz Superstores Ltd, the owning company of Agora supermarket, receives a gift hamper from Abu Sayeed Mahmud, store manager of Agora's Gulshan branch, to mark the inauguration of a sales promotion at Agora.

PHOTO: CENTRAL INSURANCE CO

The 'Half-yearly Managers' Conference-2005' of Central Insurance Company Ltd was held recently in Dhaka. Md Nurul Islam, chairman of the company, was present at the conference, which was presided over by Tasiruddin Ahmed, managing director. Successful officials of the company were rewarded at the function.

PHOTO: MEGHNA CEMENT MILLS

The dealers' conference for the year 2005 of Bashundhara Group's 'King Brand' cement was held recently in Dhaka. Vice Chairman of Bashundhara Group Shafiat Sobhan presided over the conference where Vice Chairman Mahaboob Morshed Hassan gave away attractive prizes among the successful dealers.

Global energy resources sufficient until 2030: IEA

AFP, *Paris*

The world has enough energy until 2030, at least on current trends and despite an expected surge in demand, on condition that there is sufficient investment in the supply chain, the International Energy Agency said Monday.

Two thirds of a more than 50-percent rise in energy demand in next 25 years would come from developing countries, the IEA predicted in its World Energy Outlook report for 2005.

Demand is foreseen coming to 16.3 billion tonnes of oil equivalent by 2030, an estimated 5.5 billion more tonnes than is consumed at present, according to the IEA's "reference scenario" based on current trends.

"The world's energy resources are adequate to meet the projected growth in energy demand in the reference scenario," the IEA said, adding that global oil reserves today "exceed the cumulative projected production between now and 2030."

But the agency warned that the energy sector would require investment worth about 17 trillion dollars (14.3 trillion euros) between now and then, about half of it in developing countries.

The IEA described financing the necessary investment in non-industrialized countries as "one of the biggest challenges posed by our energy-supply projections".

Created in 1974 the IEA seeks to coordinate energy policies and ensure energy security in its 26-member countries.

The agency also stressed that oil consuming nations must respond to an "urgent need" to upgrade their distillation and refining capacities.

At present, it said, "spare capacity has been rapidly diminishing and flexibility has fallen even faster".

The IEA said crude oil price for its member countries, after hitting an average of 65 dollars in September, should fall back to 35 dollars a barrel in 2010 in response to new production capacities before edging back up to 39 dollars in 2030.

Snow to urge larger foreign role in Indian economy

REUTERS, *Mumbai*

US Treasury Secretary John Snow will be aiming to nudge India ahead on reforms, including greater scope for foreign ownership in financial services, as he begins a four-day visit Monday.

Snow's trip, which takes him from Mumbai, the financial centre of Asia's third-largest economy, to the capital New Delhi, extends a series of visits to countries the US Treasury sees as having a vital role in shaping the global economy in the future.

India, with its thriving service sector that is already drawing US jobs away through outsourcing that takes advantage of its educated, cheaper labour force, is seen as a regional leader with considerable influence in advancing the drive towards free trade.

"India is a stop along the way toward visiting all those countries -- including China and Brazil which we visited earlier -- that we regard as having the potential to become the major economies of the 21st century," Treasury Under Secretary for International Affairs Tim Adams said ahead of the visit.

Adams said in September, before finance ministers from the Group of Seven industrial nations met in Washington, that some of the key emerging powers like Brazil, Russia, India, China and South Africa should be "on a glide path" to full G7 membership in recognition of their rising economic might.

The five, known informally as the BRICS based upon their initials, met the finance ministers from the United States, Britain, Canada, France, Germany, Italy and Japan for lunch at the Washington meetings but had no formal role.

India's $700-billion economy has been growing at a rate of more than 6 percent on average over the past five years.

Lanka asks Citigroup to handle $100m loan

AFP, *Colombo*

Sri Lanka is seeking a loan of 100 million dollars to finance urgent infrastructure projects, financial sources said Monday.

The government has chosen Citigroup of the United States to arrange the loan and raise the cash within six to eight weeks, the sources said.

Sri Lanka had sought similar commercial loans in 1997 and 2003, raising a total of 150 million dollars.

Citigroup is currently helping the government secure its first sovereign rating as the country looks to international debt markets to raise capital and attract investments.

Three international rating agencies -- Fitch Inc., Moody's Investor Services and Standard and Poor's -- have been mandated for the job.

The trio are expected to finish their work this month and the government hopes to use the credit rating to raise dollar bonds in the international market next year.

Sri Lanka's rupee appreciated by about five percent this year following the inflow of foreign aid for last year's tsunami survivors, but a higher oil import bill has begun to put pressure on the exchange rate.

EU sanctions on import of Chinese apparels: Implications for Bangladesh

MUSTAFIZUR RAHMAN *and* ASIF ANWAR

Surge in exports of apparels from China has led to EU sanctions on Chinese imports in June 2005. Rather than invoking the Textile Safeguard Clause of the WTO, the EU has negotiated with China a cap on growth of Chinese export of 10 categories of apparels, ranging between 8% and 12.5%. Fulfillment of the quota, and possibility of export exceeding the cap has led to serious confrontation between the EU and the Chinese government. This dispute, and the way it has been resolved in the recent past, has important implications for Bangladesh's export of those items to the EU, a major export destination for Bangladesh's apparels. The present short Centre for Policy Dialogue (CPD) Policy Brief attempts to capture the consequences of the emerging scenario for Bangladesh's exports of apparels to the EU during the rest of 2005, 2006 and beyond. The Brief argues that the cap on growth of Chinese exports of these particular apparel categories to the EU has important implications for Bangladesh since some of those apparel categories are also important exports of Bangladesh to the EU market. China is a major competitor of Bangladesh in these categories. The cap on China's export, thus, is expected to create export opportunities for Bangladesh. Bangladesh's policy makers and apparels exporters will need to keep this in the perspective whilst strategising exports of apparels in the coming years.

SECTION I: THE CONTEXT

As per the WTO Agreement on Textiles and Clothing (ATC), as of 1 January, 2005 all quota-imposing members of WTO were required to lift their remaining quotas on textiles and clothing. As is known, the ATC, negotiated during the GATT Uruguay Round, provided for phased liberalization of trade in apparels in accordance with which quotas in place under the Multi-Fibre Arrangement (MFA) were to be withdrawn in four stages over a period of ten years (between January 1, 1995 and December 31, 2004). The idea was that a liberalised free trade regime would bring disciplines in trade in apparels and textiles in a manner that would lead to more competition, eliminate quota premium and lower prices for consumers. This prolonged phase-out period was envisaged to provide the re-quired lead time for the necessary readjustment in view of the newly emerging post-MFA global trading regime.

Although China was not one of the signatories of the GATT Uruguay Round, and became a WTO member only in 2001, it was quite apparent that once the quotas would be phased out countries such as China would emerge as major global players. Some apprehended that China had the capacity to 'disrupt' the market. This was thought to have two direct implications: firstly, a surge in low-priced imports from China was likely to have negative impact on producers within the developed countries themselves and lead to large-scale closures; secondly, any export surge originating from these countries would negatively impact on export performance of other developing countries, with consequent negative implications for their economic growth. Thus, although retailers and consumers in developed countries and particular developing countries were likely to be major beneficiaries of market opening in apparels, there were other concerns which the developed countries had to factor-in whilst assessing the possible impact of the quota derestriction. Indeed inclusion of textile safeguard clauses in China's WTO accession provisions was a reflection of those emerging concerns.

The apprehension about China's formidable production and export capacity was not without basis. As a matter of fact, China's exports to the global market had already started to post a phenomenal rise between 2001 and 2004, the time between China's entry into the WTO and the complete phase-out of the quota. Once the quota was gone China quickly established her status as world's leading producer and exporter of textile and clothing products. Recent export performance of China bears this out. As far as EU's trade balance with China was concerned, the EU turned the bilateral deficit with China stood at a whooping USD 97 billion (78 billion euros) by 2004, EU's largest deficit with any trading partner (Table 1). Overall, China is presently EU's second and largest trading partner with the trade volume surpassing approximately USD 216 billion (174 billion euros) in 2004. Export of Chinese apparels to EU also increased from USD 7.17 billion (2000) to USD 14.28 billion (2004) over the same time, registering an average trend growth of 9.88 percent per annum.

Table 1: EU-China Trade Statistics

(Billion USD)

	2000	2001	2002	2003	2004	Annual Trend Growth 2000-2004 (%)
Imports	68.79	73.19	84.71	119.28	157.65	1322
of which apparels	7.17	7.49	8.82	11.57	14.28	9.88
Exports	23.83	27.40	32.97	46.59	59.76	15.45
Balance	-44.97	-45.79	-51.75	-72.69	-97.89	

Source: Computed from EUROSTAT Trade Database

Managing the transition to a quota-free regime poses a major challenge both for China and its trading partners in the EU many of whom have textile industries of their own. European textiles and apparels producers are already facing the pinch. It is true that the European industries have a significant capacity for innovation and adjustment; however, a sudden steep and sustained surge in Chinese textiles exports could prove to be highly damaging for the EU. Anticipating this, in June 2005 the EU negotiated an agreement with China according to which it was stipulated that growth of export from China would be put under certain restraints.

SECTION II: SAFEGUARD MEASURES IN THE WTO AND THE EU-CHINA ACCORD

As was mentioned above, according to China's WTO Accession Agreements, the WTO member countries, under the textile-specific safeguard, can unilaterally apply selective safeguards (Special T&C Safeguard Measures) on imports of textiles and apparels from China for four additional years beyond the termination of textile and apparel quotas for the WTO members -- that is from January 1, 2005 through December 31, 2008. This restriction is applicable only for a period of one year and no notification to WTO is required in this regard. This provision was included in US-China bilateral agreement for China's accession to WTO which became multilateralised once China became a WTO member. Under the terms of China's protocol of accession, the WTO members may impose special quotas on imports from China up to this period. Upon request from the importing country China is required to automatically limit its shipment to at most 7.5% (6% for wool products) above the amount implemented during the first 12 months of the 14 month period preceding the consultation request. This limit would be effective beginning on the date of request for consultations and ending on December 31 of that year unless 3 or fewer months are remained; in that case the period ends 12 months after the date of request. (China's WTO Accession Protocol).

EU could have taken recourse to unilateral safeguard measures as per the Textile Safeguard Provision of the Accession Treaty. However, both sides thought it prudent not to invoke the Accession Protocol. Rather they chose to come to a mutually agreed discipline as regards bilateral trade in textiles and apparels. The agreement between China and the EU provides for a three year breathing space whereby growth of imports from China in sensitive categories is to be capped at certain levels. These caps, however, were high enough to allow China to benefit from liberalization. EU Trade Commissioner Peter Mandelson has described such measures as an attempt to "manage change and adjustment, rather than manage trade." EU and China agreed to 'manage' the growth of Chinese textile imports to the EU until 2008. Both the parties agreed to a broad textile trade agreement on June 10, 2005, setting annual growth restrictions on 10 Chinese textile items, which had seen export surge immediately after the quota on these were phased out on December 31, 2004. The agreement restricted export growth of these 10 lines of Chinese textile exports at 8%-12.5% a year, based on the argument that these categories have clearly "threatened to impede the orderly development of trade" and 'caused market disruption' in the EU. The agreement takes the form of a MoU between the European Commission and the Chinese Ministry of Commerce. It was to be submitted to Member States and the competent authorities in China for endorsement or approval. Major features of the Agreement are presented here.

EU-China Accord on Textiles and Apparels: Salient Features

The EU and China reached the following understanding:

- The growth of the concerned 10 categories (See table 2) would be limited to an agreed level until the end of 2007.
- This agreement would cover 10 (pullovers, men's trousers, blouses, t-shirts, dresses, bras, flax yarn, cotton fabrics, bed linen, table and kitchen linen) of the 35 categories of Chinese imports liberalized on 1 January, 2005. The agreement covers categories in which EU had serious concern, including most of the categories identified by the European Textiles Association (Euratex) and the two categories for which the EU had already launched formal WTO consultations with the Chinese: t-shirts and flax yarn.
- The EU agreed to end the ongoing investigations concerning these product categories.
- The agreement limits growth in imports in the 10 categories to between 8% and 12.5% per year for 2005, 2006 and 2007 (see Annexure 1 for details). These levels were to be calculated on a base that includes either two or three months of post-quota trade levels. In those categories for which growth is initially set at 8%, agreed growth rates will rise over the subsequent three year period.
- Quantitative levels on import were to apply from 11 June, 2005. Both sides would at once put in place the necessary administrative arrangements for the management of agreed import levels.
- In categories not covered by the agreement, and for 2008, the European Union was to exercise restraint in the application of its rights under Article 242 of China's Protocol of Accession to the WTO.
- The two sides stand ready to discuss promptly any aspect regarding the implementation of this agreement.

Although, China would rather have the market forces dictate pattern, it was compelled to come to an agreement fearing retaliation by the EU in some form or other. Thus both sides agreed to this since it was expected to bring certainty to a sector that has been threatened by trade war in recent months. The overall settlement offers a fair deal for China while giving respite and much-needed breathing space to textiles industries in Europe and developing countries. The EU statement on the accord also notes that Europe "respects China's right to benefit from trade liberalization" and that it will provide a 'window for adaptation" for producers in developing countries whose exports to the EU have been displaced by increased Chinese exports.

Table 2: Caps on Growth Rates for the 10 Categories Covered by the Agreement

Product Category	Units	Rest of 2005 (from 11 June)	2005 (total)	2006	Growth Rate 2006 %	2007	Growth Rate 2007%
5-pullovers	1000 units	68,974	181,549	199,704	10.0	219,674	10.0
6-men's trousers	1000 units	104,045	316,430	348,072	10.0	382,880	10.0
7-blouses	1000 units	24,761	73,176	80,493	10.0	88,543	10.0
4-T-shirts	1000 units	150,985	491,095	540,204	10.0	594,225	10.0
26-dresses	1000 units	7,959	24,547	27,001	10.0	29,701	10.0
31-brassieres	1000 units	96,086	205,174	225,692	10.0	248,261	10.0
115-flax or ramie yarn	tons	1,911	4,309	4,740	10.0	5,214	10.0
2-cotton fabrics	tons	26,217	55,065	61,948	12.5	69,692	12.5
20-bed linen	tons	6,451	14,040	15,795	12.5	17,770	12.5
39-table+kitchen linen	tons	5,521	10,977	12,349	12.5	13,892	12.5

Source: Annexure 1

A Comment on the Agreement

The Agreement served EU's concerns in many ways. Firstly, the agreement gives the EU wider coverage over a longer period, whereas any unilateral safeguards undertaken by the EU under the Textile Specific Safeguard Clause in China's WTO Accession Protocol would have provided only a limited protection in some categories until the end of the year. In that case the EU would have to reimpose restrictions once again on those concerned categories as is happening with the US quota at present.

Secondly, the agreement's limits on growth of Chinese exports are higher than 7.5%, which was negotiated under the Textile Specific Safeguard Clause in China's WTO Accession Protocol agreement. This indeed allows China a fair and reasonable growth over a three year period and brings predictability to her export plan.

Thirdly, the agreement at allows importers and retailers to plan their purchase with predictability and less uncertainty about market distortion.

And finally, the agreement also takes the heat off the producers in developing nations, who were facing increasingly tough competition from Chinese import of both textile and apparels following China's accession in 2001 and quota derestrictions in January, 2005.

SECTION III: RECENT DEVELOPMENTS AS REGARDS EU SANCTIONS AND ATTENDANT CONCERNS

The textile agreement between the EU and China didn't have a smooth run as was anticipated when the agreement was reached in the first place. Quantitative levels on imports were to be put in place in June, 2005. However, the surge in Chinese exports was such that many quotas were filled even in the first month, or in the first few months. Things took an abrupt turn when millions of clothing items shipped to Europe in excess of their quotas was blocked by the EU customs officials in various member countries' customs points. This included some 48 million sweaters, 17 million pairs of trousers and nearly half a million blouses, according to the latest figures cited by the French trade ministry. In addition to this, 1.6 million T-shirts, 3.4 million bras and 1470 tons of flax yarn are also being kept back because they had exceeded the agreed quotas. These goods were assessed to be worth USD 500 millions.

TO BE CONTINUED

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