International Business Environment

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Reference textbooks:

The Economist, The New York Times


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ASSIGNMENT 1. BRAZIL

With the support of the reference textbook (CW Hill, chap 6-7) and questions/texts below, you will present the issues raised by bilateral trade and investment between Brazil and China.

1. What is the pattern of international trade between China and Brazil?
   a. What economic theory(ies) best explain this situation?
   b. What are the gains from trade to both partners?

2. Why is Brazil nonetheless concerned about this trade pattern?

3. What measures were taken by the Brazilian government to protect domestic manufacturers from outside (Chinese?) competition? What are their pros and cons? What are the other options?

4. Why are Chinese foreign direct investment in Brazil and the depreciation of the real (Brazilian currency) likely to ease tensions between China and Brazil?

Brazil, A self-made siege

First they went for the currency, now for the land

Sep 24th 2011 | BRASÍLIA | from the Economist print edition

On September 15th Guido Mantega, Brazil’s finance minister, announced a 30-point increase in the country’s industrial-product tax on cars. The amount was startling, but the purpose familiar. Cars that are mostly made in Brazil, Mexico or the Mercosur trade block will be exempt; only importers will pay. “Brazilian consumption has been appropriated by imports,” he said in announcing the tax.

According to the National Carmakers’ Association, poor infrastructure and pricey credit and labour mean that making cars is 60% more expensive in Brazil than in China. Local manufacturers have long relied on high tariffs. Imports are gaining market share, from 16% of sales in 2009 to 23% this year. The new measure will probably reverse that trend, since it will increase the price of imports by a quarter.

The government has taken small steps to help local firms. In August it cut payroll taxes for a few labour-intensive industries. But mostly it has tried to keep out foreign goods and capital. Mr Mantega says Brazil is “under siege” from imports. Last month the government tweaked procurement rules to favour local products (Chinese-made army uniforms were an irritant). In the past year Mr Mantega has raised taxes on foreign capital. He wants the World Trade Organisation (WTO) to let countries levy tariffs on imports from places that artificially weaken their currencies.

This muscular approach continues a practice of rewriting rules to favour locals. Foreign firms can only pump oil in the recently discovered pré-sal oilfields as junior partners of the state-controlled Petrobras. Previously they could bid for all concessions on equal terms. Tax breaks will soon make locally built tablet computers a third cheaper than imports, leading Foxconn to set up a Brazilian plant to make iPads. The national development bank, BNDES, has transformed from a stodgy local lender into a chooser of national champions. Its loan book is now twice as big as the World Bank’s, and it funds foreign buying sprees by Brazilian firms.

Farmland is being treated as a strategic asset on a par with oil. Last year, spooked by the idea of foreign sovereign-wealth funds and state-owned firms buying up vast tracts, the government resurrected a 1971 law limiting the amount of rural land foreigners can buy. It was revived even
though in the 1990s it was deemed incompatible with the new democratic constitution and open economy. The details are under review: foreigners may be allowed to buy a bit more without restriction, and still more if the government thinks it is in the national interest. But there is no timetable for passing a new law. The Brazilian Rural Society estimates that $15 billion of planned foreign agriculture investments are being dropped.

The strength of the new protectionist mood can be gauged by the government’s willingness to tolerate legal uncertainty and collateral damage. It reintroduced the antique land-ownership law despite knowing that its flawed design would almost halt much-needed foreign investment. Since it limits the total share of each district that can be owned by foreigners, many land registries are playing it safe and rejecting all foreign purchasers. Kory Melby, an agricultural consultant, advises foreigners on land purchases in Brazil. He says he has heard from furious sellers whose deals are now “as good as garbage”.

Car importers are mulling a challenge to the tax increase at the WTO. At issue is whether a tax that can be avoided by producing locally is an import tariff in disguise. Their trade group is trying a different legal tack: it says that the government was obliged to give 90 days’ notice (it gave only one). Chinese carmakers building Brazilian factories are lobbying hard. They say that they will be unfairly hit, since ramping up production in a new plant takes years. Foreigners whose plans are less advanced may opt for a complete rethink.

Brazil Seeking protection

China has become Brazil’s biggest economic partner—and its most difficult one

Jan 14th 2012 | SÃO PAULO | The Economist, from the print edition

Opposite Rio de Janeiro’s best-known shopping mall, just before the tunnel that takes drivers to the beach resorts of Copacabana and Ipanema, stands a gleaming new showroom for JAC Motors, a state-owned Chinese car maker. The prominence of the location is appropriate: imported Chinese cars have suddenly become a visible presence on Brazil’s roads. This has alarmed Brazil’s car industry and President Dilma Rousseff’s government. Last month a 30-percentage-point tax increase on cars with less than 65% local content took effect, taking the tax on some imported models to a punitive 55%—on top of import tariffs.

The tax increase is an unusually blatant act of protectionism. It almost certainly violates the rules of the World Trade Organisation, of which Brazil is normally an enthusiastic supporter. It shows how sensitive the government of President Dilma Rousseff is to claims that the country is suffering “de-industrialisation”.

Although the latest figure shows industrial production increasing slightly, it has been broadly flat for more than a year. Economic growth has fallen sharply. But consumer demand remains robust, rising 4.1% last year, says the Central Bank. A bigger share of the market is going to importers—China in particular. Imports of Chinese cars rose almost fivefold last year; the new year has brought complaints of dumping of Chinese mobile phones and shoes.
With extraordinary speed, China has become Brazil’s most important economic partner: total trade between the two countries has risen 17-fold since 2002. But frictions are increasing almost as fast. Although Brazil enjoys a big overall trade surplus with China, most of its exports are of commodities (mainly iron ore, soya beans and crude oil). It has a big deficit in manufactures (see chart).

The raw and the cooked
Brazil’s trade with China, $bn

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Sources: SECEX. *13 months to November annually basis.

The reasons are not hard to spot. In recent years Brazil’s manufacturers have been hobbled by a strong currency, high interest rates, high taxes, poor infrastructure and a poorly educated workforce. “Brazil faces a big competitive challenge, and the relationship with China only dramatises that,” says Sérgio Amaral, a former industry minister who chairs the Brazil-China Business Council.

The government’s response is a mix of short-term protectionist measures combined with modest steps towards more constructive longer-term policy changes. The tax rise on cars was announced last September, as part of a new industrial policy. The aim was to bully carmakers without plants in Brazil to hurry up and build them. This seems to be working: JAC Motors, BMW, and Jaguar Land Rover, a unit of India’s Tata Motors, have all announced plans to build factories in Brazil since the import tax was unveiled.

The industrial policy also features an experimental cut in the payroll tax for footwear, textile, furniture and software firms. But officials are at pains to point out that, rather than help specific industries, the main thrust of the new policy is to try to boost competitiveness more generally by promoting innovation, higher education and training.

Many Brazilian industrialists distinguish between Chinese and other competitors. “We don’t believe in protection against efficiency,” insists Roberto Giannetti of São Paulo’s Federation of Industries (FIESP). But he adds that “today we can’t accept China as a fair trader”. FIESP says it did not want the tax increase on imported cars. But it complains that China is dumping diverted exports from depressed Europe. Meanwhile, Brazilian manufacturers trying to export to China face steep non-tariff barriers on manufactured goods, such as obstructive state purchasing agents. Rubens Ricupero, a former finance minister, thinks that rather than acquiesce in the disappearance of its industries, Brazil will move towards managed trade with China, at least in some sectors.

Two things may serve to reduce some of the trade tensions. The first is that Chinese investment in Brazil is taking off. Until 2009 this amounted to only about $500m. But in 2010 investment of $19 billion was announced, and $12.7 billion finalised, according to calculations by the Brazil-China Business Council, making China the largest single foreign investor in Brazil that year. Of that sum, just three acquisitions (two of oil stakes, and one in electricity distribution) accounted for more than $11 billion. But Chinese firms are also starting to build manufacturing plants in Brazil.

The second emollient is that the real has depreciated by 17% against the dollar since its peak in late July. That is partly because investors fled emerging markets but also because of government intervention, in the form of taxes on short-term capital inflows. At the same time, the Central Bank has taken advantage of the economy’s soft patch to cut its benchmark interest rate, from 12.5% in August to 11%. With inflation at 6.5%, the real interest rate is much lower than at any other time in the past decade.

But industry also wants to see fewer taxes, cheaper energy, less bureaucracy and better transport networks, says Paulo Skaf, FIESP’s president. On these things the government is moving far more slowly, if at all. However narrowly targeted, protectionism will not only raise prices in Brazil but risks sending the wrong message to businesses. Across Latin America, trade with China is growing but partly at the expense of intra-regional trade in manufactures. Brazil should lead a move to tear down
all trade barriers within Latin America, thus turning the Chinese challenge into an opportunity, says Mr Amaral.
ASSIGNMENT 2. THE SOLAR PANEL DISPUTE

With the support of the reference textbook (CW Hill, chap 6-7) and questions/texts below, you will present the issues raised by the current situation of the solar panel industry.

1. What can various international trade theories teach us about:
   a. The structure and internationalisation of the solar panel industry?
   b. The active involvement of governments in promoting their "national champions"?

2. What are the nature and origins of the dispute between the US, the EU and China?

3. What are the trade restriction/promotion measures imposed by these countries?

4. What is the role of the World Trade Organisation (WTO) in this dispute?

5. What if ... the WTO did not exist?

Europe to Investigate Chinese Exports of Solar Panels

Chinese companies in the solar power industry now have about two-thirds of the global market.

By KEITH BRADSHER, New York Times, September 5, 2012

CHENGDU, China — Defying Chinese threats of retaliation against European wines and industrial materials, the European Union is preparing to begin on Thursday morning a broad investigation into whether Chinese companies have been exporting solar panels for less than it costs to make them. The case would be one of the largest trade actions in European history and could lead to steep tariffs on much of China’s $20 billion in annual exports of solar products to Europe, four people familiar with the dispute said Wednesday.

The anti-dumping case, which follows a series of bankruptcies and factory closings by European and US solar panel manufacturers, would broaden what has already become one of the biggest sticking points in trade relations between China and the United States. The US Commerce Department imposed preliminary anti-dumping tariffs in May of at least 31 percent on Chinese solar panels, in addition to preliminary anti-subsidy tariffs of 2.9 percent to 4.73 percent that were imposed in March.

The Chinese government has responded by accusing American producers of polysilicon, the main material used in solar panels, of engaging in unfair trade practices and has threatened steep tariffs on the producers. Chinese polysilicon producers have asked the country’s Commerce Ministry to investigate whether their European rivals have sold subsidized material below cost in China. The official newspaper China Daily on Wednesday quoted an unidentified person at the Commerce Ministry as saying that if the European Union opened the solar panel trade case, the Chinese government might retaliate with trade restrictions aimed at European wines and polysilicon. Chinese government officials declined to comment Wednesday evening, saying that they wanted to see first what the European Union would do.

The EU trade case differs from the American action in that the European case will most likely be limited to an anti-dumping complaint, without including an anti-subsidy charge, the people familiar with the dispute said. They insisted on anonymity, citing the diplomatic sensitivity of the issue. The Union also takes longer than the United States to investigate such cases. Preliminary tariffs could be imposed in Europe next May, and final tariffs would not be set until December of next year.
EU officials declined to comment on the solar panel issue. Regarding the possibility of Chinese retaliation, they repeated the Union’s standard position that foreign countries should impose trade restrictions only if they follow procedures that comply with the World Trade Organization’s rules. The United States and the Union each follow elaborate, quasi-judicial procedures for anti-dumping and anti-subsidy cases, taking voluminous statements from affected companies before acting, and following detailed rules for setting any tariffs. China’s methods for assessing trade penalties are relatively mysterious, and have been the subject of periodic European and American criticism.

The Union is preparing to start the investigation in response to a complaint filed by a coalition of about 20 European companies led by SolarWorld, a German maker of solar panels. SolarWorld, which also has operations in Oregon, had previously set up a coalition of solar panel producers in the United States that used a legal filing to force the Commerce Department to file the cases there. Chen Huiqing, deputy director for solar products at the China Chamber of Commerce for Import and Export of Machinery and Electronic Products, said at an industry conference in Guangzhou two weeks ago that the Chinese industry had sent a team of representatives to Brussels in one last bid to talk European officials out of starting a trade case. She warned that Chinese solar panel manufacturers already faced declining profit margins, shortages of capital and weakening foreign demand.

Chinese companies played a tiny role in the global solar power industry until five years ago, when they began a surge that has now brought them two-thirds of the global market. That rapid growth has been accompanied by a steep plunge in wholesale prices for solar panels, which have dropped by up to three-quarters in the past four years. Retail prices have fallen much more slowly, as the bulk of the cost of a solar panel system lies in installation, and those costs have not fallen nearly as fast. Chinese industry officials and regulators have periodically denied allegations that they are selling solar panels below cost in foreign markets, insisting that their huge investments in big new factories have brought down costs. But big Chinese solar companies have been posting heavy losses, particularly in the second quarter.

Frank Haugwitz, a solar industry consultant based in Beijing, said that if the Union imposed tariffs, it would be a serious blow to a Chinese industry already suffering from overcapacity. But the Chinese government is strongly committed to having a large solar panel industry, and is starting to use subsidies to expand the modest domestic market for solar panels. “Beijing is very committed; it will not let them down,” Mr. Haugwitz said. Milan Nitzschke, the president of European Union ProSun, the industry coalition assembled by SolarWorld to seek tariffs on Chinese competitors, expressed skepticism that China would actually levy steep tariffs on imports of polysilicon from the United States or Europe, which are among the world’s largest producers. Chinese solar panel manufacturers buy a lot of imported polysilicon because domestic producers cannot make enough. So tariffs on European and US polysilicon would have to be paid by Chinese solar panel makers that are already struggling, said Mr. Nitzschke, who is also a vice president of SolarWorld.

China is rapidly expanding its own polysilicon production. But environmentalists are skeptical, because making polysilicon requires huge amounts of electricity, and nearly four-fifths of China’s electricity comes from burning coal, which produces air pollution and global warming gases. It takes up to two years for a solar panel to generate enough electricity to match the electricity that went into manufacturing it, mostly for the polysilicon.

Chinese retaliation against European wines could be more politically feasible in Beijing. Tales of lavish spending on expensive wines by the wealthy and by government officials periodically surface on the Chinese Internet, and feed public anxiety about the wide gap between rich and poor.

China exports over 90 percent of its solar panels. It has done so to tap into billions of dollars in subsidies from government agencies and other electricity users in the United States and Europe for homes and businesses to install solar panels. WTO rules have discouraged Western countries from banning the use of their subsidies for the purchase of Chinese solar panels. The exception has been
government procurement\(^1\) of solar panels, for which the United States has some “buy American” provisions. China has not joined the WTO side agreement on government procurement, as many Chinese provincial governments have been leery of being required to accept foreign bids for local and provincial government contracts. So Western governments also have the option not to entertain bids from Chinese companies, though this option has seldom been exercised.

For Solar Panel Industry, a Volley of Trade Cases

*By KEITH BRADSHER, New York Times, October 11, 2012*

HONG KONG — The solar panel manufacturing industry in the United States and Europe has begun a volley of trade cases against imports, following the same track as the steel industry before it — and for many of the same reasons.

The United States and Europe have accused Chinese solar panel manufacturers of benefiting from government subsidies. “Back in the ’60s and ’70s, all over the world, governments were investing in steel mills,” said Nicholas Tolerico, a retired American trade official and steel executive. “These days, they invest in solar panels, and you end up with the same overcapacity and cutthroat pricing.” The Commerce Department issued a final ruling Wednesday that would impose tariffs of 24 to 36 percent on solar panels imported from China. The department concluded, despite China’s denials, that manufacturers had received government subsidies and had “dumped” solar panels on the United States market for less than it cost to manufacture and ship them.

Solar panel manufacturers in the United States are now lobbying the Obama administration to broaden the tariffs to include solar panels made partly in China and partly in other places, notably Taiwan. And the American industry is not ruling out more trade cases against other Asian solar panel exporters. In Brussels, the European Union has started a trade investigation into solar panel imports from China, a case covering imports worth $26.5 billion last year. And the European industry is seeking a second case against Chinese solar panel exports, accusing them of benefiting from government subsidies.

Shen Danyang, a spokesman for China’s commerce ministry, said in a statement on Thursday that the United States had disregarded “the reasonable defense of the Chinese government and Chinese enterprises,” and he expressed “strong dissatisfaction” with the Commerce Department’s decision. He also said that the American decision to put import tariffs on a category of renewable energy imports was harmful to global efforts to address climate change. And he warned that the American action was likely to result in reduced Chinese imports of raw materials and factory equipment for the solar panel industry. He Weiwen, a co-director of the China-US-EU Study Center at the China Association of International Trade, which is part of the Commerce Ministry, said his opinion was that China was likely to call for consultations with the United States to reach a settlement on the tariffs.

Such settlements have been reached in trade disputes in the past, leading to outcomes like price floors for tomatoes imported from Mexico and the so-called voluntary restraints that Japan imposed on its car exports in the 1980s, which were anything but voluntary. But Mr. He said it was unlikely that negotiations could start quickly, given the coming presidential election in the United States, and he worried that settling a trade dispute with China might not be at the top of the agenda of whoever is sworn in as president. “The new administration will be faced with more pressing domestic issues,” he said. The tariffs imposed Wednesday cover about $3 billion a year in imported solar panels and were imposed after a quasi-judicial process at the Commerce Department. United States law does

\(^1\) Procurement = purchase
not allow the White House to intervene in the process of calculating duties. But the duties can be replaced with a negotiated settlement that also satisfies the domestic industry.

To the dismay of Chinese regulators, hundreds of solar panel manufacturers in their country have followed a pattern of using lavish loans from state-owned banks to buy and install as much foreign-made factory equipment as possible while setting aside little for research and development. “They made quite a lot of money but did not invest,” Li Junfeng, a director general for energy and climate policy at the National Development and Reform Commission, said in an interview last month in Beijing. The commission is China’s top economic planning agency.

Mr. Li, who is also the president of the Chinese Renewable Energy Industries Association, also said that the solar industry’s problems were the direct result of overcapacity in China and not the fault of overseas trade restrictions. Yet he insisted that if the Chinese government could revisit past renewable energy decisions, it would not do anything differently because the business community in China is prone to overinvestment in many industries. Asked what he was telling Chinese banks to do about their continued loans to solar panel manufacturers, he replied, “I say, ‘Just stop.’”

But Frank Haugwitz, a solar industry consultant in Beijing, said this week that there were signs that Chinese banks would sharply increase lending, at least to the country’s largest solar panel manufacturers, a step that could allow them to delay taking losses on previous loans to those companies. Aaron Chew, a renewable energy analyst at the Maxim Group, a New York investment bank and asset management company, estimated that the 10 largest Chinese solar manufacturers had already borrowed $18 billion almost entirely from state-controlled banks.

Dirk Thomas, an executive in the computer hard drive industry who is now a solar industry consultant in Hong Kong, predicted that China could emerge triumphant from the current troubles in the solar panel industry. Those Chinese solar panel companies chosen by the government to receive more bank loans could end up buying enough of their domestic and foreign competitors to gain market dominance, reduce overcapacity and set prices high enough to be profitable, he said. That would follow a pattern already seen in the computer hard drive industry since the 1980s — although in that industry, the consolidation has been led by a Japanese company, Toshiba, and two American companies, Seagate and Western Digital.

When China began the rapid expansion of its solar industry several years ago, many in the global industry expected that technological breakthroughs would result in more cost reductions. But Chinese companies have driven costs down sharply, mainly through greater economies of scale from the construction of larger factories to produce conventional solar panels, and few industry executives foresee further cost reductions by building even larger factories.

At the same time, few new technologies have been developed. Some experts attribute that to China’s rapid expansion of capacity for conventional polycrystalline solar panels, which has driven prices down so quickly that investment in newer thin-film solar technologies has faltered, particularly in Europe. “The artificially low prices resulting from Chinese overproduction have nearly destroyed a second generation of photovoltaic technologies based on thin film,” said Ken Zweibel, the director of the George Washington University Solar Institute in Washington. “This has been a huge setback for the US competitive position.”

But Sebastian Meyer, a partner at Azure International, a renewable energy consulting firm in Beijing, said he thought the United States decision on tariffs was a mistake. The United States is still strong in making factory equipment for manufacturing solar panels, Mr. Meyer said, and should let China actually make the panels as long as Chinese banks and local and provincial governments refuse to admit defeat and continue covering most of the costs. “If you buy a solar panel from China, China is paying for part of it,” he said. “If I were the US, I would let Americans milk it.”
China Files WTO Case Against Europe

By KEITH BRADSHER, New York Times, November 5, 2012

HONG KONG — The Chinese government announced on Monday that it had filed a case with the World Trade Organization accusing some European Union member countries of violating free trade rules with policies that favored the purchase of solar energy equipment produced in Europe. The WTO case is the latest in a series of retaliatory moves by China in response to efforts by the European Union and the United States to limit imports of Chinese solar panels. European and United States officials have accused China of dumping solar panels in foreign markets below the cost of manufacturing them and of subsidizing their manufacture — accusations that China has denied.

In a statement posted late Monday on its Web site, the Chinese commerce ministry did not identify the countries or the specific equipment covered by its trade complaint. But the ministry contended that the countries’ policies violated WTO rules requiring that goods from all WTO member countries be treated equally, without discrimination in favor of locally produced goods. The ministry also contended that the policies violated a free trade rule that countries not impose policies that have the effect of subsidizing domestic production as a substitution for imports.

The United States and the European Union acted after about a dozen solar panel manufacturers went bankrupt or cut back production on each side of the Atlantic. But Chinese manufacturers are also struggling after state-owned banks financed a burst of construction over the last four years that left the country with more than two-thirds of the world’s solar manufacturing capacity. The industry now faces overcapacity. The European Union announced on Sept. 6 that it had opened the largest antidumping investigation ever, into imports of Chinese solar panels worth $26.5 billion last year. China’s commerce ministry had tried for months to persuade European officials not to proceed.

In an initial retaliatory move, the Commerce Ministry said on Thursday that it had begun its own antidumping investigation of imports from Europe of polysilicon, the main raw material for making solar panels. China previously started an antidumping investigation of polysilicon imports from the United States after the Commerce Department began an investigation a year ago that led to antidumping and antisubsidy tariffs on solar panels from China. The Commerce Ministry officially asked the European Union on Monday for consultations under the auspices of the WTO in Geneva. This is the first step in WTO dispute resolution procedures that can lead, in about a year and a half, to a decision by a panel of trade judges on whether the accused countries must rewrite the offending regulations.

“We have received the consultation request and are studying it,” said John Clancy, the European Union’s spokesman on trade issues.

Commerce Ministry officials have sought to portray the trade frictions over solar power in broader environmental terms, emphasizing that solar panels do not release gases that contribute to climate change, unlike the combustion of fossil fuels like oil, coal and natural gas. “Developing solar photovoltaic renewable energy is conducive to resolving the serious challenges of energy security and climate change facing humanity, in line with the common interests of all countries,” the ministry’s chief spokesman, Shen Danyang, said in the statement on Monday. “States should focus on the long term, to strengthen industrial cooperation and the liberalization of international trade, rather than taking trade protectionist measures because of short-term interests.”

Glut of Solar Panels Poses a New Threat to China

By KEITH BRADSHER, New York Times, October 4, 2012

BEIJING — China in recent years established global dominance in renewable energy, its solar panel and wind turbine factories forcing many foreign rivals out of business and its policy makers hailed by
environmentalists around the world as visionaries. But now China’s strategy is in disarray. Though worldwide demand for solar panels and wind turbines has grown rapidly over the last five years, China’s manufacturing capacity has soared even faster, creating enormous oversupply and a ferocious price war.

The result is a looming financial disaster, not only for manufacturers but for state-owned banks that financed factories with approximately $18 billion in low-rate loans and for municipal and provincial governments that provided loan guarantees and sold manufacturers valuable land at deeply discounted prices. China’s biggest solar panel makers are suffering losses of up to $1 for every $3 of sales this year, as panel prices have fallen by three-fourths since 2008. Even though the cost of solar power has fallen, it still remains triple the price of coal-generated power in China, requiring substantial subsidies through a tax imposed on industrial users of electricity to cover the higher cost of renewable energy.

The outcome has left even the architects of China’s renewable energy strategy feeling frustrated and eager to see many businesses shut down, so the most efficient companies may be salvageable financially. In the solar panel sector, “If one-third of them survive, that’s good, and two-thirds of them die, but we don’t know how that happens,” said Li Junfeng, a longtime director general for energy and climate policy at the National Development and Reform Commission, the country’s top economic planning agency. Mr. Li said in an interview that he wanted banks to cut off loans to all but the strongest solar panel companies and let the rest go bankrupt. But banks — which were encouraged by Beijing to make the loans — are not eager to acknowledge that the loans are bad and take large write-offs, preferring to lend more money to allow the repayment of previous loans. Many local and provincial governments also are determined to keep their hometown favorites afloat to avoid job losses and to avoid making payments on loan guarantees, he said.

Mr. Li’s worries appear to be broadly shared in Beijing. “For the leading companies in the sector, if they’re not careful, the whole sector will disappear,” said Chen Huiqing, the deputy director for solar products at the China Chamber of Commerce for Import and Export of Machinery and Electronic Products. The Chinese government also wants to see the country’s more than 20 wind turbine manufacturers, many of which are losing money, consolidate to five or six. “Wind does not need so many manufacturers,” said Mr. Li, who in addition to drafting renewable energy policies is the president of the Chinese Renewable Energy Industries Association.

Chinese solar company executives blame their difficulties partly on the United States’s decisions last spring to impose antidumping and anti-subsidy tariffs on solar panel imports, and on the European Union’s recent decision to start its own antidumping investigation of imports from China. “It is not a Chinese industry problem, it is a global solar industry problem,” said Rory Macpherson, a spokesman for Suntech Power, one of the largest Chinese solar panel manufacturers. “It is primarily the result of an imbalance between supply and demand, and the U.S. and E.U. trade investigations.” Mr. Li said the solar industry’s problems were the result of overcapacity in China, and not the fault of trade restrictions. Yet he insisted that if the Chinese government could turn back the clock and revisit past renewable energy decisions, it would not do anything differently.

The problem lies in the eagerness of Chinese businesses to rush into any new industry that looks attractive and swamp it with investments, he said. Chinese companies and their bankers are then far more reluctant than Western companies to admit defeat for investments that prove unprofitable. Mr. Li added that banking regulators had not yet decided what to do about banks’ exposure to the solar sector. The central government tried without success to learn from local and provincial government agencies how much of the solar industry’s bank debt they have guaranteed, Mr. Li said.

Chinese solar power companies are making some cutbacks. Suntech, based in Wuxi, is temporarily closing a quarter of its solar cell capacity. It will transfer a majority of the 1,500 affected workers to other operations and provide severance payments to the rest. Jiangsu province, where Suntech has its headquarters and most of its factories, issued an unusual appeal to state-owned banks several
weeks ago to continue lending money to the company, a step that Mr. Li criticized as inappropriate. Mr. Macpherson of Suntech wrote in an e-mail that the Jiangsu government had not guaranteed any of the company’s debt, which totaled $2.26 billion at the end of the first quarter, including some convertible bonds in addition to bank loans. Trina Solar, one of its biggest rivals, also has said it will “streamline its operations” and shrink its work force, but did not provide details. Trina shares have dropped 85 percent in the last three years and Suntech shares have fallen more than 98 percent in the last five years. Both trade on the New York Stock Exchange.

The modest cutbacks in production barely put a dent in China’s overcapacity problem. GTM Research, a renewable energy consulting firm in Boston, estimates that Chinese companies have the ability to manufacture 50 gigawatts of solar panels this year, while the Chinese domestic market is on track to absorb only 4 to 5 gigawatts. Exports will take another 18 or 19 gigawatts. The enormously expensive equipment in solar panel factories needs to be run around the clock, seven days a week, to cover costs. “You want to be up at 80 percent, so they’re half of what they need,” said Shayle Kann, the head of GTM Research, which is a unit of Greentech Media. Chinese companies have struggled even though a dozen solar companies in the United States and another dozen in Europe have gone bankrupt or closed factories since the start of last year. The bankruptcies and closures have done little to ease the global glut and price war because China by itself represents more than two-thirds of the world’s capacity.

To reduce capacity, foreign rivals have clamored for China to subsidize the purchase of more solar panels at home, instead of having Chinese companies rely so heavily on exports. But the government here is worried about the cost of doing so, because the price of solar power remains far higher than for coal-generated power. The average cost of electricity from solar panels in China works out to 19 cents per kilowatt-hour, said Mr. Li. That is three times the cost of coal-fired power. But it is a marked improvement from 63 cents per kilowatt-hour for solar power four years ago. China’s official goal is to install 10 gigawatts of solar panels a year by 2015, using 20-year contracts to guarantee payment for electricity purchased from them. If costs stay where they are now, the subsidies would be $50 billion over 20 years for every 10 gigawatts of solar power installed, based on figures supplied by Mr. Li. Even if solar power costs fall by a third, as the government hopes, he said, “it’s big money.”
ASSIGNMENT 3. RUSSIA AND THE WORLD TRADE ORGANIZATION

With the support of the reference textbook (C.W Hill, chap 6-7) and questions/texts below, you will present the issues raised by Russia’s recent WTO membership.

1. What is the pattern of Russian international trade?
2. In which sense does this pattern explain that Russia has long been reluctant to join the World Trade Organisation (WTO)?
3. Why did the country eventually accept to become a member in December 2011?
4. Why did the US in particular strongly support Russia’s WTO membership?
5. Who will be the winners and losers of Russian membership?
6. Why is Russia’s WTO membership nonetheless likely to have limited effects on international business organisations operating in the country?

Russia and Western clubs: no thanks, Geneva

From The Economist print edition, Jun 18th 2009 | MOSCOW

Why Russia is turning its back on the World Trade Organisation

It had become almost a ritual. Every year Russian officials promised that by the end of the following year their country would complete the negotiations to join the World Trade Organisation. Every year the timetable slipped by another year. But now Vladimir Putin, Russia’s prime minister, has broken with the ritual by announcing that, after 16 years of trying to get in, Russia no longer wants to join the WTO on its own but only as part of a customs union that it has forged with Belarus and Kazakhstan. The turnaround shocked trade negotiators on both sides, who only weeks ago were trying to iron out the last wrinkles in a deal.

Why the change? The Kremlin may just be fed up with endless new demands and delays. After last August’s war with Georgia, Mr Putin accused the West of politicising the trade talks and said that Russia would not be pushed around. Both Ukraine and Georgia, two former Soviet republics that cause big headaches in the Kremlin, are now in the WTO, leaving Russia behind (and, not incidentally, acquiring a veto over its membership). By making his announcement before Barack Obama’s visit to Moscow, Mr Putin removed an easy concession the American president might have offered. “We really thought we could have completed [the talks] by the end of the year”, said a senior American official.

In practical terms Russia will lose little. It exports mainly oil and gas, which are largely not covered by the WTO. Being outside the organisation for a bit longer gives it more freedom to raise import duties on second-hand cars or export duties on timber. Some observers suggest that the Kremlin was never truly comfortable with the idea of free trade and saw the rules as a nuisance rather than a stimulus to restructure the economy. Yet Russia’s aspiration to membership, which in turn opened up the prospect of joining the Paris-based OECD club of rich countries, demonstrated its desire for integration into the global economic system.

Now the Kremlin seems to prefer being a distinct regional power that can offer alternative economic and military institutions and alliances to the West’s. Mr Putin has long argued that international organisations such as the WTO and the International Monetary Fund have outlived their day and should be supplemented or even replaced by regional clubs. In the multipolar world that Russia advocates, it sees itself as a centre of regional influence. A military alliance between Russia and
Uzbekistan, Belarus, Armenia, Kazakhstan, Kyrgyzstan and Tajikistan, called the Collective Security
Treaty Organisation (CSTO), should be «no worse than NATO», Dmitry Medvedev, Russia's president,
argued recently.

Russia sees any foreign project that touches the former Soviet Union, including the European Union's
new eastern partnership, as a direct challenge. Yet the bigger threat to its ambitions to reassert
regional influence lies in its own attitude towards the neighbours. Even as it was signing a customs
union with Belarus, Russia imposed a ban on Belarusian milk products, which it claimed did not meet
its new packaging rules (rather as it once argued that Georgian wine, fruit and mineral water were of
substandard quality). But Alyaksandr Lukashenka, the autocratic president of Belarus, interpreted
this (probably accurately) as a punishment for being rude about Russia and refusing to back its policy
of recognising the independence of the Georgian territories of Abkhazia and South Ossetia. […]

Russia Declares Deal to Join Trade Group

By ELLEN BARRY and ANDREW E. KRAMER, New York Times, October 6 and November 3, 2011

MOSCOW — A Russian negotiator announced late on Wednesday that Russia had reached an
agreement with Georgia that would clear the path for Russia to join the World Trade Organization
after 18 years of delay, ambivalence and frustration. Maksim Y. Medvedkov, Russia’s envoy to the
talks in Geneva, said Moscow had agreed to a Swiss-mediated proposal that would allow for the
monitoring of trade flow between Russia and Georgia, the Itar-Tass news agency reported. Mr.
Medvedkov said the monitoring plan “does not depart from the framework of Russia’s principled
position.” “We are pleased that Georgia supports the project, and that an agreement has finally been
reached,” he said.

Envoy from the two countries will meet on Thursday in Geneva to confirm that they are in
agreement, and a formal document could be signed next week, said Georgia’s deputy foreign
minister, Sergi Kapanadze. “We have been waiting for the Russian response,” said Mr. Kapanadze,
preparing to board a late-night flight to Switzerland from Tbilisi. If Georgia and Russia sign an
agreement, Russia’s entry to the trade organization could be approved at the group’s ministerial
meeting in December.

Russia has been applying to join the organisation since 1993, when the group was called the General
Agreement on Tariffs and Trade. But a series of geopolitical shocks, like its 2008 war with Georgia, or
by surprise announcements, like Russia’s declaration that it would join only as part of a trade union
with Belarus and Kazakhstan and disputes over airplane tariffs, international trade in chickens and
allegations that Russia has allowed flagrant abuse of intellectual property rights has repeatedly
blocked its membership. The project was approached with new energy last year as an element of the
reset in relations between the United States and Russia, though its outcome has remained uncertain.
Now, Russia’s WTO negotiators appear to have removed most of the remaining obstacles to
accession, it emerged this week, including differences on meat imports, sanitary standards and
incentives to Russian automobile producers. The World Bank says Russia’s economy will benefit by
joining, as will companies that export goods to Russia, like Procter & Gamble or John Deere.

Among the central questions has been whether Prime Minister Vladimir V. Putin actually wanted
Russia to join. Conservatives in his inner circle have opposed accession, in part because industries
may face stiffer competition. Last month, when he was asked about the costs and benefits of
membership, Mr. Putin’s response was “50-50, but over all there are probably more pluses than
minuses.” The announcement on Wednesday suggests that he has been convinced by the arguments
of liberal economists that membership will bring long-term benefits. It also suggests that despite his
bristling language, Mr. Putin has a lasting desire to integrate Russia into the world’s great power
alliances, a choice that could affect the country’s long-term trajectory.
Because accession to the trade group is a consensus process, Russia had to gain the consent of Georgia, a member, overcoming the hostility that has divided the two countries since they went to war in 2008. Russia has built military bases in Abkhazia and South Ossetia, two separatist enclaves that make up a large portion of Georgia's territory, and Moscow has recognized them as sovereign nations. In exchange for its consent, Georgia sought transparency of trade on its border with Russia, a delicate issue because two sections of that border abut Abkhazia and South Ossetia. Russian leaders said Georgia’s demands were political, and urged Western governments — in particular, the United States — to pressure Georgia into giving its consent. [...]

Russia and the WTO: A chance to get down to business

Does Vladimir Putin really want Russia to be a less terrible place to do business? We will now find out

Jul 14th 2012 | from the print edition

For China, joining the World Trade Organisation in 2001 was a landmark on the way to becoming a global economic powerhouse. Could WTO membership do the same for Russia? This week, after 18 years of dithering and doubts, the Duma (the lower house of parliament) voted to ratify WTO entry, in principle guaranteeing Russian products access to world markets. With Brazil, India and China already members, Russia will soon become the final BRIC in the global-trade club. This offers the country a fresh chance at industrial modernisation after two decades which started with chaotic reform and ended with spiralling corruption—and were marked throughout by perilous dependence on extractive industries.

Russia urgently needs a more diversified economy. Strong energy revenues have given it expensive tastes (eg, more defence spending). The budget deficit, excluding hydrocarbon revenues, has soared from 2% in 2007 to 10% in 2011. The government now needs oil to be above $110 a barrel to balance its books; it has slipped below $100. Russia’s gas-export revenues are already under threat from the world gas glut caused by the success of new “fracking” technology (see our special report this week). New sources of oil compound the trouble.

Before the 2007-08 financial crisis, Russia’s economy was growing at around 7% a year. Rising demand for its oil, gas and metals meant ever more revenue gushing into the treasury. The view in the Kremlin was that Russia need not worry about manufacturing—at least the non-military bits—since energy and mineral revenues would finance a leap into a services-led “new economy”. Swathes of the country’s industrial base, never terribly competitive but with plenty of potential if properly exposed to the rigours of world markets, were left to rot.

The economy’s jolt into recession in 2009, when it shrank by almost 8%, forced a rethink. Russia’s leaders began listening to those who argued that neglecting manufacturing had been a mistake. President Vladimir Putin now promises that his new factory-friendly policies will create 25m skilled jobs. If he is serious about that, he will have to abandon the cronyn capitalism that has enriched so many of his friends.

With a population of over 140m and rapidly rising consumption, Russia’s domestic market could form a solid foundation for its manufacturers to become exporters, reducing its dependence on energy and minerals. There is a fair amount of industry left in Russia that has prospects of competing on global markets, if given a chance. Potential strengths include aircraft, helicopters, engines, turbines,
industrial gear such as pumps and compressors and, inevitably, military equipment. With fresh investment and good management—and the competitive shock of WTO entry—Russian industry’s productivity could improve sharply. There are signs of this happening. Some of Russia’s energy and metals oligarchs, such as Oleg Deripaska and Alexei Mordashov, are also putting money into reviving manufacturing. Foreign carmakers are pouring into Russia, building new factories and refurbishing old ones, as demand for cars booms.

However, the motive for foreign firms has typically been to get around tariff walls and Russia’s nightmarish (and corrupt) customs-clearance procedures, rather than to make the country part of their global supply chains. Russia gets much less foreign investment than many other big emerging markets. It is an especially bad place to do business, with its suffocating bureaucracy, unreliable courts (just ask BP) and organised crime. Mr Putin has kept promising to fix this, most recently setting a target of moving the country from 120th to 50th place in the World Bank’s “Doing Business” league table. Skolkovo, an attempt to build a Silicon Valley-style cluster of technology firms on Moscow’s outskirts, will be exempt from some of the country’s stifling regulations.

But the state has yet to shake off its instincts to dominate industry and protect it from competition (and often loot the proceeds). Although a wave of part-privatisation is promised, the government has been going in the opposite direction, buying out Western shareholders in some Russian aerospace firms. Instead of seeing WTO membership as a way to force Russian industry to compete, the country’s lawmakers so far seem to be seeking to frustrate the club’s free-trade rules: last month they backed a plan to introduce a “recycling levy” which, in practice, would fall on imported cars but not Russian ones.

Watching these machinations, pessimists fear that WTO membership will mean rent-seeking bureaucrats merely rejigging their bad habits, leaving Russia’s crony-capitalism intact. The more optimistic view is that it will constrain the worst instincts of Putinists more than they realise. It is a first step towards a rules-based system. The club’s impact will not be perfect, any more than it has been for China. But it does point to the path Russia must take if it is to prosper.

Don't Get Too Excited About Russia's WTO Deal

By Matthew Philips on August 22, 2012 Tweet

Go Quick, everybody into Russia! After 19 years of negotiations, a period that pretty much spans the entire post-Soviet years, the Russians have finally gained access to the World Trade Organization. Which means Russia is no longer the only G-20 nation without a WTO Members Only jacket. Pop that collar, guys.

As a result, Russia’s trade barriers will begin to fall, along with the price of most foreign goods available to Russian consumers. The temptation is to compare this with China’s 2001 acceptance into the WTO, which set off a bonanza in global trade and ushered in a golden age of export-led growth for China. But this is an entirely different ballgame. Russia is not so interested in boosting its exports as it is in stimulating its economy through more consumer spending, higher income, and increased efficiency. Russia currently has a huge foreign trade surplus, about $115 billion at last count, due to oil and natural gas.

While its new WTO membership will certainly open opportunities for Russian businesses to export more, the big benefits will come from companies selling into Russia’s $2 trillion economy at more competitive prices. In the long run, Russia stands to gain an extra 11 percent annually in GDP ($162 billion) due to increased trade, according to a World Bank study from March. That equates to about 7 percent more income a year for the average Russian household. Good news for foreign exporters, who can now sell their stuff at lower prices to (presumably) wealthier Russian consumers.
In 2011, the U.S. shipped $8.3 billion worth of goods to Russia. Factoring in services such as finance, tourism, and health care, the U.S. did about $11 billion of business in Russia in 2011. According to a report by Anders Aslund, a senior fellow at the Peterson Institute for International Economics, that amount could double over the next five years. Aslund sees Russia increasing its already healthy appetite for American goods, such as pork, poultry, and advanced machinery, which could translate into strong revenue growth for such companies as Tyson Foods (TSN), Boeing (BA), and General Electric (GE).

This is all predicated, however, on the U.S. Congress permanently scrapping a piece of Cold War legislation called the Jackson-Vanik amendment, which denies normal trade relations with Russia. That probably won’t happen until after the November election, possibly in the lame duck session that follows. Until then, U.S. companies will be subject to higher tariffs in Russia than European and Asian manufacturers. “It certainly gives them a head start, but it should only be temporary,” says Charles Kupchan, a senior fellow at the Council on Foreign Relations.

Kupchan is cautious about how big an impact Russia’s WTO deal will have on global trade. “I think the economic implications should not be overstated,” says Kupchan. “Russia is not China.” That’s for sure. While its economy, like China’s, is fueled by exports, Russia’s is much more commodity-based, one that lacks China’s low-wage structure. And while the state has increased its hold over bigger pieces of the economy, particular the oil and gas sector, “the Russians don’t have a fleet-footed economy that will embrace these reforms quickly,” says Kupchan.

While foreign investment is likely to increase, Russia is still a tough place to do business. It comes in at No. 120 on the World Bank’s ranking of countries for their ease of doing business, right behind Cape Verde and just ahead of Costa Rica. Russia’s support of embattled Syrian President Bashar al-Assad, allegations of election rigging, and its recent imprisonment of the punk band Pussy Riot for their political protests have not helped its global reputation.

On the other hand, it’s not like Russia’s going from zero to 60. Russia has made a lot of progress toward opening up in the past decade. “Basically, Russia has had a market economy for the last eight or nine years,” says Aslund of the Peterson Institute. The U.S. granted Russia market-economy status in 2002, meaning it plays by the rules of supply and demand, something that China still doesn’t do, at least not in the eyes of the U.S or European Union.

Russian industry still has its work cut out for it, some sectors more than others. According to Aslund, the sector with the highest tariffs on foreign imports is the commercial light truck industry. Tariffs will fall from 25 percent on imports to 15 percent. Overall, though, Russia has slowly been lowering tariffs on foreign products. According to Aslund, the average tariff in Russia on all products will be 10 percent. That still gives an edge to Russian businesses, though as those tariffs slowly fall, Russian industry will either have to evolve or die.

For many sectors, like the Russian automotive industry, that process is well under way. “The most vulnerable sectors have already died out,” Aslund says.

Can the WTO Change Russia?

By DOMINIC FEAN, New York Times, November 9, 2011

If Vladimir Putin returns as planned to the presidency in 2012, he will once again face the challenge of modernizing the Russian economy. This is something both he and his seat-warmer, Dmitri Medvedev, have failed to achieve during three consecutive presidential terms. On Thursday, a meeting of the working group on Russia’s accession to the World Trade Organization is expected to end 18 years of negotiations by finalizing terms of membership for Russia, the largest economy outside of the trade body. Even Georgia, which fought a war with Russia in 2008, is now onboard.
Once the few remaining issues are overcome, Russia should become a member during a ministerial meeting on Dec. 15.

WTO membership will offer Russia some of the tools to rebalance its economy, which relies heavily upon selling the nation’s oil. Yet it presents challenges too. While membership promises increased market access for Russian exports, Moscow will have to open Russia to foreign imports. Agreements will need to be implemented as a means to attract investment, stimulate trade and increase competition. However, previous actions by the Russian authorities give ample cause for concern.

The current political elite is little inclined toward economic liberalism. The coercion of foreign investors in favor of national economic champions, protectionism during the 2009 economic crisis and Russia’s willingness to engage in trade wars with neighboring states have demonstrated this. They have long seen WTO accession as a political rather than technical process: For them, tariff reductions are concessions to trade partners, rather than a means to stimulate trade and competition. They also tend to view membership as an entitlement. During bilateral negotiations with Georgia, Putin stated that it was down to the United States and European Union to secure Russia’s accession. As such, Russian authorities at the highest level have demonstrated little affinity for WTO principles.

A customs union among Russia, Kazakhstan and Belarus is another constraint: It has little economic justification and a 2009 plan for all three to join the WTO as one bloc nearly delayed Russian accession further. Moves have been taken to reconcile customs union obligations with Russia’s WTO accession; nevertheless, the project shows Russia’s use of trade for political ends, aiming to preserve Soviet era trade patterns that WTO market access would likely disrupt.

Industrial and agricultural lobbies have opposed entry, claiming that Russian companies require more time before facing global competition. However, little has been done to make Russian industry more efficient in the last 18 years, even without unfettered competition.

The challenges of membership are not limited to economic policy; they also undermine the political model that has come to define Russia since 2000. Under Putin, Russian citizens accepted reduced political freedoms in exchange for stability and economic growth. Within the WTO, Moscow will have fewer means to support inefficient industries against competition from abroad. This could cause problems for the 460 monotowns, which rely on one factory or industry for jobs and public utilities. Certainly, Russia does not stand to reap immediate rewards from membership. World Bank studies stress that while all households will benefit in the long run, some will confront initial challenges of retraining or relocation. The government will struggle to maintain its legitimacy if it does not provide ample means for these costs to be met.

As a major oil exporter, over 50 percent of its foreign trade is already tariff free. However, the metallurgy and chemicals industries stand to gain from increased market access and protection from antidumping measures. In time, other industries will benefit from restructuring and increased productivity stimulated by increased competition. Russia needs foreign capital in order to affect its modernization and is aware of the need to project a more positive investment image. World Bank analysis also stresses that the largest gains from WTO membership will come from increased foreign investment in the Russian market for services. Clearly, WTO membership alone will not convince cautious investors, but opening the Russian economy to international practices can only have positive benefits for the business climate.

Still, to become a truly open economy, Russia will need to use WTO membership as a springboard for wider economic change. It is Putin who will face the tough realities of implementing WTO commitments, leading an elite that has long favored protectionism and subsidy over serious reform. However, the long-term benefits of membership should outweigh the initial costs. Russia will first have to make courageous decisions on which industries are truly sustainable and take measures to protect the population from the upheaval of adjustment.
Dominic Fean is a junior research fellow at the Russia/New Independent States Center at the French Institute of International Relations.

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<tr>
<th>Russia – Selected Data and Forecast</th>
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<tr>
<td></td>
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<tr>
<td>Annual GDP growth rate (%)</td>
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<tr>
<td>2006     2007     2008     2009     2010e   2011f   2012f</td>
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<tr>
<td>5.5      8.1       5.6      -7.9       4.1    4.3      4.4</td>
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<td>Exports (USD Bn)</td>
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<tr>
<td>2006     2007     2008     2009     2010e   2011f   2012f</td>
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<tr>
<td>303.6    354.4    471.6    303.4     364.1   426.0    494.1</td>
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<tr>
<td>Imports (USD Bn)</td>
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<tr>
<td>2006     2007     2008     2009     2010e   2011f   2012f</td>
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<tr>
<td>164.3    223.5    291.9    191.8     226.3   276.1    328.6</td>
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<tr>
<td>Current account (% GDP)</td>
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<td>2006     2007     2008     2009     2010e   2011f   2012f</td>
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<tr>
<td>10.1     6.3      6.5      4.0       4.6     3.9      3.0</td>
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<td>Exchange rate: Rub/USD</td>
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<tr>
<td>2006     2007     2008     2009     2010e   2011f   2012f</td>
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<tr>
<td>21.17    25.57    24.86    31.72     30.66   29.25    26.75</td>
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<tr>
<td>Foreign exchange reserves</td>
</tr>
<tr>
<td>2006     2007     2008     2009     2010e   2011f   2012f</td>
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<tr>
<td>303.7    477.9    438.2    439.0     496.1   496.1    535.8</td>
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Source: Business Monitor International (2011)

*estimates; f: forecast
ASSIGNMENT 4. REGIONAL TRADE BLOCS IN EUROPE (QUESTIONS ONLY)

With the support of the reference textbooks (CW Hill, chap 9; J. Gerber, chap 14), you will present the European continent’s most important trade blocs.

ASSIGNMENT 5. REGIONAL TRADE BLOCS IN AMERICA (QUESTIONS ONLY)

With the support of the reference textbooks (CW Hill, chap 9; J. Gerber, chaps 13 & 15), you will present the American continent’s most important trade blocs.
ASSIGNMENT 6. THE EU-SOUTH KOREA FREE TRADE AGREEMENT

With the support of the reference textbook (CW Hill, chap 9) and questions/texts below, you will present the issues raised by the recently signed free trade agreement between The European Union and South Korea.

1. What can international trade and investment theories teach us about the economic rationale of the agreement? Who will be its winners and losers?

2. What are the various issues addressed by the agreement?

3. To what extent is the agreement consistent with:
   a. The objectives and underlying principles of the WTO?
   b. The aims and rationale of European economic integration?

4. Why are Japanese (or US) decision-makers worried about the agreement? What can be done by their national authorities to address these concerns?

EU and South Korea sign free trade deal


EU Trade Commissioner Karel De Gucht, the Belgian Minister of Foreign Affairs Steven Vanackere representing the Presidency of the Council of the European Union (EU), and the Korean Minister for Trade Kim Jong-hoon today signed a Free Trade Agreement (FTA) between the EU and South Korea. This FTA is the most ambitious trade agreement ever negotiated by the EU and the first with an Asian country. Today’s signature signals a significant step on the road to its implementation and is one of the main events of the EU-Korea Summit taking place in Brussels today. "The agreement between the EU and South Korea marks a significant achievement in improving our trade links. It will provide a real boost to jobs and growth in Europe at this critical time. This wide-ranging and innovative deal is a benchmark for what we want to achieve in other trade agreements", said Commissioner De Gucht. "Tackling the more difficult non-tariff barriers to international commerce can cut the costs of doing business as much if not more than getting rid of import duties."

The text of the FTA was initialled between the European Commission and South Korea on 15 October 2009. Since then the text of the Agreement was translated into Korean and 21 EU languages. All EU Member States have signed the FTA ahead of today's official signing ceremony. The date of provisional application will be 1 July 2011, provided that the European Parliament has given its consent to the FTA and the Regulation of the European Parliament and of the Council implementing the bilateral safeguard clause of the EU-South Korea FTA is in place. The EU Member States will have to also ratify the agreement according to their own laws and procedures.

One study estimates that the deal will create new trade in goods and services worth €19.1 billion for the EU; another study calculates that it will more than double the bilateral EU-South Korea trade in the next 20 years compared to a scenario without the FTA. The agreement will remove virtually all import duties between the two economies as well as many non-tariff barriers. It will relieve EU exporters of industrial and agricultural goods to South Korea from paying tariffs. Once the duties are fully eliminated, EU exporters will save € 1.6 billion annually. Half of these savings will be applicable already on the day of the entry into force of the Agreement. The FTA will also create new market access in services and investment and will make major advances in areas such as intellectual property, procurement, competition policy and trade and sustainable development.
BACKGROUND

South Korea’s strong economy (the 14th largest in the world) has made it the EU’s fourth most important trading partner outside Europe (behind the US, Japan and China). EU exports of goods to South Korea have averaged a yearly growth rate of 7.5% for the period 2004-2008. However, due to the financial crises, this trend slowed down in 2009 when the EU’s exports to South Korea reached €21.5 billion. In the same year, South Korea exported €32.1 billion worth of goods to the EU. The value of EU services exports to South Korea in 2008 was close to €8 billion, while EU absorbed €4.4 billion of Korean services.

EU-South Korea goods trade was worth around €54 billion in 2009. The EU currently runs a deficit with South Korea in goods trade, although trends suggest that the Korean market offers significant growth potential. For products like chemicals, pharmaceuticals, auto parts, industrial machinery, shoes, medical equipment, non-ferrous metals, iron and steel, leather and fur, wood, ceramics, and glass, the EU enjoys a solid trade surplus. Similarly, for agricultural products South Korea is one of the more valuable export markets globally for EU farmers, with annual sales of over €1 billion. On services, the EU has a surplus with South Korea of €3.4 billion, with exports of €7.8 billion in 2008 and imports of €4.4 billion.

In terms of tariffs, South Korea and the EU will eliminate 98.7% of duties in trade value for both industrial and agricultural products within 5 years from the entry into force of the FTA. By the end of the transitional periods, duties will be eliminated on almost all products, with a few exceptions in the agricultural sector. This is the most ambitious trade coverage ever achieved in a FTA negotiated by the EU.

EU-South Korea Free Trade Agreement

Brussels, 4 October 2010,

Exports are an important source of growth and employment in the European economy supporting millions of jobs. European companies profit directly from exporting, and also from the positive spillover effects in the internal market. Key Asian markets, such as South Korea offer the potential for significant new opportunities. European businesses have asked for better terms of access to key Asian markets. Responding to these calls, EU Member States authorised the Commission to negotiate new ambitious Free Trade Agreements (FTAs) with India, South Korea and ASEAN countries in April 2007. The negotiations were launched in May 2007. After eight rounds of formal talks the two sides finalised the agreement in 2009.

KEY ELEMENTS OF THE EU-SOUTH KOREA FTA

The FTA will create substantial new trade in goods and services. The additional market access provided by the FTA will further strengthen the position of EU suppliers in the Korean market. Some key features:

The FTA will quickly eliminate €1.6 billion worth of Korean import duties annually for EU exporters of industrial and agricultural products. The EU will eliminate around €1.1 billion of duties. For example, European machinery exporters will save €450 million annually in duty payments. EU agricultural exporters will save €380 million annually on duties for agricultural products for which Korean duties are currently relatively high. The EU will eliminate €1.1 billion of duties on imports from South Korea.

More importantly, the deal will also tackle non-tariff barriers across all sectors including in industries of specific interest to the EU, such as automotive, pharmaceutical and consumer electronics. Under the FTA, South Korea will consider as equivalent many European standards, and recognise European
certificates, thus eliminating red tape [i.e. bureaucracy] which so far was a deterrent and a barrier to trade.

The FTA will provide new opportunities in many services sectors, where the EU is highly competitive. These include telecommunications, environmental services, shipping, financial and legal services.

The FTA will offer transparency and predictability on regulatory issues such as the protection of intellectual property (including through strengthened enforcement); improved market access in government procurement; as well as a new approach on trade and sustainable development involving civil society in the monitoring of commitments.

The FTA will offer a high level of protection for EU Geographical indications such as Champagne, Prosciutto di Parma, Feta cheese, Rioja, Tokaji wine or Scotch whisky.

Efficient dispute settlement rules will be set up to ensure enforceability of commitments (arbitration ruling within 120 days, which is faster than in the WTO).

The FTA will offer protection via a general safeguard clause. This would allow the re-establishment of duties for up to four years in case of a sudden surge in imports. A Regulation implementation this clause is currently being discussed by the European Parliament, the Council and the Commission. The Commission will monitor closely the evolution of the market in sensitive sectors.

On rules of origin, rules have been simplified and made more business friendly. At the same time, strict rules apply in sensitive sectors. For instance, for cars, the agreement would only moderately increase the levels of permissible foreign content from 40% to 45%. For textiles, agricultural and fisheries, the EU standard rules of origin will be maintained with only a small number of derogations applying. [...]
EU and South Korea Sign Trade Pact


BRUSSELS — The European Union and South Korea took a major step Thursday toward a free trade agreement aimed at generating billions of euros in new commerce. With talks on global trade deadlocked and concern about protectionism on the rise, analysts said the deal could send a powerful signal to other nations to press ahead with bilateral pacts of their own. After two years of negotiations, an agreement was signed in Brussels by the European trade commissioner, Catherine Ashton, and her South Korean counterpart, Kim Jong-hoon. The pact now needs approval from the European Union’s 27 member states, some of which face intense opposition to the deal from sectors like the automotive industry. But Ms. Ashton said she had the backing of all member states to go ahead. […]

Both sides have been under considerable pressure not to let deal founder. Proponents say the agreement would be a major boon to the South Korean economy, which relies heavily on exports, notably of consumer electronics and cars. Export giants like Samsung and Hyundai have seen their sales to the United States and Europe plunge since the global economy began to grind to a halt last year. Still, South Korean manufacturers continue to export far more automobiles to the E.U. than go the other way. This is in part because their lines of fuel-efficient cars have been popular with cost-conscious consumers; the weakness of the won also has helped make South Korean products cheaper abroad.

But the trade gap has raised hackles among European manufacturers who would like to sell more goods in South Korea. Sigrid de Vries, spokeswoman for the European Automobile Manufacturers’ Association, said the deal would lead to “market distortion and unfair competition.” The agreement “goes against the interest of major industries in Europe and their millions of employees,” she added. But the European Commission praised its benefits, saying the agreement addressed a range of non-tariff barriers, including regulations and standards, in which European industries have an interest.

In South Korea, farmers fear that a free trade deal with the E.U. will make their life more difficult by allowing in a flood of cheaper European pork and dairy goods. But their resistance so far has been markedly weak, in contrast with protests, inspired in part by anti-American sentiments, that marred free trade negotiations between Washington and Seoul.

EU trade pact with South Korea faces criticism

*Published: 15 October 2009*


The European Union and South Korea today (15 October) signed a long-awaited trade pact potentially worth 100 billion euros ($149 billion), but the agreement has attracted criticism from industry. The trade deal is the most important ever negotiated between the 27-nation European Union and a third country, the EU executive said in a statement. It is worth an estimated 19 billion euros in new trade in goods for EU exporters, around 12 billion euros in goods for Korean companies, and will see the removal of all tariffs as well as many non-tariff barriers between the two economies.

"It will create new market opportunities for European companies in services, manufacturing and agriculture," EU Trade Commissioner Catherine Ashton said in a statement. "This agreement is particularly important in the current economic climate, helping to fight the economic downturn and create new jobs," she added. […]

The FTA will now have to be approved by the European Parliament. Industry associations have already started their lobbying campaign to derail the process. According to ACEA, the European
carmakers' association, the agreement goes against the interest of major manufacturing industries in Europe, including the automotive sector, and their millions of employees. "We call on EU member states not to ratify the current text. The concerns that many of them expressed before, and that were echoed by members of the European Parliament, a number of European commissioners - as well as trade unions and businesses - have not been addressed," said Ivan Hodac, ACEA's secretary-general. "The Korean negotiators have not only obtained unrestricted access to a market of over 500 million people, the European Commission has in addition allowed South Korea to subsidise exports from its key industries to the EU. This constitutes unfair competition and will lead to economic distortion," Hodac added. EU car sales to Korea went up by a total of 78% in unit sales (39% in value) between 2005 and 2008, whilst Korean car exports to the EU decreased by 37% in unit sales over the same period. DigitalEurope, the association representing the ICT industry in Europe, also raised concerns about the FTA's impact. "Lowering or removing tariffs will put European and other non-Korean electronics companies at a competitive disadvantage," it said in a statement.

EU-South Korea FTA alarms Japanese firms

By Jijo Jacob, International Business Times, Friday, October 8, 2010 7:33 AM EDT


The Free Trade Agreement (FTA) signed by South Korea and the European Union (EU) could hand a heavy blow to Japanese industries, especially the automobile and electronics sectors. Japan's main manufacturing rival in Asia has gone ahead with a treaty with the EU, whose combined GDP surpasses that of the United States, while Tokyo is still harping on an Economic Partnership Agreement (EPA) with the EU which does not seem to be making any progress at all. Concerned about losing further market share to its South Korean competitors, Japanese automakers and electronics giants have already appealed to the government to kick-start free trade negotiations with the EU, Asahi Shimbun has reported. According to expert estimates,

Japanese manufacturers of home appliances, automobiles and other products will lose $3 billion worth of exports to the EU because of the EU-South Korea FTA, says the Japanese daily paper. "There will be a large gap in cost competitiveness with South Korea (because of the EU-South Korea FTA)," said Fumio Ohitsuho, president of Panasonic Corp. Meanwhile Sharp Co. president Mikio Katayama urged the Japanese government to negotiate with the EU as soon as possible. "It will be difficult to cover the price differences (with South Korean products) because of the tariff cut on our own. We'd like to compete under the same conditions," Katayama said, according to the paper. [...] 

What alarms Japanese automakers and electronic giants is the fact that under terms of the FTA, Korean manufacturers will be free of the EU's 10 percent tariff on automobiles and 14 percent tariff on TV sets. The combined market share of South Korea's Hyundai Motor and Kia Motors in the EU region was 4.5 percent between January and August this year. Against this, Japan's leading automakers, Toyota Motor and Nissan Motor, had 4.3 percent and 2.9 percent market share, respectively, according to data by the European Automobile Manufacturers' Association. Japanese carmakers are certain that the elimination of tariffs on South Korean carmakers will hit their market share further in the EU.

Japan has so far been unable to even start negotiations with the EU on a free-trade arrangement similar to the one signed between South Korea and the EU. However, Japan raised the prospects of launching a joint study group on an economic partnership agreement (EPA) with the EU at a summit held in April. But the idea hasn't gone down well with the EU which believes that Japan's efforts to ease non-tariff barriers are not yet sufficient. "Many so-called non-tariff barriers to trade remain in
place, which hamper access to the Japanese market and cause hesitance from the EU side to go ahead," Herman Van Rompuy, president of the European Council, said before the summit.

While a free trade agreement aims mainly to remove tariffs on goods and trade barriers for services, an EPA goes beyond it and covers areas such as intellectual property rights and investment protection rules. The EU has been pressuring Japan to ease safety standards for automobiles and to hasten the screening process of medical devices while Tokyo wants the EU to halt tariffs on automobiles and flat-panel televisions. According to the European Business Council, EU exports to Japan could rise as much as 7 percent if current tariffs and non-tariff measures are removed. This will help boost Japan's trade to the EU bloc by almost 60 percent, the council says.

Japan and the EU will make a decision next year on whether negotiations on the EPA should get under way.

France slams 'unfair competition' by Korean carmakers

25 July 2012, 12:48 CET


France's industry minister on Wednesday slammed what he called "acts of unfair competition" by carmakers from South Korea, who have boosted their market share in Europe following a 2010 free trade deal. Within the framework of this deal, "we are justified in demanding monitoring measures which may enable us to request a safeguard clause," Minister for Industrial Renewal Arnaud Montebourg told reporters.

The European Union and South Korea signed the free trade deal in October 2010 and the agreement, the first such deal linking Asia and the world's largest economic bloc, will eventually do away with 98.7 percent of duties. EU states insisted during negotiations on a "safeguard" clause to protect the industries from "sudden surges of imports" in sensitive sectors, including small cars, by allowing a return to some tariffs.

French carmakers PSA Peugeot Citroen and Renault are facing increasing competition from Korean automakers including Hyundai and Kia. Hyundai's sales grew 12 percent last year in Europe while Kia's sales jumped 11 percent. Montebourg made the comments as the French government presented a rescue plan for the country's struggling auto industry, whose plight was highlighted by Peugeot's results Wednesday showing a first half net loss of 819 million euros ($989 million).

The European Union is negotiating a similar free trade pact with Japan, which has also raised concerns in the auto industry.
ASSIGNMENT 7. ARGENTINA, NOW AND THEN

With the support of the reference textbook (CW Hill, chap 7-11) and questions/texts below, you will present the issues raised by Argentina’s economic model and trade policy.

1. What were the nature, origins and consequences of the Argentine crisis in 2001?
2. What was the role played by the IMF during the crisis? Was it successful?
3. What are the nature and objectives of Argentina’s current international trade policy? To what extent is it a consequence of the previously mentioned crisis?
4. What are the various shortcomings of this policy?

Argentina’s monetary crisis

Argentina’s Monetary Crisis

In the 1990s Argentina was the darling of the international financial community. The country had fixed the exchange rate for the Argentinean peso to the U.S. dollar at $1 = 1 peso. Maintaining the exchange rate had required Argentina to adopt strict anti-inflationary policies, which had succeeded in bringing down Argentina’s historically high inflation rate and stimulated economic growth. By 2001, however, the economy was running into trouble. Global economic growth slump and demand for many of the commodities that Argentina exported fell. Argentina’s large neighbor and main trading partner, Brazil, was grappling with a financial crisis of its own and had devalued its currency against the dollar, and thus the peso, effectively pricing many Argentinean goods out of its market. To compound matters, the dollar had appreciated against most major currencies, taking the peso up with it and making Argentinean goods more expensive in other international markets.

Starting in 1999, the Argentinean economy entered a tailspin that eventually took unemployment up to 25 percent by 2002. Anticipating that the country would have to devalue the peso against the dollar, corporations and individuals started to pull money out of pesos, placing their funds in dollar accounts. As people sold pesos, the Argentinean government used its foreign exchange reserves to buy them back in an effort to maintain the exchange rate at $1 = 1 peso. The government quickly ran down its reserves, and in 2000 the country negotiated a loan from the International Monetary Fund (IMF) to prop up its currency. In return for the loan, which ultimately reached $15 billion, the Argentinean government agreed to adopt a financial
Argentina’s strategy


During the 1990s, seeking to tame hyperinflation, Argentina had tied the value of its peso to the American dollar — a “convertibility” strategy that proved unsustainable because of rising global interest rates. The country privatized many industries, which led to high unemployment but also made Argentina’s economy more efficient. By 1999, however, it was clear to most economists that Argentina was marching inexorably toward a default and devaluation. The number of people under the poverty line was growing — it peaked at more than 50 percent of the population in 2002 — and unemployment was soaring.

Social tensions rose. There were eight general strikes in Argentina in 2001, with looting and thousands of roadblocks. Huge lines formed outside many European embassies as waves of Argentines fled their country. In December the government fell, and the departing president fled as a riot raged below. Over the next 10 days, four presidents assumed power and then quickly resigned before a fifth, Eduardo Duhalde, declared the currency devaluation. A short time later, Congress formally approved the debt default that was already a de facto reality.

In 2003 Mr. Kirchner was elected to succeed the interim president, Mr. Duhalde. Mr. Kirchner embarked on a new economic model — the one that his wife, continued to follow today. Its pillars are sustaining a weak currency to foster exports and discourage imports, and maintaining fiscal and trade surpluses that can be tapped for financing government and paying down debt.

The Argentine government waited until 2005, when its economy was already in recovery, to conduct the first of two debt restructurings. Nongovernment foreign investors — the biggest included pension funds from Italy, Japan and the United States — took haircuts costing them two-thirds of their investments. Notably, the one creditor that was paid back in full — in 2006 — was the International Monetary Fund, to which Argentina owed $9.8 billion dating to the 1990s. Since paying off the International Monetary Fund, Argentina has not borrowed from the fund. That enabled the Kirchner governments to avoid the agency’s typical prescription of cutting state spending.

The Argentine government has maintained hefty subsidies on energy and some food to avoid public discontent — steps that would be anathema to the monetary fund. But high commodity prices have helped let Mrs. Kirchner maintain popularity at home through generous government outlays.

Argentina’s Turnaround Tango

By IAN MOUNT, New York Times, September 1, 2011

Argentina may seem like one of the last countries on earth to offer lessons for dealing with economic malaise. Once the eighth-largest economy in the world, it steadily slid through the 20th century, thanks to decades of repressive dictatorships and inconsistent market experiments. This ended ignominiously in 2001, when it defaulted on $100 billion in sovereign debt, plunging over half its 35 million people into poverty. That, at least, is the Argentina people know. Since then, it has performed an economic U-turn — an achievement largely unnoticed outside Latin America, but one that President Obama and Congress should look to for inspiration.

Argentina is not without problems, but its recent economic record speaks for itself: the economy has grown by over 6 percent a year for seven of the last eight years, unemployment has been cut to under 8% today from over 20% in 2002, and the poverty level has fallen by almost half over the last decade. The streets of Buenos Aires are choked with cars as Argentines are on track to buy some 800,000 new vehicles this year; the wine mecca of Mendoza is full of high-end tasting rooms, hotels
and restaurants offering regional haute cuisine; and plasma TVs and BlackBerrys have become household staples among the urban middle class.

Argentina has regained its prosperity partly out of dumb luck: [thanks to Chinese demand] a commodity price boom has vastly benefitted this soy, corn and wheat producer. But it has also prospered thanks to smart economic measures. The government intervened to keep the value of its currency low, which boosts local industry by making Argentina’s exports cheaper abroad while keeping foreign imports expensive. It then taxed those imports and exports, using the money to pay for a New Deal-like public works binge, increasing government spending to 25% of G.D.P. today from 14% in 2003.

As a result, the country has 400,000 new low-income housing units, as well as a long-delayed, 235-mile highway between the northern cities of Rosario and Córdoba. It has also strengthened its social safety net: the Universal Child Allowance, started in 2009 with support from both the ruling party and the opposition, gives 1.9 million low-income families a monthly stipend of about $42 per child, which helps increase consumption. Because the amount depends in part on how often the child attends school, it is also likely to improve the country’s long-term educational performance. The results have also paid off politically: President Cristina Fernández de Kirchner recently won about 50 percent of the vote in an open primary against nine other presidential candidates.

Why have Argentines embraced bigger government? In part because the preceding era showed how poorly austerity measures — the sort now being pushed by conservatives in the United States — promote growth. In the late 1990s, Argentina cut government spending drastically on the order of its lenders at the International Monetary Fund. Predictably, between 1998 and 2002, Argentina’s economy shrank by almost 20 percent. It was only after Argentina turned its back on these austerity demands, and defaulted on its debt, that it began to recover.

Of course, Argentina is far from perfect: the import and export taxes have scared away some foreign investment, while high spending has pushed inflation well over 20 percent. There are also problems with the way Argentina is run: corruption, government opacity, authoritarian tendencies, confiscatory taxes and a temptation to tweak unpleasant inflation statistics. […] But Argentina still offers valuable lessons. For one thing, extreme cost-cutting during a stagnant economic period will only inhibit growth. And government spending to promote local industry, pro-job infrastructure programs and unemployment benefits does not turn a country into a kind of Soviet parody. It puts money in the pockets of average citizens, who then spend it and spur the economy. […]

Argentina: keep out

Sep 24th 2011 | BUENOS AIRES | from the Economist print edition

In recent years BlackBerrys have become an essential component in the young professional’s toolkit in Buenos Aires. But if you failed to buy one before the southern-hemisphere winter, you may be out of luck. “We have trouble getting them,” says an assistant at a Claro mobile-phone store in posh Recoleta. “We haven’t had them for months,” is the answer at a Personal shop in leafy Palermo. Movistar advertises the 8520 model on its home page, but the phone is in fact sold out.

At South America’s southern tip, the missing BlackBerrys are almost ready to roll off the line. On October 3rd Brightstar, a multinational manufacturer, will begin importing kits of the phones’ parts to its factory in Tierra del Fuego, the normal base for cruise ships going to Antarctica. Some 300 workers will brave the frigid austral fog to assemble the pieces and put them in locally sourced packaging. Making BlackBerrys south of the Magellan strait will cost $23m upfront, plus $4,500-5,000 a month per worker, some 15 times more than in Asia. But the government touts the project as a triumph of its trade policy. It will help cut foreigners’ share of Argentina’s mobile-phone market from 96% in
2009 to a forecast 20% by the end of 2011. “We have a domestic market with growing demand. The goal is to supply it with local labour and production,” said Débora Giorgi, the industry minister, when the deal was announced.

Argentine manufacturers have been booming ever since the 2001 crash. Over most of that period, a cheap peso has ensured their competitiveness. But since 2005 inflation has been in double digits. As the trade surplus has dwindled, Cristina Fernández, the president, has beefed up her industrial policy. According to Global Trade Alert, a database of restrictions on international commerce, Argentina now imposes more trade limitations deemed “harmful” than any country save Russia.

Even before Ms Fernández’s late husband, Néstor Kirchner, became president in 2003, Argentina was taxing farm exports. The policy was meant to raise revenue. But the Kirchners later justified it as a way of discouraging commodity exports in favour of manufacturing. In 2008 Ms Fernández sparked protests by trying to raise taxes on soyabeans, Argentina’s chief export, and lost a congressional vote. Since then the country has restricted maize and wheat exports, leaving farmers with an estimated 4m tonnes of maize they can neither sell at home nor ship abroad. Beef exports have also been limited, which caused ranchers to stop raising cattle and led to lower leather output and beef consumption. Many foreign leather firms, such as Italy’s Italcuer, have left.

On the import side, Argentina cannot raise tariffs on its own because it belongs to the MERCOSUR customs union. So it is resorting to informal tools. Its main method is “non-automatic licensing”, a tactic recognised by the World Trade Organisation that lets countries delay imports for 60 days. Argentina has made no pretence of honouring that time period. In January it expanded the list of products requiring licences from 400 to 600. It was a limit on phone imports that led Research in Motion to hire Brightstar to make BlackBerrys in Argentina (tax incentives then led the firm to Tierra del Fuego). Other affected goods include toys, pharmaceutical ingredients, tyres, fabrics, leather and farm machinery. On September 15th Argentina blocked imports of books, and over 1m piled up at the borders. Imports of Harley-Davidson motorcycles are frozen until 2012.

For firms that refuse to (or cannot) move production to Argentina, the government offers another option: deals to export goods worth at least as much as a company’s imports. In January customs officials stopped letting Nordenwagen import Porsches. Its cars languished in port for three months before the firm succumbed to a deal. Since its owners also possess Pulenta Estate, a vineyard, they agreed to launch a new line of mass-market wines for export, erasing the family’s trade deficit. They are also considering canning fruits. “It’s not the same margins as fine wines, but it takes time and investment. We’re trying to make it profitable,” says Eduardo Pulenta, the company’s export manager. “We’ll keep working to import cars. That’s what we know how to do.”

Copying from Brazil, the next target of Argentina’s new protectionism will probably be land. In April the government put forward a bill to cap total foreign landholdings at 20% of the country’s territory, and to stop any individual from acquiring over 1,000 hectares (2,471 acres). It makes no exemption for technology transfers. And it counts any firm with over 25% foreign ownership as an outside buyer, forcing the government to track every trade in the shares of public companies near the limit. Investors in mining, which many Argentines tout as the “new soyabeans”, are nervous. The bill has not been approved. But in next month’s election Ms Fernández is expected both to win again and to increase her party’s share of seats in Congress.

The net effect of these policies is hard to measure. Since 2005 imports have grown faster than exports. But that gap might have been bigger without the trade limits. The industry ministry says Argentina has substituted $5 billion of imports a year since 2009 (1.4% of GDP). Local consumers bear most of the cost, although some will fall on taxpayers now that the government is offering loans to exporters at negative real interest rates. Marcelo Elizondo, head of the UCES business school in Buenos Aires, says the interventions have affected the trade balance only slightly. “But it’s a deterrent,” he says. “It’s a general message for everyone who wants to import that it will be expensive and complicated, and you’re better off producing here.”
Argentina: more protectionism


Argentina, already one of the most protectionist countries in the world, has introduced additional trade barriers in a bid to halt a deterioration of its trade surplus and boost local industry. A new measure requires that importers of thousands of finished goods match their purchases with an equivalent amount of exports. The move is bound to trigger new tensions with major trading partners, particularly Brazil. The mechanism is reportedly to be applied to all finished goods, including items such as electronic goods, clothing and furniture. A similar policy is already in place for imports of luxury cars, motorcycles and agricultural machinery. The extension is raising hackles not only among trading partners but also domestic companies, which will find it difficult to comply with the dollar-for-dollar import-export matching requirement.

Argentina’s economy grew by a hefty 9.2% in 2010—the fastest pace in five years—and the Economist Intelligence Unit forecasts it will grow by 6.9% this year. Strong growth has stoked demand for imports, which rose by 45% in 2010, to US$53.9bn, according to the national statistics agency, INDEC. Exports also grew, but by a slower 23%, to US$68.1bn. Higher imports caused the trade surplus to fall to US$14.3bn last year from US$18.5bn in 2009. This also contributed to shrinking the current-account surplus to US$3.1bn from US$11.1bn in 2009.

The trend has only deepened in 2011. Economic growth was near 10% in the first quarter. In response, imports are skyrocketing, growing by 39% in May compared with May 2010 (a rise attributed mostly to volume, rather than price). For the first five months of the year, Argentina’s trade surplus was US$4.77bn, 21% lower than the same period last year. Reflecting a determination to not only protect the trade balance but also to promote domestic production and jobs, the government of President Cristina Fernández has put the brakes on imports several times before. Indeed, according to a report published in 2010 by the Global Trade Alert, which monitors protectionist measures around the world, Argentina ranked second globally (after Russia) in 2010 in terms of the number of discriminatory measures it had imposed.

Earlier in 2011, Argentina extended the list of products subject to non-automatic import licences from 412 to 600 products, including such key imports as autoparts, cars, textiles, glass, chemicals, paper and cardboard, electronics and household appliances. The new rules, among other things, required individual approval for each licence to import a product that is also made in Argentina. The government claimed the move was an anti-dumping measure intended to protect its producers from artificially low-cost Asian imports; such a defensive measure is permissible under World Trade Organisation (WTO) rules. However, the import barriers contravened the rules of the Southern Common Market (MERCOSUR), a [customs] union between Brazil, Argentina, Uruguay and Paraguay. It therefore created fresh tensions with Brazil and particularly Uruguay, which was badly affected by the new measures. Brazil is Argentina’s main trading partner, and about one-third of Argentina’s total trade is with its Mercosur partners.

In May, Brazil responded to Argentina’s actions by imposing its own non-automatic licensing system on a number of imported goods from Argentina, including vehicles and their components. In part this was because of complaints by Brazilian exporters that Argentinian authorisation for non-automatic licences frequently took much longer than the officially stipulated 60 days. Brazil’s action led to the blockage of some 40,000 Argentina-made vehicles at the border with Brazil. Argentinian carmakers send about 80% of their exports to Brazil, and the auto industry has been central to Argentina’s economic growth in recent years.

Emergency discussions took place in late May and early June between the industry ministers of both countries, leading to a good will commitment to ease some of the trade measures (and promise to
allow entry of stalled goods within 60 days). However, the barriers in the automotive sector that are at the core of the dispute remain in place. As a result, reports suggest that many thousands of cars remain stuck in customs. Likewise, Brazilian manufacturers claim that their textile and footwear exports are being obstructed at Argentina’s border.

Besides the tensions that Argentina’s protectionist measures have stoked within the MERCOSUR trading bloc, they could complicate ongoing discussions with the EU over a trade agreement between the two regions. There is also a risk that the measures might prompt retaliatory measures from China, a growing trading partner. Argentina and China have only just resolved an existing dispute over entry of Argentinian beef and agricultural products to the Asian market. The spat between Argentina and Brazil in particular has also alarmed international investors who worry about the potential for greater protectionism among emerging markets in general, especially those affected by their own appreciating currencies and uneven global growth rates.

At the same time, Argentina’s government might find that its policies designed to protect its trade balance and its domestic productive sectors might have mixed results. With demand remaining relatively firm and capacity constraints becoming increasingly problematic for several industries, government pressure of this sort will help stoke some fixed investment growth. However, in the short term local industries will find it difficult to replace products affected by the new imports controls. Moreover, given an uncertain policy environment and national elections approaching in October, major investments to increase domestic capacity are likely to be limited. This will perpetuate the constraints that have contributed to domestic supply shortages and contributed to inflationary pressures.

### Argentina protectionism: number of measures per type*

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<th>Total</th>
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<th>Anti-dumping duties</th>
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<td>13</td>
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*Source: Global Trade Alert, based on own data base and government data (www.Infoleg.gov.ar)

*Measures implemented between November 2008 and May 2010.*

### Argentina: Selected Data and Forecast

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<tr>
<th></th>
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<td>56.0</td>
<td>70.0</td>
<td>55.7</td>
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<td>37.1</td>
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<td>Current account (% of GDP)</td>
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<td>Annual inflation (%)</td>
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<td>3.1</td>
<td>3.7</td>
<td>3.9</td>
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*Source: Business Monitor International

ARS: Argentinean peso  f: forecast
Argentina Goes Rogue Again

By Karina Martinez-Carter on April 19, 2012

http://www.businessweek.com/articles/2012-04-19/argentina-goes-rogue-again

Since February, consumers and businesses in Argentina have found it increasingly hard to find various imported items—electrical equipment, certain prescription drugs, machinery parts, bananas, and salmon. The government of President Cristina Fernández de Kirchner wants to reduce dependence on imports and encourage local industry and agriculture to fill the gap. The country recorded a $356 million current account deficit in the fourth quarter. Since a healthy trade surplus is a pillar of Argentina’s economic model, policy makers want to get back in the black as fast as possible. Trade considerations were behind the government’s move on April 16 to wrest control of YPF, a local oil producer, from the hands of Spain’s Repsol YPF. Fernández figures the Argentines can coax more oil from the fields than the Spanish, thus cutting the bill for imported oil.

This cut-imports-at-all-costs campaign has triggered a backlash. The government announced in late March that all foreign publications entering Argentina would be held at Ezeiza International Airport outside Buenos Aires. The topic hashtag #LiberenLosLibros (“free the books”) was widely used on Twitter.

The government said the new policy, which would stop home delivery of all overseas print publications and force subscribers to pick up their periodicals at the airport for a sizable additional fee, was needed because inspectors had to check ink lead levels. The move didn’t go down well in a country that prides itself on its literary tradition and where one of the most iconic buildings in the capital, Palacio Barolo, is a physical tribute to Dante’s Divine Comedy. A few days of vehement backlash later, the government reversed the measure.

Stringent rules on many other imports, however, remain in place. Importers are now required to fill out the mandatory Anticipated Sworn Declaration of Imports, which must be approved by the government. For foreign manufacturers to bring their goods or services into the country, they must enter into partnerships with local manufacturers for production.

The new measures have created a tangle of red tape and brought denunciations from 14 member states of the World Trade Organization, including the U.S. and the European Union. The statement accuses Argentina of restrictive trade measures and a lack of transparency. “It appears that this new system is operating as a de facto import-restricting scheme on all products,” says the document. The official WTO statement additionally listed laptops, home appliances, cars and car parts, toys, and textiles among the affected products. Argentina rejected the criticism and defended the restrictions as “sovereign trade policies.”

Marcela Cristini, a senior economist at the Foundation for Latin American Economic Investigations, says the import restrictions risk freezing Argentina out of international markets and making it more of an economic outlier than it already is. She sees boosting exports as a more effective way to achieve a trade surplus and improve competitiveness. Walter Molano, a Latin American specialist at BCP Securities, also criticized the crackdown on imports. “The Argentine economy is doing well,” he says. “But they’re missing the big Latin America boom. They should be doing much better.” Instead, President Fernández has pursued ever-more-insular economic policies.

Vice President Amado Boudou took to Twitter on March 30 to explain the policy. “We are not against imports, we are looking after your jobs, we are looking after Argentine industry,” he wrote. Readers noticed that Twitter had registered the vice president as posting from an iPhone. Yet the government prohibits the sale of the Apple smartphone within its borders. The screen shot of the ironic tweet went viral. Should Argentines want an iPhone, as Boudou told reporters earlier, they’ll have to buy it in Miami.