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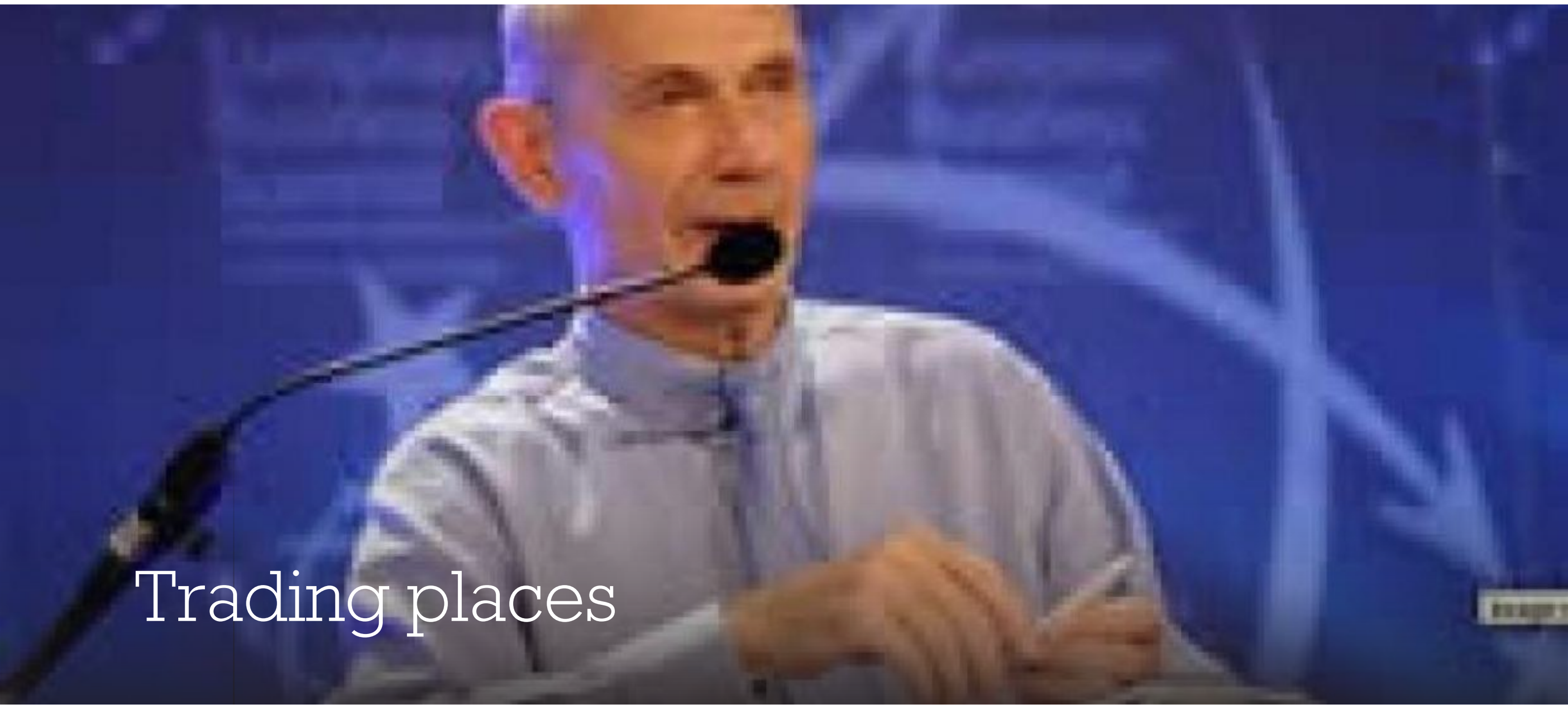

Trading places

Numbers may not lie, but often their true significance lies in closer scrutiny. And a good example of this statement lies in the numbers used to tout the world's great trade imbalance with China - a deficit that shows the EU trade deficit growing from 50 billion euros in 2000 to 297 billion in 2008. "But," says Pascal Lamy, Director-General of the 153-member Geneva-based World Trade Organisation, "trade imbalances ... are not negative in themselves. What is important is to look at the overall trade balance. In Europe, more than 70 per cent of trade is intra-European. The impact of Europe's trade imbalance with China is therefore more limited than one would think."

Lamy was responding to a question posed by INSEAD Knowledge during the European Business Summit in Brussels recently, held on the eve of Belgium's ascendancy to the EU Presidency. INSEAD was a knowledge partner of the event, sponsored by the Federation of Belgian Enterprises.

"In addition, traditional trade statistics overestimate the EU and US trade deficit with China," he continues, "because trade statistics are compiled on the basis of the total value of the products exported, not on the basis of the value added in the country of exportation. Take the example of the iPod: 32-gigabyte video iPods are exported from China to the US at a cost of $150, but only four dollars (of that total) effectively comes from China where they are assembled. The design, production of hard drives and chips and marketing are done outside China. "

For now. The pace of change in China approaches warp speed- as much by internal design as by outside pressure from Western customers seeking transparency and higher production standards. Take, for example, the current round of WTO negotiations- the so-called Doha round. "This Doha round started when China first joined the WTO...and for China there's a learning curve," says China's Ambassador to the WTO, Sun Zhenyu. "We're trying to participate more actively in the whole round of negotiations. At the same time, China's world trade has increased: when we joined the WTO, our total world trade was round $500 billion; last year it was about $2.4 trillion. So it's almost five times where we were."

This huge growth also accounts for the trade deficit - which is large despite Lamy's exquisite scrutiny of the overall numbers. And that makes China a bit of an "arriviste" on the world stage: rich, but lacking the sophistication to fend off Doha agenda-changing manoeuvres by countries that want China to be more than an exporter. "We should try to complete the job as soon as possible," says Sun Zhenyu, referring to the Doha round of trade negotiations, "not try to raise the bar on a particular sector...particularly not on market access for a particular developed country. So that is the problem."Sun claims China started recognising the need to open its markets years ago. "We draw our lesson from the past - from the cultural revolution when the economy was on the brink of collapse, so we started this opening and also we welcome investment from foreign countries," he says, adding: "And we encourage our companies to go global."

He insists China is "doing well in trying to expand its imports from other countries. For instance," he continues, "the US, before China joined the WTO (that is, prior to 2001) up until last year, the US's total exports to China increased by 330 per cent" across the board. He claims that China will further decrease its tariff barriers by a flat 20 per cent and on non-agricultural industrial goods by 30 per cent through the Doha Round, coupled with the government's stated new policy that increasing domestic consumer consumption in China should "create market opportunities for the US as well as for the EU." EU exports to China, he says, have already increased by 43 per cent in the first five months of 2010 compared to last year.

But while China may be the focal point of future growth, there is no denying the sizeable impact the world's developed countries has on trade and, from that marketplace, on international policy. And chief among these is the trade relationship of the EU and the US.

"It's the most important relationship in the world, by any measure," says William Kennard, the US ambassador to the EU, who was appointed earlier this year by the Obama Administration. "Our trading relationship with Europe dwarfs any other trading relationship in the world, bar none. We represent, collectively, almost 50 per cent of global GDP. Fully 10 per cent of American workers work for European companies, and the converse is true for European workers."

This relationship today has an equally important policy agenda, according to Kennard. "So much of what we're trying to accomplish around the world as the United States government, we're doing it in partnership with Europe; Europe is our principal partner...typically, when something happens in the world, the whole world looks to what the US and Europe will do in response."

This doesn't mean US-EU relations are without tensions. "The relationship is more complicated now because we're seeing the emergence of new powers on the world scene - particularly in the East Bloc and among the BRICs. So it changes our relationship, quite frankly. We have to figure out ways that we can be better coordinated...recognising that the world has changed in the last ten years and that the US and Europe have much more to gain working together than seeing each other as competitors, in, for example, accessing third markets."

You'd think 60 years of multilateral negotiations would have led not just to a dramatic reduction in the level of tariffs, but made free trade a reality. But other obstacles have risen up in their place. "Tariffs have a limited impact on free trade flows," states Lamy. "The main challenges nowadays are the persistence of complex customs procedures in many countries and the proliferation of non-tariff barriers, in particular technical standards...While the standards normally aim at ensuring the quality and safety of products, they can also be used as a protectionist tool. In addition, the proliferation of standards presents a challenge for developing countries which often do not have the capacity to comply with many of them." Some 117 developing countries make up the 159-country WTO membership. The WTO regularly monitors its members' trade policies and put in place in 2005 an "Aid-for-Trade" initiative to assist developing countries to implement the veterinary and testing infrastructure necessary to meet standards set by their trading partners.

But while developing countries struggle to contend with the demands of high-tech trading partners, the biggest sticking point in trade remains - still - agricultural subsidies. You could say that the soya bean outranks silicon as the most contentious item on the list of trade complaints. especially those levied by developing countries. "Developing countries are demanding drastic cuts in the level of trade-distortive subsidies that developed countries give to their farmers," Lamy says of the current Doha Round. "The EU has been asked to slash these by up to 85 per cent and the US by up to 73 per cent."

Finally, there are other kinds of trade barriers that hamper developed countries from cross-border transactions - chief among them, access to financing. "A German venture capital fund cannot necessarily invest in a French project," points out Jean-Bernard Guerree, CEO of the World Investment Conference, held each year in June in LaBaule France, aimed at attracting investment into Europe. Guerree, a veteran of 20 years in the Silicon Valley tech sector, is sensitive to barriers in the financial sphere such as workforce mobility and skills. "We should be able to work together," he says, "to deal with common themes: energy, climate change, alternative energy. China has a bigger appeal from a popular standpoint, but as far as the companies spending money to improve the way they work or to get access to new markets, Europe and the US are still way ahead of the game."

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