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Alston & Bird's Global Business Strategy Practice

Washington Office

Naotaka Matsukata, Ph.D.*
202-756-5591
nao.matsukata@alston.com

Eric Shimp*
202-756-3409
eric.shimp@alston.com

Yukiko Ko*
202-756-3311
yukiko.ko@alston.com

* Policy advisor; not an attorney.

Issue In Focus: The Aftermath of Doha

This past summer marked the collapse of negotiations toward a new global trade agreement under the auspices of the World Trade Organization. We provide a brief analysis of key contributing factors to the breakdown of the so-called Doha Development Round, and offer a view of the future direction of U.S. trade policy.

What Happened?

Five years in the making and launched in part as a rebuttal to the September 11 attacks, the Doha Round was plagued almost from the outset by the weight of its own ambitions. The current setback reflects many difficult, unresolved issues in global commerce. Several factors leap out, however, as the core reasons behind the collapse of negotiations this summer.

- *A “development round” in name only.* Time and again since the launch of the Round in 2001, major industrial economies of the WTO demonstrated that their commitment to a true “development round” remained largely rhetorical. This tension came to a head following an ambitious U.S. proposal in October 2005 to liberalize agricultural trade. Major players preferred to reap the domestic political benefits of a protectionist position, rather than engage fully on the U.S. offer. By the time of the July ministerial, it became evident that significant market access gains to the domestic markets in the European Union and Japan remained distant objectives. The biggest losers – developing economies with much to gain from a broad trade liberalizing deal.
- *Fears of a rising China.* Neither U.S. nor European negotiators anticipated the extent to which the concerns of developing countries over potential Chinese gains from a round of tariff cuts undermined their ability to take a leadership stake in the negotiation. Ironically, at the same time that many developing nations feared a dramatic surge in Chinese competition, Beijing’s own fears of the domestic costs of greater liberalization contributed to China’s reluctance to move forward on the Round.
- *The end of the Washington consensus.* Since Doha’s launch, the U.S. Congress has grown more resistant to the siren call of multilateral free trade. Rising concerns over the trade deficit, outsourcing, foreign investment, and long-running

criticisms of the WTO dispute settlement process have combined to unsettle the traditional consensus behind global trade liberalization. The rapid rise of national security as a priority linked to the free movement of persons, capital, and goods has placed a premium on the negotiation of trade instruments that balance open markets with secure trade. For many in Congress, the price of globalization has resulted in greater American insecurity, both on the economic and political fronts. Congressional reluctance to carry that cost, particularly when there is the perception that the burden is not being shared by other developed economies, has only sharpened with the onset of an election year.

What Next?

The setback at the WTO will not alter the course of U.S. trade policy. The administration will continue to pursue an aggressive slate of bilateral trade agreements in Asia, the Middle East, and Latin America, in hopes that the collective weight of U.S. efforts will eventually force global progress through the WTO. U.S. industry has embraced this policy of competitive liberalization as a pragmatic means to boost U.S. commercial opportunities worldwide. Congress, meanwhile, appreciates the level of control that may be achieved through individual negotiations.

And USTR is banking that the process of negotiating bilateral deals will continue to pay dividends. Indeed, for the same reasons that developing countries feared losing to China in the multilateral forum of the WTO, many will remain open to bilateral deals with the United States that appear to offer a respite from Chinese competition.

Regional Perspectives: The New China Diplomacy

While media attention focuses on U.S. initiatives to gain Chinese support for both the trade and monetary pillars of the international economy, most analyses appear to focus on the “China as stakeholder” theme. First introduced to some controversy by then Deputy Secretary of State Zoellick, the policy identifies the U.S. objective of binding China more thoroughly to the governing institutions of the global political economy in a manner not dissimilar to that pursued by France with respect to Germany after World War II. However, most media analysis has failed to identify these deep-seated American regional and economic policy objectives that are contributing to the current approach to China.

Fostering Chinese stewardship of the international economic order is not simply a positivist exercise, but, in the U.S. perspective, diminishes the likelihood of unilateral Chinese adventurism in Asia. On trade, active Chinese leadership on the WTO Round is far preferable to the competition for U.S. influence created by a group of bilateral or regional trade deals between China and other Asian

Talking Heads

There hasn't been enough high-quality equity issuance in China. The quality of the local firms is by and large not strong. Many of them have – don't have strong financial positions. Many of them aren't well managed. So it is an equity capital market that's underdeveloped relative to the size of the Chinese economy. And the domestic bond market is even more primitive in its development. But it could be very important to develop a bond market because that will take some of the pressures off of the banks. – **U.S. Treasury Secretary Paulson, September 21, Beijing.**

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Europe is looking for a broad-based twenty-first century partnership based on converging values and economic interests. China sometimes still talks as if it is at the edge of the WTO system looking in. But China now is the system. – **EU Trade Commissioner Peter Mandelson, July 7, Brussels.**

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Political forces and trends in the world will dictate the best relations with China... economic activity [is] shifting from the Atlantic to the Pacific. – **Russian President Vladimir Putin, September 11, Novo Ogarevo.**

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What we had perhaps missed was the veritable explosion of Chinese direct investment in Russia, particularly in infrastructure. – **Eric Kraus, Strategist, Nikitsy Fund T&B Note, August 22.**

economies. The implicit trade-off pursued by the United States is a greater role by China in global trade in exchange for a more manageable Chinese role in regional trade.

Regarding monetary policy, a more significant Chinese stake and role in the IMF would hopefully eliminate, or push into the dim future, the likelihood of the successful launch of an Asian Monetary Fund, as first outlined in the failed Chiang Mai Initiative. The United States is resisting an independent Asian bailout mechanism not only because of the view that such a structure would increase moral hazard in regional investment, but also because of fears that an "AMF" would undermine the position of the dollar in global finance and expose the U.S. capital account to new risks.

Observers, however, should not discount the new U.S. economic diplomacy initiatives toward Beijing as an entirely realist exercise. The approach taken by Treasury Secretary Paulson and USTR Schwab marks a notable improvement in Washington's regard for China as a mature player not only in Asia, but in the global economy. The significance of these overtures will not be lost on Beijing, and the overall bilateral relationship should benefit from this more honest reckoning of China's importance. Although the containment elements of U.S. policy remain clear, the collective effect of U.S. economic diplomacy offers the potential to usher in a more mature phase of Sino-U.S. relations at a critical time.

Forward Trades

October 2-6	APEC Energy Working Group Meetings Yuzhno-Sakhalinsk, Russia
October 9-11	Asian Buyout Forum China, Shanghai
October 9-13	Meeting of Financial Action Task Force, Money Laundering Vancouver
October 13-15	Ditchely Foundation/OECD Conference on Energy and Environment United Kingdom
October 24-27	APEC Telecom and IT Working Group Auckland, NZ

Global Engagements

Yukiko Ko, director of Alston & Bird's Global Business Strategy Practice, participated in the APEC Electronic Commerce Steering Group meetings in Da Nang, Vietnam, September 6-8, which addressed issues related to information privacy and data security.

Nao Matsukata, leader of Alston & Bird's Global Business Strategy Practice, met with Japan's senior-most diplomat charged with U.S. relations, Chikao Kawai, in our Washington office on September 11.

Eric Shimp, senior director of Alston & Bird's Global Business Strategy Practice, traveled to Abu Dhabi, United Arab Emirates, September 10 through 14. For the past year and a half, Eric has traveled frequently to the UAE advising the federal government on the negotiation of a bilateral free trade agreement with the United States.

Bill Cook, leader of Alston & Bird's Telecommunications Group, and Dimitri Nionakis, partner in our Litigation Group, traveled in September to Saudi Arabia, Kuwait, and Dubai, for meetings regarding the privatization of the Saudi airport authority and other development opportunities in the Persian Gulf. Last month Bill also traveled to Korea, where he met with provincial and municipal officials regarding investment promotion for Daegu City and the greenfield Daegu Institute of Science and Technology.

Legislative Watch

As the U.S. Congress closed its doors for the '06 campaign season, several last minute measures on trade and investment secured passage, while many more await action in the lame duck session starting in November. Winners include the Oman FTA, Iran sanctions, and port security legislation. Those at the back of the queue now include: the Peru FTA, Vietnam PNTR, extensions of GSP and AGOA benefits, and reforms to the Committee on Foreign Investment in the United States. Congress' diminished appetite for trade liberalization creates, at best, an uncertain fate for measures not already passed by the 109th Congress.

Trade in Numbers

- \$60 billion: new foreign direct investment in China in 2005
- \$38 billion: new foreign direct investments into all of Southeast Asia in 2005
- 87,000: number of public protests in China in 2005 over corruption, social welfare and related complaints
- 58,000; 74,000: village-level protests in China, 2003 and 2004
- 3%: Chinese share of global consumption, 2005
- 10%: China's predicted share of global consumption by 2014
- 10:9: ratio of foreign exchange reserves to short-term external debt for China
- 10%: short-term debt as percentage of exports for China

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The Global Business Strategy Practice is a consultancy integrated with the legal practices of Alston & Bird that seeks to leverage the firm's expertise in public policy and international trade.

If you have any questions, please contact your Alston & Bird attorney or one of the advisors in the Global Business Strategy Practice.

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ALSTON + BIRD^{LLP}

www.alston.com

ATLANTA

One Atlantic Center
1201 West Peachtree Street
Atlanta, GA 30309-3424
404-881-7000
Fax: 404-881-7777

CHARLOTTE

Bank of America Plaza
101 South Tryon Street
Suite 4000
Charlotte, NC 28280-4000
704-444-1000
Fax: 704-444-1111

NEW YORK

90 Park Avenue
New York, NY 10016-1387
212-210-9400
Fax: 212-210-9444

RESEARCH TRIANGLE

3201 Beechleaf Court
Suite 600
Raleigh, NC 27604-1062
919-862-2200
Fax: 919-862-2260

WASHINGTON, DC

The Atlantic Building
950 F Street, NW
Washington, DC 20004-1404
202-756-3300
Fax: 202-756-3333