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GLOBAL ECONOMY

EU, UK Leaders Attempt to Chart Path Forward in Wake of Referendum Result

Leaders from the EU's 28 member states met on Tuesday in an attempt to clarify next steps in the EU-UK relationship, following last week's vote by UK citizens to leave the European Union. However, the road ahead remains highly uncertain, as does the expected level of the fallout for all sides, with the story evolving by the hour.

The 28 June meeting of the European Council, held in Brussels, Belgium, marked the last such summit for UK Prime Minister David Cameron, whose resignation following the referendum results is due to take effect [by October at latest](#).

While the Council meeting was devoted primarily to the so-called "Brexit" vote and included Cameron, the following day involved an informal meeting among the other 27 EU member states – without the UK – on the direction of the bloc's future.

"Respecting the will of the British people, we all recognised that a process of orderly exit was in everyone's, and especially, in the UK's interest," said European Council President Donald Tusk on the evening of 28 June.

Cameron [reaffirmed on Tuesday](#) that a decision on when to invoke Article 50 of the Treaty of Lisbon – specifically, the provisions outlining how an EU member state can withdraw from the bloc – will be the task of his successor, despite earlier calls from various other EU leaders to begin the process immediately.

"We can examine all the different options and possibilities in a neutral way, and look at the costs and the benefits, but it will be for the next British Prime Minister to determine – and the next British cabinet to determine – exactly the right approach to take and the right outcome to negotiate," said the outgoing premier after the meeting.

On the subject, Tusk said that "leaders understand that some time is now needed to allow the dust to settle in the UK," while at the same time noting that they also want specific details from London over its intentions and next steps.

EU leaders: no informal negotiations

Under Article 50, withdrawing from the bloc requires first a notification to the European Council, which kicks off a series of exit negotiations with that country. The final version of a deal would be concluded by the Council, operating under a "qualified majority," with the European Parliament's approval. Invoking that article kicks off a two-year window for conducting such talks, though this can be extended if all parties agree.

Between now and then, EU institutional and national leaders have categorically ruled out any informal negotiations with the UK government, insisting that any such talks will only occur in formal settings under the Article 50 framework.

Furthermore, they insist that since the majority of the British people voted to leave, their wishes should be respected – a statement apparently meant to address speculation that the UK government could later host another referendum on the subject or otherwise find a way around the result, given that it was an advisory vote and therefore not legally binding.

"I am saddened by this British vote and I make no secret of it. This isn't sentimentality, it is my profound conviction. I would have liked the United Kingdom to stay forever by our side, with us. It has decided otherwise. We must accept the consequences," said European Commission President Jean-Claude Juncker on Tuesday to the European Parliament.

Meanwhile, the terms of the February deal modifying the UK's relationship with the EU have been rendered [null and void](#), with leaders of the bloc's institutions affirming that no renegotiation would be possible. The agreement had been reached in a bid by Cameron to ensure that UK citizens would vote to remain, with the understanding that the deal would only stay in place in those circumstances. (See Bridges Weekly, [25 February 2016](#))

At the same time, the economic and financial backlash from the vote has been swift, with the British pound plunging to lows not seen in three decades, sparking fears that the UK could face a recession and job losses. The lack of clarity across the board in how the country's politicians intend to proceed has also fuelled both concern and criticism, as fears build over the longer-term ramifications not just for the global economy, but for international politics and policymaking processes as well.

High-level finance officials have, in turn, called for all steps to be taken to limit the market fallout as quickly as possible.

Questions on trade

One of the biggest outstanding concerns – if and when Article 50 is invoked – will be how the UK negotiates its future relationship with the EU single market, along with the implications for its WTO membership terms, its current participation in EU trade deals with third countries, and its ongoing or planned involvement in future arrangements.

"At this stage, there are more questions than answers," said one Geneva-based trade official in comments to Bridges. Another was more critical, saying that the current situation is "all a big mess."

Regarding the single market, enabling the free movement of goods, capital, people, and services across the EU's internal borders, German Chancellor Angela Merkel has already warned that should the UK wish to maintain access, it will not be able to "cherry-pick" which elements to keep.

The statement came amid suggestions from high-ranking "Leave" campaign politicians in the UK, such as [Boris Johnson](#), that access could still be possible with immigration curbs.

Merkel's remarks were affirmed on Wednesday by the informal meeting of EU member states – without the UK – which stressed that should the UK wish access to the single market, it will need to sign onto “all four freedoms.”

Analysts have overwhelmingly said that losing the single market could be one of the largest costs that the UK would face depending on how withdrawal negotiations proceed.

“In order to prevent a downward economic spiral and popular disappointment, the UK will need to negotiate an exit from the EU that preserves for its economy as favourable terms of access to the EU single market as possible,” said Chatham House Director Robin Niblett in [a blog post](#), adding that whatever outcome emerges will be far less beneficial than the current framework.

On the WTO front, all EU nations are members of the Geneva-based organisation in their own right, along with the EU itself as an additional member which negotiates on behalf of the bloc. [Analysts say](#) that the process could prove tricky for a host of technical reasons relating to how to navigate the separation of the UK's commitments from those of the EU.

Shortly after the vote's results were confirmed, WTO Director-General Roberto Azevêdo [said](#) that the Geneva-based organisation “stands ready to work with the UK and the EU to assist them in any way we can.”

Meanwhile, trade officials from various EU partners have also issued their own comments attempting to give clarity on how they might proceed in negotiations with the UK as a non-EU member in the future.

One key question in trade circles, for example, will be the ramifications for the Transatlantic Trade and Investment Partnership (TTIP), a proposed deal between the EU and US that has been under negotiation since 2013.

Prior to the “Brexit” vote, US trade officials had said that they would not be immediately interested in a bilateral deal with individual countries, given that the current approach prioritises deals with country groups. (See Bridges Weekly, [28 April 2016](#))

After the vote, US Trade Representative Michael Froman stressed that trade and investment play key roles in Washington's ties both with the EU overall, as well as with the UK individually.

However, the US trade chief did not elaborate on how a “Brexit” will affect the ongoing TTIP negotiations, affirming only that “the economic and strategic rationale” in favour of the deal is key and that Washington is considering what comes next.

“We are evaluating the impact of the United Kingdom's decision on TTIP and look forward to continuing our engagement with the European Union and our relations with the United Kingdom,” [said](#) Froman.

Froman met with EU Trade Commissioner Cecilia Malmström this week to discuss the TTIP talks. The EU trade official [said](#) on 27 June that while the current situation is “unprecedented,” the bloc remains “united” on its trade policy going forward, while pledging to make progress on a series of fronts, ranging from the TTIP talks to the ratification of a trade and investment deal with Canada.

The day after in a speech to the Atlantic Council, Malmström clarified that the UK will participate in the TTIP talks with the rest of the EU member states, with that involvement to cease only when its withdrawal from the EU is finalised.

“The formal exit negotiations – highly technical – have to be sorted out before the EU can even begin thinking about the future of the EU-UK relationship,” she noted.

EU and Canadian officials also say that ratification of their Comprehensive Economic and Trade Agreement (CETA) will go ahead as planned, even with the upcoming UK exit talks. What role the UK would play in that process, given that it was involved in the negotiations to clinch the deal, remains unclear at this stage.

"It seems quite possible to me that CETA will be ... certainly signed, and very likely ratified, even before Article 50 is invoked. And very, very likely to go into force while Britain is still part of Europe," said Canadian Trade Minister Chrystia Freeland in remarks to CBC News.

Some officials, including Werner Wnendt, Germany's ambassador to Canada, have told reporters that the UK would likely need to clinch its own agreement with Canada, though how that would take shape also remains unclear. At least part of it will depend on how the UK negotiates its exit deal with the rest of the EU, including with regards to the single market.

How third countries will respond in practice to efforts by the UK to negotiate bilateral deals on its own is another question being raised among experts, with Niblett of Chatham House suggesting that the UK would have less leverage than it had previously as a demandeur for such agreements.

There would also be implications for existing trade deals, given that the EU has FTAs and Economic Partnership Agreements either in place, in the signing/ratification process, or under negotiation with countries spanning across Asia, Africa, and the Americas.

For example, South Korea's Ministry of Trade, Industry, and Energy has already released a statement about possible next steps with the EU, given the existing bilateral deal between them. Seoul has suggested that the current arrangement will remain pending the result of the UK exit negotiations, and that it will consult with the bloc as to what changes may be necessary after the UK's withdrawal.

The ministry also suggested that it could aim to clinch a bilateral pact with the UK further down the road.

Climate policy ramifications?

Among the many policy-related questions being raised over the past week has been what leaving the EU would mean for the UK's participation in the bloc's Emissions Trading System (ETS), along with the implementation of the Paris Agreement on climate change, given that the EU's intended nationally determined contribution (INDC) set targets and commitments for the bloc as a whole.

The EU's ETS, established in 2005, has long been deemed the pinnacle of the bloc's climate policy, even with its struggles amid persistently low carbon prices in recent years. The EU institutions have been working to address the oversupply of carbon allowances and boost these prices, including by negotiating terms that would reform "Phase IV" of the ETS for the years 2021-2030. (See Bridges Weekly, [23 June 2016](#))

The ETS does have non-EU members, specifically Iceland, Liechtenstein, and Norway. Whether the UK would seek to remain in has not yet been clarified by the country's government.

Ian Duncan, the Conservative Party lawmaker steering the EU Parliament legislation for reforming the ETS for its next phase, resigned his post of "rapporteur" almost immediately after the vote results were confirmed last week.

Duncan is an EU parliamentarian from Scotland, part of the United Kingdom. In his resignation letter, he explained that "it would be sensible for the dossier to be taken forward

by a member who can steer the important reforms to their conclusion," and that whoever takes over the role should be given the space to revise his proposals on ETS reform.

"It is with quite some regret that I take this step. I believe passionately in the need to address climate change and I also believe that the Emissions Trading System, when working well, will make a real difference reducing carbon emissions and ushering in a new era of low carbon industries in Europe," he added.

Meanwhile, the EU still needs to ratify the Paris Agreement on climate change, adopted in Paris last December. The bloc, including the UK, [committed](#) to meeting a binding target of cutting domestic greenhouse gas emissions by 40 percent by the year 2030, relative to 1990 levels.

Whether leaving the EU will require revisions to that INDC and entail a separate submission from the UK is also being discussed in policy circles. Christiana Figueres, the outgoing Executive Secretary of the UN Framework Convention on Climate Change (UNFCCC), suggested prior to the referendum that some changes would be needed on the EU side.

"From the point of view of the Paris agreement, the UK is part of the EU and has put in its effort as part of the EU, so anything that would change that would require then a recalibration," she said in comments reported by Politico.

EU leaders look to future

The weeks, months, and years ahead are slated to see a much longer debate over the future of all parties involved, particularly in an international landscape where anti-globalisation arguments are having increasing sway on voters.

The implications could span far beyond trade and climate, with questions remaining on how a post-EU United Kingdom will extricate itself from a major body of laws and regulations that apply to the bloc's member states – or if it will seek to maintain these somehow.

The outcome, in turn, could have ramifications for environmental and agricultural policy, financial services, and a host of other subjects.

In the meantime, the remaining member states – now beginning to refer to themselves as the "EU 27" – are working to quell speculation that other referendums could follow suit, particularly as "Eurosceptic" party leaders in France and elsewhere claim that the UK vote sets a precedent they could use.

After the informal morning meeting of the "EU 27" on Wednesday morning, those leaders reiterated recent expressions of regret at the UK vote's result – while also trying to reinject faith into the remaining bloc.

"The European Union is a historic achievement of peace, prosperity, and security on the European continent and remains our common framework. At the same time many people express dissatisfaction with the current state of affairs, be it at the European or national level," they said in [a joint statement](#).

The document was issued on their behalf, as well as on the part of Juncker and Tusk in their respective roles.

"Europeans expect us to do better when it comes to providing security, jobs, and growth, as well as hope for a better future. We need to deliver on this, in a way that unites us, not least in the interest of the young," the EU national leaders continued.

The words echoed comments made by Juncker individually at the European Parliament just a day before, where he pledged that the European project must go on.

"The European dream still exists. And we will have to work with determination and persistence, with renewed energy and with a revival of continental ambition," he said, urging that people remember that the birth behind that dream was peace after the continent was ravaged by war in the first half of the 20th century.

However, the next stage must also be forward looking. Indeed, Juncker insisted, "Europe's future belongs to its youth," and warned EU lawmakers that the continent must not be allowed to fragment yet again.

ICTSD reporting; "South Korea may seek bilateral FTA with UK after Brexit: trade ministry," REUTERS, 25 June 2016; "Brexit tremors see pound tumble further in historic rout," FINANCIAL TIMES, 27 June 2016; "Angela Merkel: no special favours for UK over single market," THE GUARDIAN, 28 June 2016; "5 ways Brexit will transform energy and climate," POLITICO, 24 June 2016; "I cannot stress too much that Britain is part of Europe – and always will be," THE TELEGRAPH, 26 June 2016; "Brexit vote result bolsters case for CETA, trade lawyers say: 'Quite optimistic about this'," FINANCIAL POST, 27 June 2016; "U.K. wants free trade deal with Canada, high commissioner says," CBC NEWS, 25 June 2016; "CETA on track for ratification before U.K. leaves EU, minister says, CBC NEWS, 27 June 2016.

ENVIRONMENTAL GOODS

Environmental Goods Agreement Negotiators Bargain on Coverage

Delegates from 17 WTO members negotiating an Environmental Goods Agreement (EGA) continued efforts to identify a list of items to be covered by the tariff-cutting deal during a meeting held last week in Geneva, Switzerland, with sources reporting a good atmosphere despite some continued divergences.

Since launching the initiative formally in July 2014, EGA participants have discussed and proposed a range of products related to various categories of environmental goods that could be included in a final deal. More recently, participants have broadly focused on some 350 potential tariff lines in a "convergence list" circulated last December by the chair of the talks, Andrew Martin of Australia. (See BioRes, [9 December 2015](#))

During the last two rounds – with discussions held mainly in bilateral and small group sessions – EGA negotiators have predominantly focused on products deemed sensitive by one participant or another. Two separate potential lists of goods have been backed by different selections of participants, although with a degree of overlap in coverage. Some participants have also chosen not to support either proposed list.

"We still have some way to go but at least we are all playing the same game more or less. Now for the bargaining and horse-trading," said one trade official summarising the overall state of play following the latest round.

Several sources also commented on signs of renewed engagement from China last week, which had previously held back from submitting a revised offer on product coverage, along with new proposals to address concerns around "critical mass" and "free-riding."

The term "critical mass" refers to the concept of establishing a minimum threshold of world trade in goods covered by the deal to be captured by participants. As the agreement will likely be concluded on an "open plurilateral basis," with most-favoured nation (MFN) treatment on tariff cuts applying to all WTO members, this threshold could help to stave off major traders benefiting from tariff cuts without having to lower their own – a problem known as "free-riding."

In addition to discussions on China's revised offer, EGA participants also considered revisions to a draft text sponsored by the EU for the deal's eventual institutional arrangements, along with a potential built-in work programme on environmental services and non-tariff barriers to trade in these type of goods.

Engagement from China

Reactions to China's engagement comprised a significant portion of last week's round. Beijing's revised product coverage offer reportedly included a separate category for a list of 54 products benefiting from voluntary tariff ceilings of five percent or less by the 21-nation Asia Pacific Economic Co-operation (APEC) group – which EGA participants had signalled plans to "build on" – suggesting that tariffs on these cannot be fully eliminated.

Although China is an APEC member, it has long argued that reducing tariffs below five percent and on a binding basis would prove too challenging, a position other EGA participants have pushed back against.

However, some sources suggest that Beijing is primarily concerned with just a smaller handful of products from this group, and if solutions were found on those, then the remainder of the APEC list could be included.

On critical mass, China has suggested that the deal should enter into force when this threshold reaches at least 90 percent.

While other EGA participants have not yet indicated what the critical mass threshold should be, this approach mirrors a level found in a tariff-cutting Information Technology Agreement (ITA) and its recent revision at the end of last year, although the latter refers to “approximately 90 percent” and does not condition this on entry into force.

On free-riding, China has reportedly amended a previous proposal for a “snap-back clause,” which would have seen EGA participants restore tariffs in the case of clear free-riding, and is now suggesting that other WTO members identified as free-riders according to pre-determined criteria should seek to engage in the EGA. Should the ensuing accession negotiations prove unsuccessful, EGA participants could seek to pursue a waiver to WTO rules in order to exclude the free-rider from receiving MFN-treatment.

While some sources suggested Beijing's new free-rider proposal was an improvement over the last, it may continue to prove problematic in some camps, with further negotiations on the matter likely required after consultations with legal experts.

As in the April round, China also reportedly continued to maintain that acceptance of its long-standing bid to participate in ongoing talks for a separate, plurilateral Trade in Services Agreement (TISA) would facilitate the EGA negotiations, a move opposed by the US. (See BioRes, [27 April 2016](#))

The 23 TISA participants are aiming to conclude talks by year's end, though sources say that work remains both on market access as well as on the various annexes under discussion. Given the advanced nature of the talks, some say that any new participant wishing to join before a deal is concluded would need to be able to hit the ground running in the negotiations. (See Bridges Weekly, [9 June 2016](#))

Next steps

The US has indicated plans to convene a ministerial meeting among EGA participants scheduled to attend a 9-10 July meeting of G-20 trade ministers in Shanghai, China.

The gathering will focus on garnering high-level support and direction for swift political conclusion of the deal – at least in terms of product coverage – in time for the G-20 leaders' summit in September in Hangzhou. Some sources suggested that Washington is among those applying considerable pressure to secure support for this outcome.

A statement released following a meeting of seven EGA participants on the sidelines of a ministerial meeting of the Organisation for Economic Co-operation and Development (OECD) earlier this month also identified the Hangzhou summit as a target delivery date. (See Bridges Weekly, [9 June 2016](#))

“The group has been working closely together with the aim of concluding an ambitious EGA with all participants ahead of when G-20 leaders meet in Hangzhou in September for the G-20 Summit,” said the [statement](#) by Australia, Canada, the EU, Japan, Korea, New Zealand, and the US.

Should consensus on product coverage be secured in September, negotiators will still need to hammer out some of the outstanding technical details, such as the timing of tariff phase-outs and institutional arrangements. EGA participants have signalled willingness to grant

different so-called “staging” periods for some products where time for adjustments might be needed, but the precise application still needs to be agreed.

The next round of EGA talks will be held during the last week of July. The focus of these talks will largely depend on the dynamics over the coming weeks.

The latest EGA round also wrapped as news broke of the UK referendum result supporting the option to leave the EU. The current 28-nation EU is negotiating the EGA as one collective participant. Should the UK government trigger Article 50 of the Treaty of Lisbon, thereby starting the process of formal separation from the bloc, experts suggest that Britain would eventually need to participate in the EGA as a separate party. (For more on the “Brexit” vote, see related story in this edition)

ICTSD reporting.

BILATERAL TIES

China Investment Deal "Immediate Priority," EU Commission Says

Clinching a bilateral investment deal with China is an "immediate priority" for the EU as it works to boost cooperation across a range of fronts with Beijing, said the European Commission in a strategy document released last week.

The 19-page paper, released on 22 June, is meant to set a framework for the bloc's relationship with the Asian economic giant over the coming five years. The document was adopted jointly with Federica Mogherini, the High Representative of the Union for Foreign Affairs and Security Policy.

"We can and must do more to connect the European Union and China. Our citizens, industries, and organisations can all benefit from a closer, improved, and better-defined EU-China relationship based on shared responsibility," said Mogherini.

The previous version of the EU's strategy toward China dates back to 2006, and the document will soon be tabled for discussion in the other main EU institutions. The release of the text comes at a time when various key events are on the horizon, including the upcoming G-20 leaders' summit which is being hosted by China for the first time.

The two trading giants have had a long history of both cooperation and sparring on the international stage, including on trade, with one of the most recent examples being the ongoing debate over industrial overcapacity in sectors such as steel. (See Bridges Weekly, [2 June 2016](#))

The document stresses, however, that despite divergences in opinion on certain subjects, cooperation and coherence is ultimately key going forward, both with China, as well as internally in the EU bloc over its approach to Beijing.

"Mutual economic and commercial interests are strong but should not prevent the EU from upholding its values in its relations with China. China's needs are as great as ours and failure to cooperate also brings adverse consequences for China," the text says.

China BIT, possible FTA?

The five-year strategy puts a heavy focus on the EU's ongoing negotiations with China for a bilateral investment treaty (BIT). Talks for such an accord were launched in November 2013 – nearly two years after plans to do so were first announced – in a bid to make it easier for both sides to increase their foreign direct investment with the other. (See Bridges Weekly, [24 October 2013](#))

At the time, only two to three percent of EU investments overseas were based in China. Meanwhile, the percentage of EU-based Chinese investments was even lower, despite the high levels of bilateral trade between them.

The communication issued last week also touts the possibility that a free trade deal could be on the horizon. However, it qualified that this would be contingent on various factors, the first of which would be a successful BIT, along with greater economic liberalisation efforts by China.

Indeed, the prospect of a China-EU FTA has been tentatively floated in the past by trade officials, though was not mentioned in the October 2015 trade and investment strategy document issued by the Commission, which addressed its overall objectives for a host of key partners. (See Bridges Weekly, [15 October 2015](#)) The new strategy document notes that if such a process is to be launched, Brussels would expect Beijing to keep pace with other major economies in its commitments.

"Any future FTA should be deep and comprehensive and aspire to a high level of ambition based on the benchmarks set by the EU's negotiations with partners such as Canada, Japan, and the United States," the document says.

While the negotiations for a trade and investment agreement with Canada have been concluded, with the final deal now subject to ratification by both sides, the talks with both Japan and the US for those respective agreements are ongoing. Notably, the EU-Canada pact includes terms for an "investment court" which Brussels says should serve as a model for future agreements, though the idea has not gained much traction in talks with Washington. (See Bridges Weekly, [3 March 2016](#))

Steel issues

The joint document includes warnings over the steel overcapacity issue, with the EU calling the challenge "considerable" and urging Beijing both to ramp up its international cooperation efforts, along with taking on a "more ambitious, measurable, and transparent restructuring plan to reduce capacity," including slashing state aid in this area.

Furthermore, the Commission says, the situation could lead to trade defence measures in various other areas – such as aluminium and ceramics – unless it is resolved. The EU's executive arm already has various probes underway into allegations of dumping of Chinese-made steel onto the European market, and has outlined several other steps its plans to take to assist its own domestic producers. (See Bridges Weekly, [17 March 2016](#) and [18 February 2016](#))

MES decision timing

The document provides limited information about when the EU will confirm whether China will be treated as a market economy in anti-dumping investigations after December 2016, when certain terms of its WTO accession protocol are set to expire.

The exact meaning of those terms has been subject to debate in trade circles in recent months, specifically over whether the language implies that China is automatically entitled to this status come December.

The strategy document reiterates earlier pledges that a proposal will be coming in the second half of 2016, with some media reports in recent weeks suggesting that it could come as soon as July, when the two sides are slated to hold their annual EU-China summit.

On this subject, "further strengthening the effectiveness of the EU's Trade Defence Instruments notably through the swift adoption of the Commission's Trade Defence Instruments modernisation proposal of April 2013 is key," says the 22 June document. Furthermore, key going forward will be a plan at the international level to address the factors causing industrial overcapacity.

WTO, GPA, G-20

The strategy document also cites various other forums for international cooperation on trade – specifically the WTO and the G-20 – where it hopes to see advances in the coming years.

"The EU should encourage China to play a more engaged and active part at the World Trade Organization and in multilateral and plurilateral trade and investment initiatives, assuming responsibilities in line with the benefits it draws from an open trading system and strengthening the ambition of these initiatives, such as the negotiations on environmental goods," the document says.

The text also calls for China to continue advancing in its efforts to join the WTO's Government Procurement Agreement (GPA), a plurilateral accord under the aegis of the global trade body. The GPA commits parties to various core disciplines regarding transparency, competition, and good governance, covering the public tender of goods, services, and capital infrastructure. The deal currently has 46 WTO members, counting the EU and its 28 member states individually.

"The EU expects China to submit a Government Procurement Agreement accession offer which matches the importance of the Chinese market," the document says.

China has been an observer to the WTO's Committee on Government Procurement since 2002, and has submitted multiple offers in a bid to join the accord. Existing GPA parties have welcomed the improvements in the successive offers, while pushing Beijing to go deeper in its proposed coverage.

Trade sources confirmed that the issue of China's GPA accession was raised in that committee during a meeting held last week at the WTO's Geneva headquarters. Beijing reportedly updated fellow delegations on its efforts made in that area, including bilateral meetings with various parties. The last revised offer was circulated in December 2014.

Regarding the G-20, the Commission document says that the two sides have the potential to work together in areas ranging from boosting economic growth to advancing climate finance.

Indeed, climate cooperation also plays a heavy role in the document, with the EU praising China's recent efforts in this area – particularly ahead of last year's UN climate conference in Paris – and highlighting a series of areas where the two sides can keep working together, including in supporting Beijing's efforts to unveil a national carbon market next year.

ICTSD reporting; "EU envisages China free-trade pact," EU OBSERVER, 22 June 2016.

UNITED STATES

US Presidential Debate on Trade Heats Up Ahead of Party Conventions

Just weeks ahead of the nominating conventions for the US' two main political parties, the leading presidential candidates continue to escalate their rhetoric on trade, outlining visions which indicate sharply different approaches in policy.

In a speech devoted to trade policy on Tuesday 28 June, Republican presidential candidate Donald Trump issued a blistering attack on decades of US trade policy, promising to undo some existing trade deals and pursue strikingly different approaches on others.

The remarks outlined his most detailed approach on trade yet, and comes shortly ahead of the 18-21 July Republican National Convention in Cleveland, Ohio.

Trump is expected to be confirmed as his party's nominee at the convention, even as the polarising nature of his candidacy to date has made it difficult for winning unanimous support from fellow high-profile Republicans. The meeting will also confirm the Republican Party platform – a process that is expected to prove difficult, given the diverging views on policy within the party.

Calling for the US to declare its "economic independence once again" and for the country's citizens to "take back their future," the real estate mogul criticised a series of trade deals, ranging from the North American Free Trade Agreement (NAFTA), the US-South Korea FTA (KORUS), and the Trans-Pacific Partnership (TPP) Agreement.

Trump also took aim at China, arguing that their 2001 entry into the WTO has also hurt the US economy. When speaking of these trade deals, he also raised the role of either former President Bill Clinton or current presidential candidate Hillary Rodham Clinton in advancing these accords during their respective terms in public office.

The Republican candidate outlined a series of policy steps he would then take on trade, should he win at the polls in November. Among these include insisting with Canada and Mexico on a renegotiation of NAFTA, threatening to withdraw the US from the deal should they disagree.

Various other steps focused specifically on China, ranging from asking the US Treasury Department to name it a "currency manipulator" and pledging to pursue more disputes against the Asian economy at the WTO, along with taking a stronger stance on enforcement of trade rules generally.

On his approach to new trade deals, Trump has also ruled out pursuing multi-country pacts such as the TPP – adding that there was "no way to fix" that deal – and instead insisted that Washington would only pursue bilateral pacts should he become president.

That pledge puts Trump starkly at odds with the policy of current US President Barack Obama of the Democratic Party, who has long maintained – as have his top trade officials – that it is more efficient and impactful to reach deals with country groups. (See Bridges Weekly, [28 April 2016](#))

Hillary Clinton has also moved away from her previous support of the TPP, arguing that the deal has some notable flaws in its current form.

However, the Democratic presidential candidate, who is slated to be confirmed at her own party's convention from 25-28 July in Philadelphia, has argued strongly against Trump's approach, warning that it would set the country far behind and telling a town hall in Hollywood, California, on Tuesday that they should be wary of "misleading promises" from her opponent.

On some areas, however, the two candidates show some similarities. Clinton's own [plan on manufacturing](#), for instance, also includes pledges on increased trade enforcement, particularly with regards to China. She also refers to tackling alleged currency manipulation and has suggested creating a new "trade prosecutor" post that would report directly to her if she takes office.

On future trade deals, she has [mainly indicated](#) that future agreements must meet a high threshold, so that they ensure "good jobs, raise wages, and advance our national security."

Froman: Lawmakers "increasingly appreciating" TPP

While Clinton and Trump continue to spar on the campaign trail over the direction of future US trade policy, the current Obama Administration is working to build support among lawmakers in the hopes of passing the TPP as soon as possible – ideally before leaving office in January 2017.

"Rejecting TPP would undermine US leadership, not only in the Asia-Pacific region, but around the world," [said](#) US Trade Representative Michael Froman on 27 June, telling the Bretton Woods Committee that the delays to date are already raising worrisome questions with other TPP signatories.

"Our allies around the world could not help but question whether we had the wherewithal to make good on our commitments," he continued, referring to comments by Lee Hsien Loong, the prime minister of Singapore.

However, US lawmakers to date have been generally reticent to set a timeframe for a vote, at least publicly, and have essentially ruled out raising the TPP in Congress before the November elections. Along with the race for the presidency, all of the House of the Representatives and one-third of the Senate is up for a vote this autumn.

Among the concerns that have been raised by some lawmakers on the final TPP include the terms on data protection periods for biologics, which are drugs derived from a biological background, such as vaccines or anti-toxins. (See Bridges Weekly, [8 October 2015](#))

Even so, Froman suggested this week that lawmakers are "increasingly appreciating the benefits of the agreement to their constituents – as well as the costs of not ratifying this year."

While not directly referring to either the presidential campaign or current congressional politics, Froman did generally address TPP "opponents" in asking what alternative they espouse in a rapidly changing trade landscape.

"Do they think we're better off living in a world where those are the rules of the road? Because the choice isn't between TPP and the status quo; it's between TPP and what is likely to evolve in the absence of the TPP," he warned.

ICTSD reporting; "The Latest: Clinton: Understands fear of foreign trade," WASHINGTON POST, 28 June 2016; "Read Donald Trump's Speech on Trade," TIME, 28 June 2016; "Hillary Clinton: Agenda for jobs and even trade," AKRON BEACON JOURNAL, 22 February 2016.

ASIA-PACIFIC

AIIB Holds First Annual Meeting, Green-lights Projects

The Asian Infrastructure Investment Bank (AIIB) held its first annual meeting in Beijing, China, this past weekend, announcing the approval of various projects and pledging to continue its efforts in becoming a key international player in development-related lending.

The 25-26 June meeting brought together the bank's Board of Governors, and was closely watched by the international policy community to see how the process in establishing and operating the bank has advanced.

The AIIB officially opened this past January, capping years of preparations which date back to the 2013 announcement by Chinese leaders of this effort. China, along with holding the largest number of shares in the bank, also serves as the seat for the bank's headquarters.

The following year saw several countries ink an initial memorandum of understanding, with much of 2015 focused on negotiating details of how the bank would work and bringing new possible founding members on board.

Over US\$500 million in projects

The AIIB has reached non-binding agreements with other multilateral lending groups in recent months, namely the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the European Investment Bank (EIB).

The [four projects](#) announced this weekend included one solely financed by the AIIB, along with three that are being jointly financed with other institutions, with these totalling US\$509 million.

The project being fully financed by the bank be based in Bangladesh, focusing on improving and growing its system for distributing power.

The AIIB is pairing up with the EBRD on fixing roads in Tajikistan, while it will work with the ADB and the UK's Department for International Development (DFID) to build highways in Pakistan. The fourth project, focusing on improving slums in Indonesia, is a partnership with the World Bank.

Additional clarity on operations

Over the last several months, additional details have become clearer on how the bank – with its US\$100 billion in committed capital – intends to operate and how it will be governed, which had been key questions in earlier stages of its establishment. (See Bridges Weekly, [2 April 2015](#))

The Articles of Agreement, which were adopted in May 2015 following six months of negotiations, affirms that the AIIB's purpose will be two-fold: it would aim to support efforts at sustainable economic development and increasing regional infrastructure connectivity, and it would do so while working with other key lenders.

It also outlines a series of other details, such as the AIIB's functions; who can join on as members; authorised capital and subscription of the bank's shares of capital stock; how

resources will be used and how the bank's operations will work; and details on its governance.

"Today, with six months of operational experience under our belts, I am delighted to report to you that the Bank has begun to deliver on the commitments that it has made to you, our founding members, and to the broader global community," said AIIB President Jin Liqun in [his report](#) to the Board of Governors.

Jin outlined among these initial achievements the AIIB's goals of ensuring that the organisation performs at top standards, along with providing "timely, cost-effective, and sustainable infrastructure financing and services to our clients – always mindful of the need to protect the natural and human environment."

Regarding the bank's overall target to be able to lend between \$500 million and US\$1.2 billion this year, the AIIB official confirmed that the bank remains on track to meet this goal.

The bank's president was formally appointed by the AIIB's Board of Governors in January, with his prior [background](#) including work at Chinese investment banks and corporations, as well as high-ranking positions in the Asian Development Bank, the World Bank, the Global Environment Facility, and the Chinese Ministry of Finance. The term is for five years, renewable once.

The president is also supported by [five vice presidents](#), who come from member countries such as the UK, Korea, and Indonesia.

Overall, the bank is expecting to have approximately 100 people on staff by year's end. It also has a confirmed [Board of Governors](#), which includes one governor and an alternate by all AIIB member countries, with this body overall being designated as the highest decision-making group in the bank.

These powers, in turn, are being delegated to an established [Board of Directors](#), with some exceptions. For example, any changes to the Articles of Agreement or in the bank's membership will still fall under the Board of Governor's purview.

Meanwhile, the bank has also agreed over the last several months on a series of other internal policy documents, such as the [environmental and social framework](#) under which it will operate, as well as how to deal with [procurement](#) and sovereign loan pricing, together with what constitutes [prohibited practices](#).

Final membership list?

The final group of countries that will serve as "founding members" of the AIIB is still being confirmed. The organisation has 57 "prospective founding members," which have all signed the bank's Articles of Agreement.

To date, [46 countries](#) have submitted instruments of ratification to the multilateral development bank, with the remaining 11 being asked to do so by year's end.

The prospective founding members show a wide geographic spread: while many are concentrated in Asia, others include countries from Europe, Africa, and the Middle East. To date, the list does not include members from North, Central, or South America, with the exception of Brazil. However, some media reports suggest that new applicants from African and Latin America could soon be confirmed.

The AIIB has set a 30 September deadline for applications from new members, who would then be able to join the bank in 2017. The US, which had reportedly criticised some of its key partner countries last year when they signed onto the multilateral bank, has not asked to join. Japan is also not on the list of prospective founding members.

Coming up

The dates and location of next year's annual meeting have already been confirmed, with Korea due to host the gathering from 16-18 June 2017. At that stage, the list of AIIB founding members will have been finalised.

ICTSD reporting; "AIIB expansion plans underscore China's global ambitions," FINANCIAL TIMES, 26 June 2016; "AIIB gathers for inaugural annual meeting," FINANCIAL TIMES, 24 June 2016; "China says AIIB will have better understanding of developing world's needs than other international development banks," SOUTH CHINA MORNING POST, 26 June 2016.

GLOBAL ECONOMY

US Agency Approves Steel Duties on China, Other Economies

The US International Trade Commission (USITC) announced last week that it had approved duties on "cold-rolled steel flat products" from China and Japan, citing results from an investigation that found injury to American domestic industry.

The [news](#) from the US agency was announced on 22 June, with all imports of such products from China [due to face](#) countervailing duties amounting to 256.44 percent. Such duties are meant to counter instances of allegedly unfair state aid.

The anti-dumping duty rate for Chinese producers is set at 265.79 percent. Such duties are meant to counter "dumping," a practice where goods are allegedly sold abroad at prices below their normal value. The level of these duties was announced by the US Department of Commerce last month.

In US anti-dumping and countervailing duty investigations, the Department of Commerce first goes through a process to determine whether dumping or unfair government support is at play. However, for the duties to be imposed, the USITC must then confirm that such practices are causing "material injury" to the relevant US domestic industry.

Meanwhile, the imports from Japan were faulted for alleged dumping and will see duties targeted to counter that practice. The level of such duties is set at 71.35 percent for all producers from the country.

Days later, the USITC [confirmed](#) duties on another type of steel – specifically, corrosion-resistant steel – on imports from China, along with India, Italy, South Korea, and Taiwan. Specifically, countervailing duties will apply on imported Chinese, Indian, Italian, and Korean steel. All five countries [are set to see](#) anti-dumping duties as well.

The dumping rate for Chinese steel in that case has been set at nearly 210 percent, while the countervailing duty rate ranged between 39.05 and 241.07 percent depending on the producer. Duties for other countries varied, though were all at lower percentage rates than China.

Imports of cold-rolled steel flat products from China and Japan totalled at US\$431.5 million last year, according to US government statistics. Meanwhile, imports of corrosion-resistant steel from the five above-mentioned countries hit a total of US\$2.1 billion in 2015, with the top sources of such products being Canada, South Korea, Taiwan, and China, in that order.

Growing tensions

The news has reportedly fuelled tensions between Washington and Beijing, who have repeatedly locked horns in recent months due to the fall-out from the global steel crisis.

While a high-level meeting in the Chinese capital city earlier this month saw the two sides sign off on a series of agreed actions and goals aimed at helping address the situation and improve international cooperation on the issue, the confirmation of duties has been followed with an escalation of rhetoric from trade officials. (See Bridges Weekly, [9 June 2016](#))

In a statement issued after the cold-rolled steel duties were confirmed, China's Ministry of Commerce (MOFCOM) raised concerns over alleged protectionism on the US side, suggesting that this could be a more likely factor in the struggles facing American industry.

"The Chinese side worries about the US trade protectionism in [the] steel industry and believes that the weak steel industry of the United States is the result of its overprotection," [said](#) an official from MOFCOM's Trade Remedy and Investigation Bureau.

The official also cited the ramifications from the global financial crisis as another factor, warning that such alleged protectionism would only lead to greater "frictions and conflicts" and urging Washington to ensure that its actions are in line with global trade rules.

"The Chinese side believes that the best solution is to strengthen cooperation, cope with the difficulties together, to dig out the potential of demand and to realise mutually beneficial results," the official continued.

The US has maintained that Chinese overproduction has led to excessively high levels of steel flooding international markets, leading prices to spiral downward and hurting American producers. Other major players in the sector, such as the EU and Japan, have raised similar concerns, with China countering that the problem is global in nature and that responsibility to address it must be shared, particularly given the efforts Beijing has already undertaken so far.

ICTSD reporting; "China concerned about protectionism in U.S. steel sector: Commerce Ministry," REUTERS, 22 June 2016.

EVENTS & RESOURCES

Events

Coming Soon

4 July, London, UK. AFTER THE VOTE: BRITAIN'S FUTURE IN EUROPE. This Chatham House event will examine possible ways forward for both the UK and the EU in the wake of the 23 June referendum on the UK's membership in the bloc. The event will feature Sir John Holmes, the director of the Ditchley Foundation, as its main speaker. Additional details are available [here](#).

6-8 July, Bonn, Germany. RESILIENT CITIES 2016: 7TH ANNUAL GLOBAL FORUM ON URBAN RESILIENCE AND ADAPTATION. This gathering is being organised by ICLEI – Local Governments for Sustainability and co-hosted with the city of Bonn. Topics for discussion on this year's agenda include resource management, infrastructure, monitoring and evaluation, and other issues related to urban resilience and adaptation. A full event programme, including a list of side events, is available [here](#).

7 July, Washington, US. COMPARING COUNTRIES: MANUFACTURING IN A GLOBAL CONTEXT. This Brookings Institution conference will review recent trends in manufacturing in various countries, with a view to understanding which practices have helped foster growth, particularly in light of technological change and current policies. Expected participants include representatives from the public and private sectors, as well as academia. To learn more or to register, click [here](#).

WTO Events

An updated list of forthcoming WTO meetings is posted [here](#). Please bear in mind that dates and times of WTO meetings are often changed, and that the WTO does not always announce the important informal meetings of the different bodies. Unless otherwise indicated, all WTO meetings are held at the WTO, Centre William Rappard, rue de Lausanne 154, 1211 Geneva, Switzerland, and are open to WTO members and accredited observers only.

6-7 July: Committee on Sanitary and Phytosanitary Measures

Other Upcoming Events

13 July, Tokyo, Japan. E15 TOKYO LAUNCH EVENT. This meeting is being convened jointly by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum (WEF), and will feature a launch of a series of policy option papers and a related synthesis report for helping ensure improved governance of the global trade and investment system. The paper was prepared under the E15 Initiative, implemented by both organisations. Event partners include the Japan External Trade Organization (JETRO) and the Research Institute of Economy, Trade and Industry (RIETI). Additional information is available at the E15 Initiative [website](#).

13 July, London, UK, and online. ACHIEVING FINANCIAL STABILITY AND GROWTH IN AFRICA. This meeting is being organised by the Overseas Development Institute (ODI), which will examine capital flows in the African continent, with a view to providing recommendations for the future in order to foster both inclusive growth and more stable financial systems. To register or to watch online, visit the ODI [website](#).

14-15 July, Tokyo, Japan. 5TH OECD-AMRO-ADB-ADBI-ERIA ASIAN REGIONAL ROUNDTABLE: MACROECONOMIC AND STRUCTURAL POLICY CHALLENGES. This event is being organised by a group of international agencies, including the Organisation for Economic Co-operation and Development (OECD), the ASEAN+3 Macroeconomic Research Office (AMRO), the Asian Development Bank (ADB), the Asian Development Bank Institute (ADBI), and the Economic Research Institute for ASEAN and East Asia (ERIA). The meeting will take the form of a roundtable discussion, aimed at examining possible policy approaches at both the macroeconomic and structural levels which could be adopted domestically in various Asian economies. More information can be found [here](#).

15-16 July, Nairobi, Kenya. GLOBAL COMMODITIES FORUM 2016. Organised by the UN Conference on Trade and Development (UNCTAD), this event provides a free, public platform to debate critical issues at the intersection of commodities and development. In keeping with this year's theme, "breaking the chains of commodity dependence," participants can expect to engage in discussions on how commodity-dependent developing countries can evolve in response to lower commodity prices and reduced demand from emerging economies. The event will bring together policymakers and experts from the public, private, and civil society sectors. Programme and other information can be found on UNCTAD's [website](#).

17-22 July, Nairobi, Kenya. FOURTEENTH SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD). This high-level event will place a particular focus on the role which UNCTAD can play in advancing the implementation of the 2030 Agenda for Sustainable Development. Expected participants include government officials, private sector and civil society representatives, academics, and media. Among the various meetings scheduled in tandem with the conference is the World Investment Forum and Civil Society Forum. More information is available at the UNCTAD [website](#).

27-29 September, Geneva, Switzerland. WTO PUBLIC FORUM 2016: INCLUSIVE TRADE. This year's edition of the WTO's annual outreach event will focus on better integrating a broader range of actors into the global trading system, particularly for women and small and medium-sized enterprises. Registration is now open, with additional details to be provided as the event draws nearer. More information can be found [here](#).

Resources

THE ECONOMIC CONSEQUENCES OF OUTDOOR AIR POLLUTION. Published by the Organisation for Economic Co-operation and Development (OECD) (June 2016). This new report breaks down the potential implications of air pollution, estimating the possible premature deaths, lowered agricultural production, and overall losses to global GDP by the year 2060. The publication looks both at past trends and future projections, including where such effects are likely to be concentrated. The report is available [here](#).

TBT AND TRADE FACILITATION AGREEMENTS: LEVERAGING LINKAGES TO REDUCE TRADE COSTS. By Serra Ayrar for the World Trade Organization (2016). This working paper examines the interlinkages between two WTO agreements – specifically, the Technical Barriers to Trade (TBT) Agreement and the Trade Facilitation Agreement (TFA). While the former is in effect, the latter has yet to enter into force. The paper is written to increase awareness on how these agreements work, so that policymakers and customs officials alike can use them to lower procedural and other costs. The paper is available [here](#).

ENHANCING EXPORT OPPORTUNITIES FOR SMALL AND MEDIUM-SIZED ENTERPRISES. By Caroline Freund, Gary Clyde Hufbauer, and Euijin Jung for the Peterson Institute for International Economics (June 2016). This policy brief examines the export opportunities, along with potential challenges, for smaller and medium-sized businesses that come from the elaboration of new trade agreements. The authors find that lower trade barriers can help boost exports from these enterprises, as well as larger organisations, among other results. To download the policy brief, click [here](#).

US ELECTION NOTE: ECONOMIC POLICY AFTER 2016. By Christopher Smart for Chatham House (June 2016). This research paper undertakes an analysis of possible directions that US economic policy could take depending on the November 2016 presidential election results. Topics addressed include potential implications on trade and fiscal reform, among various others. The paper is available for download [here](#).

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