Trade for the global economic recovery

Food security, reforming world trade and fighting poverty are just some of the challenges that need to be addressed by the Doha Development Agenda

By Pascal Lamy, director general, World Trade Organization

"When the Doha Round is completed, the least developed countries would get almost entirely duty-free, quota-free access to developed world markets"

The global trading system has just passed probably its biggest challenge yet: overall, World Trade Organization (WTO) members kept markets open amid the worst economic crisis in living memory.

The WTO system of multilateral trade rules has proven its worth as a solid line of defence against protectionist pressures. Trade contraction would have been catastrophic if the world had slipped into the kind of protectionism that was witnessed in the 1930s.

Anchoring the economic recovery through trade, strengthening the WTO against future 'stress' tests, and meeting old and new challenges are the reasons why it is to move toward the end game in the Doha Development Agenda. If concluding the Doha round made eminent sense before the crisis, it is now an imperative to contribute to exiting the crisis.

New challenges have appeared on the world stage since the last trade round was completed some 17 years ago. One of them is food security. The Food and Agriculture Organization tells of the unacceptable fact that there are more hungry people today than there have ever been before. Trade is the transmission belt that allows food to move from the land of the plenty to the land of the few. We must oil that transmission belt, and improve the foundation on which it has been built through the Doha round. The round will reduce rich world trade-distorting subsidies, and would lower tariff walls in developed and developing countries alike, bringing food closer to the poor.

Another challenge is protecting the environment. The Doha round is the first multilateral trade negotiation which has explicitly placed environment on its agenda and the overarching objective is to enhance the mutual supportiveness of trade and environment. Members are discussing ways to maintain a harmonious co-existence between WTO rules and the specific trade obligations in various multilateral agreements on the environment. Also on the agenda is opening trade in clean technologies that would contribute to dealing with climate change. The WTO also has a mandate to negotiate disciplines on certain subsidies that contribute to over-capacity and over-fishing. Scientists have found that more than 80 per cent of fish stocks are over-exploited. It is high time trade rules make a contribution to preserving life in the world's oceans.

There is also the challenge of the changing makeup of world trade. The unsung hero in the economic recession has been the service sector, which has been comparatively resilient to crisis. Re-energising the service sector will be key to stimulating economic recovery. The Information Technology Agreement of 1996 was an ad hoc initiative of some WTO members, which helped promote innovation and lower cost for the consumers of computer and communications products. The completion of the Doha round would help ensure the future growth of new trade sectors such as energy, environment or professional services.

Another challenge is the proliferation of regional trade agreements, and ensuring that they become building blocks, not stumbling blocks, of world trade. An early result of the Doha round would include a new transparency mechanism for these type of agreements, which is now being implemented provisionally in the WTO. I cannot help but point out that in terms of efficiency, the Doha round represents sealing a trade deal with 152 governments in one fell swoop.

But on top of all these challenges is an old one: fighting poverty through trade. Front and centre on the agenda of

the Doha Development Agenda are issues close to the heart of developing countries, such as ending tariff escalation, addressing trade distorting subsidies, promoting trade facilitation and expanding trade-related assistance.

When the Doha Round is completed, the least-developed countries (LDCs) would get almost entirely duty-free, quota-free, access to developed world markets. They will also have this access for many of their products exported to other developing countries. Unlike rich countries, LDCs have not been able to provide huge bailout packages to their ailing industries and expand social safety nets to those who lost their jobs.

But providing trading opportunities is not enough. Opportunities must be translated into realities. This is why in parallel with the Doha round negotiations, the WTO is leading the Aid for Trade initiative. It aims at helping developing countries, especially the poorest ones, build trade capacity in the form of modern ports, new production and marketing technologies, and up-to-date trade information. Aid for Trade has been significantly scaled up in the last five years. There is a risk that these efforts are stalled as the crisis will have a severe impact on the treasuries of many donor countries. But it is worth remembering that Aid for Trade is not charity; it is an investment empowering poor countries to exit poverty in a sustainable manner.

Many are very familiar with David Ricardo's key contribution to trade theory, which showed how all countries can benefit from trade even if some countries seemed to be so much stronger and better at everything than others. The reason that all countries could benefit was because the gains from trade were determined by relative and not absolute advantage. Countries would specialise in what they were relatively more efficient at doing, and all would benefit.

One proof that trade opening is a win-win game was the recent announcement by Canada – the host of Muskoka G8 and the Toronto G20 summits in June 2010 – on eliminating tariffs on manufacturing inputs and machinery. In presenting this initiative to the WTO, Canada said it was committed to maintaining open markets to help the global economy recover, adding that this unilateral action would help raise the competitiveness of Canadian companies, especially the small- and medium-sized enterprises.

We are 80 per cent of the way to a successful conclusion in the Doha round. A lot has been achieved – if you look back from where we started, there is a fairly long list of issues where views have converged.

The hard fact is that concluding the Doha round is difficult precisely because its results will be meaningful: this round is two or three times greater than previous ones, in terms of cuts and commitments. Also, this is a round focused on benefits for developing countries – this is a true development round. If measured in terms of duties foregone, two-thirds of the potential benefits of tariff and subsidies cuts resulting from this round will accrue to developing countries' exports.

If I may repeat one tale in a book written by Lewis Carroll for children – who will be the beneficiaries of the new trading system we are building: "One day Alice came to a fork in the road and saw a Cheshire cat in a tree. Which road do I take? She asked. Where do you want to go? Was his response. I don't know, Alice answered. Then, said the cat, it doesn't matter."

We have come to a crucial fork in the road in Doha, and it is located very close to where we want to go. I urge the G8 and the G20 leaders to take us to the good road that will lead to the successful conclusion of the round. ◆

Pascal Lamy, director general of the World Trade Organization

G20 trade protectionism: a continuing threat?

Despite efforts to prevent the increase of trade barriers, there is evidence of a new mix of protectionism that has developed in the wake of the global economic crisis

By Alan S. Alexandroff, co-director, G20 Research Group, Munk School of Global Affairs, and senior fellow, Centre for International Governance Innovation

The commitments made by the G20 leaders since they began meeting in Washington DC in November 2008 have produced a 'half empty, half full' outcome for the global economy. Since the global financial crisis began, they have appeared determined to implement a standstill that would bar G20 countries from raising trade barriers and threatening the openness of the global economy – as happened in the 1930s. Not only did the leaders repeatedly call on their colleagues to avoid beggar-thy-neighbour policies in the face of a growing economic crisis, but they also expressed a determination to conclude the Doha round of trade negotiations at the World Trade Organization (WTO). Furthermore, at their London Summit in April 2009 and subsequently, the G20 leaders called for the conclusion of those negotiations by the end of 2010.

The picture, with regard to Doha, is clear, but not encouraging. Although no country has admitted it publicly, there appears to be a quiet consensus that trade negotiators have lost any chance to conclude the round successfully by the end of the calendar year. The deadlock on Doha continues, and the explanation remains contentious. Many WTO members blame the United States for failing to make serious offers and insisting on continuing bilateral discussions with countries such as China, Brazil and India. Indeed, these countries suggest that they, and some others, are reluctant to provide additional market access until the United States signals that it is serious about engaging in 'end game' discussions.

US negotiators, on the other hand, insist that major emerging market economies are unwilling to open their markets. Carol Guthrie, the assistant US trade representative, recently said that the market access offers in agriculture and industrial goods and services currently on the table fall short, particularly regarding key emerging markets such as China, which need "to make contributions commensurate with their position in the global economy". Progress has, in fact, been all but absent at the WTO.

A glimmer of hope has emerged, however. As a result of a recent stocktaking in Geneva, US officials have obtained agreement from the United States, European Union, India, China and Brazil to examine how procedural progress might be made. Notwithstanding this small sign of commitment on the part of several major trading partners, the successful completion of the Doha negotiations by the end of 2010 remains elusive. The G20 leaders' commitment will likely remain unfulfilled in 2010, possibly even longer.

Yet the question of the standstill provision – the commitment that the G20 countries will refrain from raising barriers to trade and investment – raises the greater questions, creating the 'half empty, half full' situation. Notwithstanding fears of a new 21st-century great depression, the news here is much brighter.

> "Uneven growth and persistent unemployment remain a continuing source of concern"

Uneven growth and persistent unemployment remain a continuing source of concern for trade officials and experts assessing current pressures for protectionist policies. Trade assessments of the current state of global trade relations differ significantly. At the request of G20 leaders at the Pittsburgh Summit in September 2009, the WTO, along with the Organisation for Economic Co-operation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD), were tasked to provide quarterly reports that monitored trade and exposed any rise in protectionism. Much to the relief of officials and experts, the report issued by these organisations declared in March 2010 that the "trade and investment policy response to the global recession has so far been relatively muted." While the second report called on G20 leaders to remain vigilant in the face of strong unemployment and uneven recovery, the review from 2009 identified that since Pittsburgh, recourse to new trade restrictions by G20 members has been "less pronounced". Some members continue to implement new restrictive policies, "in apparent contradiction to their pledges at London and Pittsburgh", but the extent of those policies is limited and "an escalation of protectionism has continued to be avoided".

This relatively sanguine trade assessment is not reflected in an independent examination by the Global Trade Alert (GTA) Project (available at globaltradealert.org), which was launched early in the global financial crisis. Its recent conclusions note that in the fourth quarter of 2009, a substantial number (63) of beggar-thy-neighbour measures have been implemented. While 70 per cent of such measures had originated with the G20 countries since stabilisation efforts began, the percentage has now climbed closer to 80 per cent. This resort to protectionism was much larger than estimates suggested in 2009. For the trading countries examined by the GTA Project, these countries initiated approximately 100 measures per quarter. Since the G20 finance ministers and central bank governors met in 2008, the ten trading countries most affected by protectionist measures have endured more than 100 discriminatory measures.

Notwithstanding the caution expressed in the second report by the WTO, the OECD and UNCTAD, the two documents provide a stark contrast in tone and interpretation of the current state of protectionism and global trade. The most evident reason for this contrast is that they examine different measures that may raise protectionist barriers. The G20 report by the WTO,

the OECD and UNCTAD reviews (new) measures that restrict trade as understood by these international organisations, especially the WTO. Thus it focuses on increases in tariffs, newly initiated trade remedy actions (anti-dumping, countervailing duties and safeguards), restrictive application of the agreements on sanitary and phytosanitary measures and on technical barriers to trade, restrictive non-tariff measures and restrictive government procurement practices. In other words the G20 report looks at measures covered by WTO agreements. Examining the new measures that arose from September 2009 through February 2010, the G20 report found that they covered only 0.4 per cent of total world imports (0.7 per cent of G20 imports) – a decline from the period of October 2008 to October 2009.

A bank clerk in central China counts US dollars. Despite evidence of protectionism in economic powerhouses such as China and the US, there has not been a significant increase in trade barriers

In contrast, the GTA Project examines a much wider range of public measures beyond those that reflect WTO legality. The project identified 600 measures, including those that almost certainly or certainly "introduce or change asymmetries of treatment to the detriment of some foreign commercial interest". Those measures do not comply with the standstill provision expressed by the G20 leaders in all their summit statements. Thus, while the GTA Project reports on trade remedy actions (initiated or renewed – again a contrast), it examines a set of measures that appear to have become the preference of leaders during the global financial crisis – state aid including subsidies, bailouts and measures that encourage national manufacture. The GTA Project also includes intellectual property rights and migrant workers measures.

"The GTA Project thus examines distinct protectionist approaches by major trading countries"

The GTA Project thus examines distinct protectionist approaches by major trading countries. It is not that WTO members are breaching their obligations but that they are finding new measures that discriminate against foreign commercial interests. Thus, for instance, the United States included in its major economic stimulus package 'Buy American' provisions under the American Recovery and Reinvestment Act of 2009. As a result, the act required that the iron, steel and other manufactured goods used in the programme (including in transportation projects) had to be made in America. The US and Canada consequently negotiated a new liberalised procurement agreement that mitigated the consequences of this discriminatory approach. China equally has resorted to China-favoured provisions. In November 2009 it declared it would favour "indigenous innovation" solely developed in China when purchasing computers, software, energy and communication products. These provisions requiring local intellectual property, local brands and independence from foreign influence made it virtually impossible for foreign companies to bid on government procurement tenders. In response to strong, mostly foreign opposition, China eased its buy-local requirements.

The evidence of this new mix of protectionism is clear. The GTA Project found that in the period covered through February 2010, 150 bailout or subsidy measures are discriminatory, as opposed to only 90 trade remedy measures and 51 tariff measures.

Thus, the trade glass is half full, given that there has not been a generalised and significant increase in trade barriers as in the Great Depression of the 1930s. If the benchmark remains that period and recent comparisons that include earlier discriminatory measures and trends, global discrimination appears to be contained. But the trade glass is also half empty, thanks to the new mix of protectionism that focuses on state subsidies and bailouts where discrimination against foreign commercial interests is evident.

And whether half empty or half full, the standstill provision is selectively ignored by the G20. ◆

Making ideas work in the global economy

World Intellectual Property Organization (WIPO)

Francis Gurry
Director General
World Intellectual Property Organization (WIPO)

More than $1 trillion is spent every year around the world in research and development (R&D). We are dependent on this investment, and on the new knowledge that it produces, for economic growth, for improvements in our quality of life and for providing solutions to the many challenges that humanity faces, from food scarcity to epidemics and climate change.

The distance between idea and marketplace, however, is long and fraught with risk. Intellectual property (IP) helps the entrepreneur to travel that distance. It translates ideas into commercial assets and it provides a framework for working and trading those assets in the global marketplace.

The World Intellectual Property Organization (WIPO), a specialized agency of the United Nations, provides a range of indispensable services to the global economy in support of innovation and creativity:

– We manage **global IP systems** that make it easier and more cost-effective to obtain protection internationally for new inventions, brands and designs. Every year, WIPO manages over 160,000 international patent applications, 40,000 international trademark registrations, a growing number of international design registrations, and provides arbitration and mediation services in over 2,000 Internet domain name and other IP disputes.
– We develop and coordinate **global infrastructure** for the knowledge economy. This includes free databases of brands, designs, and technology disclosed in patent documents; as well as platforms to facilitate work-sharing amongst IP Offices and to add transparency to the functioning of technology markets.
– We administer a **Development Agenda** to increase the participation of the least developed, developing and transition

The WIPO Development Agenda

The WIPO Development Agenda derives from recognition of the importance of enabling developing and least developed countries to participate fully in the benefits of the knowledge economy. Adopted by WIPO's member states in October 2007, it is based on 45 recommendations to enhance the development dimension of all key areas of WIPO's activities.

The recommendations are divided into six clusters. These cover technical assistance and capacity-building; norm-setting, flexibilities, public policy and the public domain; technology transfer, Information and Communication Technologies (ICT) and access to knowledge; assessment, evaluation and impact studies; institutional matters including mandate and governance; and other issues.

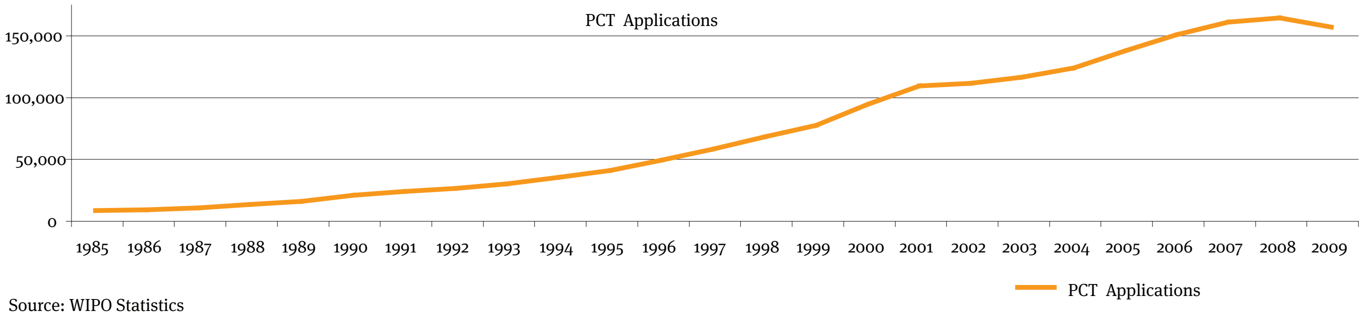
WIPO is working to translate the aspirations of the Development Agenda into reality through a series of projects with concrete deliverables and timelines. Seventeen projects, with a total budget of about CHF 19 million have been approved by the member states and are now at different stages of implementation.

One of the first projects to deliver results was the Access to Research for Development and Innovation (aRDi) program. This is a public-private partnership which provides IP offices, universities and research institutes in least developed countries with free access to the knowledge contained in a collection of online scientific and technical journals.

Patents provide an important stimulus for investment in innovation and contribute to rapid diffusion of new technologies

PCT – international patent filing trends

- 155,900 international patent applications were filed in 2009 through the WIPO-administered Patent Cooperation Treaty (PCT).
- The impact of the global economic downturn was reflected in a 4.9% drop in filings compared to 2008. This is the first time in the PCT's history that international patent applications have decreased.
- Countries such as Germany, Israel and the US experienced sharper than average declines in PCT filings, while China, Japan and the Republic of Korea continued to see positive growth. Filings from China increased by over 29%.
- Despite the downturn, the US maintained its ranking as top PCT filing country in 2009, followed by Japan, Germany, the Republic of Korea and China.



Source: WIPO Statistics

countries in the benefits of the knowledge economy. WIPO's extensive development cooperation program assists governments to establish national innovation and IP strategies, appropriate regulatory frameworks, infrastructure and human-resource capacity in their countries.

– We administer 24 multilateral treaties and facilitate multilateral discussions amongst our 184 Member States for the balanced evolution of the **international legal architecture** for IP, for example with respect to audiovisual performances; broadcasters' rights; access to published works for visually impaired persons; traditional knowledge, folklore and genetic resources.

As the knowledge economy continues to expand and technology cycles continue to shorten, much remains to be done to provide a balanced and efficient international framework for promoting innovation and creativity. There is a need to improve the functionality of our global IP systems and capacity throughout the world to cope with the growing demand for IP rights. An untenable backlog of over three million unprocessed patent applications worldwide mars the performance of the patent system. The structural change in the production, distribution and consumption of music, film, literature, journalism and other creative works, resulting from digital technology and the Internet, poses profound questions for copyright and the financing of culture in the 21st century. Counterfeiting on a massive scale is not only causing significant economic loss - international trade in counterfeit and pirated physical goods was estimated by the OECD to have reached $ 250 billion in 2007 - but is also creating risks to public health and safety. Concentrated efforts are needed to make a positive impact on the reduction of the knowledge gap and the digital divide and, in consequence, on the reduction of poverty.

WIPO is at the service of the world in addressing these and the other issues that are emerging from our transition to the knowledge economy.

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Stabilising India's fast growth: Doha matters

India's high level of economic growth is leading to food inflation and placing huge demands on the country's agricultural and rural communities

By Yoginder K. Alagh, chancellor, Central University of Nagaland, and former minister, power, planning and science and technology of India

As India plans for the G20 meetings after the 'perfect storm', it is concerned with stabilising its growth process. Doha is a part of that concern. India is one of the two global economies growing at 7 per cent plus in 2009/10 and expects an 8 per cent growth rate in 2010/11. Given the global economy, it knows that the process is fragile. At the peak of the storm the collapse of two large exports – textile manufactures and gems and jewels – cost the economy a million jobs. In addition vertical integration by acquisitions was in difficulty. For example, the diamantaires had acquired retail distribution channels in Europe and the United States, which had initial debt servicing charges. The labour and skill intensity involved in exports work both ways. India's strategy is to develop measured and flexible responses to global shocks with a substantial emphasis on factor productivity and investment in infrastructure, to aim for a 9 per cent rate of growth. Strategic perspectives are being emphasised, such as Rajiv Gandhi's Eighth Plan introduced in 1989, which used measurable, rising capital productivity targets as the instrument to achieve a higher growth rate. It is within this broad context of growth and productivity that the Doha Development Agenda should be considered, particularly with regard to India's current concerns about agriculture and its global footprint.

The government of Manmohan Singh reversed the decline in the agricultural growth rate in the 1990s, but the current agricultural growth rate of a little more than 3 per cent cannot sustain India's high level of economic growth. The problem has become more urgent, thanks to the spurt in food demand that accompanies income levels that now exceed $3,000 per capita in terms of purchasing power parity, the limited success of India's water management programmes, the opposition of globally networked non-governmental organisations to the new seeds and pesticides, and the shortage of land now confronting the country. India is facing food inflation. India increasingly demands both grain and non-grain food and agriculture. Its agricultural demands are growing faster than any agricultural growth rate measured anywhere over a similar period of time. Like China, India is a net importer of food and agricultural products.

> "India's strategy is to develop measured and flexible responses to global shocks with a substantial emphasis on factor productivity and investment in infrastructure"

India's edible oil imports went up by 77.7 per cent and pulse imports by 34.6 per cent in 2009/10. It is not only importing food but also subsidising imports to protect food baskets in the vulnerable section of its population in real terms. Sonia Gandhi's sociopolitical contribution is to insist that, in a fast growing economy, the national scheme to guarantee rural employment, which has already been implemented, and a food security programme currently underway are the social underpinnings of the politics of commitment to the common person.

While most countries are mildly protectionist in the current stimulus period to protect domestic jobs and output, India has slashed tariffs and subsidised agricultural imports. It is clearly in its interest that the rich countries and others from which it imports do not follow distortionary policies. Economists interested in agriculture have argued for low tariffs on agricultural imports to protect agricultural incomes and to provide incentives for domestic production, but the government's concerns about food inflation in the country's roaring economy do not permit such nuanced policies.

With regard to the G8's security discussions at the Muskoka Summit in Canada, India's concerns on the subcontinent will be its main preoccupation. It will make every effort to consolidate its position, for example, in Afghanistan, where it has invested substantially in developing physical and human capital in extremely trying situations, as it has elsewhere in the subcontinent. It will also carry forward the main thrust of its new stance on nuclear power and the more aggressive intellectual contribution it made at the Copenhagen conference on climate change in December 2009. On agriculture India can be expected to pitch for reform of the global system. Prime Minister Singh's emphasis on energy and food security at the meeting of the leaders of Brazil, Russia, India and China – the BRICS – in Brazil was not just rhetoric.

However, permanent interests do not change radically. India will push the stand it has developed since the ministerial meetings of the World Trade Organization (WTO) at Cancun in 2003 and Doha before that in 2001. It will increasingly agree to place non-tariff interventions in the negotiation basket, such as limits

on the interventions of its large parastatal institutions in domestic agricultural markets, as it was willing to do at the Special Committee on Agriculture. Nonetheless, it will probably not give up its public support for infrastructure development, including markets, communication and agro-processing investments, or for development of agricultural technology. India is going through a renaissance of new systems of organisation for its agriculture, agro-processing and rural infrastructure, including self-help groups, producer companies of farmers and cooperatives. Many develop strategic alliances with corporate and public agencies. These new strategies, which have been developed by agricultural policy makers, are largely in the mould of public-private partnerships but require hand holding by the state. Global negotiations will have to support these initiatives, which are considered important for widespread agricultural and rural development.

India is expected to pitch for reform of the global organisation of agriculture, reflecting its own new strategies for agricultural and rural development

India's stand on tariff negotiations and the WTO's Agreement on the Application of Sanitary and Phytosanitary Measures is clear. There may be some flexibility on the tariff component but the distance to be covered on these issues is large. At some stage, the world will need political initiatives to cover the last mile. Thoughtful Indians hope that the G20 will no longer postpone the Doha deadline, as it has at its last few meetings, 'until next year'.◆

From right: Zhou Xiaochuan, governor of the People's Bank of China; Xie Xuren, Chinese finance minister; Zhang Ping, director of the National Development and Reform Commission; and Chen Deming, commerce minister, attend a press conference at the National People's Congress inside the Great Hall of the People in Beijing on 6 March 2010

China's role in a world in crisis

With impressive growth rates and as the only country to record positive growth imports in 2009, China has contributed much to the global economic recovery

By Tu Xinquan, China Institute for WTO Studies, University of International Business and Economics

A trade surplus arises whenever trade happens. But now, continued criticism from developed countries in deficit have turned a trade surplus into something shameful. China, which has the biggest surplus in the world, certainly receives the bulk of that pressure. This is at least one reason why the Chinese government hurried to forecast a monthly trade deficit in March 2010. Premier Wen Jiabao and Chen Deming, minister of commerce, declared this forecast one month before the final statistics were released. Fortunately, of all Chinese statistics, trade data are considered the most trustworthy. Otherwise, some cynics might suspect the Chinese statistical agencies of manipulating the findings to support the government's previously announced conclusion.

Global trade imbalance is a problem that must be addressed. No matter whether it is economically significant, it has resulted in political disruptions in many countries, especially in developed ones, with the decline in public support for globalisation. But global trade balance is not a goal. Trade is only an approach to economic growth. Rather than emphasise rebalancing world trade, there should be a focus on boosting the global economy, particularly in less developed countries. The gap in the level of development between rich and poor countries is the most significant imbalance in the world. As income inequality in the domestic economy often diminishes demand, a large gap between developed and developing countries also creates excess supply, squeezing redundant money into a virtual economy. This, in fact, is one cause of the recent housing bubble in the United States. So supporting development is the best way to rebalance the world economy.

In turn, developing countries should recognise their role in stabilising the world economy. However, they need to deal with priority issues in their own economies, such as economic growth and social stability. It is not appropriate for developed countries to pressure developing countries on how to develop their own economies. There is no consensus on how a country should develop.

China has always continued to gain knowledge and use resources from the West throughout the process of opening up and reform. China has been successful because it finds an approach appropriate to its own situation and conditions. With regard to global imbalances, China has also been managing it in its own way, by stimulating domestic investment and consumption through fiscal, social and monetary policies. China believes that the increase in domestic demand rather than a sharp appreciation of renminbi is the best way to contribute to the global economic recovery. As a result, it is the only country recording a positive growth in imports (2.8 per cent) among major economies in 2009, although its exports decreased by 10.5 per cent. Just as Chinese leaders often state, the biggest contribution China can make to the world is to develop itself well. It turns out that the Chinese approach has worked.

In the first quarter of 2010, China's growth rate accelerated to 11.9 per cent, which is impressive even in boom years. At the same time, Chinese trade saw a rapid recovery at the rate of 44.1 per cent, including a surge in imports of 64.6 per cent. It seems that the world should appreciate China's generous contribution to the recovery. However, the headlines are still occupied by the endless debate over the appropriate level of the exchange rate. Some governments and experts assert that rebalancing the global economy depends on the readjustment of the Chinese currency, no matter what China has done already for the world. Fortunately, the US government lately reduced its criticism of Chinese currency policy, claiming that it should be decided by the Chinese government. Moderate foreign pressure helps because it can be used by the Chinese government to confront domestic opposition. But if it goes too far, the Chinese government must respond antagonistically in order to show its toughness.

With the rebound of domestic production and consumption and foreign trade, the Chinese government is considering an adjustment of its exchange rate policy. At the same time, it has finally started to cool down the overheated real estate market, releasing a rigid control policy in April 2010. If fully implemented, this policy will help inject money from the housing market into normal consumption and investment and will promote more balanced and sustainable economic growth. Such growth will, in turn, stimulate China's imports and help the world economy.

Nonetheless, trade protectionism remains a concern for China. In 2009, 116 trade remedy cases were initiated against Chinese products, affecting $12.7 billion in exports. The situation in 2010 seems even worse. In the first quarter, there were 19 cases related to $1.2 billion of exports, for a growth rate of 93.5 per cent. Some countries are using low carbon emissions as an excuse to restrict Chinese exports. While Chinese imports represent a higher share of the world market, this kind of protectionist action will diminish China's willingness to import. Trade liberalisation must be kept alive and moving forward. Unfortunately, the Doha round of trade negotiations at the World Trade Organization is still stagnating, due to inadequate political support from some major members.

> "China has been successful because it finds an approach appropriate to its own situation and conditions"

The G20 is appreciated because of the diversity of its membership. It should allow its members, which are at various stages of development, to adopt diversified models and economic policy. Coordination does not necessarily mean rendering everything the same, but should make policies compatible. In fact, it is difficult to harm others while benefiting oneself in a globalised world, where each depends on the other. China has no such ability either. China has been sharing the benefits reaped from its own development with the rest of the world. A case in point is the recent Beijing Auto Show. All the major automakers from around the world came to Beijing because they know that China represents the biggest and fastest growing market.

The G20 Toronto Summit in June 2010 will face some hot issues. The Greek debt crisis may overtake the issue of Chinese currency policy. The summit shows the relevance of international policy coordination in a globalised world. A crisis in one country, even a small country, could produce a butterfly effect across the world. The G20 should take prompt action to deal with the crisis before it hurts other countries. China will feel lucky if it is not paid much attention – which means China could concentrate on its own issues. ◆

Trade protectionism is a cause for concern. Trade remedy cases against Chinese products in the first quarter of 2010 affected $1.2 billion of China's exports

SPONSORED FEATURE

On the road to a new energy future

A key strength of the G8 and G20 summits is their mandate to look beyond the economics of the day and to help influence a stable, financial future for the world. Another is their capacity to draw on the resources of a group of countries to address issues no single nation can take on alone.

Shell looks at the global energy picture in a similar holistic way – and sees important roles for companies, governments and consumers in shaping a new lower-carbon energy future.

Global economics and global energy are, in fact, inseparable. It is impossible to imagine a world without secure energy supplies both for developed economies and emerging ones.

The challenge facing society is how to maintain secure supplies while moving toward an energy system that features cleaner fossil fuels and low-carbon alternatives. This is a challenge that no single company, industry or country can tackle alone. But at Shell we're doing our part.

We are increasing production of cleaner-burning natural gas, developing renewable energy, working to improve efficiency in our own operations and finding methods to lower carbon dioxide (CO_2) emissions.

Oil and gas are our core businesses and Shell is increasingly focusing on natural gas. By 2012, gas is expected to make up about half of our production.

Why natural gas? It is an abundant resource and the cleanest-burning fossil fuel. When used to generate electricity, it emits on average only half the CO_2 of coal-fired plants, which represent the fastest-growing source of greenhouse emissions.

In Canada, most of the country's natural gas comes from the foothills of the Rocky Mountains, but Shell's investment in technology is opening up more production of unconventional gas in this country and elsewhere. In addition, Shell was a pioneer in the development of liquefied natural gas and is now the global leader in that market among international oil companies.

Shell is also focusing a great deal on biofuels, of which we are already the world's largest distributor. Shell recently announced a joint venture with Cosan in Brazil to produce and distribute ethanol from sugar cane, which can lower CO_2 emissions by 70 per cent compared with conventional fuel. We also continue to develop advanced biofuels from non-food sources, with other partners.

But investment is not just about finding and producing more energy resources. It is also about doing it in a responsible and sustainable way. A particularly promising technology is capturing CO_2 emissions and storing them permanently underground. Carbon capture and storage (CCS) is key to lower emissions from coal-fired power plants, refineries and other large industrial installations. According to the Intergovernmental Panel on Climate Change, CCS could contribute 55 per cent of the emission reductions needed this century to avoid the worst effects of climate change.

The proposed Quest Project at the Scotford upgrader near Edmonton, Alberta, Canada is one application of Shell's CCS work. Others include the Montezuma Hills Northern California CO_2 Reduction Project, and Australia's CRC Otway Project, the largest research and development CO_2 project anywhere in the world.

Quest, which is still in the planning stage, would capture, transport, inject and store more than one million tonnes of CO_2 per year from oil sands production beginning around 2015. That is equivalent to taking 175,000 vehicles off the road. The CO_2's

The facilities at Scotford will capture CO_2 from the oil sands upgrader's hydrogen plants where the CO_2 will be separated and compressed into dense fluid, allowing for pipeline transportation and storage deep underground.

permanent home would be more than two kilometres deep and sealed under thick layers of rock within 100 km of the Scotford facility.

CCS projects require significant capital investment and are currently uneconomic for the industry because they provide no revenue or income. It will take years for energy companies to gain experience and expertise using this technology – time needed to bring down costs while increasing efficiency. As greenhouse-gas regulations are implemented over time, the price of emitting CO_2 should increase so that eventually CCS will make economic sense. In the meantime, governments are providing support to kick-start the technology's development.

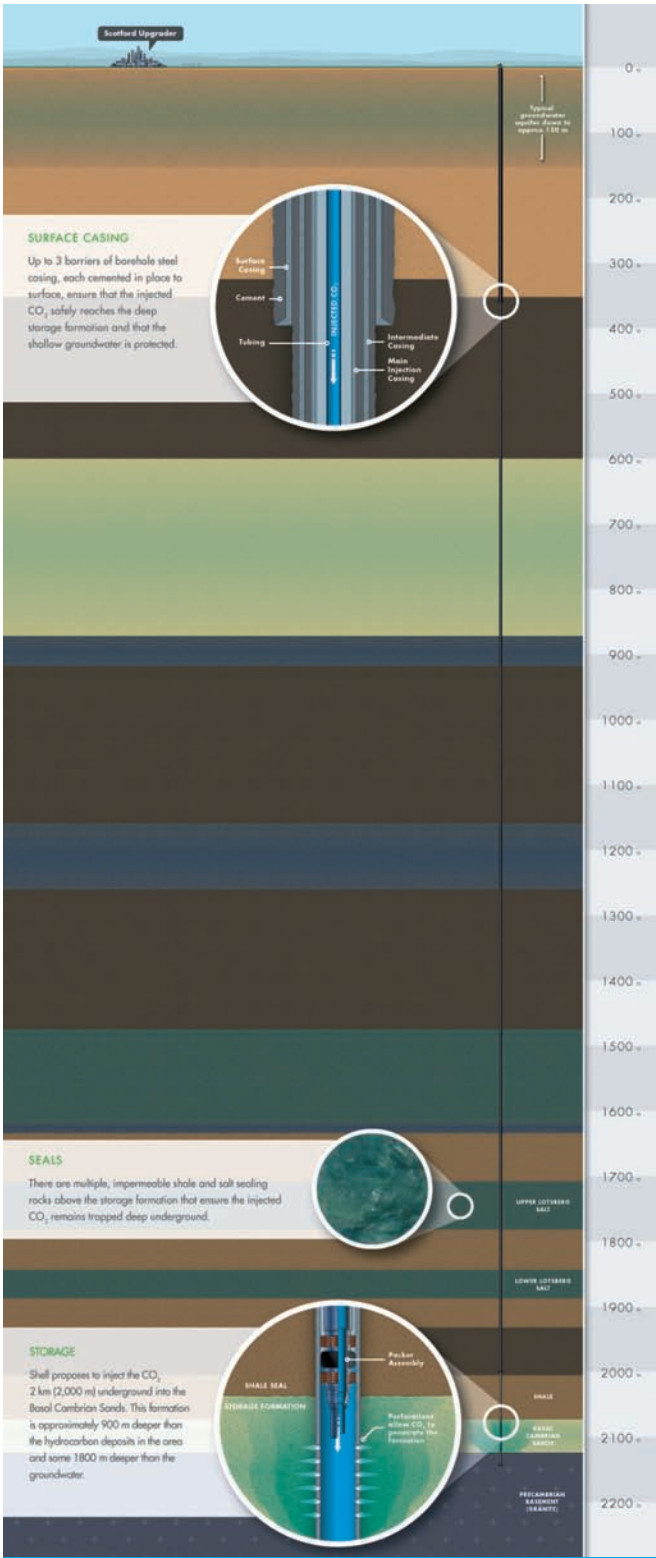
Last October, the government of Canada and the government of Alberta signed a letter of intent for $865 million in funding towards the Quest Project. The money will be dispensed over 15 years as Quest reaches certain development milestones.

Shell commends the governments in Canada for their financial and policy support for CCS, which will help industry gain experience and spur development of a promising means to reduce global CO_2 emissions.

Quest could be the next big step in reducing CO_2 emissions from Shell oil sands operations in northern Alberta. Success hinges on numerous factors, such as discussions with Scotford's neighbours and other stakeholders; outcome of the pipeline and test well program; regulatory processes; ability to meet sustainable development criteria; and economic feasibility. Work on these aspects will continue into 2011. Once they have been addressed, Shell and joint venture partners Chevron and Marathon will evaluate whether to push ahead and to allow construction to begin.

In the longer term, an important incentive for industry's investment in carbon-reduction technology will be a price on emitting CO_2. Shell believes the most effective pricing mechanism is one that caps carbon emissions and permits companies to trade emission allowances, as the European Trading Scheme already does, although government policies can increase the success of such programs. That leaves it up to companies and entrepreneurs to find the most innovative and cost-effective means to reduce emissions.

One of the world's biggest challenges this century will be producing more energy to support economic development and modern lifestyles while at the same time reducing environmental costs. The stakes are high – but so are the rewards for society on the path to a new energy future. Shell's people around the globe are strongly motivated to do their part.



This graphic shows injection and geological storage of carbon dioxide more than two kilometres underground

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