



# The Asian Business Community and the WTO

by Dan Rosen  
with assistance from Jacob Kirkegaard

An Asia Business Council Report

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## **Executive Summary**

The successful Doha Ministerial Meeting in November 2001 indicated the WTO's return to vitality after half a decade of dormancy. As a result, affirmed bilateral trade talks in Asia may be reduced in importance. The new round of WTO talks are critical to many Asian companies because of the following:

- Asia is undergoing a services sector revolution: the WTO is negotiating deeper services sector liberalization.
- Asia is a leading proponent of anti-dumping reform: WTO talks will include Anti-Dumping reform.
- WTO will push ahead with serious intellectual property regime (IPR) protection and enforcement.
- Asia is a world information technology (IT) center: WTO invigorates IT trade and will make IT rules and standards.
- WTO could help Asia realize the enormous potential of its abundant agricultural resources by helping to dismantle huge barriers to competitive exports.

Our survey of ABC members and review of research and literature shows that:

- Asian corporations are involved in WTO largely through national business associations that have a limited ability to influence detailed negotiating outcomes.
- Asian business leaders have not coordinated their thinking on what is good for Asian business from the WTO or new WTO talks.
- Few firms in Asia take a leadership role in WTO planning.
- Existing regional associations have not succeeded in involving Asian firms in driving the WTO process or preparing them to do so.
- Business leaders agree that facilitating deeper liberalization through WTO is critical to their interests, yet protectionist industries are often more active in shaping government positions.

This report provides a starting point based on a review of WTO history, analysis of New Round agenda items, the views and comments of Asian business leaders themselves, and case studies of business participation in trade and WTO policy-making in other regions. Specifically, this report addresses three questions:

- What is the WTO agenda, and how does it relate to Asian business prospects?
- What is the state of Asian business involvement in WTO affairs today, and how does this compare to business involvement in other regions?
- What are the "pathways to participation" available to Asian business leaders for influencing the direction that WTO takes?

Via exploration of these questions, Asian leaders can consider the implications for their specific interests, their national economies, and formulate greater consensus on steps to more active involvement in the WTO processes that will affect them.

## **What is the WTO agenda and how does it relate to Asian business?**

### **GATT, the WTO and Asia**

The WTO system's origins lie in the General Agreement on Tariffs and Trade (GATT 1947), and it has evolved for half a century to achieve its current, far-reaching form. The GATT was designed to govern the conduct and expansion of world trade, and especially to prevent a recurrence of the destructive trade policies of prior decades. The GATT was first agreed among a mere 23 members, and included 38 detailed articles, but the framework centered on four basic principles:

#### **Most favored nation principle (MFN)**

Though GATT members could have different national tariff levels, each had to apply the same treatment to all other members. For example, a member could not charge one tariff on bicycles from one country and a higher tariff on bicycles from another.

#### **National treatment principle**

Once an imported good is charged a tariff at a GATT member's border and enters the country, it is treated like a domestic product.

#### **Tariffication**

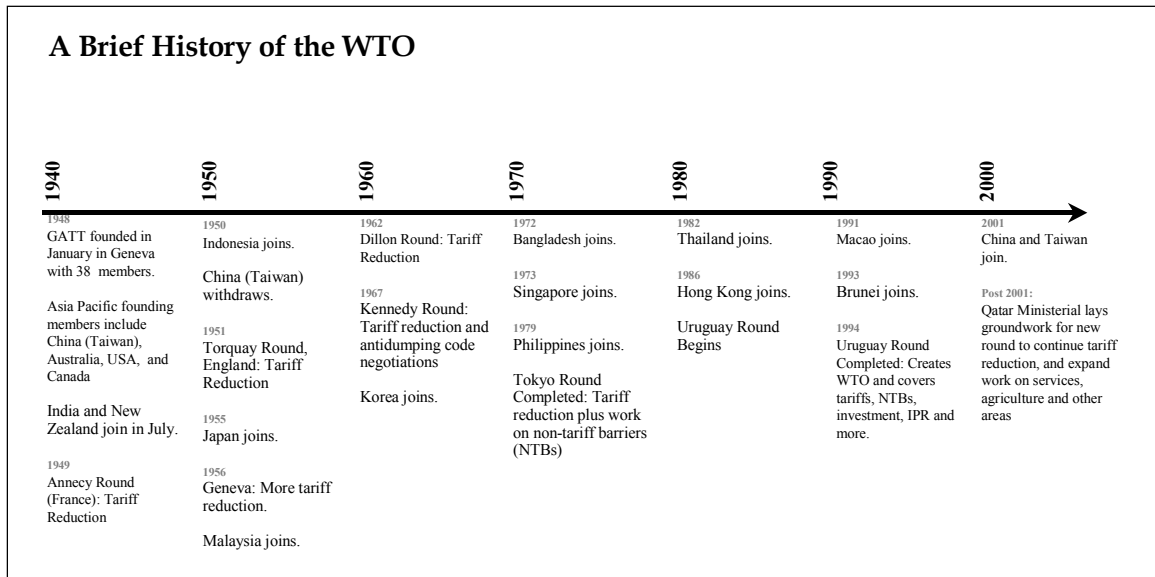
Liberalization proceeds by turning non-tariff barriers into tariffs and negotiating them down.

#### **Tariff concession**

Converting trade barriers to tariffs, locking them in, and offering to lower tariffs are the price of membership for new applicants, and new concessions are periodically expected from existing members as well.

Cutting tariffs on goods was the primary work of GATT from 1947 to 1994, when the GATT was converted into the World Trade Organization (WTO). Through 1988, industrial member tariffs fell from an average of 40% to 5% -- demonstrating the power of the regime to open trade and thereby create wealth and welfare. Under GATT this work was carried out in consecutive "Rounds" of negotiations lasting from one to eight years. With time, the scope of GATT rounds expanded beyond the initial concern with goods tariffs to many other trade related issues.

## A Brief History of the WTO



*The WTO streamlines the world trade system because (unlike the GATT) almost all WTO agreements must be embraced as a package in a "single undertaking". Countries no longer pick and choose the easiest items to agree on, but rather are bound by all rules (pluralateral agreements are the exceptions, for example on Government Procurement). The WTO also makes agreement easier by permitting disputes to be settled by majority decision instead of permitting veto power on dispute findings by every member.*

### WTO Enters the Scene

In January 1995, as a result of the Uruguay Round, the World Trade Organization superseded the GATT as the organization governing the conduct and opening up of world trade. The same four core principles behind GATT also underlie WTO – showing how robust and lasting the MFN and National Treatment concepts are. The WTO incorporates

- The *GATT* club as it stood on the eve of WTO, including the achievements of the 6 rounds and 126 members at that time. New liberalization of trade in goods was undertaken as well, for example in the agriculture and textiles sectors.
- A General Agreement on Trade in Services (GATS) to promote trade in services – very often the fastest growing sector of both developed and developing economies.
- A regime for protecting and encouraging the development of *Trade Related Intellectual Property (TRIPs)*.
- In institutionalized dispute settlement mechanism with expanded power to issue findings (see Exhibit 2).
- A *trade policy review mechanism* to help ensure that members can implement their commitments (as much to help reform in developing economies as to open markets for industrial countries).
- “Pluralateral frameworks” for further negotiation in sectors of

particular interest to a sub-set of WTO members, for instance aviation and financial services.

- An agreement on *trade related investment measures (TRIMs)* helps to regulate investment regimes that can prevent trade, and thus to encourage foreign direct investment.

Through its *Councils* (on Goods, Services and Intellectual Property) and *Committees* the WTO has an ongoing agenda to bolster world trade. Every two years, a governing *Ministerial Conference* is held to oversee ongoing activities and if appropriate to approve starting new rounds of negotiation. The organization of the WTO including functional groups is provided in Appendix B. The WTO remains lean at 550 employees. WTO has 144 members as of February 2002, and accounts for over 90% of world trade. More than two dozen additional economies are negotiating membership or preparing to do so.

### **Asia in WTO**

Asian membership in the WTO/GATT has grown over the years. With the accessions of China and Taiwan in late 2001/early 2002, almost all the economies of Asia are WTO members (Vietnam hopes to join in three to five years). The expansion of Asian participation in the WTO has paralleled the growing weight of Asia's share in world GDP, which shot from 17% to 40% since 1950.

The influence of Asia on the WTO has not stopped with accession. As a principle beneficiary of world trade, Asia today has a more active role in the WTO process. In 2002 Asian WTO Ambassadors will chair several WTO bodies, including the important Council for Trade in Goods (Malaysia), Committee on Trade and Development (Bangladesh), the Special Session of the Council on TRIPs (Korea) and Special Session of the Committee on Agriculture (Hong Kong, China)<sup>1</sup>. In September 2002 Dr. Supachai Panitchpakdi of Thailand will take over as Director General of the WTO for a critical three-year term covering the period of new round negotiations.

Indirectly, the initiative of Asian economies in forming regional free trade groups, particularly APEC but also ASEAN and more recently a number of bilateral and pluralateral arrangements, has added impetus to WTO talks at key times. The forward-looking Information Technology Agreement (ITA), now part of WTO, was aided by APEC adoption in 1996. The position of new member China on agriculture

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<sup>1</sup> Special session chairmanships will last at least through the 5<sup>th</sup> WTO Ministerial Conference in Mexico in late 2003.



trade may have a major effect on history (see Appendix B for an analysis of the Cairns Group and current WTO agriculture talks).<sup>2</sup>

*As of February 2002, 244 disputes had been brought to WTO Dispute Settlement, which has a nearly unique power among international organizations to compel compliance with its decisions by authorizing retaliation through trade sanctions (the only other entity we are aware of with such power to use collective coercion is the UN Security Council).*

### The WTO Agenda Today

Asian delegates are taking a more active role in WTO, but the scope of work is growing just as fast if not faster. Managing international trade today is far more complex than comparing tariffs, and WTO's responsibilities reflect this reality. In an increasingly complex marketplace governments cannot stay ahead of many private sector developments; countries with leading WTO roles are increasingly those able to mobilize private sector expertise to help make trade policy, both at the preparation stage and at times by physically being on hand during talks.<sup>3</sup> The trend is that more government-business cooperation is making commercial policy.

What is the significance of the WTO for Asian economies today, and more particularly for the firms and businesses in them? First, there is the on-going implementation of WTO obligations agreed in the Uruguay Round, and second there are new negotiations that began with the successful Doha Ministerial in November

2001 and will further shape the international economy in important sectoral and functional ways. The Doha Work Agenda includes almost any issue that pertains to international trade.

In November 2001 at Doha, Qatar, Ministers issued a negotiating agenda for a new round of WTO talks.<sup>4</sup> While some are quick to point out that this is an agreement to begin talking, not an outcome in itself, the Declaration instructs that the business for negotiation will be a single undertaking: nothing *on the agenda* will be agreed until *all is agreed*. The business of this round has major significance for Asian economic interests. The most important points are as follows:

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<sup>2</sup> Asia has taken pains to practice "open regionalism" in compliance with WTO requirements, not a sort of closed regionalism that could be trade distorting more than trade creating.

<sup>3</sup> Much criticism has centered on "Green Room" sessions in the WTO negotiating process. Such small group meetings will increasingly be concerned with technical matters that presume active input from business and other interests with specialized knowledge. When a technical negotiating point is under discussion in Geneva, one can be assured of finding a group of related industry executives in a hotel room near by.

<sup>4</sup> This is the fulfillment of the effort to launch new talks that began at the *Seattle Ministerial* in 1999, which floundered amidst NGO protests and divisions between northern and southern members over issues such as labor and environment protection.



- Agreement to negotiate agriculture, especially the reduction and eventual phase-out of agricultural export subsidies that distort world agriculture trade (a concession from Europe);
- Negotiations on *investment and competition* – which may include greater discipline on American-style anti-dumping policies prone to abuse;
- Compromises on steps to invigorate TRIPs implementation (intellectual property protection) while preserving the health promotion goals of developing countries (the availability of affordable drugs);
- Endorsement of continuing negotiations to liberalize services industry trade and investment.

In each of these areas and many others, including trade and environment, the give and take among WTO members will determine the negotiated outcomes to be concluded by January 1, 2005. Following are several of the hot button issues that will be taken up during the Doha Round.

#### ***Exhibit 1: The Doha Round — Coming Battles***

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##### **Implementation-related Issues and Concerns**

With the increasing participation of developing countries in the multilateral trading system, “implementation issues” have become an increasing cause of discord. Briefly described developed nations want developing countries to adhere to the rules of the WTO as soon as possible, as this would often provide a competitive advantage, while developing countries are arguing for prolonged introduction periods to allow for their economies to adapt before WTO rules are implemented.

Some headway has been made in this area with the adoption ahead of the launch of the Doha Round of about 50 decisions clarifying the obligations of developing nation members in such areas as agriculture and textiles. However, there are still about the same number of issues outstanding as “a matter of priority”.

##### **Agriculture**

Disagreement on agriculture nearly caused the collapse of the previous Uruguay Round, and almost prevented the Doha Round from being launched. The principal conflicts are export subsidies and domestic support levels to farmers. The EU and Japan, with the highest levels of both, are locked in argument with principally the US, the Cairns Group and most of the developing world.

These negotiations will among the hardest to conclude, as the EU, following French objections, would not even accept that the goal of the coming Doha Round negotiations would be the elimination of export subsidies and domestic support, only commit itself to negotiations “without prejudging the outcome”.

##### **WTO Rules: Anti-dumping**

The WTO Agreement does not prohibit anti-dumping tariffs. It allows governments to act when “material” injury, caused by imports, has been proved to a domestic industry, and then impose a tariff on selected imports deemed sufficient to save its domestic industry. Predictably these rules have been prone to misuse by governments trying to protect their domestic industries. While the US and the EU have been singled out as abusers, increasingly also developing countries are now using this trade policy weapon.

As WTO members has agreed to “clarify and improve” anti-dumping, while preserving the basic concept during the Doha Round, it is clear that difficult negotiations lie ahead, as it few large member states

are likely to be willing to give this last legal “protectionist measure”, but at the same time anti-dumping rules must be refined to avoid the WTO system being drowned in flimsy anti-dumping cases, initiated by members for domestic reasons.

#### **WTO and the Environment**

The environment is often, if perhaps inadvertently, a barrier to entry. Through recyclable packaging obligations or ecological-labeling requirements

governments can prevent imports from competing fairly in, or even enter their domestic markets.

Mainly the EU has, to the chagrin of the US and developing nations that see them as ill-disguised trade barriers, sponsored environmental concerns as an issue for the WTO. During the Doha Round members will discuss the relationship between WTO rules, environmental issues.

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Source: Asia Business Council

WTO will continue to use its dispute resolution authority to back-up commitments, and the Trade Policy Review Mechanism – the WTO body that investigates each member’s adherence to its obligations every couple years – to help identify weaknesses in implementation (see *Exhibit 2* on WTO’s Dispute Settlement System).

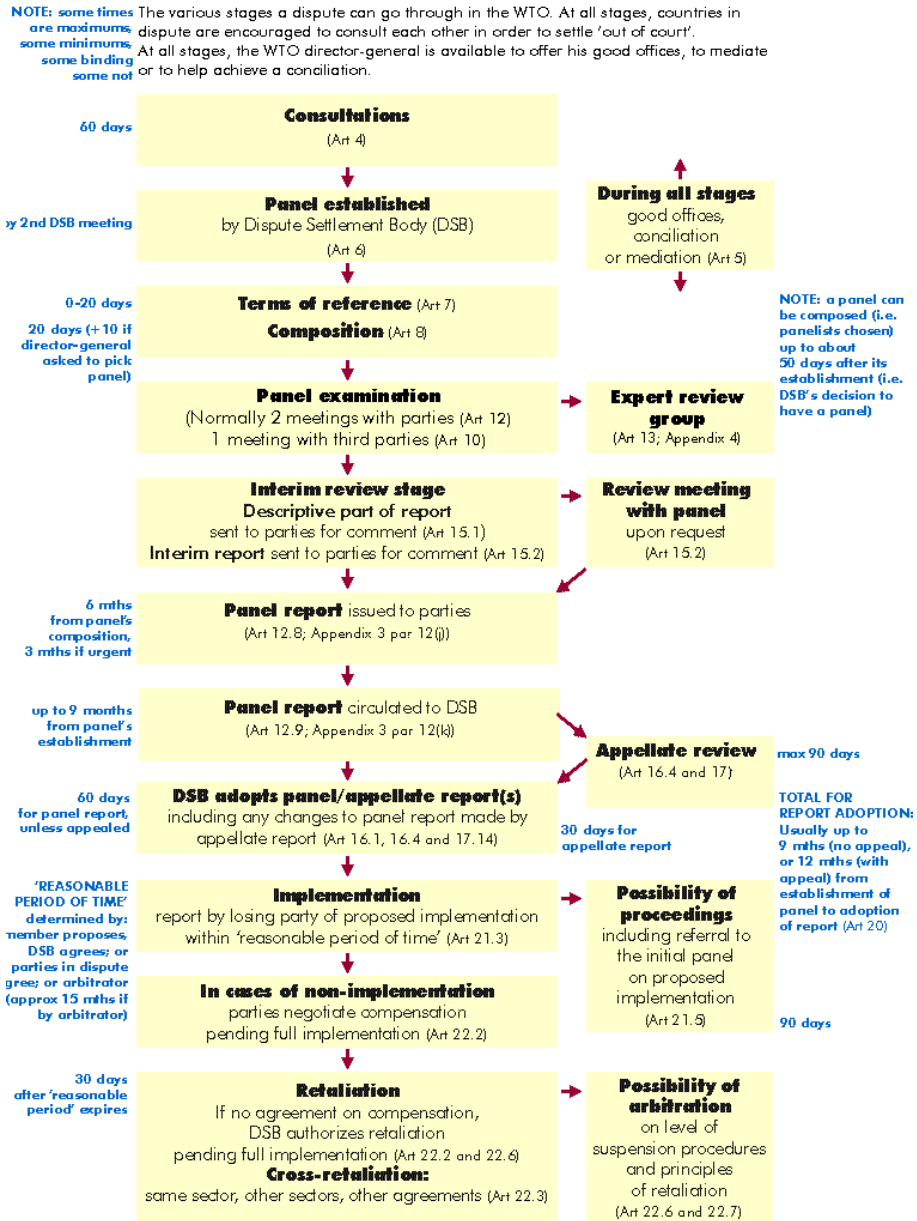
WTO also provides technical assistance to facilitate trade liberalization, both through education on the general economic benefits of liberalization and the specific capacity needed to manage an open economy in a complex environment.

Many nations, including in Asia, are actively testing the tools available to them through WTO to assure a more fair and beneficial trading relationship with the world, be they protection from unfair competition or subsidization, or from arbitrary application of anti-dumping duties to keep out competitive goods. Other questions, for instance the extent to which WTO will stay on track toward eliminating protectionist special treatment for trade in textiles and apparel and enforcing the obligation of rich countries to reduce agricultural tariffs by 36%, are critical to firms in Asian economies.

A final point on the agenda. Many of the issues to be negotiated in this Round are procedural. Some members, including many from Asia, have complained for years about the system of agenda setting and management at WTO. In particular, they object to the power of the “Quad” group – the US, Canada, Japan and the EU – to set the agenda and priorities through side meetings where they hash out their priorities in advance of WTO meetings. The combined weight of those four members can overshadow smaller economies. Similarly, the “Green Room” process, where leading members substantially conclude talks on difficult issues behind closed doors, only then to give a *fait accompli* to other members, has been called undemocratic and in need of change by nations in Asia among others. These perceptions about process contributed to the debacle at the Seattle Ministerial meeting in 1999, where discontents about WTO (and the agenda pushed by the US) led to a failed meeting.

**Exhibit 2: WTO Dispute Settlement System**

**The panel process**



Source: World Trading Organization, [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/disp2\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/disp2_e.htm)

## What is the state of Asian business involvement in WTO affairs today? How does this compare to business involvement in other regions?

Understanding how companies work with their governments in their home countries is critical, because such interaction is the most important factor in determining how effective trade bureaucrats are in WTO negotiations. Research on how firms in Asia influence WTO policies is very limited, and with WTO evolving so quickly, much of what has been written is soon out of date. We have plotted the bureaucratic agencies with lead WTO responsibility for each ABC member nation in Appendix C.

The Asia Business Council conducted a *survey of members* for this report, regarding their involvement in WTO policy formulation in their home countries. The sample size for the survey is too small to provide statistical conclusions about the views of CEOs in Asia. However, the results are illustrative especially because the ABC group consists of some of the most forward-thinking business minds in the region.

Until recently support for China's WTO accession was a unifying theme among Asian business leaders, as evidenced by public speeches, comments at APEC, and surveys. With the accessions of China and Taiwan complete, it is harder to find a common purpose toward WTO affairs, as the survey shows.

The survey showed little consensus about priorities for the new WTO round, or the importance of ongoing WTO work. *Exhibit 3* shows the **WTO topics** respondents were asked to prioritize ranked by the score business leaders assigned them (in terms of importance), the average score each received (5 = highest, 1 = lowest), and a comment as to whether the issue is scheduled to get prominent attention in WTO. What is notable here is the general agreement that agriculture sector reform is the most important agenda item for the new WTO talks, followed by service sector liberalization and investment rules.

**Exhibit 3: ABC Business Leader Priorities for WTO Round, and Likely Status**

Issue	Score	WTO Status for New Round
Agriculture Liberalization	4.2	Agreed for negotiation – highly contentious
Service Sector Liberalization	3.3	Agreed, ongoing negotiations
Investment Rules	3.0	Limited agreement to discuss in 2 <sup>nd</sup> phase
Competition Policy Reform	2.9	Agreed but for 2 <sup>nd</sup> phase – limited goals
Anti-Dumping Reform	2.6	Limited agreement to discuss in 2 <sup>nd</sup> phase
Deregulation/Structural Adj	2.5	Limited agreement, discuss implementation issues
Labor/Environment Rules	1.8	Agreed to discuss environment only, limited agenda

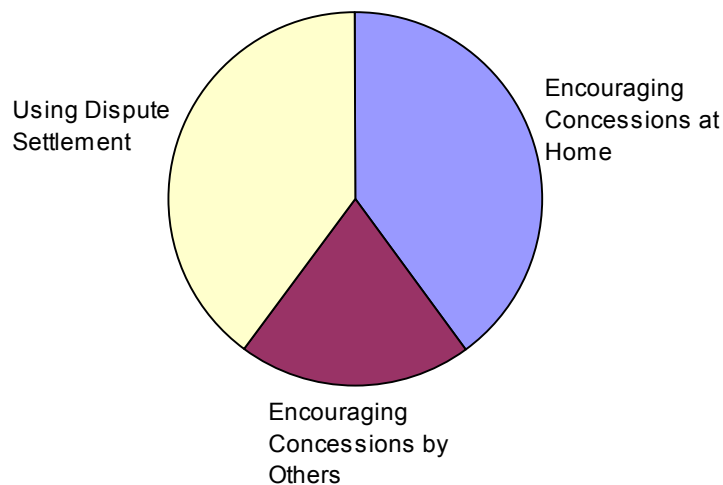
Source: Asia Business Council

*Exhibits 4 and 5* show the perceptions about the ongoing **Usefulness of WTO** and **Priorities for Future WTO** work respectively, and in both cases there is no clear agreement although new rounds have a slight edge on the existing value of WTO, while getting other nations to make accession concessions is slightly *less* important in terms of the future role of the Organization (probably reflecting the fact that with China aboard, the heavy lifting is done in that respect – though Russia and a few other large economies remain).

**Qualitative results from the survey are presented below. In total, 62% of Asia Business Council members sent the survey responded.**

**Exhibit 4: Existing Value of WTO**

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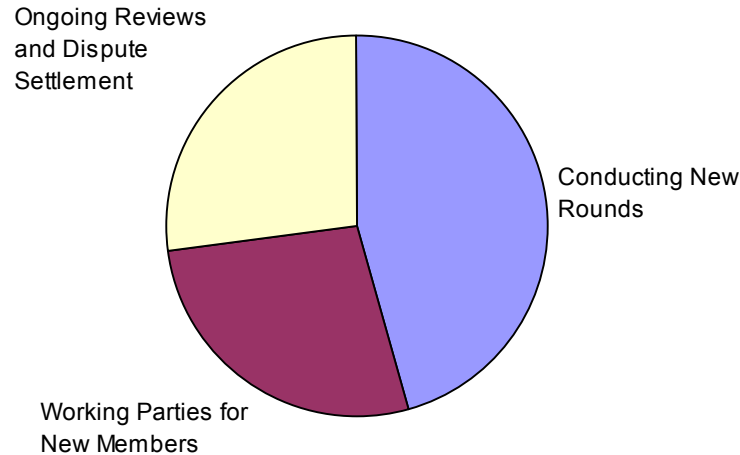


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Source: Asia Business Council

**Exhibit 5: Future Value of WTO**

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Source: Asia Business Council

**Summary of Qualitative Survey Results**

**Level of awareness about WTO policy processes:**

- Asian business leaders believe there is no statutory requirement in their countries that firms have an opportunity to shape WTO policies. But in fact there often are rules for private sector input, suggesting that these channels are not effective or not sufficiently advertised.
- Most business leaders do not believe their firms have tried to shape WTO policy and have not changed the way they work with their governments on WTO in the past 5 years.

**How businesses participate in WTO policy formation:**

- Most business leaders think WTO outcomes are shaped through informal channels not open to all firms, or by formal business associations as intermediaries. Most believe national multi-industry business associations can shape policy, and many belong to these organizations (though the European experience described below shows their limits for dealing with complex trade issues).
- Few business leaders list existing regional trade policy organizations or groups such as ABAC, PECC, APEC or ASEAN as important in helping to achieve their WTO interests.

- About half of respondents identified firms with something to lose from more open trade as having an active role in influencing WTO outcomes. Agricultural industry interests were commonly identified as strongly influential.

#### **What do Asian firms want to achieve through WTO:**

- Most agree that economic liberalization is the goal, but there is little consensus on specific priorities.
- Common view that WTO policy reform is not important compared to domestic reforms, with little awareness of the connection between the two – that is, the role of WTO in encouraging domestic reform.

#### **Globalization, WTO and prospects for Asian businesses:**

- There is uniform agreement that the scope of WTO and its impact on Asian business prospects is growing. Respondents anticipate having to work harder, and that governments would have to work harder, to stay ahead of these impacts.
- At the same time, member firms generally do not have personnel responsible for tracking WTO matters and think few firms in their countries do.

#### **Summary of Literature Review**

The author conducted a review of publications on policymaking and the role of businesses for this report. From this, the following factors were found that relate to the ability of Asian firms to influence trade policy. Not all factors are applicable to all economies, and most factors apply to other regions of the world as well and are not Asia-specific.

##### **Firm Size**

Small firms have difficulty bearing the costs of active government lobbying.

##### **Market Structure**

Many Asian economies are “atomistic” – that is, there are many small firms in the same industry competing against one another and few with dominant market positions. There is reluctance to invest in policy when competitors will benefit as a result, as “free riders”.



### **Ownership**

In many Asian economies, industries that should enjoy a comparative advantage based on competitiveness, and thus an incentive to push for trade liberalization, have significant state ownership, and as a result find it easier to seek trade protection than to adjust to use their comparative advantage. (Examples include the auto sector, agricultural industries, steel and natural resources.)

### **Capture**

In some economies “peak” business associations (that is, those that group industry interests nationwide rather than representing a specific industry or area) representing industry interests are government run and/or compulsory, and the leadership of these groups can be “captured” by government interests.

### **No Chips Left?**

Some Asian countries are nearly free trade already, and have little negotiating leverage at WTO. (Though even in such cases – like Hong Kong – there remain service and regulatory issues worthy of attention, such as deregulation of licensing requirements for professions or removal of minimum fees for securities transactions.)

### **Case Studies: Private Sector Interaction in Trade Policy**

This section of the report presents two examples of business-government interaction in the making of trade policies. The first looks at the rise of active business influence on trade policy in the European Union. The second looks at the case of firms promoting the Information Technology Agreement in the United States.

A third case is provided as Appendix B to this report: a consideration of the Cairns Group of agriculture exporting countries, and the question of whether China – WTO’s newest member – might side with the group to beneficial effect if business weighed in for such an outcome.

### **The European Union – Changing Rules of Policymaking**

Prior to 1987, Europe as a union operated much like GATT prior to the WTO: action required a unanimous vote and a single member could veto an initiative. Subsequently, business representatives in Brussels task was to watch out for policies

which would negatively affect the industries they represented, and “ring the alarm” back home so national delegates could be instructed to veto.<sup>5</sup>

With the Single European Act in the mid-1980s the rules changed. The ability of single states to veto was removed, and at the same time Europe embarked on a deeper integration involving detailed technical and safety standards, for example, and real policy reforms affecting the competitiveness of industries. It became vital for European businesses to *positively* influence policy formation. As the number of European MNCs increased, bureaucratic and less technically specialized “trade federations” were unable to contribute to detail-oriented policy making processes.

Large European (and international) companies developed direct lobbying strategies with the EU Commission, as well as pan-European *industry* groups whose membership were not national peak organizations but individual firms. With the increasing multinational character of large businesses, this created a cleavage between those large companies represented directly, or via membership of firms-only organizations like the European Roundtable of Industrialists (ERT) at a European level, and smaller businesses, which were often forced to rely only on their membership of a national peak organization.

The transition from GATT to WTO involved a very similar switch, from a dispute system in which any member could block a finding, to a system in which veto was not permitted. As a result individual members (and individual industries and companies) have more at stake. In the case of Europe, greater industry activism in shaping trade policy has permitted better information collection from companies about foreign trade barriers as well, and hence greater initiative in filing dispute cases against other members instead of being on the defensive. European readiness to launch cases has helped its firms directly (by working to reduce foreign trade barriers) and indirectly (by making other members more careful not to antagonize European trade interests). This would not be possible without first having developed more active and aware business focus on trade policy at home.

Businesses in the EU have gone beyond the European Roundtable and together with US firms set up the Transatlantic Business Dialogue (TABD) in order to present agreed-upon proposals to policy-makers on various matters (especially when it comes to mutual recognition of standards) prior to EU-US political negotiators sitting down at the table. A similar process exists in the Europe-Japan Business Dialogue Roundtable (which met in 1999-2000 with plans for additional meetings).

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<sup>5</sup> Business interests at this time were dominated by “peak” associations, or umbrella groups representing all the various national industry associations in their respective economies.

## ITA – Industry Leading Liberalization

As the Uruguay Round of GATT negotiations drew to a close in 1994, no agreement had been reached on liberalizing international trade in information technology goods. This was despite a major effort by the United States and others to remove all tariffs and duties in the sector. Since the information technology industry had become globally interdependent, the breakdown of negotiations was a disturbing failure of governments to facilitate undistorted international trade worth over \$1 trillion in 1996<sup>6</sup>.

The failure of the GATT negotiations in 1994 led to the formation of the ITA Coalition. This was a unique coalition of leading information technology companies from all the “quad-countries”, US, Japan, EU and Canada, and their respective national industry associations; the US Information Technology Industry Council (ITIC)<sup>7</sup>, the European Association of Manufacturers of Business Machines and Information Technology (Eurobit)<sup>8</sup> and Japan Electronic Industry Development Association (JEIDA)<sup>9</sup>.

The initiative was spearheaded by IBM<sup>10</sup>, which, with the assistance of ITIC contacted the United States Trade Representative (USTR) to explore alternative options for achieving tariff reductions in information technology. The USTR proved responsive to new initiatives<sup>11</sup>, but emphasized that it would be up to IBM and ITIC to build international support for a new initiative – thus providing the impetus for a private “ITA Coalition”.

IBM and ITIC gathered support among leading US information technology companies, such as Intel and Compaq, for an initiative tentatively called “the International Computer Agreement”. IBM and ITIC faced a number of issues in widening the coalition to Japanese and European companies. Obtaining Japanese support proved relatively easy, as Japan already had zero tariffs on the products

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<sup>6</sup> Yearbook of World Electronics Data 1996 (Oxford, Elsevier Advanced Technology, 1996), Vol. 3, table 2,3,4, p. 13.

<sup>7</sup> ITI counts among its members IBM, Dell Computer Corporation, Intel Corporation, Microsoft, Cisco Systems and Motorola. For further information: <http://www.itic.org>

<sup>8</sup> Eurobit counts among its members Nokia, Ericsson, Siemens and other large European IT manufacturers. For additional information: <http://www.eito.com/def-euro.htm>

<sup>9</sup> JEIDA consists of 97 (as of August 2000) corporate manufacturers of electronic products. For additional information: <http://it.jeita.or.jp/jhistory/index-e.html>

<sup>10</sup> This paragraph is widely based on an interview with Mr. Aaron Cross, Public Policy Director at IBM and Co-chair of the ITA-Coalition, conducted in February 2002.

<sup>11</sup> With the Uruguay Round Agreement Act (URAA) of December 8<sup>th</sup> 1994, the US President was authorized by Congress to continue negotiations to eliminate tariffs in the electronics sector.

concerned, and Japanese companies were more concerned that no additional demands be presented to them. In Europe the European Commission and part of European business community wanted to exclude semiconductors from an ITA<sup>12</sup>. The German company Siemens, a leading European information technology and semiconductor producer, was pivotal in convincing other European IT producers, and also the European Commission, of the desirability of eliminating tariffs in the sector. After this groundwork by Siemens, semiconductors was included among the sectors proposed for coverage by the “International Computer Agreement”, and the agreement thus became broader in scope and became known as the “International Technology Agreement”, or ITA.

With the ITA, international industry jointly agreed to a set of recommendations to be presented to the leaders of the G-7 nations’ Global Information Infrastructure (GII) Summit in Brussels in February 1995. The most urgent recommendation presented was the complete elimination of tariffs and duties in most information technology goods. The Transatlantic Business Dialogue (TABD) in their first meeting in Seville in November 1995 also endorsed the ITA in their suggestions to a US-EU Summit in December 1995. Support for the ITA was aided by an APEC leaders’ endorsement at their November 1996 meeting in the Philippines, which was accompanied by numerous industry statements of support. Finally, the ITA was outlined during the WTO Ministerial in Singapore in 1996 with a Ministerial Declaration on Trade in Information Technology Products, issued by countries covering 83% of world trade<sup>13</sup>. The first ITA-mandated tariff reductions came into effect on July 1, 1997<sup>14</sup>. Today, a formal WTO Committee carries out the provisions agreed in the Singapore Ministerial Declaration.

The ITA was an autonomous initiative taken by a determined group of firms and industry associations. At the initial stage ITIC and the American Electronics Association (AEA)<sup>15</sup> functioned as the administrative center for the ITA Coalition, co-chaired by Aaron Cross of IBM and Joe Tasker of Compaq. The two industry organizations paid the administrative costs of putting together the Coalition, permitting other companies to join free of charge. Most importantly, the industry associations served to overcome mutual distrust among companies in a fiercely competitive industry, by providing a *neutral* platform for cooperation.

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<sup>12</sup> This European opposition was the main reason that the GATT negotiations on the information technology sector had originally failed.

<sup>13</sup> These were: Australia, Canada, Taiwan, EU-15, Hong Kong, Iceland, Indonesia, Japan, Korea, Norway, Singapore, Switzerland, turkey and the US.

<sup>14</sup> By this time the ITA had been joined by the Czech Republic, Costa Rica, Estonia, India, Israel, Malaysia, New Zealand, Romania, Slovak Republic, Thailand, El Salvador, Panama, the Philippines and Poland.

<sup>15</sup> For additional information, please refer to <http://www.aeanet.org/>

The sectors involved in the ITA are distinctively global, as is their stomach for 100% free trade. But the ITA illustrates the ability of like-minded business people within a very competitive industry in the new globalizing economy to come together, initiate and carry through to WTO a major international trade policy proposal of mutual benefit. More recent events, like the US-EU Mutual Recognition Agreement on selected industrial standards, have also benefited from such an approach. The negotiation of mutual industrial or safety standards is inherently very complex and most likely will not proceed at optimal speed without similar direct participation by technical experts from corporate entities.

### **Conclusion: Pathways to Participation**

This report has described how the WTO expanded on GATT, and what directions the new round of WTO talks will take. It summarized the level of awareness and involvement in WTO affairs of Asian business leaders today. And it explored cases where business leaders in other regions expanded their involvement in trade policy to deal with new circumstances and what kind of opportunities call for greater involvement today. From this evidence, we can conclude by listing areas where greater Asian business participation in WTO may be warranted, with examples of how such participation takes place in other regions.

Most firms that attempt to influence WTO employ staff within the firm with responsibility for government relations and public policy issues. While business leaders can influence WTO policy on an ad-hoc basis, the transition to a more active role requires dedicated personnel with a different set of career goals than the typical executive, and the ability to devote his or her time to this set of issues. It is always challenging for individuals in these positions to demonstrate their contribution to the “bottom line”, because it is less tangible. Therefore, a clear and vocal commitment from the business leader is important to empower such an employee.

### **Technical and business know-how**

The WTO is embarked on policymaking and trade liberalization activities that require technical and business-specific know-how. In the services sectors, negotiations are already underway that will influence the setting of services trade rules within half a decade. These include financial services, telecommunications, engineering, accounting and many other areas where negotiators will take a backseat to industry experts in deciding what is necessary in order to achieve benefits from freer trade.

Participation: In Europe, firms took a passive role and got involved late in the policy process, until they realized real changes to their competitive landscape would result from policymaking. For firms to shape governments’ ability to be “players” in WTO talks, they must have an industry advisory role early on in the process.

## **Balancing Special Interests**

It is evident from our survey that Asian businesses see informal modes of shaping WTO policies as the way to go. Special interest non-governmental organizations, especially those focused on labor standards and the environment have chosen to take a more direct route. By creating public awareness campaigns, often on the streets outside of international meetings, they have forced the WTO to change its agenda to accommodate their issues. Special interest groups often have legitimate causes. But business interests matter too, whether they emphasize job creation gains of trade or the importance of environmental protection measures that are consistent with sustainable economic development.

Participation: Businesses balance special interests mostly through educational activities, such as sponsored research, spokespersonship on controversial issues, public relations and leadership of advisory groups and study groups designed to create consensus and cooperation. In the United States, for example, businesses jointly and separately lobby and make campaign contributions to maintain access to policymakers as well.

## **WTO for Market Access**

In Europe and the United States, firms have processes for informing their governments of market access barriers hurting their businesses. Europe, for example, has a formal “133 Committee<sup>16</sup>” that advises the European Commission when trade action is called for, but there is also a “Trade Barrier Regulation” that permits individual firms to petition the Commission directly to address a foreign trade barrier.

Participation: Asian member economies of WTO already have rights to seek redress under WTO for inadequate access to foreign markets. Business leaders can raise awareness of the importance of these rights by calling upon local policymakers to identify the process by which firms can seek remedies through their WTO bureaucracies. In Europe a “Market Access Strategy” (MAS) was consciously taken in order to deflect attention from Europe as a defendant in WTO and instead take the initiative as a plaintiff.<sup>17</sup>

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<sup>16</sup> Article 133 in the Treaty of Rome specifies that all decisions concerning the EU foreign commercial policy are to be made by the EU Council, consisting of representatives of the 15 member states.

<sup>17</sup> See Europe’s MAS website (<http://mkaccdb.eu.int/>) with its database of foreign trade barriers, based 90% on reports from private industry.

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## **Websites**

The World Trade Organization

[www.wto.org](http://www.wto.org)

The European Commission

[http://europa.eu.int/comm/index\\_en.htm](http://europa.eu.int/comm/index_en.htm)

The United States Trade Representative

<http://www.ustr.gov/>

United States International Trade  
Commission

<http://www.usitc.gov/>

ITIC

[www.itic.org](http://www.itic.org)

Eurobit

<http://www.eito.com/def-euro.htm>

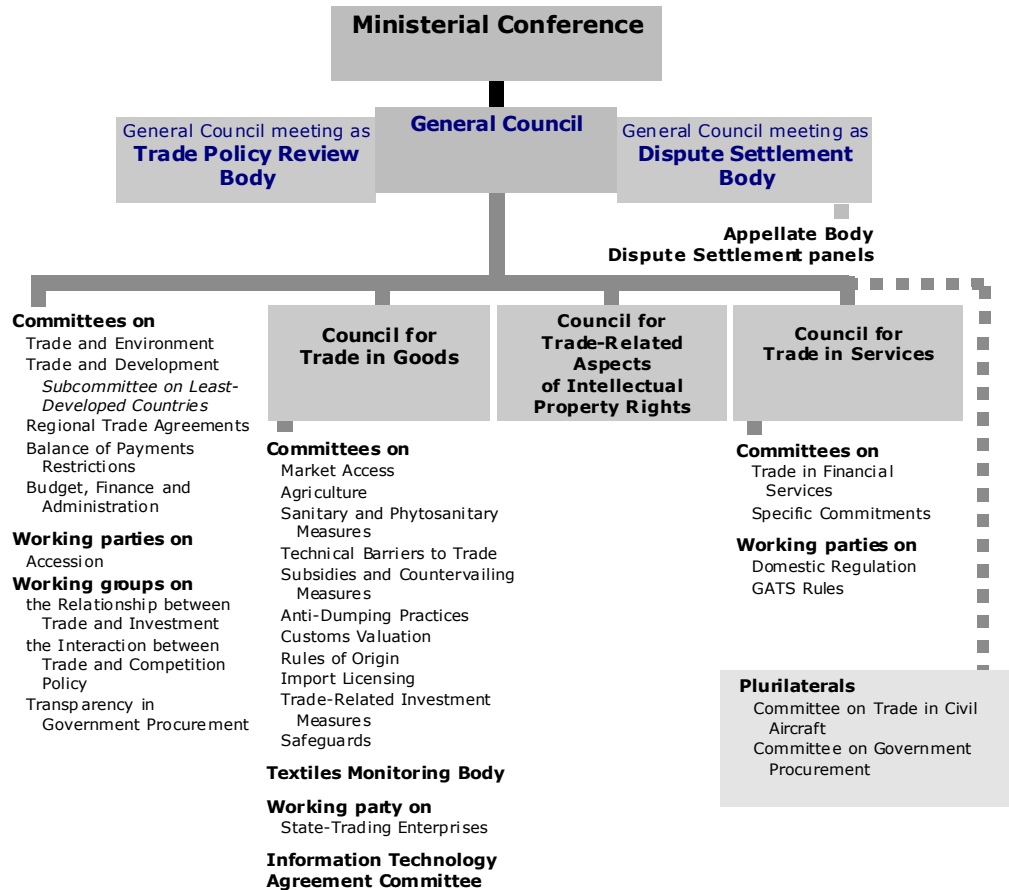
JEIDA

<http://it.jeita.or.jp/jhistory/index-e.html>

ASA

<http://www.aeanet.org/>

## Appendix A: Organizational Structure of the WTO



Source: WTO Website: [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/orq2\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/orq2_e.htm)

## **Appendix B: China, WTO and the Cairns Group**

The Cairns Group is a coalition of agriculture exporting countries in the WTO, formed during the Uruguay Round to try to break a deadlock over agricultural trade that almost derailed the whole negotiation.<sup>18</sup> The biggest holdout against an agreement to liberalize agriculture trade was the European Union, which sought to preserve huge subsidies for its farmers and agriculturalists, with support from Japan and a few other players. The United States preferred a more liberal outcome, as did many developing countries for which agriculture exports are one of few comparative advantages. The Cairns Group is a rare combination of “north” and “south” economies, and was effective at achieving steps toward freer agriculture trade in the Uruguay Round.<sup>19</sup>

However, today 80 percent or more of world agricultural export subsidies are still accounted for by the European Union alone, according to the Group, while only 25 WTO Members (most of them developed) are entitled to use them under the WTO agreements. Therefore the Group is leading the charge for deeper negotiation in the new WTO round agreed at Doha. Cairns’ efforts were a major reason why it was decided to negotiate major agriculture subsidies reductions at the Ministerial.

China has only just entered WTO, but it already faces some important questions about the role it will play. While many observers expected China to be a “go slow” member in WTO, it is conceivable that it may wish to side with the “go fast” crowd in the Cairns Group coalition. The reason is that China has a solid comparative advantage in labor-intensive agricultural production such as fruits and vegetables, even though it is uncompetitive in land intensive crops like grains. Trade barriers to these competitive Chinese exports are high both in the Asian region and in Europe. If China is to adjust its agriculture sector away from uncompetitive grain farming and toward competitive small crops farming, that is – move employment to where it is sustainable and can earn a living, then reducing trade distorting tariffs and other barriers in this sector is critical.

Were China to put its weight with the Cairns Group, it would send a powerful signal to Europe that developing countries are tired of industrial countries that want to export computers but want to keep out competitive carrots and radishes at the same time. However China has not yet decided to take this side: what role would an active private sector play in helping it to do so?

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<sup>18</sup> Argentina, Australia, Bolivia, Brazil, Canada, Chile, Columbia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay. The United States is loosely aligned with the group.

<sup>19</sup> A 36% cut in industrial country agriculture tariffs (average) over 5 years, 10% cut for developing countries.

In the United States, for example, private sector interests would testify before Congress on expected job gains and losses from freer agricultural trade, estimates of what the costs of present inefficiencies are, and models predicting the adjustments that would take place as a result of liberalization.<sup>20</sup> Both businesses that would benefit and those that would be threatened contribute to this process. A similar process of information gathering takes place at the US Trade Representative's Office, and in public forums. By actively and publicly publicizing the effects of liberalization, those opposed are made to better justify their opposition to more open trade, and often to compromise.

In the case of China, big grain distribution and processing industries still have heavy state ownership, and are not accustomed to actively supporting change. Smaller labor-intensive farming businesses are generally unable, politically, to make their views heard in Beijing with equal weight. The public perception is that China's agricultural sector is uniformly uncompetitive, and that a slower pace of international trade liberalization is therefore in China's interests.

More active business influence in China could help. First, business can put together the resources needed to educate the public that – in this example – agriculture is not uniform, and that China may have more to gain from crop exports than it has to lose in the land-intensive grains sector. Second, the business sector in other regions, especially Europe and the United States but increasingly in Japan and elsewhere as well, can take an active role in supporting economic research to better demonstrate the gains from careful WTO policy. This could be done in China as well (and increasingly it is).

A more competitive, better adjusted Chinese agricultural sector benefits more than agro-businesses in China, it supports consumer demand for all goods thanks to better wages and new jobs, secondary industries like food processing and packaging, and greater stability than dangerously vulnerable jobs in uncompetitive sectors. The business sector is the only group in China in a position to educate Chinese policymakers on these points – but as things stand, the debate would likely be one sided, with big grain companies giving their view only to trade policymakers. Therefore it makes sense to identify pan-industry forums to communicate these messages.

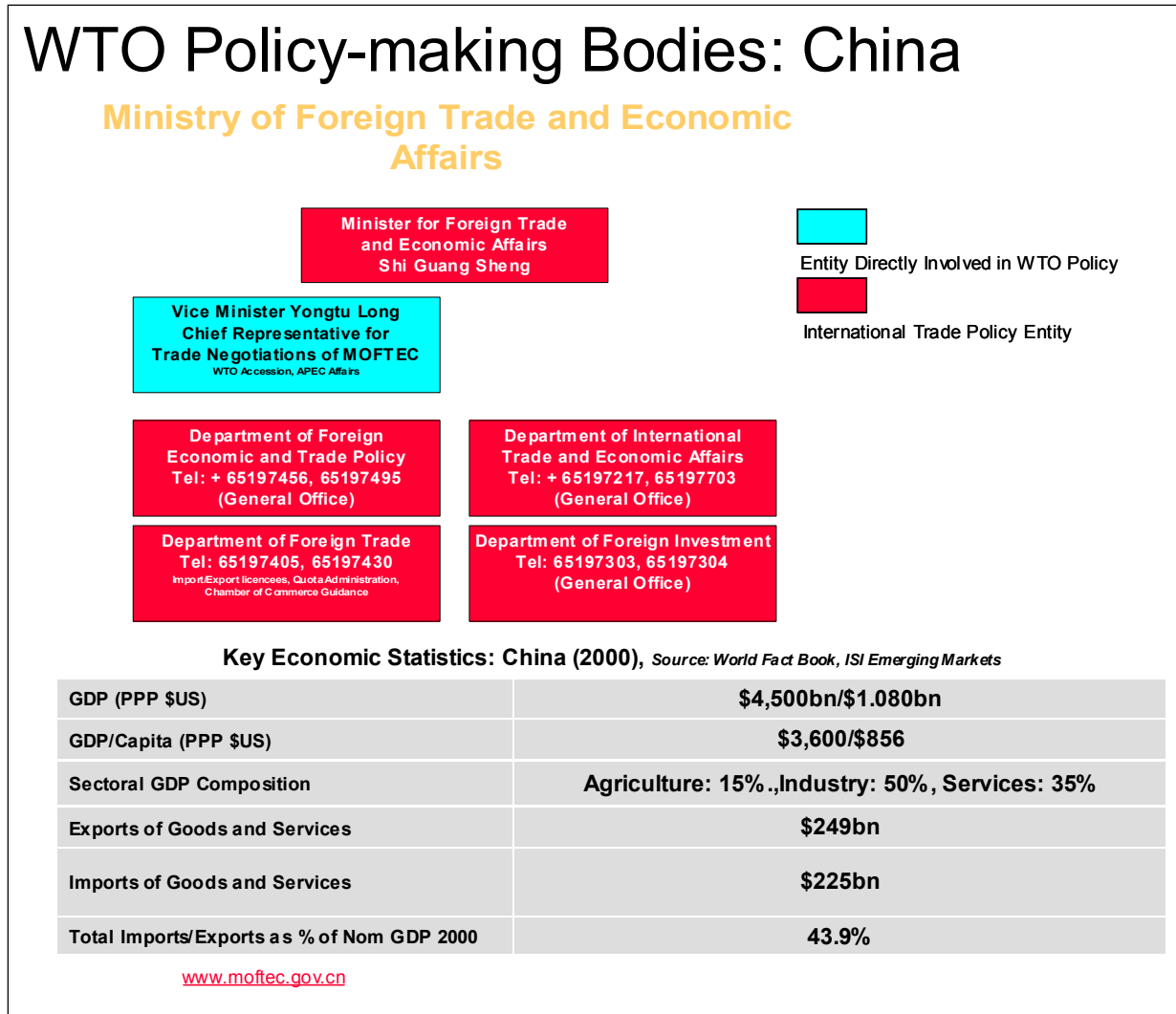
The question of Chinese support for the Cairns Group is a good one because 1) there is already internal awareness of this opportunity in China and policymakers may be at a “tipping point”; 2) it is relatively easy to see the benefits of China taking this

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<sup>20</sup> The Institute for International Economics, with which the author was long affiliated, conducts such studies on a non-profit basis, and has indeed helped policymakers measure the costs and benefits of trade liberalization for about 20 years.

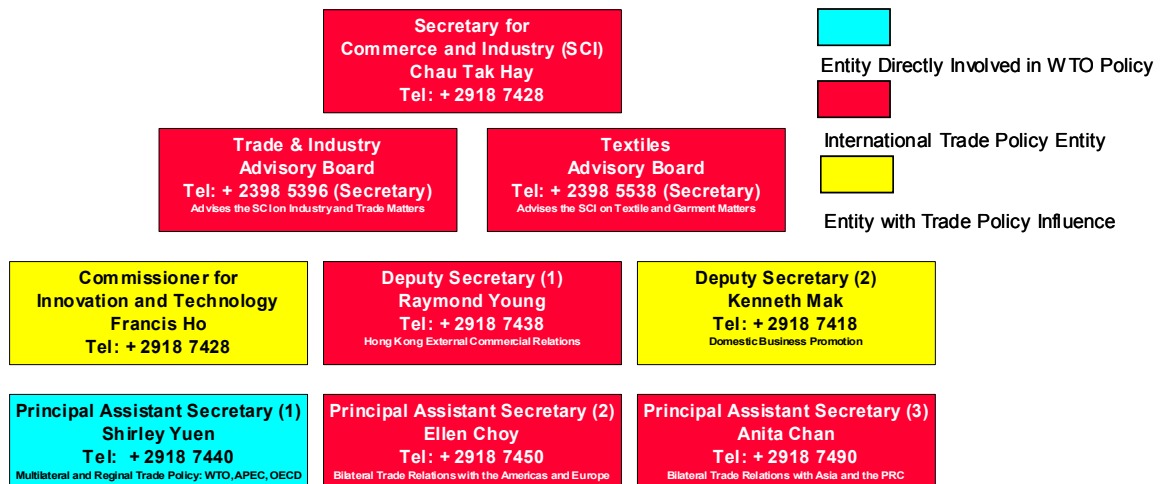
unexpected course; 3) the key first step is for business leaders to learn that they have these opportunities to effect policy on very important issues – which may be the case for business leaders throughout Asia, judging by the limited awareness of WTO issues shown in the ABC survey. In other words, the good news is how much untapped potential there is for business to help create benefits by interacting with policymakers.

## Appendix C: WTO Policy Making Governmental Infrastructure in Asian Countries



# WTO Policy-making Bodies: Hong Kong

## Commerce and Industry Bureau



### Key Economic Statistics: Hong Kong (2000), Source: World Fact Book, EIU

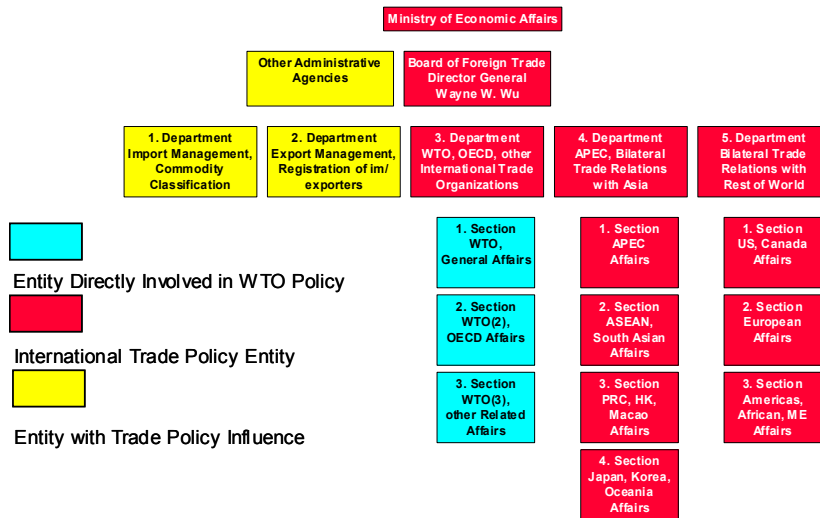
GDP (PPP \$US/Nom \$US 2000)	\$181bn/\$163bn
GDP/Capita (PPP \$US/Nom \$US 2000)	\$25,400/\$24,070
Sectoral GDP Composition	Agriculture: .1%, Industry: 14.3%, Services: 85.6%
Exports of Goods and Services	\$245bn
Imports of Goods and Services	\$237bn
Total Imports/Exports as % of Nom GDP 2000	295%

[www.info.gov.hk/cib](http://www.info.gov.hk/cib)



# WTO Policy-making Bodies: Taiwan

## Ministry of Economic Affairs



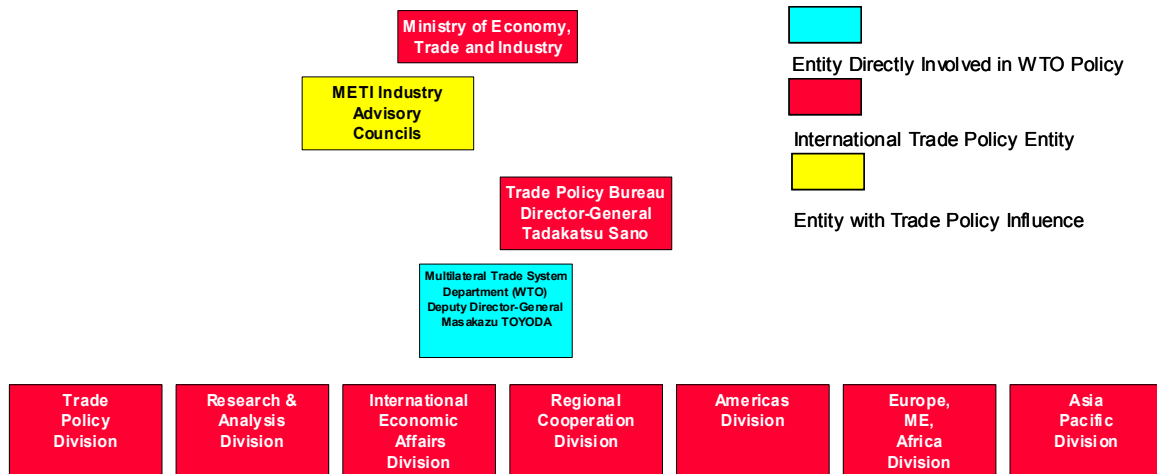
### Key Economic Statistics: Taiwan (2000), Source: World Fact Book, EIU, IMF

GDP (PPP \$US/Nom \$US 2000)	\$386bn/\$310bn
GDP/Capita (PPP \$US/Nom \$US 2000)	\$17,400/\$13,916
Sectoral GDP Composition	Agriculture: 3%, Industry: 33%, Services: 64%
Exports of Goods and Services	\$171bn
Imports of Goods and Services	\$156bn
Total Imports/Exports as % of Nominal GDP 2000	105.8%

[www.trade.gov.tw](http://www.trade.gov.tw)

# WTO Policy-making Bodies: Japan

## Ministry of Economy, Trade and Industry



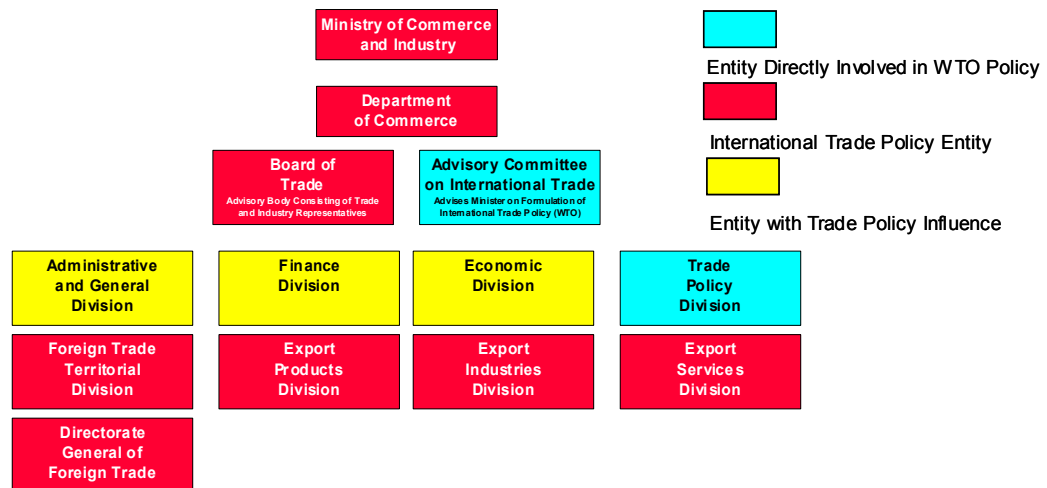
### Key Economic Statistics: Japan (2000), Source: World Fact Book, EIU

GDP (PPP \$US/Nom \$US 2000)	\$3,150bn/\$4,755bn
GDP/Capita (PPP \$US/Nominal \$US 2000)	\$24,900/\$37,467
Sectoral GDP Composition	Agriculture: 24%., Industry: 25%, Services: 51%
Exports of Goods and Services	\$465bn
Imports of Goods and Services	\$396bn
Total Import/Export as % of Nominal GDP 2000	18%

[www.meti.go.jp](http://www.meti.go.jp)

# WTO Policy-making Bodies: India

## Ministry of Commerce and Industry



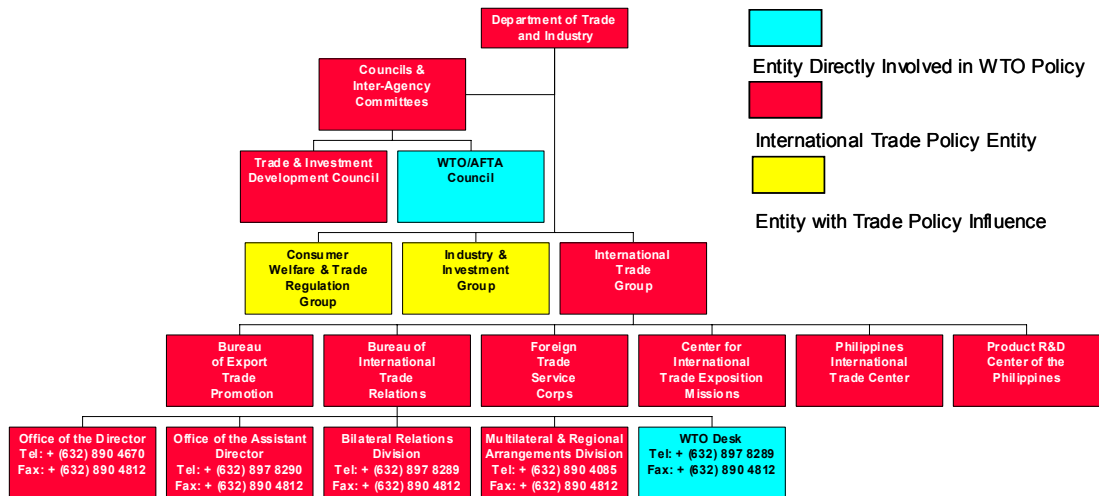
### Key Economic Statistics: India (2000), Source: World Fact Book, ISI Emerging Markets

GDP (PPP \$US/Nom \$US 2000)	\$2,200bn/\$478bn
GDP/Capita (PPP \$US/Nominal \$US 2000)	\$2,200/\$490
Sectoral GDP Composition	Agriculture: 24%, Industry: 25%, Services: 51%
Exports of Goods and Services	\$79.6bn
Imports of Goods and Services	\$81.9bn
Total Import/Export as % of Nominal GDP 2000	33.8%

[www.commin.nic.in](http://www.commin.nic.in)

# WTO Policy-making Bodies: Philippines

## Department of Trade and Industry



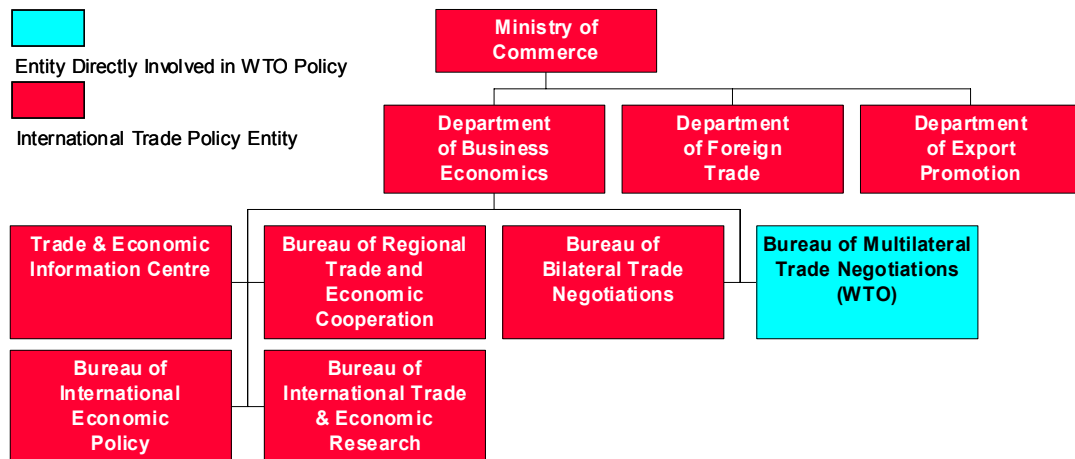
### Key Economic Statistics: Philippines (2000), Source: World Fact Book, EIU, IMF

GDP (PPP \$US/Nom \$US 2000)	\$310bn/\$75.2bn
GDP/Capita (PPP \$US/Nom \$US 2000)	\$3,800/\$926
Sectoral GDP Composition	Agriculture: 20%., Industry: 32%, Services: 48%
Exports of Goods and Services (1999)	\$39.2bn
Imports of Goods and Services (1999)	\$36.8bn
Total Import/Exports as % of Nom GDP 1999	99%

[www.dti.gov.ph](http://www.dti.gov.ph)

# WTO Policy-making Bodies: Thailand

## Ministry of Commerce

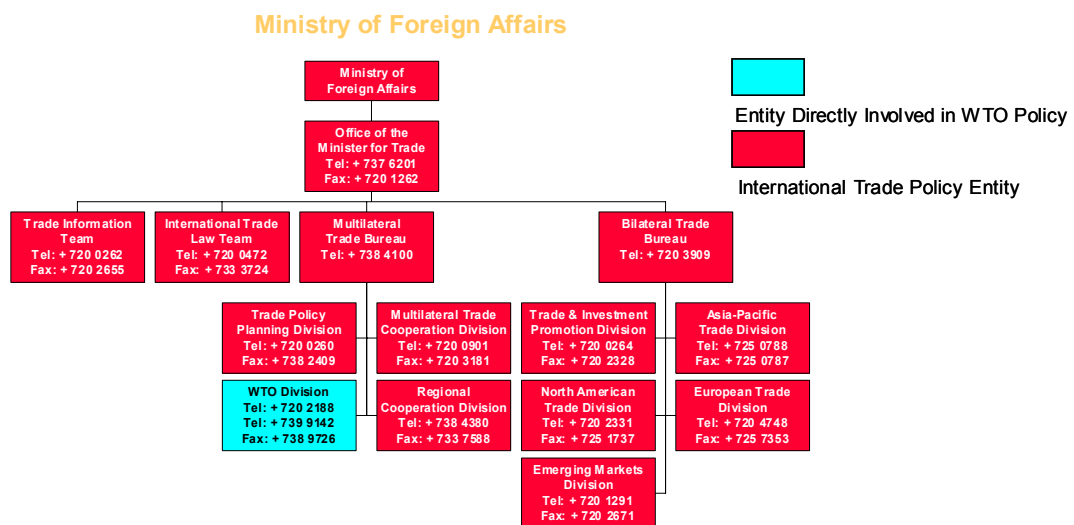


**Key Economic Statistics: Thailand (2000)**, Source: World Fact Book, EIU, IMF

GDP (PPP \$US/Nom \$US 2000)	\$413bn/\$121.9bn
GDP/Capita (PPP \$US/Nom \$US 2000)	\$6,700/\$1,957
Sectoral GDP Composition	Agriculture: 13%., Industry: 40%, Services: 47%
Exports of Goods and Services	\$82bn
Imports of Goods and Services	\$71bn
Total Imports/Exports as % of Nom GDP 2000	125.4%

[www.dti.gov.ph](http://www.dti.gov.ph)

# WTO Policy-making Bodies: South Korea



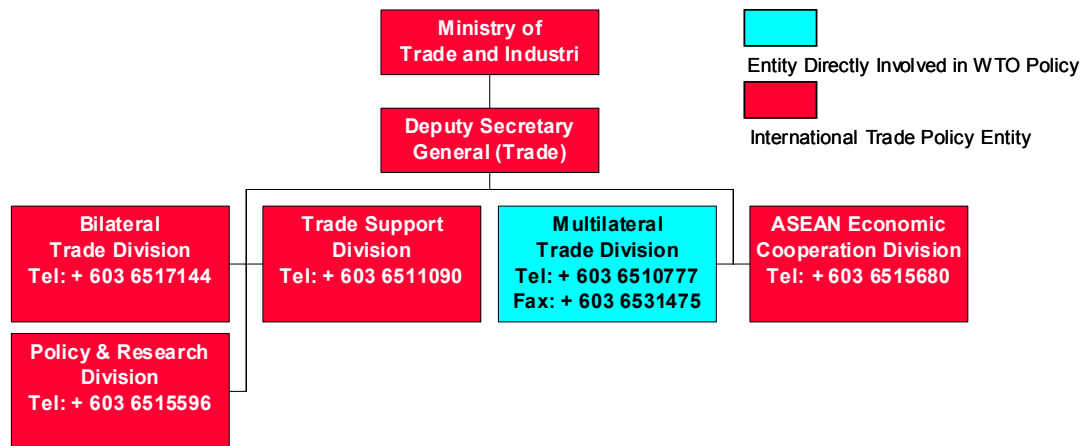
**Key Economic Statistics: South Korea (2000)**, Source: World Fact Book, EIU, MF

GDP (PPP \$US/Nom \$US 2000)	<b>\$765bn/\$456bn</b>
GDP/Capita (PPP \$US/Nom \$US 2000)	<b>\$16,100/\$9,656</b>
Sectoral GDP Composition	<b>Agriculture: 5.6%., Industry: 41.4%, Services: 53%</b>
Exports of Goods and Services	<b>\$206bn</b>
Imports of Goods and Services	<b>\$193bn</b>
Total Imports/Exports as % of Nom GDP 2000	<b>87.5%</b>

[www.mofat.go.kr](http://www.mofat.go.kr)

# WTO Policy-making Bodies: Malaysia

## Ministry of Trade and Industry



**Key Economic Statistics: Malaysia (2000)**, Source: World Fact Book, EIU, IMF

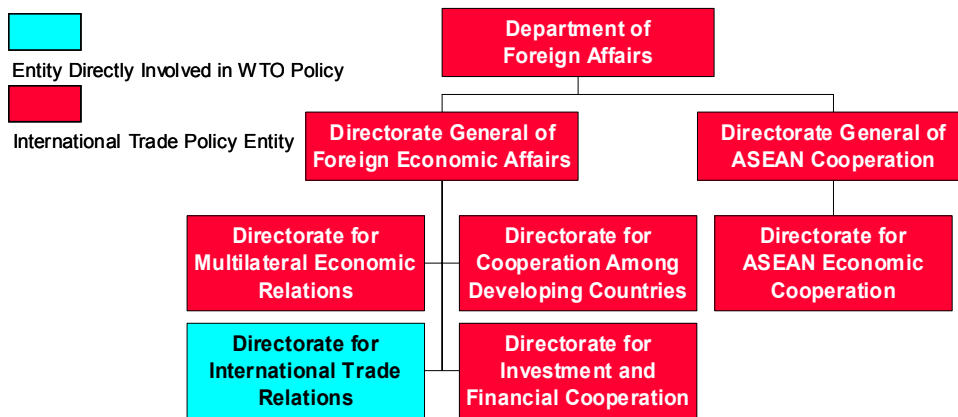
GDP (PPP \$US/Nom \$US 2000)	\$224bn/\$89.3bn
GDP/Capita (PPP \$US/Nom \$US 2000)	\$10,300/\$3,848
Sectoral GDP Composition	Agriculture: 14%, Industry: 44%, Services: 42%
Exports of Goods and Services	\$96bn
Imports of Goods and Services	\$76bn
Total Imports/Exports as % of Nom GDP 2000	193%

[www.miti.gov.my](http://www.miti.gov.my)



# WTO Policy-making Bodies: Indonesia

## Department of Foreign Affairs



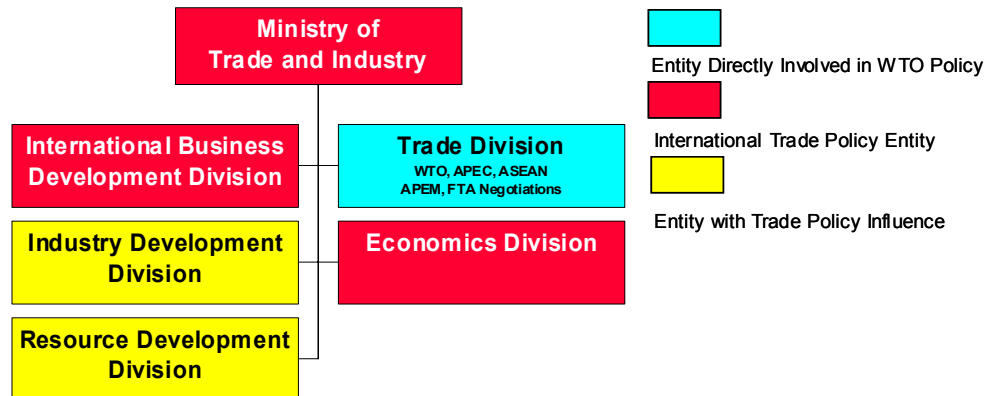
**Key Economic Statistics: Indonesia (2000)**, Source: World Fact Book, EIU, IMF

GDP (PPP \$US/Nom \$US 2000)	\$654bn/\$153.3bn
GDP/Capita (PPP \$US/Nom \$US 2000)	\$2,900/\$721
Sectoral GDP Composition	Agriculture: 21%, Industry: 35%, Services: 44%
Exports of Goods and Services	\$56bn
Imports of Goods and Services	\$42bn
Total Imports/Exports as % of Nom GDP 2000	64%

[www.dfa-deplu.go.id](http://www.dfa-deplu.go.id)

# WTO Policy-making Bodies: Singapore

## Ministry of Trade and Industry



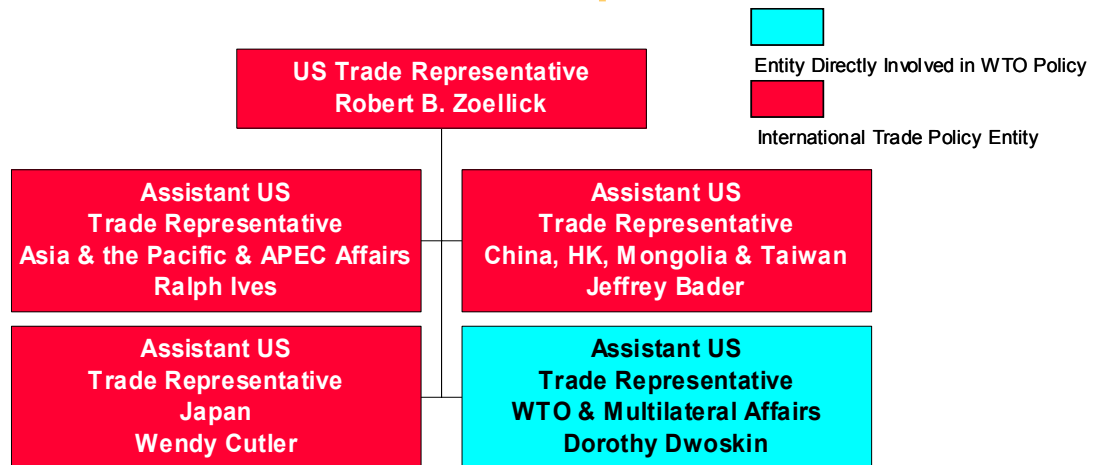
Key Economic Statistics: Singapore (2000), Source: World Fact Book, EIU, IMF

GDP (PPP \$US/Nom \$US 2000)	\$109.8bn/\$92.3bn
GDP/Capita (PPP \$US/Nom \$US 2000)	\$26,500/\$22,458
Sectoral GDP Composition	Agriculture: N/A, Industry: 30%, Services: 70%
Exports of Goods and Services	\$286bn
Imports of Goods and Services	\$220bn
Total Imports/Exports as % of Nom GDP 2000	548%

[www.mti.gov.sg](http://www.mti.gov.sg)

# WTO Policy-making Bodies: United States

## Office of the US Trade Representative



**Key Economic Statistics: United States (2000)**, Source: World Fact Book, EIU, MF

GDP (PPP \$US/Nom \$US 2000)	\$9,963bn/\$9,963bn
GDP/Capita (PPP \$US/Nom \$US 2000)	\$36,200/\$36,200
Sectoral GDP Composition	Agriculture: 2%, Industry: 18%, Services: 80%
Exports of Goods and Services	\$1,070bn
Imports of Goods and Services	\$1,438bn
Total Imports/Exports as % of Nom GDP 2000	25.2%

[www.ustr.gov](http://www.ustr.gov)

### Appendix D: Case Study: The Dispute Settlement Body Timetable in Practice

On January 23 1995, Venezuela complained to the Dispute Settlement Body that the United States was applying rules that discriminated against gasoline imports, and formally requested consultations with the United States.

The case arose because the United States applied stricter rules on the chemical characteristics of imported gasoline than it did for domestically-refined gasoline. Venezuela (and later Brazil) said this was unfair because US gasoline did not have to meet the same standards – it violated the *National Treatment* principle and could not be justified under exceptions to normal WTO rules for health and environmental conservation measures.

Time (0 = Start of case)	Target/actual period	Date	Action Taken
- 5 Years		1990	US Clean Air Act amended
- 4 Months		September 1994	US restricts gasoline imports under the Clean Air Act
0	60 Days	23 <sup>rd</sup> January 1995	Venezuela complains to the WTO Dispute Settlement Body, and asks for consultation with the US
+ 1 Month		24 <sup>th</sup> February 1995	Consultations take place – Fail
+ 2 Months		25 March 1995	Venezuela asks Dispute Settlement Body for a Panel
+ 2 ½ Months	30 Days	10 <sup>th</sup> April 1995	Dispute Settlement Body agrees to appoint panel. US does not block. (Brazil starts complaint, requests consultation with US.)

Time (0 = Start of case)	Target/actual period	Date	Action Taken
+ 3 Months	9 Months	28 <sup>th</sup> April 1995	Panel appointed. (31 <sup>st</sup> May, panel assigned to Brazilian complaint as well)
+ 6 Months		10-12 <sup>th</sup> July and 13-15 <sup>th</sup> July 1995	Panel meets
+ 11 Months		11 <sup>th</sup> December 1995	Panel gives interim report to US, Venezuela and Brazil for comment
+ 1 Year		29 <sup>th</sup> January 1996	Panel circulates final report to Dispute Settlement Body
+ 1 Year, 1 Month	60 Days	21 <sup>st</sup> February 1996	US appeals
+ 1 Year, 3 Months		29 <sup>th</sup> April 1996	Appellate Body submits report
+ 1 Year, 4 Months	30 Days	20 <sup>th</sup> May 1996	Dispute Settlement Body adopts panel and appeal reports
+ 1 year, 10 ½ Months		3 <sup>rd</sup> December 1996	US and Venezuela agree on what US should do (implementation period is 15 months from May 20 <sup>th</sup> 1996)
+ 1 Year, 11 ½ Months		9 <sup>th</sup> of January 1997	US submits first monthly report to Dispute Settlement Body on status of implementation
+ 2 Years, 7 Months		19-20 <sup>th</sup> August 1997	US signs new regulation (19 <sup>th</sup> May). End of agreed implementation period (20 <sup>th</sup> May).

Source: The World Trading Organization, [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/disp3\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/disp3_e.htm)

### ***Asia Business Council***

Headquartered in Hong Kong, the Asia Business Council is a consortium of business leaders with operations in Asia who are deeply vested in the continued economic development and competitiveness of the region. The Council is committed to the short-, medium- and long-term viability of Asia as a critical player within the global marketplace. The Council's mission is as follows:

- To foster dialogue and understanding among Asian business leaders.
- To improve the efficacy of the private sector in promoting continued economic growth and development in the region.
- When there is consensus, to be a collective voice to influence other corporations, governments, multilateral organizations and members of civil society.

### ***About the Authors***

Daniel H. Rosen is currently Director of Research for Pacific Solutions Group, LLC, a Beijing and Shanghai based Investment Bank advising private sector Chinese firms. Previously, he served as Senior Advisor for International Economic Affairs at the White House National Economic Council. From 1993 to 1999 he was Research Fellow at the Institute for International Economics in Washington, DC, where his books *Behind the Open Door: Foreign Enterprises in the Chinese Marketplace* and *The New Economy and APEC* were published in 1999 and 2002 respectively. He is an Adjunct Professor at Columbia University Graduate Schools of International and Public Affairs, and continues to write and speak widely about economic developments in and related to Greater China.

Jacob Kirkegaard is a Masters Degree candidate at Columbia University. He has worked extensively in European and international trade politics and specializes in comparative economic development and reform.