

Weekly Trade News Digest

International Centre for Trade and Sustainable Development

May 26, 1997

Vol. 1, Number 17

Table of Contents

- PBEC Still Unsure About Financial Services Pact
- EU Entwined Over Cotton
- Trade War May Loom if EU Boeing Objection Prevails
- Trade Deficit Shrinks As Exports Expand
- Argentina Big Winner in Foreign Direct Investment
- EU Announces Banana Appeal
- Events/Resources

PBEC STILL UNSURE ABOUT FINANCIAL SERVICES PACT

The Pacific Basin Economic Council (PBEC) held its 30th annual meeting last week in Manila, where the international group of business executives and chief executive officers were unable to reach consensus on proceeding with a financial services agreement. The agreement, a WTO initiative, aims at liberalizing the financial services market. The chairman of the PBEC meeting, Ramon R. del Rosario Jr. said that the PBEC will probably need a few more months to draw up a position paper on the pact; he expressed doubts that it would be ready in time for the July deadline for countries' liberalization proposals. At issue for PBEC members is how far countries should go to liberalize their financial services sector. Malaysian Prime Minister Datuk Seri Anwar Ibrahim has urged developing countries to be cautious in their proposals. "We should be supportive of financial liberalization but we must also assure that it is advantageous to all economies," Ibrahim said. Speaking at the meeting, WTO Director-General Renato Ruggiero said that liberalizing their financial sectors will help developing countries secure the foreign capital needed to finance infrastructure projects and to fuel economic growth. Asia in particular, Ruggiero noted, could raise the over \$1 trillion dollars needed for infrastructure development by joining the financial services pact. The WTO hopes to conclude the financial services agreement by the end of 1997.

Also at the PBEC meeting last week, member economies urged the WTO to immediately admit China, Russia and Taiwan to the international trade organization. The PBEC also called on the Asia Pacific Economic Cooperation (APEC) forum to move from an agenda-setting body and take action to eliminate barriers to trade and investment. It also called for the establishment of effective regimes for the protection of intellectual property rights to help bolster transfer of technology and development.

"PBEC: No Consensus on Financial Lib Pact," THE MANILA TIMES, May 22, 1997; "Open Financial Markets? Malaysia Urges Caution," THE MANILA TIMES, May 21, 1997; "PBEC Urges APEC To Take Concrete Action On Trade;" "PBEC Endorses WTO Membership Of China, Taiwan, Russia," REUTER, May 19, 1997.

EU ENTWINED OVER COTTON

Anti-dumping duties on cotton caused a row in the European Union last week, as French President Jacques Chirac took a strong stand against his EU partners over an EU decision not to reimpose the penalties. Duties on unbleached cotton imports from China, India, Indonesia, Egypt, Pakistan and Turkey were imposed last year after French and Italian cotton weavers complained that the imports were sold at unfairly low prices. Last week in Brussels, member states led by Britain failed to renew the duties for an additional five years. President Chirac took great exception to this, asking for a special meeting of ministers on the issue. Chirac's re-election platform in France included a promise to preserve French textile jobs, and he called the failure to renew duties unacceptable. EU member states have been split over the duties issue for months. Critics argue that the duties harm the European textiles and clothing sector by increasing the price of unbleached cotton and forcing textile manufacturers to cut jobs in the EU and move production out of Europe.

In related news, the European Trade Union Federation (ETUF) releases an action program this week which forecasts the loss of 600,000-860,000 European textile, clothing and leather industry jobs. As a basis for this forecast, the ETUF cites the phase-out of the Multifibre Arrangement, the anticipated accession of China to the WTO bringing better market access for Chinese textile exports, liberalization of trade within Eastern and Central Europe, and the EU customs union with Turkey. In reaction, the ETUF program calls for the automatic inclusion of a social clause in all EU agreements with other regions and countries.

"Cotton: Import Row Threatens European Summit," *FIANCIAL TIMES*, May 23, 1997; "'Cotton: French Fury At Threat To Duties," *FINANCIAL TIMES*, May 19, 1997; "Textile Industry: European Unions See Threat of Job Losses," *FINANCIAL TIMES*, May 23, 1997.

TRADE WAR MAY LOOM IF EU BOEING OBJECTION PREVAILS

The European Commission last week sent a 60-page anti-trust objection to Boeing over its planned merger with McDonnell Douglas Corp. The objection is reportedly being handled with great care by the EU Commission, which fears starting a trade war over the matter. Boeing has questioned the EU's authority to review the proposed merger, arguing that the EU has no jurisdiction over the merger of two U.S. companies "with no development or manufacturing facilities in Europe." The EU is objecting to the merger on the premise that the elimination of McDonnell Douglas as a competitor would dramatically increase Boeing's customer base. Further, the EU says the merger would strengthen Boeing's position as the leader in the commercial aircraft market and give the company an unfair advantage over the only other competitor- the European state-run Airbus consortium. One U.S. official involved in the case commented that the EU concerns are "about the commercial competition not between Boeing and Airbus, but between the United States and the European Union." Leading the EU charge against the Boeing deal is EU competition commissioner Karel Van Miert, who insists that he is applying EU legislation which since 1990 allows the Commission to vet all big mergers which could affect EU-wide competition. His strongest objection to the merger is Boeing's policy of negotiating 20-year sole-supplier contracts as illustrated by the arrangements announced with Delta and American Airlines. Boeing officials and several U.S. senators are angered over the EU action, saying the anti-trust objection is motivated by the Commission's desire to protect the commercial interests of Europe's Airbus- considered a shining star in government-assisted industrial planning. The EU is set to hold hearings on the merger June 12-13, when Boeing can respond to the EU objections. The U.S. Federal Trade Commission (FTC) is set to approve or disapprove the merger by mid-July. Boeing is hoping the

FTC will grant its expected approval before the EU offers its final decision, so that the EU might moderate its objections.

"EU Submits Statement of Objections on Proposed Boeing-MD Merger," *INSIDE U.S. TRADE*, May 23, 1997; "Brussels v Boeing," *THE ECONOMIST*, May 17, 1997; "Storm Over The Atlantic," *FINANCIAL TIMES*, May 22, 1997; "EU Acts Cautiously in Move on Boeing-McDonnell Merger," *INTERNATIONAL HERALD TRIBUNE*, May 22, 1997.

U.S. TRADE DEFICIT SHRINKS AS EXPORTS EXPAND

Civilian-aircraft sales led the way for a decline in the U.S. trade deficit in March to \$8.51 billion, down from \$10.54 billion in February. However, because the aircraft industry is quite volatile, it is not expected to contribute to the trade deficit decline in future months. Exports overall jumped in March to a seasonally adjusted \$76.48 billion, up from the previous month's \$73.47 billion. The U.S. trade deficit with China, however, widened in March to \$2.59 billion from \$1.81 billion a year ago. This does not bode well for the Clinton Administration in an upcoming congressional vote to renew China's most-favored-nation (MFN) status. The president announced that he planned to renew it, but opponents cite the trade deficit as one of a number of reasons, including human rights abuses, why MFN status should not be renewed.

"Le Deficit Americain Diminue Grace A La Hausse Des Exportations," *LA TRIBUNE*, May 22, 1997; "U.S. Trade Deficit Narrows Sharply As Exports Hit Record On Aircraft Sales," *WALL STREET JOURNAL*, May 22, 1997.

ARGENTINA BIG WINNER IN FOREIGN DIRECT INVESTMENT

Argentina leads Latin America in attracting foreign direct investment (FDI). A new report released by the Organization for Economic Cooperation and Development (OECD), entitled "OECD Reviews of Foreign Direct Investment," reports that for the period 1990-95, Argentina ranked fourth among non-OECD members in cumulative FDI inflows. Argentina ranked 15th on a global level. The U.S. was the biggest investor, with a full third of the \$18.1 billion invested during the period. The OECD credits economic liberalization and policy reforms for the strong FDI attraction. Its membership in Mercosur is also mentioned as an important factor in drawing investment. The OECD report offers support to Argentina's bid to be one of the first non-OECD countries to adhere to the Multilateral Agreement on Investment (MAI) -- currently being negotiated. MAI negotiators have decided to grant observer-status in the talks to non-member countries likely to adhere to the MAI. Officials are certain Argentina will be among those granted such status.

"Argentina Leads Latin America In Attracting Foreign Direct Investment;" *INTERNATIONAL TRADE REPORTER*, May 21, 1997.

EU ANNOUNCES BANANA APPEAL

The European Commission formally decided last week to appeal the WTO panel decision against the EU's banana import regime. The WTO appeal body is expected to meet sometime between June 11-25.

The Commission is expected to present an appeal memorandum in late June, with the appeal body conclusion expected in September.

"WTO Bananas Ruling Against EU: Commission To Appeal," REUTER, May 2, 1997.

EVENTS/RESOURCES

PLEASE NOTE: All BRIDGES Weekly Trade News Digests are now available on line at: www.ictsd.org.

OECD Reviews of Foreign Direct Investment (see above): US\$15.00. Available from OECD Publications and Information Center, 2001 "L" Street N.W., Suite 650, Washington D.C., 20036-4922, USA. Ph: +01/202/785/6323; Fax: +01/202/785/0350.

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