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CHINA LOOKS BEYOND BIG FOUR IN QUEST FOR WTO

Chinese trade negotiators last week met in Geneva with delegations from smaller and mid-size countries, trying to conclude bilateral market access agreements in China's quest for WTO accession. China's chief negotiator Long Yongtu said that his delegation was concentrating on deals with countries such as India, Pakistan, Columbia and Venezuela in an attempt to move the accession process beyond the Big Four (U.S., Canada, EU and Japan) and to emphasize that accession is a multilateral process. Striking deals with smaller and mid-size countries, according to informed sources, would give the impression that China is making good progress in its bid and increasing pressure on the EU, U.S. and Canada to lower their demands for market access. Japan agreed to a bilateral deal with China in September.

Meanwhile, Chinese workers bristle over Beijing's promise to reform state-owned enterprises as part of its WTO campaign. One report estimates that reforms to make Chinese industry more competitive in the global market place could cost 30 million Chinese industrial workers their jobs. Further, the cradle-to-grave social security system will also be a thing of the past. "Workers should change their ideas about employment," Chinese President Jiang Zemin said.

In related news, a report released in late September by the Organization for Economic Co-operation and Development (OECD) says that China's economy is much bigger than previously thought. The report, "China's Economic Performance in an International Perspective," estimates that China's gross domestic product is US\$1 trillion, versus official Chinese government estimates of US\$291.5 billion and a World Bank estimate of US\$430 billion. The report also concludes that annual economic growth in China between 1986 and 1994 has been overstated: the study puts the annual growth rate at six percent, while the generally accepted figure has been 9.8 percent. The economist responsible for the OECD report said that the Chinese government and the World Bank used exchange rates as price converters, resulting in misleading data. To achieve his conclusions, the report's author eliminated exchange rates as price converters, giving greater importance to purchasing power parities. These new figures lend support to those who argue that China's economy reflects more a developed, rather than a developing, country.

"China presses small, mid-size countries for WTO accession deals," INSIDE U.S TRADE, October 10, 1997; "OECD finds Chinese data distortions mask bigger economy, slower growth," INTERNATIONAL TRADE REPORTER, October 8, 1997; "No more free lunch," FAR EASTERN ECONOMIC REVIEW, October 16, 1997.

MEXICO URGED TO DIVERSIFY BEYOND NAFTA

On October 2nd, the WTO Secretariat released a review of Mexico's trade policy, which was the focus of discussion at the WTO Trade Policy Body meeting last week. While the nation received a largely favorable review of its trade policy, the EU and other trading partners warned Mexico that its increased reliance on regional trade agreements such as NAFTA may hurt multilateral relationships. "It is no exaggeration to say that NAFTA dominates trade policy making in Mexico," according to an EU trade official based at the WTO.

The EU charged that benefits from Mexican liberalization are unevenly distributed among its trading partners, most certainly referring to its NAFTA trading partners. Venezuela and Brazil called on Mexico to diversify its trading base: eighty percent of Mexico's merchandise exports were to the U.S. in 1996.

WTO members also warned that Mexico is undermining its important economic and structural reforms with an exaggerated use of antidumping measures. Mexico currently has 90 such measures in place, which the WTO report on Mexico called a "potentially significant trade barrier."

Taking the cue for diversification, Mexican President Ernesto Zedillo toured Europe last week to build trade relationships. The EU market currently represents only 6.1 percent of Mexican exports, mostly petroleum and auto parts. At the same time Mexico imports nearly double the dollar volume of goods from the EU, including industrial equipment and new technologies. Mexico and the EU earlier this year signalled their intent to conclude a bilateral trade agreement, which will include some human rights provisions.

The report was the first review of Mexican trade policy since NAFTA came into effect. The report noted that increased efforts were needed in Mexico to ensure that the positive benefits of economic liberalization more strongly flowed "to a larger portion of the population."

"Mexico's regional focus brings 'trade diversion' charges at WTO," INSIDE U.S. TRADE, October 10, 1997; "La spectaculaire reprise économique au Mexique n'a pas amélioré le niveau de vie de la population," LE MONDE, October 7, 1997; "Zedillo: le Mexique, formidable tremplin vers les Etats-Unis," LA TRIBUNE, October 8, 1997; "Trade body urges more reform for Mexico," REUTERS, October 8, 1997.

FAST-TRACK COULD BE SLOWED BY SIDE ISSUES

The battle for fast-track negotiating authority continues in Washington. While the House Ways and Means Committee voted 24-14 last week in favor of the fast-track legislation, the bill contained weak provisions for labor and environmental clauses within trade agreements. Only four Democrats supported the proposal. House Ways and Means Chairman Bill Archer (R-Texas) noted after the vote that "The cause of free trade is in trouble, clearly, unless Democrats do much better on the floor of the House," if and when the bill is put to a full vote. At least seven Democratic votes were required by House Ways and Means leadership to signal sufficient Democratic support on the House floor: Republicans are wary of forwarding a bill for a full vote without demonstrated Democratic support.

President Clinton was to step up efforts this past weekend to lobby Democratic support for fast-track authority. Fast-track would give him the ability to negotiate trade agreements and present them to

Congress for an up or down vote without being subject to amendments. However, prospects for fast-track may be dimmer than ever as opponents continue to fight full force against it. Labor and environmental groups are staunchly opposed to extension of free trade, saying more free trade translates into lost jobs, environmental degradation and food safety concerns. Their cause is championed in the House by minority leader Dick Gephardt (D-Missouri), who insists that any new trade agreements negotiated via fast-track contain minimum labor and environmental standards.

Most developing countries are strongly opposed to labor and environmental linkages in trade agreements, saying such linkages impinge upon national sovereignty and ignore unique social circumstances. Some economists argue that developing economies usually experience a rise in pollution as their economies develop, yet as they become richer as a result of freer trade, more money is made available to afford cleaner air and water. A group of 50 U.S. economists last week warned U.S. lawmakers that the divisive issue of labor and environmental linkages will "halt the opening up of world markets." The group's leader, Columbia University economist Jagdish Bhagwati said that "Linking human rights and the environment to trade is the lazy man's solution to extremely difficult problems and a recipe for failure all around."

"America's trade area comes closer as 'fast-track' progresses," LATIN AMERICAN NETWORK DAILY BUSINESS REPORT; "Fast-track vote fuels hot debate," FINANCIAL TIMES, October 10, 1997; "Economic scene: loading trade agenda with divisive issues could backfire," N.Y. TIMES NEWS SERVICE, October 9, 1997.

U.S. ASKS FOR WTO PANEL ON INDIA IMPORT PLAN

The U.S. last week formally requested that the WTO establish a dispute panel to arbitrate its disagreement with India over that nation's phase-out plan for import restrictions. The U.S. and India's other major trading partners, including the EU, Australia, Canada and New Zealand, have been unhappy with the pace at which negotiations are progressing. The U.S. has asked that the matter be placed on the agenda for the October 16 meeting of the dispute settlement body (DSB) in Geneva: at that time, India may "refuse" the U.S. request, which will force another month of negotiations which, should they not bear fruit, would mean an automatic establishment of a dispute panel should the U.S. make a second request at the November meeting of the DSB.

At issue is India's plan for phasing out import restrictions on more than 2,700 items for which its domestic industries enjoy a competitive advantage. India has proposed a six year phase-out period for the goods: most controversial is the Indian proposal to backload the most significant products, mostly agricultural, into the final years of the phase-out period. India has said that its agrarian economy cannot withstand a more aggressive schedule: its trading partners argue that India's nearly US\$30 billion foreign exchange reserve is evidence of a healthy economy which could survive an influx of cheap foreign imports.

The U.S. brought its request for a dispute panel after talks between the U.S. and India failed to reach an agreement on the matter two weeks ago. India's other trading partners have said they will join the complaint should they be unable to resolve their differences.

"US calls in WTO over India import row," FINANCIAL TIMES, October 7, 1997.

NAFTA PARITY: ONE STEP CLOSER, ONE MORE TIME

The U.S. Senate Finance Committee and the House Ways and Means Committee approved NAFTA parity proposals for Caribbean and Central American countries last week. The bills would give trade preferences to Caribbean Basin countries comparable to those enjoyed by Mexico under the North American Free Trade Agreement (NAFTA). The Senate version of the bill provides duty-free and quota-free access for apparel goods from Caribbean Basin Initiative (CBI) countries, provided the goods are manufactured using U.S. yarn and fabric. All other CBI goods will be eligible under the bill, sponsored by Senate Finance Committee Chairman William Roth (R-Delaware), for an immediate tariff reduction equal to half that granted to Mexico. Provisions for interrupting or discontinuing the trade parity were also included: for example, should a surge of CBI imports damage the U.S. economy. The House bill is slightly broader than the Senate version. The bill passed the House committee after a stipulation requiring re-training of displaced U.S. workers was dropped from the bill.

NAFTA parity has been proposed for CBI countries since 1993, but has yet to pass Congress. Its chances of passing a full vote in Congress following the thumbs-up from the two committees are now much greater. CBI countries say the trade parity is needed for their economies to thrive while Mexico enjoys free trade with the U.S. and, they argue, supplants CBI exports to the U.S.

"Finance committee reports modified NAFTA parity proposal," INTERNATIONAL TRADE REPORTER, October 8, 1997; "Ways & Means approves NAFTA parity bill for Caribbean nations," INSIDE U.S. TRADE, October 10, 1997.

SOUTH EAST ASIA: OUTLOOK STILL OPTIMISTIC

Asian and European economic ministers met late last month at the Asia-Europe Meeting (ASEM), emerging optimistic about the long-term growth prospects for Asia. Ministers cited the regions' high savings rate, good elementary education systems and important infrastructure development as indicators of healthy long-term economic growth. The ministers noted that some slow-down in foreign investment is an inevitable result of the current economic crisis in Southeast Asian nations; to regain favor, leaders in that region must undertake structural reforms and not delay economic liberalization. ASEM ministers said that their vote of confidence in Asia was likely to have a stabilizing effect on the Southeast Asian economies. ASEM comprises the 15 EU member states and 10 Asian nations, including China, Taiwan, Hong Kong, Philippines, Thailand, Malaysia, Indonesia, Singapore and South Korea. Last month's meeting yielded a framework for fostering more investment among member states. The Investment Promotion Action Plan looks to increase trade among the countries by reducing non-tariff barriers and transaction costs. The plan will be voted on in April 1998.

In a parallel story, Singapore's finance minister last week told the parliament to expect a reduction in growth in trade, services and tourism in 1998. Mr. Richard Hu said that six to seven percent growth for 1997 was still possible, but that prospects for 1998 were weaker. The finance minister noted that the Singapore dollar had appreciated significantly against regional currencies--rising 28.9 percent against the baht and 39.2 percent against the rupiah. "The challenge for Singapore," Mr. Hu told parliament, "lies in

reaping the benefits of the global marketplace. The country therefore remains committed to a competitive economic system."

"Ministers express faith in Asia's future," THE NIKKEI WEEKLY, October 6, 1997; "SE Asia's growth may be hit in 1998," THE ECONOMIC TIMES (India), October 7, 1997.

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HIGH-LEVEL MEETING ON INTEGRATED INITIATIVES ON LEAST DEVELOPED COUNTRIES' TRADE DEVELOPMENT. 27-28 October, 1997, Geneva. For more information, contact Alain Frank, WTO, tel: (41-22) 739-5152, fax: 739 -5777.

NGO/OECD CONSULTATION ON THE MULTILATERAL AGREEMENT ON INVESTMENT (MAI). 27 October, 1997. OECD headquarters, Paris. For more information, contact OECD, tel: (33-1) 4524-8200, fax: 4524-8500.

UNEP WORLD ATLAS OF DESERTIFICATION The Atlas was launched 9 October at the headquarters of FAO in Rome. Copies (price £145.00) can be purchased from SMI (Distribution Services) Limited, P.O. Box 119, Stevenage, Herts SG1 4TP, UK, tel: (44-1438) 748111, fax: 748844, e-mail: Anthony@smibooks.com. For more information, contact Franklin Cardy, Director, Land Unit, UNEP, P.O. Box 30552, Nairobi, Kenya, tel: (254-2) 623251, fax: 623284, e-mail: dcpacinf@unep.org. or Robert Bisset, UNEP Media and Communications Officer, Nairobi, tel: 623084, e-mail: bissetr@unep.org.

The Organisation for Economic Cooperation and Development (OECD) released the following reports in late September: "China's Economic Performance in an International Perspective," ISBN-92-64-15581-3, US\$32.00; "Price Controls and the Economics of Institutions in China," ISBN-92-64-15473-6, US\$19.00; "Banking Sector Reform and Credit Control in China," ISBN-92-64-15599-6, US\$20.00. To order, contact OECD (Paris), tel/fax: please see above.

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