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MIXED SIGNALS ON U.S.-EU FREE TRADE PACT

U.S. Trade Representative Charlene Barshefsky last week played down reports in the financial press that the United States and European Union were renewing efforts toward a comprehensive free trade agreement. Ms. Barshefsky told reporters on February 3: "What is clear...is that we do not envision a free trade agreement..Our dialogue on this is at the very preliminary level. The breadth, and scope and timing of any mutual set of recommendations on this has not been decided...There are no announcements of any sort that are in any sense imminent."

Ms. Barshefsky made her statement after the Financial Times reported that the EU and US were informally discussing a free trade pact. The Financial Times reported that preparations were underway for an announcement on formal talks to be made during the US-EU summit in May. An agreement was reported in the Financial Times as having the support of British Prime Minister Tony Blair, who could point to a free trade pact as a crowning achievement of his administration. The Clinton Administration was reported to be enthusiastic about an EU-US pact as a way of building support for expanding free trade and energizing Mr. Clinton's campaign for fast-track trade negotiating authority. The talks would broach some of the more contentious issues of EU-U.S. trade, such as the reduction of EU import barriers to agricultural goods and the inclusion of basic principles on environment and labour standards.

European Trade Commissioner Sir Leon Brittan first floated the idea for a free trade agreement between the U.S. and the EU. It was reported that Sir Leon hoped an agreement would lend momentum for a Millennium Round of global free trade negotiations.

"Barshefsky says no U.S.-EU free trade agreement envisioned," USIS Geneva Daily Bulletin, February 3, 1998; "EU and US consider new trade agreement," FINANCIAL TIMES, February 2, 1998.

JAPAN WARNED ON EXPORTS; SOUTHEAST ASIA MULLS SOLUTIONS; G-24 DISCUSSED NEED FOR A 'FINANCIAL WTO'

The EU and U.S. last week issued a stern warning to Japan not to export its way out of its own economic troubles, lest that aggravate the financial situation in Asia. "The global trading system cannot afford to have the world's second largest economy relying on an export-led strategy to achieve economic

growth," U.S. Assistant Trade Representative to Japan Wendy Cutler said last week. Ms. Cutler made her declaration at a meeting of the WTO's Trade Policy Review Body, where the most recent report on Japanese trade practices was being reviewed. EU officials said that while recent economic reforms announced by Japan, including tax cuts, tax reform and deregulation of its domestic market are a step in the right direction, Japan must be ready to do what it takes to stimulate domestic growth if the announced measures do not work.

The Japanese trade surplus is expected to rise dramatically, as consumer demand in Japan remains sluggish. The projected 1998 US\$100 billion current account surplus for Japan would be the largest surplus of any industrialized nation. Japan's estimated 1997 current account surplus of US\$93.5 billion represented an increase of 42 percent over 1996. "This is extremely troublesome and represents a drag on the rest of the world economy," Ms. Cutler said.

Asia's financial problems were also part of discussions at the World Economic Forum held in Davos, Switzerland last week. Financial and political leaders were at pains to determine solutions to the crisis, including the regulation of capital flows. Officials at the Forum said that current financial institutions were no match for the enormous blocks of fast-moving capital that flooded the Asian markets and deserted them so quickly. Said Richard Haas of the Brookings Institution, "Creating the institutions for handling globalization is the greatest intellectual challenge now facing the world." Many in Davos--including billionaire financier George Soros--were proposing the need for some sort of regulatory body to lay down rules and keep track of international capital.

These proposals were echoed at the inauguration of a meeting of the Group of 24 (G-24) developing nations in Caracas, Venezuela on February 7. Top officials at the gathering such as U.N. Conference on Trade and Development (UNCTAD) Director-General Rubens Ricupero and head of the International Monetary Fund (IMF) Michel Camdessus highlighted the need for a global regime similar to the WTO to oversee and regulate international capital flows. Ricupero pointed to the usefulness of the WTO in regulating trade and called for a financial counterpart that could prevent financial crises via a set of agreed-upon rules.

In Bangkok last week, visiting Malaysian Prime Minister Mahathir Mohamad proposed his own solution: that regional economies trade in local currencies rather than U.S. dollars. Dr. Mahathir argued that trading in regional currencies could save member states in the Association of South East Asian Nations (ASEAN) the fees of buying U.S. dollars. Under the proposal, a buyer would purchase goods with his own currency and the transaction would clear central banks within three months.

In other news from Thailand, debate continues over the agricultural sector's role in the country's economic recovery. The Thai Department of Agriculture favors developing large-scale state-run agribusiness operations in order to boost crop yields. A number of non-governmental organizations (NGOs) warn that household farms should come first when divvying up limited resources such as land, water and fertilizer. Another NGO official argued that mass production would not solve the sector's problems. "[The agriculture sector] has been weakened and almost damaged by industrial development that lures farmers to join its workforce."

"U.S., EU issue warning in WTO to Japan not to escalate exports," INTERNATIONAL TRADE REPORTER, February 4, 1998; "Mahathir proposes trade plan," BANGKOK POST, February 5, 1998; "Experts at odds on farm sector policy," BANGKOK POST, February 5, 1998; "What the world needs now is a global croupier," WALL STREET JOURNAL, February 2, 1998; "Asia's uncharted economic waters,"

INTERNATIONAL HERALD TRIBUNE, February 2, 1998; "Financial WTO essential in wake of Asian crisis," IPS TERRAVIVA, February 9, 1998.

FTAA TALKS: WHERE, HOW AND IF

With intensive negotiations for the Free Trade Area of the Americas (FTAA) scheduled for launch in Santiago in April, trade officials from the Western Hemisphere are to meet this week to discuss the brass tacks of the Santiago summit. The FTAA Preparation Committee is to focus on exactly how negotiating groups are to be formed and the objectives and principles which will govern negotiating groups assigned to tackle the 12 substantive areas to be included in the FTAA, such as market access and intellectual property. It is reported that hemispheric support exists for each substantive area to be assigned a separate working group, thus affording a greater number of countries the opportunity to take leadership positions in hemispheric negotiations.

The Preparatory Committee will also consider the draft Declaration of San Jose, released last week by Costa Rica. The draft is notable for what it does not say about labor and environment: specifically, it does not include mention of establishing FTAA study groups on labor or environment, something the U.S. is sure to find unsatisfactory. With regard to labor, the draft does recommend that labor issues be referred to the International Labor Organization.

While the Preparatory Committee meets over the "where" and "how" of FTAA negotiations, trade observers wonder "if" negotiations will really get underway this year as scheduled. The financial crises in Asia have hit Latin American economies hard: Chile, Mexico, Brazil and Argentina, economies expected to carry the region on its shoulders, have had to face prospects of slowed growth and currency devaluation. Argentina and Brazil erected import barriers for non-Mercosur imports recently, which does not bode well for increased free trade efforts.

In the U.S., President Clinton has been unsuccessful at securing so-called fast-track authority, or the ability to bring negotiated free trade agreements to Congress for a straight yes or no vote not subject to amendment. Fast-track is critical to U.S. credibility at the negotiating table since hemispheric leaders are reluctant to negotiate with the U.S. if hard work can become unraveled in the U.S. Congress.

A Chilean official takes issue with the theory that fast-track can make or break FTAA talks. "It is an erroneous impression. The message that we must carry is that relations of the hemisphere are much more than the theme of fast track. Of course it would be favorable, but it will not interrupt the dynamic," Chile's special envoy for the FTAA summit, Genera Arrigada, said.

Meanwhile, if the FTAA launch falters, smaller economies may have to focus their limited negotiating resources on multilateral activities such as WTO agriculture talks, or on concluding more regional and bilateral treaties.

"Senior officials to face off over structure, location of FTAA talks," INSIDE U.S. TRADE, February 6, 1998; "Crises dim prospects for Americas free trade," JOURNAL OF COMMERCE, February 5, 1998.

TURKEY UNDER FIRE FOR BEEF BAN

Turkish food groups last week blasted a recent government decision to lift bans on European beef imports. The groups argued the decision places Turkish consumers at risk of eating meat contaminated

with bovine spongiform encephalopathy (BSE), also known as "mad cow" disease. A senior agricultural official negated the risks, saying that all meat imports from European countries with known outbreaks of BSE remain under a ban.

Not good enough, Turkish food groups argued, claiming that frozen meat traders often re-export meat from a third country as a way to circumvent the ban. Further, labels on Turkish meat products do not include information on whether products contain imported meat, impinging on consumers' ability to make informed decisions.

Lifting the ban opens the Turkish market up for to 19,000 tons of frozen European beef. Turkey instituted the ban via prohibitive tariff levels in 1995, after BSE scares emerged from Europe. It later extended the ban as a means to develop local cattle breeding.

In related news, Rita Hayes, the United States' Representative to the WTO, discussed trade issues with Turkish officials last week. Ms. Hayes asked Turkish officials to lift trade barriers on U.S. cattle, meat and grain. She commented that talks yielded some progress toward removing tariff and non-tariff barriers on these goods, but that more talk would be necessary to reach an agreement. Turkey imports about 400,000 tons of U.S. wheat annually. Last year, however, import tariffs increased from 15 to 45 percent as a way to divert millers to local production.

Turkey asked the U.S. to abolish quotas on a number of ready-to-wear textile products, saying the quotas have slowed growth in this sector. The U.S. agreed earlier this month to marginally cut the quotas, promising to abolish them altogether by 2005.

Ms. Hayes also expressed U.S. concerns over Turkey's failure to meet its pledge to the WTO to punish intellectual property violations. She encouraged the Turkish government to take a tough position in this area as a means to attract more foreign investment.

"Turk groups warn unsafe meat imports on the way;" "U.S., Turkey seek more farm, textile trade," REUTERS, February 5, 1998.

SOUTH AFRICA JOINS CAIRNS GROUP

It was announced last week that South Africa is to join the Cairns Group. South Africa is the first African country to join the group of agriculture-exporting nations, which also includes Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, Thailand and Uruguay. Hungary left the group at the beginning of February in preparation for membership in the European Union.

"S Africa joins farm lobby," FINANCIAL TIMES, February 3, 1998.

HONG KONG TEXTILES GET BOOST

Brazil and Canada separately announced last week that they would remove import quotas on textiles and clothing from Hong Kong. Canada lifted the quotas on eight textile products: rainwear, saris, women's suits, knitted blouses and shirts, women's non-cotton woven blouses, as well as some children's and baby clothing. The ban was retroactively lifted to January 1, 1998.

Brazil lifted import quotas after two years of talks sponsored by the WTO. The quotas were imposed in June 1996 after imports from Hong Kong, Mainland China, South Korea and Panama soared from US\$117 million in 1994 to US\$258 million in 1995. During that period, 790 Brazilian textile companies closed and 110,000 workers lost jobs. Textile quotas remain in place for Mainland China, South Korea and Panama.

"HK welcomes Canada's removal of textile quotas," REUTERS, February 5, 1998; "Brazil lifts quota on Hong Kong textile imports," AGENCE FRANCE-PRESS, February 2, 1998.

INFOTECH MAKING TRADE WAVES

The past week was a busy one in the world of information technology trade. The U.S. on February 5 won its biggest case yet in the WTO: the trade body's dispute settlement panel ruled that EU tariffs on networking equipment violated the EU's WTO obligations. European countries, including Ireland and Britain, had been accused by the U.S. of reclassifying computer networking products as telecommunications equipment, which effectively doubled tariffs on imports of these items. U.S. sales of networking equipment to the EU represent over half of the European market for these goods, worth approximately US\$5 billion. U.S. Trade Representative Charlene Barshefsky was pleased with the decision: "We are pleased the WTO panel has ruled that these tariffs clearly violate WTO obligations," she said. "It is clear that these unfair tariffs must be corrected." The decision may well add momentum to a push for a second agreement on information technology in the WTO in upcoming talks such as the proposed "Millennium Round," a move that would be opposed by many developing countries who wish to focus on areas such as improving market access for agriculture and textiles.

Brazil last week announced it would eliminate the requirement for pre-import authorization for goods from its trading partners within the Southern Cone Common Market (Mercosur). Mercosur partner Argentina complained that the pre-import authorization acts as a non-tariff barrier. Jose Botafogo Goncalvez, head of the Brazilian Foreign Ministry said a new computer system is required to distinguish between goods from Mercosur and non-Mercosur nations, but expects to eliminate the Mercosur pre-authorization within the next two months.

In other regional news, the Chamber of Argentine Information and Communications Firms (CICOMRA) urged the Argentine government to upgrade its intellectual property laws to ban the copying of software. Argentina's Supreme Court ruled this month that copying software is not a criminal offense. CICOMRA said in a statement that new intellectual property laws are needed "to meet without any further delays in its international obligations under the World Trade Organization." CICOMRA received support from Microsoft and IBM, whose Argentinian representatives attended the press conference following the ruling. A 1997 Price Waterhouse study estimated that 70 percent of software in Argentina is pirated, costing software companies over US\$160 million a year.

"Brazil agrees to remove non-tariff barriers for Mercosur," DOW JONES, February 4, 1998; "Argentine firms demand change to software laws," REUTERS, February 3, 1998; "Impunidad de la pirateria informatica," LA NACION (BUENOS AIRES), February 6, 1998; "Microsoft, IBM condemn Argentine software piracy," REUTERS, February 5, 1998; "WTO rules U.S. was cheated out of tariffs on networking goods," NEW YORK TIMES, February 5, 1998.

EVENTS/RESOURCES

UNCTAD: Commission on Investment, Technology and Related Financial Issues Expert Meeting. Geneva, 9-13 February 1998; Trade and Development Board, Sixteenth executive session. Geneva, 16 February 1998. Among other items, the board will provide a follow-up to the WTO High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development (27-28 October 1997) For more information contact: External Relations Service, UNCTAD, tel: (41-22) 907 12 34; fax: 907 00 43; email: ers@unctad.org.

UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE (UN-ECE): Committee on Environmental Policy, Special session, Geneva, 16-18 February 1998. For more information contact: webmaster.ece@unece.org.

WTO EVENTS: Committee on Balance-of-Payments Restrictions (Nigeria), 11-12 February; Committee of Participants on the Expansion of Trade in Information Technology Products, 12 February; Dispute Settlement Body, 13 February; Council for Trade in Goods, 16 February; Textiles Monitoring Body, 16-17 February. For more information contact Peter Pedersen, External Relations Division, tel: (41-22) 739 58 48; fax: 739 57 77.

SEMINAR ANNOUNCEMENT: "Growth Illusion" with Richard Douthwaite. The seminar consists of the searchable web site <http://csf.colorado.edu/sustainable-economics/> plus a moderated listserv or forum in which the public is invited to participate in conversation with the author. Seminar is for one week: February 18-25, 1998.

CONFERENCE ANNOUNCEMENT: "Trade, Global Policy, and the Environment," Organized by the Environment Department, World Bank, April 21-22, 1998. All interested individuals are invited. Location: World Bank Headquarters, Washington, D.C. For information contact Per Fredriksson, Conference Organizer, tel: (1 202) 473 7341; fax: 477 0968; email: pfredriksson@worldbank.org.

NEW PUBLICATION: "The East Asian Financial Crisis: Back to the Future?" by Yilmaz Akyüz, Chief, Macroeconomic and Development Policies, UNCTAD, Geneva. Text can be found at web address: <http://www.unicc.org/unctad/en/pressref/prasia98.htm>.

NEW PUBLICATION: "Open Borders Behind Closed Doors," by Peter Pennartz. Published by International Books, ISBN 90 5727 005 6, 64 pgs. US\$ 12.95. The first part of this book is an introduction to trade and protectionism, in particular the EU's Common Agricultural Policy, the Generalized System of Preferences and standards for trade. The second part describes how these affect the EU's policies regarding migrants, asylum-seekers and refugees. It provides readers with recommendations for lobbying and with information about campaigns aimed at opening doors developing country exports to Europe.

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