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PRINCIPALS MEETING ON 1999 TRADE AGENDA

Option 1: Maximal Trade Authority with Broadest Coalition

- Broad Fast Track with Strong Labor and Environmental Conditions
- Omnibus Trade Bill:
 - Africa
 - Section 201
 - Postpone Consideration of Project 5

Option 2: Minimal Trade Authority with Maximal Trade Agenda

- Narrow Fast Track to WTO- Only for Launch of Round
- Pursue Project 5 without Fast Track

Option 3: Opportunistic

- Announce Principles for Fast Track, Look to Congress for Packaging and Breadth

Option 4: Build Center-Right Coalition

- Broad, "Clean" Fast Track-Only Bill
- Announce Launch of Round

ANNOTATED AGENDA FOR PRINCIPALS MEETING ON 1999 TRADE AGENDA

December 1, 1998

4:30 - 5:30 p.m.

The purpose of the meeting is to provide broad direction for our 1999 trade legislation agenda. Although we would not expect this meeting itself to yield final decisions, it should provide sufficient guidance to initiate a fairly targeted consultative process with the Hill and business, agricultural, environmental and labor groups.

There are four main issues for consideration. As will be clear, the four are not mutually exclusive and, indeed, the final agenda may incorporate elements of each.

Issue #1: The Fast Track Agenda

Principals need first and foremost to decide whether to make fast track the first and most immediate priority on our 1999 trade agenda, building on one of several potential coalitions:

- “Center-Right” Approach: Go for “clean” fast track with broad scope similar to previous bill.

Pros:

- This proposal is likely to command the greatest number of moderate votes and win the full support of business and agriculture.

Cons:

- This is the strategy we followed last year, which failed to secure a sufficient number of Democratic votes.
- Now more than before, we need to make a good faith effort to work with our traditional allies in Congress -- which this option would not do.

- “Center-Left Broad” Approach: Go for fast track accord that incorporates labor and environmental conditions in the core of the trade agreements and encompasses multi-lateral (WTO), regional and bilateral trade agreements.

Pros:

- This would provide us an opportunity to work closely with Gephardt and other allies as we introduce fast track.
- This would help overcome residual bad feelings among our friends in Congress from our last attempt to achieve fast track.

Cons:

- The business community is unlikely to support legislation including labor and environmental conditions.

- Given the Republican majority, it is likely that the labor and environmental conditions would ultimately be stripped out of the final legislation; thus, we may not want to commit our initial support to a position that we may subsequently have to alter (or then again, we may).
- “WTO-Only” Approach - Go for fast track authority that would only cover WTO (but not bilateral or regional) agreements.

Pros:

- This type of accord is likely to be able to command the greatest breadth of support among Democrats and our other allies in Congress. Gephardt would ultimately have to come on board, given his traditional support for the WTO.

Cons:

- Early readings from the business community suggest they are most animated by the prospects of concluding an FTAA, which would not be possible under a WTO-only fast track.
- This would not allow us to fulfill our commitment to Chile, and would not provide a vehicle to negotiate FTAs for Asia.
- This might be viewed as a loss given that it would be grant us much narrower authority than that granted to previous Presidents (e.g., this clearly would not have allowed President Bush to go forward with negotiations toward NAFTA).

Issue #2: Omnibus Trade Bill

Under this scenario, we would work for the introduction of an omnibus trade bill that would fold together fast track (in any of the incarnations discussed above) with any or all of: Africa trade legislation, TAA expansion, Caribbean Basin trade enhancement, GSP, ship-building, and some expansion of trade remedies such as modification of 201 and codification of Super 301 and of Section 301 for agriculture.

Pros:

- We could build a broad coalition in favor of fast track by building alliances with Africa trade proponents, the steel caucus (201), etc.
- This would permit Administration to implement measures in support of Steel (e.g. 201) without sending a purely protectionist signal.
- Roth, Archer and others are already talking about an omnibus bill, so we may have to deal with one anyway.

Cons:

- This would make it more difficult to control what types of measures might be added to the trade bill, with the result that we might have to support a bill that includes provisions we wouldn't otherwise accept (e.g., changes to anti-dumping regulations).
- An omnibus measure is bound to be more comprehensive and complex than a clean fast track bill and thus take longer to negotiate, potentially taking us beyond the political window in which it is possible to achieve serious trade opening legislation.

Issue #3: "Project 5" Asia-Pacific Trade Agreement without Fast Track

This option would have us announce negotiations towards an Asia P-5 ETA (including Australia, New Zealand, Singapore, Chile and the United States) without fast track. *Since this proposal is unlikely to garner additional support for fast track, and indeed might set a precedent for legislating trade agreements absent the procedural protections associated with fast track, it might make sense to postpone consideration of this option until we have exhausted the fast track approaches outlined above.*

Pros:

- The countries involved are unlikely to be politically controversial since all but Chile are industrialized economies with high living standards and strong labor and environmental standards.
- The trade partners under consideration have indicated a willingness to go forward through "normal" legislative process if fast track is not an option.
- This would allow us to accomplish a major trade achievement this year with or without fast track.

Cons:

- From an Asian diplomacy perspective, this group of countries sends all the wrong signals. It does not include any of the Asian countries that are taking strong reforms to keep their economies open even as they struggle with financial crisis. In fact, this proposal is likely to generate ill will from countries that have been excluded. For instance, there is no strong rationale for excluding countries such as Korea that have shown strong interest other than domestic politics.
- It is not clear our agricultural community will be supportive.
- If we move forward on this initiative without fast track, we may set a precedent that will make ever achieving fast track a more remote possibility.
- Unlike with NAFTA, this group of countries does not represent a "natural" grouping of countries with strong historical patterns of trade; this group of countries does not represent a substantial amount of our trade, and so we are unlikely to get much support for this initiative (particularly absent any fast track progress) from the business community.

Issue # 4: WTO Round

To this point, USTR has been reluctant to explicitly support the launch of a WTO Round, although we have indicated our support for the launch of a set of negotiations at the next WTO Ministerial in 1999. The rationale for this reticence is largely concern about domestic political opposition. On the other hand, the agricultural community strongly favors a round as the best mechanism for achieving substantial agricultural liberalization. It might be useful to have a discussion whether or not support for a round at this juncture could be a net plus for our fast track push.

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Center-Right Broad
WTO-Only

II. Omnibus Trade Bill

Africa
GSP
CBI
Shipbuilding
Tariff Measures
{ Section 201 Revision
{ Super 301
{ Section 301 for Agriculture
→ TAA

III. Project 5 Trade Agreement

With or Without Fast Track
Timing

IV. WTO Round

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- Steel

• Textiles Apparel

• Protectionism

• Bananas

- Canadian flag.

• ITA II: SCOV.

• Canadian Wheat & Livestock.

• Recession Fund.

Encl: JAF
FBI, Several trade
Articles

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U.S. TEXTILES MANUFACTURERS CONSIDER WAYS TO FIGHT RISING IMPORTS

U.S. textiles makers are considering ways to battle back against increased imports of Asian textiles products that they believe are already injuring U.S. producers, according to industry sources. Sources said remedies under consideration include bringing a dumping or subsidies case, asking the Clinton Administration to impose quotas on these products, and requesting the U.S. Customs Service to step up its efforts to stop goods that are illegally transshipped through Hong Kong and Macao.

The American Textile Manufacturers Institute warned in a Nov. 20 statement that the Asian financial crisis has prompted a 16 percent increase in textiles imports from Asia during the first nine months of 1998 compared to last year, and that imports of apparel are up 15 percent in the same period. The statement added that many of these products are entering the U.S. at depressed prices.

"This is unfair competition at its worst," ATMI President Doug Ellis said in the statement. "The U.S. government needs to take immediate steps to make sure that U.S. workers and manufacturers are not the ones who end up paying the price for the reckless fiscal and trade policies of foreign governments."

One industry source said it is unclear when producers might decide on a course of action, but added that the industry is actively considering its options.

The World Trade Organization Agreement on Textiles and Clothing allows members to impose quantitative restrictions under certain circumstances. Article 6 of the agreement allows members to apply a transitional safeguard in the event a domestic industry is being injured.

Members can invoke a safeguard if they can demonstrate that a product is being imported to the point of causing "serious damage or actual threat thereof, to the domestic industry producing like and/or directly competitive products," according to Article 6.

To do so, members must show that the injury is not caused by enhanced technology in the exporting country, and must first examine the effect of imports on the state of the industry. Members must also ensure that the safeguard accords favorable treatment to least-developed countries, and that it provides favorable treatment to members that do not account for a significant percentage of the imports.

The article also requires the member invoking the safeguard to consult with affected countries, and to notify the safeguard to the WTO Textiles Monitoring Body.

Specifically, the ATMI statement said imports of 13 different textiles categories have increased because of prices that have been dramatically cut, and that the drop in some cases is as high as 30 percent. Regarding textiles, imports from the Philippines rose 59 percent in the first nine months of this year, while imports from Pakistan, Thailand and Indonesia rose 51, 43 and 32 percent respectively.

On apparel, imports from South Korea increased 44 percent over the same time period, while imports from Hong Kong and Caribbean Basin countries increased by 26 and 12 percent respectively.

However, the statement also noted that U.S. textile exports, while up only two percent overall, increased by 30 percent to Mexico and five percent to Canada in the same period. It also said that apparel imports from China were down nine percent from last year, possibly because its competitiveness has been eroded by currency devaluations in other Asian countries.

CLINTON DELIVERS CLEAR WARNING TO JAPAN ON STEEL EXPORTS TO U.S.

President Clinton last week delivered a clear warning to Japan that imports of steel into the U.S. are reaching politically unsustainable levels. Clinton also came very close to siding with the U.S. steel industry's claim that Japanese firms are dumping steel into the U.S. market at unprecedented levels.

"[I]n the United States now we have had this year, in one year, a 500 percent increase in the imports of hot-rolled steel from Japan and 300 percent increase in the imports of hot-rolled steel from Russia," Clinton said in a speech to the American Chamber of Commerce in Japan on Nov. 20. "No one seriously believes that this is solely because of changing economic conditions."

Deputy Treasury Secretary Larry Summers said that Clinton raised the issue privately with Japanese Prime Minister Keizo Obuchi, and warned that increased export levels threaten the U.S. consensus for free trade. Summers emphasized that Clinton's comments to Obuchi on steel were "very clearly heard," and Director of the National Economic Council Gene Sperling stressed that other countries have a role to play in guarding against unfair trade practices.

"[I]t is fair for us to tell countries that they need to make sure that they have their house in order in terms of trading relations with us, both in terms of opening markets and in terms of not allowing unfair trade practices or unfair dumping to occur," he said. "That's a general message that we would have."

Clinton also raised with Obuchi the U.S. desire to see more progress in the areas in which the U.S. has bilateral agreements with Japan. The President specifically pointed to agreements on autos and auto parts, flat glass and insurance, Sperling said. Clinton also told Japan it needs to take in more imports from Asian countries.

Clinton specifically underscored the need for Japan to play a constructive role in an effort to get tariff cuts in nine sectors, for which members of the Asia-Pacific Economic Cooperation forum failed to reach consensus last week. APEC members earlier this month shifted the entire negotiation into the World Trade Organization, where they hope to get a deal by the end of next year.

"[T]he most important thing now is that Japan play a leadership role in getting a WTO agreement in all nine sectors," Clinton said. "This is very, very important." Sperling added that the U.S. holds out the hope of progress in

the WTO even though the deal failed in APEC because Japanese officials expressed a preference for a WTO process.

APEC members failed to reach a consensus principally because Japan refused to make any tariff cuts in the fish and forestry sectors (*Inside U.S. Trade*, Nov. 20, p. 6).

Apart from trade, Clinton and Obuchi spent a lot of time discussing economic reform in Japan, senior U.S. officials said. They went over banking reform, Japan's new economic stimulus package, and Clinton's general push for open markets and continued deregulation.

Clinton held up the U.S. as an example of deregulation, having recently deregulated its telecommunications and airline industries. Sperling highlighted need for a new deregulation package before next Group of Seven summit as part of the U.S.-Japan Enhanced Initiative on deregulation.

In Korea, Clinton spent much less time on trade issues than on macroeconomic reform questions and security issues, senior U.S. officials said. On trade, Clinton flagged the need for progress on disputes concerning beef, steel and pharmaceuticals, and also urged Korea to cooperate with the U.S. in completing a bilateral investment treaty.

The beef issue concerns Korea's minimum access requirements under the Uruguay Round agreements. Because of its economic crisis, Korea is not going to meet these levels, so the two countries are discussing ways Korea can open its market so that U.S. exporters benefit once the economy rebounds (*Inside U.S. Trade*, Oct. 30, p. 8).

Though he did not go into detail on the subject, Clinton's reference to steel concerned the roughly 120 percent increase in imports of Korean steel, a U.S. official said. Most of these imports are coming from two Korean firms, Posco and Dongkok, the official said.

The fight over the Hanbo steel company has been essentially resolved, and this subject did not come up in the meeting, a U.S. official said. The planned privatization of this company in a competitive bidding process was confirmed through an exchange of letters in August (*Inside U.S. Trade*, Oct. 23, p. 15).

On pharmaceuticals, the U.S. industry is "getting impatient" over a number of longstanding provisions in the Korean patent and reimbursement systems, a U.S. official said. One concerns testing requirements for new drugs, while another concerns the protection of proprietary data during the patenting process, the official said.

Until recently, Korea's national medical system did not pay for foreign pharmaceuticals, a U.S. official said. In July, Korea plans to issue a reimbursement list which will cover foreign drugs but the formula for determining payments discriminates against foreign producers, the official said.

U.S. BORDER STATE FARMERS PLAN DEC. 6 BLOCKADE OF CANADIAN IMPORTS

Farmers from U.S. states bordering Canada have announced that they will attempt to block Canadian imports from entering the U.S. on Dec. 6 unless the Clinton Administration can demonstrate by Dec. 1 concrete progress in its effort to resolve a number of border trade issues, according to informed sources. While farmers understand that some of these issues can only be solved in the long term, they are planning to hold up Canadian imports unless the U.S. and Canada can announce some short-term measures by Dec. 1, these sources said.

Specifically, they want the two sides to work out a way to harmonize rules for the use of certain pesticides and drugs, sources said. Canadian farmers have an unfair advantage, U.S. farmers charge, because the U.S. forbids the use of these chemicals even though they can be used to speed the processing of Canadian agricultural products that can be sold in the U.S. without restriction.

In addition, farmers want Canada to ease what they charge are onerous restrictions for imports of U.S. livestock.

Finally, farmers want Canada to drop its requirement that U.S. grain shipped on Canadian rails be tested for diseases even if the destination of the shipment is not Canada, sources said. Canada now requires this testing even if the U.S., for example, ships a sealed container of grain from the midwest to California via Canadian rails.

In lieu of resolving these short-term issues, sources said the U.S. could temporarily satisfy farmers by implementing similar restrictions against Canadian imports while an agreement is worked out. If neither of these outcomes occur by Dec. 1, farmers will on Dec. 6 try to block highways between Canada and states such as North Dakota, Minnesota and Montana.

These short-term matters are just some of the issues the U.S. and Canada agreed to discuss in response to strict inspection requirements put in place by a number of border states in October. Others are increases in imports of Canadian grain, the price transparency of the Canadian Wheat Board, efforts to recognize each other's health standards and expand a program to sell U.S. feeder cattle in Canada, and increased access for U.S. potatoes (*Inside U.S. Trade*, Oct. 2, p. 1).

A spokesman for the Office of the U.S. Trade Representative this week declined to comment on what progress has been made in this effort so far, or if any progress was made in meetings held last week in Ottawa. However, he said the two sides are hopeful an announcement can be made by Dec. 2 on a series of steps they will take to ease tensions in these areas.

This date would meet the 60-day deadline set by the U.S. and Canada when they announced the initiative in early October.

But U.S. farmers this week remained skeptical that the talks will result in any concrete results by early December, which is why they have planned to block Canadian exports on Dec. 6. Sources said USTR and the Agriculture Department have not revealed any details on how they are resolving the issues at hand, which leads farmers to believe that they are not very close.

One U.S. producer this week said the two sides seem to still in the process of outlining the issues to be negotiated, and that negotiations have not yet begun. This first step has taken longer than planned because Canada is still resisting U.S. efforts to talk about how the pricing practices of the Canadian Wheat Board can be made more transparent, he said.

The last update USTR gave to farmers and governor's offices was from Special Trade Ambassador Peter Scher in a letter delivered Nov. 13, sources said. In that letter, reprinted below, Scher said talks between the U.S. and Canada "continue to progress," and detailed a number of meetings the two sides held in October.

"We believe that our close communication has helped us develop an excellent framework for the discussions," Scher wrote. "We will continue to keep you and other interested governors, congressional and industry representatives informed as we continue to seek a short term concrete progress, as well as longer term commitments from the Canadian government."

Scher Letter on Canada Talks

Nov. 13, 1998

The Honorable Edward T. Schafer
State Capitol
State of North Dakota
600 E. Boulevard Avenue
Bismarck, North Dakota 58505-0001

Dear Governor Schafer:

Discussions with the Canadians on a variety of agricultural trade problems continue to progress. On October 22, I traveled to Ottawa and met with Deputy Trade Minister Wright and Deputy Agriculture Minister Claydon to press them for timely and substantive movement on a wide-range of issues of import to US farmers and ranchers. Toward that end, a U.S. government technical team composed of USTR, USDA, EPA and FDA officials met with Canadian counterparts on October 8 in Montreal and October 29 in Washington, D.C. Ambassador Barshefsky and Secretary Glickman are scheduled to meet with Canadian Minister Marchi on November 15, which will be followed by the next set of technical talks that will take place November 17.

In our discussions with the Canadians, we are pursuing a number of objectives. These objectives were derived from the

written material provided by you and other governors as well as our telephone conversations. We believe that our close communication has helped us develop an excellent framework for the discussions.

Specifically, we have engaged the Canadians on: 1) Canadian grain imports; 2) elimination of Canada's 30 day quarantine requirement on US hogs that cross the border into Canada; 3) price transparency of the Canadian Wheat Board; 4) elimination of certain grain phytosanitary requirements to facilitate movement of grain into and through Canada on the Canadian Railway system; 5) development of animal health regionalization programs and expansion of the project to facilitate movement of feeder cattle into Canada; 6) harmonization of animal drugs and pesticide registrations; and 7) increased access to the Canadian market for U.S. potato shipments north.

We will continue to keep you and other interested governors, congressional and industry representatives informed as we continue to seek a [sic] short term concrete progress, as well as longer term commitments from the Canadian government.

Sincerely,

Peter L. Scher
Special Trade Ambassador

1062 COMMERCE SETS STAGE FOR RETROACTIVE APPLICATION OF STEEL AD DUTIES

The Clinton Administration this week took an unusual step to help U.S. steel producers fight against Russian and Japanese hot-rolled steel imports, which producers have charged are unfairly priced. On Nov. 23, the Commerce Dept. broke with its past practice when issuing preliminary critical circumstances findings that set the stage for retroactive application of preliminary antidumping duties.

Commerce announced the findings even though the International Trade Commission found by a five to one vote that they only threaten to injure the U.S. industry. In the past, Commerce has largely issued preliminary critical circumstances findings in cases where the ITC found that imports have actually injured the U.S. industry.

A preliminary critical circumstances finding allows a ninety day retroactive application of preliminary antidumping margins to counteract a surge in imports that often occurs after a dumping petition is filed. Without a critical circumstances finding, these imports would face no dumping duties until preliminary margins are in place.

Lawyers for respondents in the steel cases have already warned Commerce that issuing a critical circumstances finding in the hot-rolled steel cases would violate U.S. obligations under the Uruguay Round. But they concede that Commerce is not limited under U.S. law to making critical circumstances findings only when the ITC has made a material injury finding.

These opponents charge that the critical circumstances finding will further serve to slow trade in hot-rolled steel from Russia and Japan as importers fear being subject to retroactive duties. The hot-rolled steel cases were filed against Japan, Russia and Brazil. The steel industry is likely to file new trade cases on cold-rolled steel in the future.

Critical circumstances findings are generally issued at the time Commerce assesses preliminary margins, but the Clinton Administration issued such a finding for Japan and Russia this week even though Commerce's preliminary determination will not be out until Feb. 12, 1999. Commerce will hold off on making a critical circumstances finding in a case against Brazilian imports until the preliminary margins are assessed, according to the Nov. 23 Commerce announcement.

For a final critical circumstance finding to go in place, U.S. law requires that Commerce makes a final finding and that the ITC must agree with that based on its independent analysis, according to private-sector and government sources. Under past ITC practice, this would be unlikely if the ITC's final injury finding were only one of "threat" instead of present material injury, these sources said.

The ITC will begin a final injury analysis after Commerce issues preliminary antidumping margins. That analysis will at least cover industry developments in the third and fourth quarter of 1998, private-sectors sources said. In that time period, steel companies will be able to show more signs of injury as a result of imports, which may change the final ITC finding into a material injury one, they said.

By making a preliminary critical circumstances finding, Commerce keeps the issue alive for a final decision, one source said.

In order to make a preliminary critical circumstance finding, Commerce must have a "reasonable basis to believe or suspect" that exporters from a given country have a history of dumping causing material injury, or that importers knew or should have known that merchandise was dumped and material injury was likely to occur.

The second condition is that there must have been "massive imports" of the subject merchandise over a relatively short period of time. Commerce has generally defined this as a surge of 15 percent in imports in the three-month period immediately preceding the initiation of a case compared to the three months following the initiation (*Inside U.S. Trade*, Oct. 9, p. 8).

In the past, Commerce has held that importers knew or should have known that dumping occurred and that injury was likely to occur if there was a dumping margin of 25 percent and the ITC made a preliminary determination of material injury, according to the Nov. 23 announcement.

In a 1997 case on Brake Drums and Brake Rotors from China, Commerce found that it is not "reasonable" to conclude that importers knew or should have known that imports could cause material injury if the ITC has only found threat of injury, not present material injury, according to informed sources.

But in the same year, Commerce issued affirmative critical circumstance findings regarding cut-to-length steel plate from China, Russia and Ukraine even though the ITC had found only a threat of material injury. Commerce argued that this was justified based on the facts of the case, which showed a massive increase in imports and high preliminary margins, sources said.

Commerce argued that it had the discretion to take this approach in this case because the Uruguay Round agreement did not specify how national authorities should determine the importers' knowledge that dumping would cause material injury, according to informed sources.

Regarding the finding on Japan, Commerce based its decision that importers knew or should have known that dumping occurred on the petition of U.S. steel producers, according to the Nov. 23 announcement. Commerce found that the alleged dumping margins of 27.20 and 28.25 percent in the petition are higher than the 25 percent threshold that Commerce has in the past applied in critical circumstance findings.

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These alleged margins, which came from the industry petition, are the most reliable source of information given that preliminary margins have not yet been assessed, Commerce said.

Commerce also found that importers knew or should have known that this dumping caused likely injury to the U.S. industry. To do so, Commerce relied on the petition and "numerous" press reports from early to mid-1998 regarding rising imports, cuts in U.S. prices caused by these imports, and a shift of U.S. buyers to foreign suppliers, according to the Nov. 23 announcement.

But respondents lawyers point out that this reasoning does not provide the necessary analysis to demonstrate that importers know that dumped steel caused injury to the U.S. industry.

Regarding Russia, Commerce ruled that there is a history of dumping given that hot-rolled steel from Russia faces antidumping orders in Indonesia and Mexico. As a result of that determination, Commerce did not examine whether importers had knowledge that dumping occurred or that it caused material injury, Commerce said.

To meet the second condition of massive imports in a relatively short period of time for Japan and Russia, Commerce compared import volumes from May to September 1998 and December 1997 to April 1998. This differs from the three-month comparison Commerce usually employs. Commerce switched from this practice because it issued the critical circumstances decision earlier than usual in these two cases, and did therefore not have the required data available.

Imports from Russia and Japan increased by approximately 100 percent during the period examined, Commerce found.

The Administration has given in to pressure from U.S. steel companies to aggressively apply U.S. trade law to low-priced imports flooding the U.S. in the wake of the Asian economic crisis, but has resisted taking other import-restricting measures so far.

U.S., EU TO CLASH OVER TIMING OF WTO PANEL REVIEW ON BANANA REGIME

The U.S. and European Union this week were expected to clash in a World Trade Organization meeting over the timing of a dispute settlement panel review of a new EU banana import regime. Informed sources have said U.S. Trade Representative Charlene Barshefsky is unlikely to accept a new proposal by EU External Relations Commissioner Leon Brittan that the U.S. drop its insistence on having the review concluded by Jan. 15.

In a Nov. 23 letter to Barshefsky, Brittan indicated that the EU may be unwilling to seek a ruling from the original panel as quickly as the U.S. is demanding. Instead, Brittan charged that the Jan. 15 deadline was suggested by the U.S. only because it coincided with a U.S.-devised timeline under which it would retaliate against the EU for its alleged failure to implement a WTO consistent regime.

"We believe [the suggested U.S. timeline] is likely both to place undue pressure on the panel and appeal procedures, and to infringe the rights under the DSU of the EU and third parties," Brittan wrote. "I shall be only too pleased to discuss with you, and the panelists, in accordance with Article 12.3 of the DSU, the fastest practicable timetable, but we cannot accept your prejudgment of the outcome."

Brittan also said the U.S. must meet two conditions before the EU agrees to seek an expedited review of the new EU regime.

First, the U.S. must not "seek authorisation for retaliatory measures under Article 22 until after a ruling has been made under Article 21.5 including, if necessary, appeal," Brittan wrote. "Second that, in the event of a panel ruling against the U.S. under Article 21.5, the U.S. would accept that ruling and not resort to unilateral action."

The EU has continued to insist that the two sides must follow procedures under Article 21.5 to resolve their disagreement on whether the EU regime complies with the WTO ruling. Only then, the EU has said, can the U.S. invoke Article 22 by requesting authorization from the Dispute Settlement Body to retaliate against the EU.

The EU has argued that allowing Article 22 to be invoked when there is an outstanding dispute over whether a member has complied with a WTO ruling would defeat the purpose of the system. Without a formal WTO decision of non-compliance under 21.5, it would be too easy for a member to win authorization from the DSB to retaliate against another member. Under Article 22, retaliation is granted unless a consensus of DSB members, including the petitioning member, rejects the request.

Brittan's letter reiterated this point, and said that U.S. plans to move right to Article 22 effectively allow the U.S. to determine by itself that the EU is violating the WTO ruling.

"[T]he United States has arrogated to itself the right to make a unilateral determination on the compliance of the EU regime with WTO rules, and has set in hand a process which, if pursued, will lead to the adoption of retaliatory measures outside these rules," he wrote.

The EU has said its new regime, which is due to be implemented by Jan. 1, 1999, is consistent with the

finding of the original WTO panel. But the U.S. has said it would continue to violate the WTO by enacting a separate quota for bananas from Latin America and African, Caribbean and Pacific countries. The U.S. also complains that the EU's proposed licensing regime would favor companies that sell ACP bananas in the allocation of licenses for Latin American bananas.

Sources said the U.S. will likely disagree with Brittan's letter on several counts. First, Brittan's implication that the U.S. should agree to a panel review that ends after Jan. 15 will likely be seen by the U.S. as an EU attempt to deny the U.S. its WTO rights, sources said.

These sources pointed out that the U.S. timeline, while detailed in an October letter from then-White House Chief of Staff Erskine Bowles, is not a unilaterally-derived scheme and is instead based from Article 22. The article holds that members can ask the DSB to authorize retaliation twenty days after the opposing member is due to implement the panel findings. It also holds that ten days later this authorization shall be granted unless a consensus of members is opposed, or unless the member facing retaliation requests 30 days to negotiate reduced sanctions.

As the EU is due to implement the banana panel by Jan. 1, 1999, Article 22 allows the U.S. to ask the DSB to authorize retaliation on Jan. 21, according to the U.S. position. As the U.S. believes it has the right to use Article 22 even if the original panel has not made a determination under Article 21.5, the U.S. will therefore be unwilling to agree to a process that would result in a panel determination any later than Jan. 20, sources said.

Special Trade Ambassador Peter Scher indicated last week that the U.S. does not believe it has to have the panel rule on the EU regime before Article 22 is employed, and said the U.S. offered to seek a ruling by Jan. 15 as a good-faith effort to end the longstanding fight (*Inside U.S. Trade*, Nov. 20, p. 1).

For the same reasons, the U.S. will likely reject Brittan's demand that the U.S. not seek retaliatory measures under Article 22 until after the panel has ruled on the WTO-consistency of the EU regime. Since the U.S. believes this is a valid move under WTO rules, it is unlikely to agree to delay this procedure.

While the U.S. has argued that WTO rules do not explicitly require Article 21.5 procedures before Article 22 is invoked, the EU has said there is an implicit linkage between the two, and that the former must be followed when faced with a dispute over compliance (*Inside U.S. Trade*, Nov. 13, p. 1).

In a related development, the U.S. reiterated its position in a Nov. 24 letter to WTO Director General Renato Ruggiero. The letter, reprinted below, said the U.S. timetable is driven by Article 22, and is not unilaterally imposed.

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The letter also thanked Ruggiero for facilitating a resolution of the fight by Jan. 15. Barshefsky told Brittan in a letter last week that the WTO Secretariat had determined that the original panel could be in place soon and could have its decision ready by Jan. 15.

Despite these problems, sources said Brittan did soften his position in some ways, including by holding out the belief that a panel review "need not exceed [the U.S. target date of Jan. 15] by a significant period."

In addition, Brittan said that if the U.S. were to continue preparing a retaliation list under Section 301 of U.S. trade law, the EU would "have no choice" but to request WTO consultations. The EU was expected to announce this step at the Nov. 25 meeting of the DSB.

Sources said his willingness to consider a panel review without demanding that the U.S. end its activity under Section 301 could be seen as an improvement from Brittan's position as laid out in a Nov. 20 press statement. That statement, released the day after the U.S. floated its proposal to have the panel review the EU banana regime by Jan. 15, said in strong terms that the EU could not agree to any panel review process while the U.S. threatened unilateral retaliation.

"We remain ready to cooperate with the U.S. in accelerating a panel provided that they make clear that they are abandoning the unilateral route and respect the rules and procedures of the WTO," Brittan said last week. "They cannot impose an arbitrary deadline plucked out of the air and determined by their timetable for illegal unilateral action."

The EU was also expected to use the Nov. 25 DSB meeting to initiate a debate over whether the U.S. has the right to retaliate unilaterally under Section 301. In response, the U.S. was expected to reiterate that Section 301 is used as an internal process by which the U.S. brings complaints to the WTO.

Finally, Brittan told Barshefsky in a Nov. 17 letter, reprinted below, that the EU does not believe that a member can endlessly require others to challenge a regime under new WTO proceedings each time it is found to be inconsistent. Instead, he said the EU believes that once the deadline for implementation has passed, a determination can be made under Article 21.5 which can lead to retaliation if the member is not in compliance.

If the member in question revised the regime, the retaliatory measures remain in place until a new determination is made that the regime is in compliance, or until the disputing parties agree, Brittan said.

Brittan said the letter was meant to clarify the EU position after Barshefsky complained that the EU could require the U.S. to launch a fresh challenge to the EU banana regime each time the EU changed it. Barshefsky said this interpretation would result in an "endless loop of litigation."

Brittan Response on U.S. Banana Proposal

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Ambassador Charlene Barshefsky
Executive Office of the President
The United States Trade Representative
Washington DC 20508

23 November 1998

Dear Charlene,

Thank you for your letter of 19 November about the banana question. I have read this very carefully. I am glad you wrote because I believe we do need to work together to solve this problem. But I must say that I was disappointed by the letter's tone and content, especially in the wake of my letter of 17 November, which was intended as a constructive contribution to our efforts to find a solution and in particular to allay your concerns about the future course of litigation. I had been hoping for a reply in a similar vein.

On the substance, I regret that you found it necessary to rehearse in so polemical a manner the American version of the history of the dispute. I do not think any useful purpose will be served by my responding in kind. The facts speak for themselves: the EU has made fundamental amendments to its regime following the WTO ruling. Since September, we have been offering you accelerated dispute settlement procedures on all parts of the regime which have been in place. Had you taken this up, you would not now be facing a timing problem. Our actions throughout have been entirely within the spirit and the letter of WTO rules. By contrast, the United States has arrogated to itself the right to make a unilateral determination on the compliance of the EU regime with WTO rules, and has set in hand a process which, if pursued, will lead to the adoption of retaliatory measures outside these rules.

Be that as it may, in his letter of 10 November to President Clinton, President Santer said that he believed the EU would be ready to accept an accelerated dispute settlement procedure to rule on compliance, provided that the United States undertook to act solely within the WTO procedures. These involve a determination by the WTO of the consistency with WTO rules of the EU regime in accordance with Article 21.5 DSU, before any WTO-compatible retaliatory measures can be requested. You will be aware that since then we have already accepted an accelerated consultation with Ecuador.

As for the United States' position set out in your letter, I welcome in principle your decision to accept our readiness to enter into WTO dispute settlement. However, we have made clear that our co-operation in accelerating such a process is dependent on the

US agreeing to act only within the WTO rules. Your intention to pursue the process currently in hand for deciding on retaliatory measures before an Article 21.5 ruling is achieved is not consistent with this.

Furthermore, the rigid time frame you set down is one which is derived solely from the arbitrary deadline for unilateral measures set out in the Erskine Bowles letter. We believe it is likely both to place undue pressure on the panel and appeal procedures, and to infringe the rights under the DSU of the EU and third parties. I shall be only too pleased to discuss with you, and the panellists, in accordance with Article 12.3 of the DSU, the fastest practicable timetable, but we cannot accept your prejudgement of the outcome.

You also suggest that the new banana regime should be suspended pending the outcome of a Panel. This would create major legal uncertainty for traders and open the door to legal challenge by importers. It would disrupt banana trade between Europe and all of its suppliers. Moreover, this would require us to reinstate a system which has been condemned by the WTO and which would place us clearly in violation of the WTO ruling. This is not a course we can pursue, either politically or legally.

To be clear, the EU remains ready to co-operate with the US in accelerating a WTO panel and appeal procedure. We stand ready to hold consultations immediately in Geneva in order to set this in hand. I am prepared to work with you and the panellists straight away to agree on the quickest possible time frame, and to give a strong assurance that we will do nothing to delay it. While, for reasons which are largely beyond our control, this time frame may not meet the deadline you seek to impose, I believe that it need not exceed it by a significant period. Our agreement to an accelerated panel is conditional upon two undertakings from you: first, not to seek authorisation for retaliatory measures under Article 22 until after a ruling has been made under Article 21.5 including, if necessary, appeal. Second that, in the event of a panel ruling against the US under Article 21.5, the US would accept that ruling and not resort to unilateral action. Meanwhile, since you say that you are proceeding with the identification of retaliatory measure [sic] under the Section 301 procedure, you will understand that the EU will have no choice but to seek separate consultations on this legislation on 25 November as President Santer has already indicated.

I really do think that the time has come to settle these problems. I am available to talk on the telephone, or indeed to meet in Geneva if you would prefer that.

Leon

Brittan Letter on Bananas

17th November 1998

Ambassador Charlene Barshefsky
United States Trade Representative
Washington, D.C.

Dear Charlene,

I know from our discussions that one of the major concerns you have had in the banana issue has been what you see as the danger of an 'endless loop of litigation' in the current EU/US bananas dispute. It may be helpful if I let you know our position on this important point, having considered it very carefully.

I do not believe that an endless loop of litigation is a realistic possibility within the WTO dispute settlement system. Once a WTO member has been found not to be in conformity with WTO rules, it faces the risk of retaliation authorised by the DSB. If the WTO member concerned then implements a revised regime, that

authorisation does not automatically lapse. It continues in being until either:

- (i) the parties to the dispute agree, or
- (ii) a new multilateral determination is made, that the revised regime conforms to WTO rules and that retaliatory measures are therefore no longer justified.

I trust that this is a helpful reassurance that the WTO dispute settlement system is designed to encourage a mutually satisfactory outcome and cannot be got round by prevaricating tactics leading to never-ending litigation.

It of course remains open to the US to seek WTO consultations with the EU on the regime we intend to implement on 1 January 1999. We would respond speedily to any such request. I would meanwhile continue to urge you to refrain from any unilateral US measures in pursuit of this dispute.

Leon

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Barshefsky Letter to Ruggiero

November 24, 1998

Mr. Renato Ruggiero
Director General
World Trade Organization
Centre William Rappard
rue de Lausanne, 154
1211 Geneva Switzerland

Dear Renato:

Thank you for your letter of November 24 regarding the bananas issue. I appreciate the efforts you are making to facilitate a resolution of this longstanding dispute.

As you know, I have already indicated to Sir Leon Brittan that the United States remains prepared to participate in a panel review of the modified EU banana regime, provided that review is concluded prior to January 21. January 21 is the date on which the United States must follow the procedures in Article 22 of the

Dispute Settlement Understanding (DSU) in order to preserve its WTO right to respond to EU non-compliance. We understand that your staff has already confirmed that the panelists can complete their review by January 15, and we are prepared to agree to a panel timetable on that basis.

In light of recent press reports, I wish to emphasize that the time frame referenced by the United States is not unilaterally imposed. It is driven instead by the timetable explicitly provided in the DSU. Paragraphs 2 and 6 of Article 22 of the DSU establish a 60-day period for suspending concessions that in this case begins on January 1, 1999. The United States must retain the ability to complete recourse to those procedures within that 60-day period.

Thank you again.

Sincerely,

Charlene Barshefsky

STEEL INDUSTRY LIKELY TO SEEK TRADE LAW CHANGES NEXT YEAR

Steel industry representatives next year will likely begin targeting Congress to change U.S. trade and trade remedy laws to make it easier to obtain import relief, according to private-sector sources. This plan is partially motivated by what members of the steel industry perceive to be the Clinton Administration's failure to take extraordinary measures to keep imports at bay.

These legislative efforts could focus on changing the injury standard for Section 201, and would likely include changes on how to handle currency devaluations in antidumping cases, they said.

They could also include changes to the methodology in antidumping cases, such as how to cumulate the impact of all imports on the domestic industry, one source said. Other changes could cover the methodology for calculating antidumping margins, he said.

In addition, the Labor Industry Coalition for International Trade may float proposals it has been developing this year for changing Section 301 to target anticompetitive practices in foreign markets, the source said. LICIT is considering a proposal to give the Office of the U.S. Trade Representative the authority to fight these practices with so-called cease and desist orders that are enforceable by fines, he said. But he conceded that this idea could easily encounter opposition from the Justice Dept., which is in charge of administering antitrust law.

But another source said this power to issue cease and desist orders for anticompetitive practices in the trade arena could also be given to Justice.

These trade law changes could become part of a potential omnibus trade bill that may emerge as the Administration seeks to pass fast-track negotiating authority.

No decisions have been made regarding exactly what changes the steel industry may seek, but different law firms are developing proposals that may begin to emerge as a comprehensive list early next year, private-sector lawyers said. The decision by steel companies to seek changes in trade remedy law differs from their tack since the implementation of the Uruguay Round, when they argued against changing trade remedy provisions after they had just been revamped.

That approach was aimed at keeping at bay other possible changes, such as a short supply provision which U.S. users of antidumping law oppose.

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Oxford Analytica Brief

EU/UNITED STATES: Trade Frictions

Dec 1, 1998 : 1

SUBJECT: The rising trade tensions between the EU and the United States.

SIGNIFICANCE: The surge in exports from emerging markets has aggravated EU-US trade tensions. These frictions have prevented Washington and Brussels from developing a joint response to the Asian crisis which might help to manage domestic protectionist pressures more effectively.

ANALYSIS: The three interest rate cuts announced by the Federal Reserve since September 29 have restored a degree of stability to the international capital markets, ending the bout of turbulence which began with Russia's debt default on August 17. Fears of a credit crunch and a recessionary slowdown in the United States and the EU have receded in recent weeks. Investors' risk aversion seems to have fallen and several corporations have tapped the bond markets as the spread between commercial paper and government bonds has narrowed. However, even if policy-makers can maintain this financial stability, the western economies will continue to come under pressure next year as exchange rate realignments and differences in demand lead to a substantial redirection of trade flows (see [OADB, November 5, 1998, II](#)).

In the early stages of the crisis, most of the adjustment in trade flows occurred via a decline in US and EU exports. Currency devaluations reduced purchasing power in East Asia. More generally, emerging market governments were forced to respond to exchange rate pressures by tightening their fiscal and monetary policies, which further cut the demand for western products and services. In contrast, the increase in emerging markets' exports to the western economies has so far been relatively modest. Export-led growth strategies have been hampered by the lack of trade credit and the disruption of local financial systems. However, as the immediate shock has passed, emerging markets have begun to increase their exports into the US and EU markets relatively rapidly. The increase in emerging market exports is likely to continue throughout 1999 and threatens to trigger an upsurge in protectionist pressures in the North Atlantic area (see [OADB, October 13, 1998, III](#); and [OADB, October 5, 1998, II](#)).

The emerging market export surge has already triggered tensions between the advanced economies and developing countries, notably over the second WTO Information Technology Agreement (ITA II). Industrial country governments have been reluctant to liberalise their information technology tariffs further in the wake of the East Asian crisis. They fear that their countries will be flooded with low-cost products as Asian producers become more competitive following the massive regional currency devaluations. The ITA II talks were finally suspended after negotiators failed to meet their June 30 deadline (see [OADB, September 25, 1998, III](#)). Other regional and multilateral trade initiatives have also

stalled in the wake of the East Asian crisis as a result of the slowdown in global growth and the realignment of exchange rates (see OADB, November 11, 1998, I; and OADB, November 10, 1998, II).

Transatlantic tensions. The increase in emerging market exports has also led to an increase in trade tensions between the EU and the United States. The Clinton administration complains that the EU has not done enough to absorb the increased exports from Asia and other regions, leaving the United States to act as the consumer of both first and last resort and the sole locomotive of growth within the world economy. Transatlantic tensions are particularly acute because the Euro-area has continued to run a substantial current account surplus, even as the US trade deficit has deteriorated sharply.

Moreover, the import surge has been concentrated in a few industrial sectors, many of which are already characterised by excess capacity. Certain sectors, such as steel and semiconductors, have seen emerging market exports expand by up to 500% year-on-year. The concentration of adjustment pressures in these industries has led to intense lobbying for import relief. Both the US administration and the European Commission are now considering anti-dumping actions against steel imports (see OADB, November 26, 1998, I). Washington has also sought to reduce the pressure on its own producers by pressing the EU to accept a greater volume of emerging market exports. The resulting upsurge in bilateral tensions has inflamed existing trade disputes and prevented the EU and the United States from developing a joint response to the crisis which might help to manage protectionist pressures more effectively (see OADB, October 13, 1998, III; OADB, October 1, 1998, I; and OADB, August 6, 1998, II).

Flash points. Trade frictions have been rising across a wide range of issues, but the most potentially damaging disputes concern the EU's banana import regime and the steel sector:

1. **EU banana imports.** The Clinton administration has threatened to retaliate against European exports unless the EU modifies its banana import regime by January 1. Last month, the administration published a list of possible retaliatory measures, including punitive 100% tariffs on EU exports of wine and cheese. The US administration claims that the banana import regime effectively precludes large US distributors such as Chiquita Brands and Dole Foods International from selling into the EU market by offering preferential treatment to rival producers in Caribbean countries that were formerly European colonies.

The WTO disputes settlement system last year upheld a US complaint against the banana import regime, and the EU has announced a number of modifications. However, the Clinton administration claims that the modified licensing system is still discriminatory and does not comply with the terms of the WTO ruling. The transatlantic dispute now centres on whether the United States can seek WTO authorisation to retaliate against the EU's failure to comply with a panel ruling, or whether the issue of compliance must itself be referred to a disputes panel. The two sides also contest the timetable for any referral.

On November 17, Ecuador asked for formal WTO consultations about the modified import regime, which could lead to the original disputes settlement panel being reconvened next year. The United States could join Ecuador's action, and a reconvened panel may offer the best chance of avoiding a trade conflict over the banana issue. However, the EU has now responded by seeking WTO consultations over section 301 of the US Trade Act, under which the administration has threatened to impose punitive tariffs. Trade tensions are likely to escalate further if the consultations fail to produce an agreement and section 301 is referred to a disputes settlement panel. More generally, the banana dispute highlights the lack of an agreed mechanism for implementing WTO rulings, which is aggravating tensions between the organisation's two largest members (see OADB, November 6, 1998, II).

2. **Steel imports.** The upsurge in steel exports from Russia and East Asia has produced common difficulties for US and EU steel producers and similar demands for protection. Both US and EU producers have seen their exports to Asian markets collapse over the past 18 months, although US producers were

able partially to offset this and raise total exports last year by increasing their sales to Canada and Mexico. The EU does not have preferential access to these markets, and has shifted from being a net exporter of steel to being a net importer.

At the same time, there has been a surge of steel imports into the United States, particularly from the countries of the former Soviet Union. The Soviet Union was a major importer of steel, but both Russia and Ukraine are now major exporters as a result of the collapse in internal demand and the need to generate hard currency earnings. US steel imports from Russia doubled in 1997, and are set to increase further as the Russian economic crisis deepens.

Anti-dumping upsurge. Although Washington and Brussels face similar problems, bilateral tensions have arisen over the distribution of adjustment costs between the two economies. Leading US steel producers have combined with the United Steel Workers union to press the Clinton administration for import relief. The firms have filed anti-dumping complaints against Brazil, Japan and Russia over rolled steel imports. The administration is poorly positioned to resist this pressure, since the unions provided crucial financial and organisational support to the Democratic Party in this year's mid-term elections, and Vice-President Al Gore needs their support to mount a successful campaign for the presidency in 2000 (see OADB, August 19, 1997, IV). At the same time, the European steel producers have filed their own anti-dumping complaint with the European Commission. The essentially zero-sum nature of these complaints suggests that steel prices could fall further in coming months, accentuating the industry's overcapacity problem.

CONCLUSION: The US administration may find it hard to resist industry and congressional demands for increased protection from imports. Such protection will probably take the form of more widespread recourse to anti-dumping duties, since tariff rates are capped by the WTO agreements and quotas would conflict with other WTO obligations. The pressure on the EU to respond by increasing its own use of anti-dumping measures would then be very strong.

TOPICS: economy industry international_relations trade balance_of_payments steel soft_commodities sanctions

COUNTRIES: International United_States EU WTO East_Asia Russia Caribbean

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Oxford Analytica Brief

UNITED STATES: Protectionism Drift

Oct 5, 1998 : 2

SUBJECT: The prospects for further trade liberalisation in the run-up to the 2000 presidential election.

SIGNIFICANCE: Weak presidential leadership, the absence of a bipartisan consensus and the slowdown in the domestic economy will combine to frustrate further liberalisation initiatives.

ANALYSIS: The Clinton administration secured congressional backing for both NAFTA and the Uruguay Round agreements during its first term, but only with considerable political difficulty. In theory, the election of Republican majorities in both the House of Representatives and the Senate in 1994 and 1996 should have made it easier to secure congressional backing for further trade liberalisation initiatives. The administration nonetheless failed to obtain 'fast-track' trade negotiating authority last year, despite support from the Republican leadership (see [OADB, November 11, 1997, I](#)). Legislators are likely to be even more wary about trade liberalisation over the next two years, as the run-up to the 2000 presidential election combines with an expected slowdown in the domestic economy and a deterioration in the trade deficit (see [OADB, September 2, 1998, II](#)).

Faltering liberalisation. Between 1934 and 1974, a consensus among the political elite in Washington in favour of trade liberalisation was largely able to overcome popular indifference or even outright opposition to tariff reductions. However, since the mid-1970s, the politics of trade liberalisation have become more complicated. The elite consensus has frayed and popular opinion has become increasingly hostile. The political impetus for trade liberalisation now depends on a combination of presidential leadership, bipartisan support and the state of the domestic economy:

1. **Presidential leadership.** Legislators tend to come under strong pressure from interests in their constituencies which would suffer from increased import competition. Trade liberalisation therefore requires strong advocacy from the president to overcome these parochial concerns. However, the president's effectiveness as an advocate of trade liberalisation in turn depends upon his wider political authority.

A second-term president, such as Bill Clinton, is poorly placed to assert this kind of political leadership. Then president Ronald Reagan was forced to accept the Omnibus Trade and Competitiveness Act in 1988, despite the protectionism implicit in the various 'super 301' clauses. Clinton's position is even weaker given the scandals surrounding the White House and the prospect that the House of Representatives will commence impeachment proceedings against him (see [OADB, September 9, 1998, I](#)). Even if Clinton is

forced from office and replaced by Vice-President Al Gore, who is more closely identified with trade expansion, it is unlikely that Gore would expend much political capital on trade liberalisation policies (see OADB, September 18, 1998, III).

2. Bipartisan support. Trade liberalisation is also viewed as politically risky, even among those legislators who accept the intellectual argument for free trade. Neither of the major parties wants to adopt a distinct position in favour of liberalisation or allow elections to be polarised on trade issues. If one party moves almost en bloc towards a more protectionist stance, the other is likely to follow.

In recent years, meaningful bipartisanship on trade has all but disappeared in the House of Representatives. The Democratic Party caucus has shifted leftwards following the party's 1994 and 1996 election defeats. This trend has been reinforced by the presidential aspirations of House Minority Leader Richard Gephardt, who has sought to position himself to capture the votes of organised labour in the 2000 Democratic Party primaries by adopting protectionist rhetoric (see OADB, August 19, 1997, IV). After November's mid-term elections there are likely to be fewer than 30 Democratic Party legislators in the House supporting trade liberalisation; a really poor performance by the party would cut that number in half. This drift towards protectionism will probably be mirrored by a more cautious stance on free trade among the Republican majority.

3. Economic conditions. In the past, it has proved much easier to advocate trade liberalisation during periods when the domestic economy is buoyant and the electorate is relatively sanguine about the prospects for continued economic growth. The administration's failure last year to secure congressional approval for fast-track at a time when the domestic economy was growing at nearly 4% per year was thus particularly significant and reveals the extent to which the politics of trade liberalisation have become more complicated in recent years.

Moreover, the political constituency favouring trade liberalisation is likely to shrink as the rate of economic growth slows further. In the worst case, the crisis in East Asia may be blamed by the electorate for the slowdown in US growth. The trade deficit with the region would then become a potent political symbol in the run-up to the 2000 presidential elections. Democrats, including Gore, would probably respond by distancing themselves from the trade liberalisation agenda pursued by the Clinton administration. The Republican Party would also de-emphasise trade issues in favour of radical cuts in domestic taxation. In these circumstances, legislators may be unwilling to go beyond support for hemispheric free trade, abandoning APEC and WTO-based liberalisation initiatives.

CONCLUSION: The Democratic Party's drift towards protectionism is likely to continue and will probably induce a similar shift in the position of the Republican Party. No substantial liberalisation is likely before the 2000 presidential elections and any initiatives thereafter are likely to be incremental.

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COUNTRIES: NA International United_States

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Oxford Analytica Brief

INTERNATIONAL: IT Agreement

Sep 25, 1998 : 3

SUBJECT: The stalled WTO negotiations on a second Information Technology Agreement (ITA II).

SIGNIFICANCE: The slowdown in global growth and the massive exchange rate realignments following the East Asian crisis have complicated the ITA II negotiations. The failure to conclude the talks on time could mark a pause in the post- Uruguay Round liberalisation effort.

ANALYSIS: The Information Technology Agreement (ITA) was announced at the WTO's Ministerial Meeting in Singapore in 1996 and entered into force in July 1997. Under the accord, 28 industrial and developing countries agreed to phase out tariffs on a wide range of IT products on a Most-Favoured-Nation basis by 2000 (some developing countries have a longer timetable). Products covered by the agreement include semiconductors, computers, telecoms equipment and software; and the participating countries account for over 90% of world trade in IT products for industrial use. The accord covers annual trade worth over 600 billion dollars and is the most significant tariff-reduction agreement reached since the end of the Uruguay Round in 1993-94. Several circumstances helped to facilitate the accord:

1. **Booming market.** The deal was reached against the background of a booming market for IT products which encouraged the major IT producing nations to participate in coordinated trade liberalisation. In the advanced industrial countries, the computer, software and communications sectors have expanded much faster than output as a whole and have become key engines of economic growth. Many developing countries have very high tariffs in the IT sector; nonetheless, the strategic role of IT products has been increasingly recognised. Tariff liberalisation can aid the development and diffusion of new products, offering potential benefits to domestic IT producers as well as boosting the competitiveness of a wide range of user industries.
2. **Industry backing.** The negotiations received strong industry backing in the United States, the EU and Japan. Initial liberalisation proposals were submitted by the industry itself, which was consulted closely throughout the talks. Moreover, certain sensitive products were omitted from the final agreement in order to avoid opposition from domestic producer constituencies.
3. **Political will.** The political incentive to reach an agreement in time to announce it at the first WTO Ministerial Meeting provided a crucial impetus to the 1996 negotiations, which might otherwise have failed.

ITA II disputes. The countries participating in the agreement hoped to extend its zero-tariff regime to other products in the IT sector. The text included a commitment to conclude a second deal by June 30, 1998. Negotiators have been trying over the last six months to agree a new list of IT products to be included in a second ITA (ITA II). Among products submitted for possible inclusion are parts and other inputs for composite IT products already subject to tariff elimination. However, despite broad agreement on a basic list, sharp divisions have re-emerged over the potential inclusion of products that some countries had managed to exclude from the original agreement. The negotiations have proved to be more difficult than expected and the talks were finally suspended after negotiators failed to meet the June 30 deadline. There are two key areas of dispute:

1. **United States/EU.** The United States has resisted demands from the EU and other trading partners to remove tariffs on, inter alia, fibre optic cables, photocopiers and capacitors. Following strong pressure from domestic producers, US negotiators omitted these items from their offer list and have proved unwilling to reach a compromise that is acceptable to other trading partners.

2. **Consumer electronics.** The treatment of consumer electronics such as television sets, VCRs, microphones and videodisks is even more contentious. These products account for more than 10% of global IT production, but were excluded from the 1996 negotiations at the insistence of the major industrial countries. The EU in particular has been unwilling to discuss the issue, reflecting the fact that European producers enjoy a more highly protected home market for this electronics segment than their counterparts in other industrial countries. However, in the ITA II talks, Asian countries have objected to the exclusion of consumer electronics products, which play an import role in their export economies; continuing exclusion would dilute most of the benefits that they might gain from the agreement. Moreover, there is unlikely to be another opportunity in the near future to address the issue of consumer electronics tariffs if it is not taken up in the ITA II discussions.

In addition, there are a number of secondary disputes. India opposes the inclusion of radar equipment, which has been sought by the major industrial countries. Australia is angry that other talks participants have sought to exclude certain chemicals used in the manufacturing of IT products. Differences in national product classification systems and the need to demarcate equipment and materials which are not used exclusively in the IT sector also pose serious negotiating problems that have yet to be resolved.

Uncertain prospects. ITA II continues to enjoy substantial industry backing, but the countries participating in the talks will have to strike compromises which are becoming increasingly difficult politically in the context of deteriorating global market conditions. It is therefore uncertain whether the ITA II negotiations will resume next month. Even if the talks do resume, a new agreement may not be reached quickly:

-- There is no longer an agreed deadline to provide momentum for the negotiations, now that the June 30 date has passed.

-- The massive realignment of real exchange rates and the shift in the locus of demand in the wake of the East Asian crisis have made industrial country governments reluctant to liberalise their tariffs further. Such governments fear that their countries will be flooded with low-cost products as Asian producers become more competitive following the massive regional currency devaluations.

-- The once-booming market for IT products in Asia, which was valued at 160 billion dollars in 1997, has been shrinking quickly as a result of the general downturn in the region. Japan, which is also a major consumer electronics producer and once favoured the inclusion of these products in the ITA, is now cautious about the demands for further liberalisation put forward by other countries in the region.

-- In the short term, there is little prospect that the US Congress will grant the administration 'fast-track'

trade negotiating authority. Any ITA II will probably include products that are not covered by the administration's residual negotiating powers, and is therefore hostage to the fast-track debates in the US Congress (see [OADB, September 4, 1998, IV](#)).

Wider agenda. The economic benefits of an ITA II package will be modest, especially if consumer electronics are excluded. However, there are several other trade policy issues affecting the IT sector besides tariffs. There is thus considerable scope to promote IT trade outside the narrowly focused ITA II agenda, although these opportunities have not yet been taken up:

-- US industry has put forward proposals to accelerate the schedule of existing tariff elimination commitments under the 1997 agreement since, according to industry calculations, the cost of administering low tariffs exceeds the revenue generated. However, the proposals have received a lukewarm response from other ITA participants.

-- Several countries have applied to join the ITA and are likely to accede in the near term, including Latvia, Panama, Mauritius and Kyrgyzstan. China has also indicated that it wants to join, but Beijing is insisting on a long transitional period and the exclusion of certain products. By contrast, the major Latin American countries, which are important and highly protected markets, have remained relatively uninterested.

-- A number of market access issues have been raised on a separate track running parallel to the ITA II talks. ITA participants have agreed to discuss non-tariff barriers as part of their regular reviews of the functioning of the agreement. Technical regulations will also be reviewed. The WTO's Committee on the Expansion of Trade in IT Products has started to collect information about national certification requirements and the use of international standards on electrical safety and electromagnetic compatibility. (Businesses have also pressed for rules of origin, customs procedures and public procurement practices to be reviewed.) However, the initiative has been halted temporarily by the stalemate over ITA II.

The successful ITA negotiations in 1996 have been cited by several countries, notably the United States, to argue that future global trade negotiations should be organised on a sector-by-sector basis rather than on the comprehensive model used in the GATT rounds. The ITA has already been used as a model by APEC in its efforts to accelerate the liberalisation of nine industrial sectors. However, these talks, like ITA II, have run into difficulties, which may cause the sector-by-sector approach to be reassessed and could mark a break in the post-Uruguay Round trend towards greater liberalisation.

CONCLUSION: The prospects for resumed talks on ITA II are uncertain, although progress may be made in other areas of the WTO. The sector-by-sector negotiating model may be reassessed if the difficulties with ITA II persist.

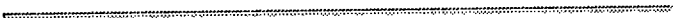
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TOPICS: economy international_relations industry foreign_trade deregulation talks electronics computers

COUNTRIES: International WTO United_States EU Japan China

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Oxford Analytica Brief

INTERNATIONAL: Farm Trade

Nov 10, 1998 : 2

SUBJECT: The impact of falling agricultural commodity prices and farm incomes on the prospects for next year's WTO talks on farm trade.

SIGNIFICANCE: Reduced farm incomes in major agricultural producing areas are causing farmers' organisations to question the reduced levels of price protection foreseen in the forthcoming WTO talks and in the 'Agenda 2000' proposals for reform of the EU's Common Agricultural Policy.

ANALYSIS: A number of factors have contributed to falling farm incomes in 1998:

-- Increasing demand and adverse weather conditions in the main producing regions in 1994-96 led to lower stocks and higher world prices. Farmers worldwide responded to these higher prices by increasing the planted area of major crops and by increasing levels of fertiliser inputs, thus increasing production in 1997-98.

-- The 1994 Uruguay Round Agreement on Agriculture reduced the level of farm price supports, but the restrictions were phased in gradually and only started to have a significant effect from 1996. EU and US farmers received some compensation as a result respectively of the 1992-93 reform of the Common Agricultural Policy (CAP) (see [OADB, June 2, 1993, III](#)) and the 1996 US Farm Act (see [OADB, February 29, 1996, I](#)), through mechanisms such as the EU's Area Aid payments and the US Production Flexibility Contract payments. However, these did not fully compensate farmers for the lower prices.

-- Currency devaluations, especially in Asia and Russia, have led to lower levels of food imports into those countries. For example, in 1997, Russian imports of pigmeat from the EU accounted for 32% of all EU pigmeat exports. Russian imports have now fallen almost to zero, a key contributory factor in the collapse of EU pigmeat prices. Poultry prices have also fallen as a result of the increased volume of poultry exports from Thailand at reduced prices.

-- As standards of living rose in developing countries, the demand for beef and pig and poultry meat rose considerably. The recent slowdown in economic growth is starting to have a negative impact on this demand growth, contributing to reduced world meat prices, but also having a big impact on world grain and soybean prices. Almost all pigs and poultry are fed on these commodities and the impact on total consumption is significant as approximately 2 kilos of feed grain are needed to produce 1 kilo of meat.

The drastic worldwide fall in agricultural commodity prices has already led to reductions in the planted areas of the crops most affected. Future demand will be influenced greatly by any further currency crises -- particularly if in countries such as Brazil, Argentina and China -- and by the speed with which standard of living improvements return to East Asia. Forecasts are extremely difficult to make but it seems possible that price levels will start to improve in late 1999 and into 2000 as the supply response takes full effect and as demand may rise again in East Asia.

Political impact. Declining incomes have made domestic farm lobbies less willing to contemplate reduced price supports:

1. EU. The European Commission produced its proposals for CAP reform as part of 'Agenda 2000' (see [OADB, July 16, 1998, I](#); and [OADB, March 26, 1998, I](#)). These included further reductions in the level of price support for farmers. The cuts would be partially compensated for by increases in existing price-decoupled supports -- for example Area Aid for arable crops -- and a new premium payment for dairy cows. These proposals should become policy before the end of 1998. However, the dramatic reduction in EU farm incomes has led to suggestions that either prices should not be reduced or that any reduction should be fully compensated. The reform proposals also include 'set aside' at zero. Given the current state of the world market, this would lead either to a huge level of export subsidies or increasing intervention stocks, both of which have serious implications for the CAP budget. It is thus likely that a positive set aside rate will continue, leading to lower levels of demand for crop inputs.

2. United States. The 1996 Farm Act was well received by farmers when farm prices were high and export markets were strong: over 25% of US agricultural production is exported. In 1996, US farmers' aggregate net incomes reached an all-time high of 53 billion dollars. An early -- and now optimistic -- Department of Agriculture (USDA) forecast put the figure at 42 billion dollars in 1998. In response, farm leaders are demanding a review of certain aspects of the 1996 legislation. The administration has so far made only a minor concession by bringing forward the date of the second 1998 Production Flexibility Contract payment. However, in May and June, the USDA announced that it would reactivate the export enhancement programme for poultry and barley, and increase export promotion measures for dairy to counteract EU subsidies. Moreover, the fiscal 1999 omnibus spending bill contained additional emergency funding worth 5.9 billion dollars for the farming sector, including 3.05 billion dollars for market loss payments (see [OADB, October 19, 1998, II](#)). Further concessions seem possible.

Trade liberalisation. As recently as twelve months ago it was generally anticipated that WTO talks would continue the Uruguay Round agenda of reduced levels of price support in agriculture and further reductions in trade barriers, with pressure likely from the United States and the Cairns Group on the EU's 'blue box' farm supports linked to production (see [OADB, July 7, 1998, II](#); [OADB, June 2, 1998, IV](#); and [OADB, May 12, 1998, II](#)). However, barriers to trade liberalisation have multiplied:

-- Although supported by farmers, the US Congress last year rejected a measure to give President Bill Clinton enhanced trade negotiating authority. Without fast-track authority, any trade agreement will be vulnerable to congressional obstruction (see [OADB, November 11, 1997, I](#)).

-- Pacific Rim leaders are unlikely to agree on a comprehensive liberalisation package for the region at this month's APEC meeting, in part because Japan remains opposed to farm trade liberalisation. The economic crisis in the region has undermined APEC members' enthusiasm for a new WTO round.

-- In New Zealand, which is usually a strong proponent of trade liberalisation, farmers are resisting government plans to dismantle the New Zealand Dairy Board (NZDB). The NZDB is a public corporation with monopoly control over dairy exports. Although the government says deregulation is necessary in advance of trade negotiations, farmers fear that the NZDB's elimination will reduce prices for exports.

Moreover, during the September WTO meetings in Geneva, Washington reiterated its opposition to a comprehensive 'millennium round' of trade talks covering a wide range of issues. US opposition was motivated by the fear that opposition to farm trade liberalisation in the EU and Japan would stall progress in other sectors, as was the case during the Uruguay Round. Proponents of a wider trade agenda argue that a millennium round would give European and Japanese manufacturing interests a stake in the outcome of farm trade negotiations, increasing domestic pressure for agricultural liberalisation (see [OADB, December 29, 1997, II](#)). Recent statements by US Trade Representative Charlene Barshefsky suggest greater support for a millennium round. However, in the current economic climate, it will be difficult to reach consensus on agricultural issues.

CONCLUSION: The sharp unforeseen fall in worldwide farming incomes is only now starting to cause major protests by farmers. If, as seems likely, prices do not recover for at least 15 months, there will be increased pressure to limit both price support reductions and moves towards trade liberalisation internationally.

TOPICS: economy industry international_relations agriculture deregulation food talks

COUNTRIES: International EU United_States Japan APEC New_Zealand

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John D. Montgomery

07/17/97 02:54:32 PM



Record Type: Record

To: FRANKEL_J @ A1 @ CD @ LNGTWY
cc: THOMPSON_CM @ A1 @ CD @ LNGTWY
Subject: Fast track

Jeff,

There is a principals meeting tomorrow on fast-track. (Are you attending?) This is a follow-up to a meeting held yesterday, which Janet and I attended. In preparation for tomorrow's meeting, she asked me to give some thought to what CEA's position on various fast-track related issues should be. This e-mail describes yesterday's meeting and some of the outstanding issues. Could you please give me your views, or can we talk?

Yesterday's meeting was chaired by Tarullo, and attended by Berger, Rubin, Summers, Eizenstat, Daley, Herman, Sperling, McClarty, and Barshefsky, among others. Tarullo said that he wanted to decide on what to present to Congress by the end of the week, so he could present it to the President over the weekend.

Given that timetable, I was surprised at the amount of uncertainty and disagreement in the room. Barshefsky made a pitch for FTAs negotiations with Chile and with some Pacific countries (Australia, New Zealand, Singapore, and maybe the Philippines), with the FTAA in the background but not formally part of the fast-track request. South Africa is a fainter possibility. She also pitched for a set of sectoral liberalization initiatives (a la ITA), which they are currently proposing to APEC. (The U.S. proposals in APEC are chemicals, energy-related equipment and services, oilseeds and oilseed products, and automotive initiative, and MRAs in telecommunications and information technology equipment. Other countries may also make proposals.) Finally, she said the built-in agenda in the WTO would require fast-track. This includes agriculture and services.

Eizenstat suggested FTAs with Central Europe. Berger questioned the approach of choosing trade strategies based on political support (which was one reason Eizenstat suggested Central Europe and Barshefsky suggested Australia/New Zealand and the Philippines) rather than on economic [and strategic?] benefits. Summers gently suggested that we ought to have a sense of our longer term trade negotiation strategy, especially regarding when and whether to have a new GATT negotiating round. Berger noted that the President wants an FTAA, so Latin American shouldn't be forgotten, despite the greater (NAFTA-related) political opposition. Barshefsky noted that the success of sectoral initiatives depends on Europe's attitude, but Leon Brittan has stated that any new sectoral initiatives (except an extension of the ITA) must wait until the initiation of a new round, to which Summers replied that maybe we should focus on a new round, but Tarullo said that probably was premature. Barshefsky said that we will want the fast-track bill to have enough flexibility to accomodate proposals in 1998 or 1999 to start a new round, without the bill being specific about a new round.

My sense is that these issues are still open, and may be revisited at the principal's meeting on Friday. (Are you planning to attend this?) It is unfortunate that we have not been invited to

participate in the working group chaired by Bob Kyle on this issue. We could have improved the clarity of thinking on fast-track.

The meeting ended with a discussion on labor and environment, which is to be continued on Friday. The "Gebhardt" approach of making labor standards a trade practice actionable under Section 301 and WTO dispute settlement is a non-starter (fortunately) in Congress, because Republicans would not vote for it. Republicans may agree to an approach of allowing language on labor and environment if it specifically pertains to trade (e.g., an environmental regulation used as a discriminatory trade barrier). However, the GOP doesn't trust the Administration to carry this out in good faith and not bend the letter of the law or negotiate side-agreements (which don't have to be approved by Congress).

For the meeting on Friday, we need to:

1. Formulate our view on labor and environment, so Janet can present them. I would think our view should be that labor and environment should be in trade negotiations only where there are specific connections to trade issues.
2. Decide whether we can add anything to the type of negotiations that should be covered by fast-track authority. I would like to see us throw some cold water on the politically easy but economically (relatively) unproductive approach of USTR of focussing on bilateral FTAs and sectoral negotiations. (Think of the horrendous rules-of-origin problems that an FTA with Singapore would create.) I think we should push for a clear strategy for moving to a new round where some progress could be made on: (a) barriers in protected sectors like foodstuffs and textiles and apparel, (b) anti-proliferation agreement on AD/CVD, and (c) trade and competition policy.

John



Jeffrey A. Frankel
07/03/97 11:46:00 AM

Record Type: Record

To:

cc: John D. Montgomery
Subject: strategy on fast-track

Message Creation Date was at 3-JUL-1997 11:46:00

Lael,

In response to Charlene's conundrum about how to respond to trade deficit/jobs concerns... What would you think about Dan calling a big-think strategy meeting on the possibility of changing the emphasis in the Administrations message on selling trade policy (2nd Admin. vs. 1st) as appropriate to a near-full-employment economy vs. one with substantial slack. The capsule line would be something like "Trade, as before, is a means of raising American real incomes. But as we approach close to full-employment, the benefits of trade increasingly show up in the form of better jobs, rather than more jobs." And of course part of the pitch would be that the rising trade deficit, which Charlene is worried about how to describe, is a symptom of rapid investment-led growth, not a cause of job loss.

JF

----- Forwarded by Jeffrey A. Frankel/CEA/EOP on 07/03/97
11:41 AM -----

Michele Jolin
07/03/97 11:37:00 AM
Record Type: Record

To: Janet L. Yellen/CEA/EOP, Jeffrey A. Frankel/CEA/EOP
cc:
Subject: strategy on fast-track

I attended the first of what will be weekly meetings of a "working group" on communications strategy and outreach on fast-track. As you know, the Administration intends to make a big push to get fast-track passed in September. This working group appears to be tasked with the responsibility of coming up with the press strategy and working with outside groups who are interested in promoting fast-track.

The following is a summary of the main points discussed:

- WHAT HAS BEEN DONE SO FAR? For the most part, USTR is the only agency that has been actively working to promote fast-track. Charlene has been talking to reporters, meeting with editorial boards, talking to Members of Congress, talking to the business community, etc. Sec.s Glickman and Daley and Mack McLarty also have done some work, but their staffs are looking for more direction.

- WHAT IS THE MESSAGE? As you know, the Administration would like to try to separate the NAFTA debate from the issue of fast-track. There appeared to be general consensus at this meeting that this was going to be difficult. But, as much as possible, there is going to be an effort to try to separate the impact of NAFTA discussion from the fast-track debate. Having said that, there are several arguments that the Administration is likely to make in support of fast-track: 1) there is a "risk to inaction" -- that is, if we don't continue to lower trade barriers, progress may be reversed, and our products will be kept out of foreign markets and the US economy will suffer; 2) "terms of trade need to be fair" -- that is, US trade barriers are so much lower than in every other country so we need to continue to work to lower foreign trade barriers; 3) certain sectors(e.g. biotech) stand to benefit greatly -- there are sectors in which we could get trade agreements now but can't without fast-track authority; and 4) expanding trade is critical to the continued health and strength of the economy.

- WHAT ARE THE NEXT STEPS? Certain people in the working group have been tasked with the following: 1) coming up with a NAFTA report rollout strategy (NEC); 2) developing a fast-track message document (USTR); and 3) developing a fast-track strategy document (i.e. what is the timeline, who will be involved, what events will be scheduled, etc.).

I will continue to attend these meetings and report back.



Jeffrey A. Frankel
07/17/97 04:32:00 PM

Record Type: Record

To: John D. Montgomery

cc:

Subject: Re: Fast track

Message Creation Date was at 17-JUL-1997 16:32:00

Yes, I am planning on attending the fast track mtg tomorrow. (I may leave the Boeing mtg. to you, depending on time). I agree with your inclinations, including regarding a possible future round, except that there may not be enough support for it in the Administration. I think I might also be a little more inclined to push FTAA than it sounds like most of the participants (except Berger) were.

Will you be here late enough tonight to talk after the WEB mtg?

JF

John D. Montgomery
07/17/97 02:54:00 PM

Record Type: Record

To: Jeffrey A. Frankel

cc: Caroline Thompson

Subject: Fast track

Message Creation Date was at 17-JUL-1997 14:54:00

Jeff,

There is a principals meeting tomorrow on fast-track. (Are you attending?) This is a follow-up to a meeting held yesterday, which Janet and I attended. In preparation for tomorrow's meeting, she asked me to give some thought to what CEA's position on various fast-track related issues should be. This e-mail describes yesterday's meeting and some of the outstanding issues. Could you please give me your views, or can we talk?

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Given that timetable, I was surprised at the amount of uncertainty and

disagreement in the room. Barshefsky made a pitch for FTAs negotiations with Chile and with some Pacific countries (Australia, New Zealand, Singapore, and maybe the Philippines), with the FTAA in the background but not formally part of the fast-track request. South Africa is a fainter possibility. She also pitched for a set of sectoral liberalization initiatives (a la ITA), which they are currently proposing to APEC. (The U.S. proposals in APEC are chemicals, energy-related equipment and services, oilseeds and oilseed products, and automotive initiative, and MRAs in telecommunications and information technology equipment. Other countries may also make proposals.) Finally, she said the built-in agenda in the WTO would require fast-track. This includes agriculture and services.

Eizenstat suggested FTAs with Central Europe. Berger questioned the approach of choosing trade strategies based on political support (which was one reason Eizenstat suggested Central Europe and Barshefsky suggested Australia/New Zealand and the Philippines) rather than on economic [and strategic?] benefits. Summers gently suggested that we ought to have a sense of our longer term trade negotiation strategy, especially regarding when and whether to have a new GATT negotiating round. Berger noted that the President wants an FTAA, so Latin American shouldn't be forgotten, despite the greater (NAFTA-related) political opposition. Barshefsky noted that the success of sectoral initiatives depends on Europe's attitude, but Leon Brittan has stated that any new sectoral initiatives (except an extension of the ITA) must wait until the initiation of a new round, to which Summers replied that maybe we should focus on a new round, but Tarullo said that probably was premature. Barshefsky said that we will want the fast-track bill to have enough flexibility to accomodate proposals in 1998 or 1999 to start a new round, without the bill being specific about a new round.

My sense is that these issues are still open, and may be revisited at the principal's meeting on Friday. (Are you planning to attend this?) It is unfortunate that we have not been invited to participate in the working group chaired by Bob Kyle on this issue. We could have improved the clarity of thinking on fast-track.

The meeting ended with a discussion on labor and environment, which is to be continued on Friday. The "Gebhardt" approach of making labor standards a trade practice actionable under Section 301 and WTO dispute settlement is a non-starter (fortunately) in Congress, because Republicans would not vote for it. Republicans may agree to an approach of allowing language on labor and environment if it specifically pertains to trade (e.g., an environmental regulation used as a discriminatory trade barrier). However, the GOP doesn't trust the Administration to carry this out in good faith and not bend the letter of the law or negotiate side-agreements (which don't have to be approved by Congress).

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water on the politically easy but economically (relatively) unproductive approach of USTR of focussing on bilateral FTAs and sectoral negotiations. (Think of the horrendous rules-of-origin problems that an FTA with Singapore would create.) I think we should push for a clear strategy for moving to a new round where some progress could be made on: (a) barriers in protected sectors like foodstuffs and textiles and apparel, (b) anti-proliferation agreement on AD/CVD, and (c) trade and competition policy.

John



Jeffrey A. Frankel
07/18/97 08:40:00 AM

Record Type: Record

To: John D. Montgomery
cc: Lisa D. Branch, Caroline Thompson
Subject: Fast track

Message Creation Date was at 18-JUL-1997 08:40:00

Janet/Alice.

Is there time in Janet's schedule for a Janet-me-John (and Carrie) meeting today before the 2:30 NEC principles meeting on fast-track? How about 11 a.m.? (Or else 9:15?)

Janet and John:

I think we want to support

(1) discussion of possible future WTO round, unless this is out of order;
(2) emphasis on, e.g., comprehensive FTAA, rather than agreements specific to particular sectors and/or countries in the Pacific; and (3)
trade/labor-or-environment connections only when intrinsic to the issue. Thus I agree with John (and Larry and Berger, apparently) in the following memo.
JF

----- Forwarded by Jeffrey A. Frankel/CEA/EOP on 07/18/97
08:32 AM -----

John D. Montgomery
07/17/97 02:54:00 PM

Record Type: Record

To: Jeffrey A. Frankel
cc: Caroline Thompson
Subject: Fast track

Message Creation Date was at 17-JUL-1997 14:54:00

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The meeting ended with a discussion on labor and environment, which is to be continued on Friday. The "Gebhardt" approach of making labor standards a trade practice actionable under Section 301 and WTO dispute settlement is a non-starter (fortunately) in Congress, because Republicans would not vote for it. Republicans may agree to an approach of allowing language on labor and environment if it specifically pertains to trade (e.g., an environmental regulation used as a discriminatory trade barrier). However, the GOP doesn't trust the Administration to carry this out in good faith and not bend the letter of the law or negotiate side-agreements (which don't have to be approved by Congress).

For the meeting on Friday, we need to:

1. Formulate our view on labor and environment, so Janet can present them. I

would think our view should be that labor and environment should be in trade negotiations only where there are specific connections to trade issues.

2. Decide whether we can add anything to the type of negotiations that should be covered by fast-track authority. I would like to see us throw some cold water on the politically easy but economically (relatively) unproductive approach of USTR of focussing on bilateral FTAs and sectoral negotiations. (Think of the horrendous rules-of-origin problems that an FTA with Singapore would create.) I think we should push for a clear strategy for moving to a new round where some progress could be made on: (a) barriers in protected sectors like foodstuffs and textiles and apparel, (b) anti-proliferation agreement on AD/CVD, and (c) trade and competition policy.

John

Muddy Track

President Clinton is about to push Congress for fast-track authority to ease the country into a deeper embrace of free trade. But he'll have a tougher time getting his way now than he had in the battle over NAFTA.

BY JULIE KOSTERLITZ

A hhhh, August! Members of Congress are reeling from budget battles, campaign finance disputes and—in the case of House Republicans—party infighting. All they want is a bit of peace and quiet back home. Instead, they find themselves besieged by partisans on both sides of a legislative fight about to erupt over the nation's deepening embrace of free trade.

The second week of September, President Clinton plans to request authority from Congress to negotiate trade agreements on a "fast track," which means that Congress would consider quickly and without amendment the covenants the President reaches with foreign countries. Without that authority, trade advocates argue, the United States won't be able to move ahead with a series of major new trade agreements, because most countries want assurances up front that Congress won't reopen whatever deals they strike with American negotiators.

The White House has already hired a Washington lobbyist to lead its coming campaign. This month, local labor activists are fanning out in more than 100 congressional districts to meet with Members or hold demonstrations highlighting what they say are the dangers of unfettered trade. Heads of local Chambers of Commerce and emissaries from industries that are thriving because of international trade are also showing up to argue that foreign trade is crucial to the nation's economic health.

"We have many new Members of Congress . . . who have not yet been asked to cast as big a vote on trade as this will be," noted James T. Christy, vice president for government relations in the Washington office of TRW Inc., a Cleveland-based defense and space conglomerate, who's spearheading a corporate offensive called America Leads on Trade. "There's lots of educating that needs to be done, by those who think trade is important to the future."

Not so long ago, granting the President fast-track authority was a routine matter, with debate confined mainly to procedural arcana. But that changed after President

Bush asked Congress in 1991 for authority to negotiate the North American Free Trade Agreement (NAFTA), which has established a free-trade zone stretching from Canada to Mexico. Ever since, the fast-track debate has turned into a referendum on the impact of foreign trade on the United States, propelling the issue from the executive suite to the factory floor, from the aeries of Foggy Bottom to the hurly-burly of Capitol Hill.

What has made trade a political flash point in the 1990s has been the expansion in our hopes for trade beyond the industrialized countries of Europe and Asia to the developing world—where living standards are substantially lower; democratic institutions are often more fragile; and protections for workers, consumers and the environment are typically much weaker.

The battle over NAFTA exposed a gulf in perception between those who regard trade as a surefire way to increase the nation's wealth—the view taken by most business executives, economists and Administration trade experts—and the multitude of American workers who fear for their jobs. "The potential problem is that, as we deal with those countries with much lower wages and salaries and more government control over the economy, it's increasingly difficult for the U.S. to compete, and that exerts downward pressures on our standard of living," Rep. Sander M. Levin, D-Mich., said.

Trade is supposed to encourage countries to do the things they do most efficiently—through what economists call the law of comparative advantage. But critics of free trade contend that less-developed countries often get their advantage by exploiting workers and despoiling the environment.

Increasingly, the debate over free trade has become a political balancing act. It's no easy trick to reassure labor unions and environmental activists, along with their champions in the Democratic Party, without imposing conditions that are considered unacceptable by the business community, many Republicans and potential trading partners.

President Clinton's success in securing

NAFTA's passage in 1993 cost him a good deal of political capital and created lasting fissures among his fellow Democrats. But a year later, when Clinton sought to extend his fast-track authority, specifying labor and environmental standards as negotiating goals, it was the Republicans who balked. For the first time in two decades, fast-track wasn't renewed. Attempts since then have gotten nowhere.

Now the President wants carte blanche to negotiate trade treaties whenever he thinks the United States might benefit. Already, the Administration's trade officials are eyeing several special, industry-specific agreements that would extend to most of the world. More controversial is Clinton's wish to extend free trade to developing countries that aren't part of NAFTA, including several in the Western Hemisphere.

Clinton temporarily silenced some of his critics in the debate over NAFTA by negotiating separate "side agreements" aimed at mitigating potential harm to the environment—principally on the U.S.-Mexican border—and to American workers. But three years later, critics are calling NAFTA a bust and its labor and environmental codicils mere window dressing. They're vowing to deny Clinton the fast-track authority he wants, unless labor and environmental interests are put on a par with economic ones. Congressional Republicans and business lobbyists say they'll nix any proposal that does so.

It sounds a lot like NAFTA all over again: a contentious battle in which the facts are malleable and the adversaries are irreconcilable but fairly evenly matched.

NAFTA, SHNAFTA

If the fast-track debate were to become merely a referendum on the benefits of NAFTA, it's not at all clear that the free-traders could carry the day. Although the massive job drain to Mexico that Ross Perot predicted hasn't materialized, neither have the vast benefits that the Administration and its supporters promised.

In a report last month on NAFTA's effects, the Administration listed an array of specific achievements—notably, big gains in exports to Canada and Mexico and a steep drop in Mexico's tariff barriers.

But the collapse of the Mexican peso in 1995 ruined the Administration's chance to make a clear-cut case that NAFTA benefited the United States. By making



Lee: Foreign competition has stifled workers' wages.

Richard A. Bivins

imports from Mexico instantly—and dramatically—cheaper than before, the peso crisis helped to reverse the balance of trade between the two countries. An American surplus of \$1.7 billion in 1993 became a \$16 billion deficit in 1996. NAFTA, critics say, has caused a loss of 420,000 American jobs. The Administration acknowledges that 133,000 jobs have been lost but says that 311,000 have been created.

The White House casts the peso collapse as an unfortunate anomaly and argues that NAFTA stopped Mexico from resurrecting barriers to U.S. trade and significantly accelerated Mexico's recovery. The trade imbalance with Mexico, they hasten to add, disguises some real gains for America. It isn't that Mexico is flooding this country with cheap substitutes for U.S.-made goods, but rather with substitutes for U.S. imports from other countries. "We're shifting our sourcing of imports from those using no [U.S.-supplied] content to those using more," U.S. Trade Representative Charlene Barshefsky recently told reporters. Before NAFTA, she said, this country's leading source of apparel imports was China, which uses no American fabric or

fiber in its products. Now the top foreign suppliers are Mexico and Caribbean nations, where U.S.-supplied content accounts for 75 per cent of the value.

But even when casting the agreement in its best possible light—and, critics say, using selective data to do so—the most the Administration was able to say about its much-ballyhooed pact was that it had a "modest positive effect on U.S. net exports, investment and jobs supported by exports."

NAFTA, however, clearly hasn't won the hearts and minds of the American public. An NBC News/*Wall Street Journal* opinion poll last month found that 42 per cent of the respondents—up from 35 per cent in mid-1994—felt that NAFTA's impact on the United States has been more negative than positive. Only 32 per cent—a slight increase from three years ago—said that the impact was positive. The poll found the public decidedly opposed (by 61-32 per cent) to giving fast-track authority to the President.

That the unemployment rate has plunged by nearly a third since 1993 might suggest that fear of job loss would be a lesser issue than it was during the NAFTA debate. But AFL-CIO officials say that their research shows people still believe that NAFTA has cost

American jobs and—contrary to the Administration's claims—that the jobs gained from increased exports are no better than those lost to imports or overseas investment. In focus groups, the labor federation also says it found intense public concern about the safety of imported food and of Mexican trucks that cause accidents when they cross the border and about the possibility that more trade may boost the flow of illegal drugs.

Labor unions are concerned not only about jobs lost to Mexico but also about the impact they say NAFTA has had on workers' bargaining power at home. "Our members are reminded of [foreign competition] every time they sit down at the bargaining table or pick up *The Wall Street Journal*," said Thea Lee, assistant director for public policy at the AFL-CIO. "Inflation is low because workers are cowed."

Despite its sagging membership, organized labor has become a more aggressive political force than it was during the NAFTA debate. In late 1995, it replaced a quiescent leadership with a group of sophisticated activists, then spent \$35 million on Democrats' behalf in last year's congressional elections.

Now the new union activists plan to flex their muscles on trade. The AFL-CIO has hired a lobbyist, Mike Tiner, to coordinate its fast-track campaign. It will use a new network of grass-roots activists for the first time and plans to spend freely (officials won't name a figure) for an advertising blitz this fall.

Meanwhile, moderate environmental groups that supported NAFTA have vowed to oppose authorizing trade negotiations in which environmental protection isn't central. "One reason we supported NAFTA was [that] we felt it was the first step in a series of steps where trade and environmental issues would come together," said John Audley, the program coordinator for trade and the environment at the National Wildlife Federation. But on the eve of negotiations to extend free trade in this hemisphere, he added, "environmental priorities seem to have gotten lost in the shuffle."

SHRINKING SUPPORT

It doesn't help the prospects for fast-track authority that House Democratic leaders are die-hard opponents. Early this year, House Minority Leader Richard A. Gephardt, D-Mo., circulated a 12-page letter to colleagues in hopes of persuading them that expanding NAFTA was a bad idea. Nor does it help that Gephardt is presumed to be positioning himself to fight Vice President Al Gore for the Democratic presidential nomination in 2000. House Minority Whip David E. Bonior, D-Mich., has taken on the role of organizing the opposition, as he did with NAFTA.

The opposition on Capitol Hill goes beyond the labor-backed Democratic leadership. Last month, 13 Hispanic legislators, including several who supported NAFTA, held a press conference to unveil their criticism of NAFTA's impact on the Hispanic community. They pledged not to support similar trade pacts with Latin American countries unless the agreements provided for better living standards, a cleaner environment and the protection of human rights. Hispanics, the report maintained, had borne more than their share of the unemployment and of the exposure to pollution attributable to trade with Mexico and



Audley: "Environmental priorities seem to have gotten lost."

hadn't been adequately assisted by NAFTA-related unemployment programs. "After three years of prodding and constant vigilance, little or nothing has happened to address the adverse effects of trade, and far too many communities are paying the price," said Rep. Esteban Edward Torres, D-Calif., who supported NAFTA.

Nor can free-traders bank on as much support as before from the many Members representing Texas and other states along the Mexican border. Their support for NAFTA was based more on a calculation of the benefits from geographic proximity to Mexico than on sympathy for free-trade principles.

While business generally favors free trade, certain sectors are split. The textile industry tends to want trade opened up, but the apparel industry doesn't. Agricultural interests, as a whole, support more free trade, but fruit and vegetable farmers who share a growing season with Mexico and South America—raising tomatoes in Florida or asparagus in Washington state—don't relish the prospect of further competition.

On Capitol Hill, the base of moderates that made NAFTA possible is widely considered to have shrunk. Freshmen of both parties supported renewing favorable trade status for China by larger margins than did Members who took office before NAFTA—which perhaps suggests the presence of a new crop of free-traders. But some of the Democrats who voted for Chinese trade did so reluctantly. For them, "the sense was, 'I'm giving on China, so I will not give on fast-track,'" said Rep. Robert T. Matsui, D-Calif., a Ways and Means Committee member who's leading the fight for fast-track.

Clinton is likely to need at least 70 of the 206 House Democrats to join Republicans if he's to gain fast-track authority. But only about 30-40 are considered dependable supporters, while 60-70 are considered hard-core opponents—with the rest undecided. Opponents say they have at least 100 Democrats on their side.

There's also more fragmentation than before among Republicans, who used to be stalwarts of free trade. The many Republicans first elected in 1994 showed weaker support for continuing China's favorable trade status than their party brethren did. Fast-track may not be the magnet for religious conservatives that the debate over China was. (*See NJ*, 5/17/97, p. 982.)

But the coming fight is sure to attract opposition from conservative nationalists. "Profits are up, and stockholders are happy when corporations can shift production to countries where they are not bothered by child labor laws [or] environmental restrictions," Eagle Forum founder Phyllis Schlafly wrote in a June op-ed piece for Copley News Service, panning NAFTA, favorable trade status for China and the quest for fast-track authority.

Even in the Senate, which is generally considered more pro-trade than the House, the Administration faces obstacles. Senators are instinctively reluctant to suspend debate and cede power to the President. They're also as protective of regional interests as House Members are. For instance, Sen. Byron L. Dorgan, D-N.D., who is upset about the influx of Canadian cattle, has let it be known that

he won't support fast-track. No powerful Senate leader has emerged to replace former Finance Committee chairman Bob Packwood, R-Ore., and Lloyd Bentsen, D-Texas, the fast-track champions of yesteryear.

FREE-TRADERS' HOPES

The free-traders, however, are hardly down and out.

Business interests, once presumed to be more concerned with China than with fast-track, are now out to prove that they're fully engaged. Around the time Clinton appealed to the Business Roundtable for help in June, some of its members launched America Leads on Trade.

Moderate Democrats are likewise determined to rally their colleagues in support of fast-track. "It's a defining moment in the Democratic Party, whether we'll go into the 21st century pro-growth and pro-trade," said Edith Wilson, who was hired by the centrist Democratic Leadership Council earlier this year to lead its efforts on the trade initiative.

Although organized labor will undoubtedly present a united opposition to fast-track, the large and increasingly powerful unions that represent public employees and service-sector workers have other priorities. Some of labor's new leaders have shown a decidedly pragmatic streak—preferring a winning candidate to an accommodating one. All this suggests that the issue of fast-track may not be the pivotal issue it's often assumed to be in the expected contest between Gephardt and Gore three years hence.

And for all its factionalism, Congress showed a new willingness to compromise during recent negotiations over the budget and taxes. The momentum created by passage of a balanced budget can only encourage comity on fast-track, say free-traders.

Even more important, free-traders have two powerful weapons that their opponents simply can't match: a booming economy and a popular President.

Some free-traders wonder how hard Clinton will push their cause, but Administration officials insist that the President will spare no effort to see fast-track through to enactment. "The biggest thing that's happened in the last few weeks is that the President has personally decided to go for it. He's prepared to lead the fight," a State Department official said. Last month, the White House kicked off its counteroffensive, commanded by Jason S. (Jay) Berman, the outgoing chairman of the Recording Industry Association of America (RIAA), assisted by Victoria Radd, formerly chief of staff to White House chief of staff Erskine B. Bowles.

All of this comes none too soon: Administration officials say it's vital to secure fast-track authority before the 105th Congress adjourns. Not only is Clinton slated for an October visit to South America, where potential trading partners have been alarmed by U.S. ambivalence over fast-track, but it's risky to let the debate slip into 1998, a congressional election year. Besides, the economy won't always look as picture-perfect as it does now.

In dry runs before various audiences, Clinton and other Administration officials have made clear they intend to de-emphasize NAFTA's track record and instead portray trade as an integral part of the President's successful economic strategy.

The White House will stress the importance of fast-track authority to a host of trade matters beyond expanding NAFTA, including global agreements to reduce barriers on agricultural products and on services such as advertising and insurance. Most of these are less controversial and at least as eagerly desired by business.

On the sensitive issues of labor and environmental protections, an insider said, the White House is likely to work

tal issues extraneous to trade, consider this approach a compromise. None of this prevents the Administration from negotiating side agreements, which don't necessarily require congressional approval.

The Administration won't risk putting too much effort into placating Members who want more labor and environmental guarantees—calculating it would lose Republican votes without necessarily gaining Democratic ones. Instead, the Administration has argued that, while NAFTA-style side agreements are not as binding, the United States can do more to improve environmental and labor standards if it establishes a trade relationship than it if scares off potential trading partners with onerous demands up front.

Maybe more important, Administration operatives will argue that the nation can't risk being left out of the boom in world trade. In the post-Cold War era, they'll say, economic strength has in many ways supplanted military power, and trade is the only way to keep the American economy expanding. "Are we going to take the lead," Clinton asked a Colorado audience in June, "or wait for others to blaze the path and get the primary benefits?"



Liz Lynch

Frenzel: For a half-century, Congress has kept trying to open up world markets.

from a proposal that Ways and Means Committee chairman Bill Archer, R-Texas, drafted earlier this year. It would limit the President's fast-track negotiating authority to labor and environmental issues that are strictly related to trade. The White House will be negotiating intensively with Archer and other Republican leaders before Clinton takes his request to Congress next month.

The Archer proposal narrows the President's authority more than most Democrats would like. But Republicans, who generally consider labor and environmen-

"The U.S., when put to the test, has always opted for a more open economy than a less open one," said former Rep. Bill Frenzel, R-Minn., a guest scholar at the Brookings Institution who in 1993 helped Clinton promote NAFTA among his former colleagues in the House. "[Members] haven't been nutty about it, but over the last 50 years, they have helped gradually open [world] markets."

Now Clinton hopes that, even as national anxiety grows about the consequences of global trade, Congress won't break with that tradition. ■



Jeffrey A. Frankel
07/03/97 11:46:00 AM

Record Type: Record

To:

cc: John D. Montgomery
Subject: strategy on fast-track

Message Creation Date was at 3-JUL-1997 11:46:00

Lael,

In response to Charlene's conundrum about how to respond to trade deficit/jobs concerns... What would you think about Dan calling a big-think strategy meeting on the possibility of changing the emphasis in the Administrations message on selling trade policy (2nd Admin. vs. 1st) as appropriate to a near-full-employment economy vs. one with substantial slack. The capsule line would be something like "Trade, as before, is a means of raising American real incomes. But as we approach close to full-employment, the benefits of trade increasingly show up in the form of better jobs, rather than more jobs." And of course part of the pitch would be that the rising trade deficit, which Charlene is worried about how to describe, is a symptom of rapid investment-led growth, not a cause of job loss.

JF

----- Forwarded by Jeffrey A. Frankel/CEA/EOP on 07/03/97
11:41 AM -----

Michele Jolin
07/03/97 11:37:00 AM
Record Type: Record

To: Janet L. Yellen/CEA/EOP, Jeffrey A. Frankel/CEA/EOP
cc:
Subject: strategy on fast-track

I attended the first of what will be weekly meetings of a "working group" on communications strategy and outreach on fast-track. As you know, the Administration intends to make a big push to get fast-track passed in September. This working group appears to be tasked with the responsibility of coming up with the press strategy and working with outside groups who are interested in promoting fast-track.

The following is a summary of the main points discussed:

- WHAT HAS BEEN DONE SO FAR? For the most part, USTR is the only agency that has been actively working to promote fast-track. Charlene has been talking to reporters, meeting with editorial boards, talking to Members of Congress, talking to the business community, etc. Sec.s Glickman and Daley and Mack McLarty also have done some work, but their staffs are looking for more direction.

- WHAT IS THE MESSAGE? As you know, the Administration would like to try to separate the NAFTA debate from the issue of fast-track. There appeared to be general consensus at this meeting that this was going to be difficult. But, as much as possible, there is going to be an effort to try to separate the impact of NAFTA discussion from the fast-track debate. Having said that, there are several arguments that the Administration is likely to make in support of fast-track: 1) there is a "risk to inaction" -- that is, if we don't continue to lower trade barriers, progress may be reversed, and our products will be kept out of foreign markets and the US economy will suffer; 2) "terms of trade need to be fair" -- that is, US trade barriers are so much lower than in every other country so we need to continue to work to lower foreign trade barriers; 3) certain sectors(e.g. biotech) stand to benefit greatly -- there are sectors in which we could get trade agreements now but can't without fast-track authority; and 4) expanding trade is critical to the continued health and strength of the economy.

- WHAT ARE THE NEXT STEPS? Certain people in the working group have been tasked with the following: 1) coming up with a NAFTA report rollout strategy (NEC); 2) developing a fast-track message document (USTR); and 3) developing a fast-track strategy document (i.e. what is the timeline, who will be involved, what events will be scheduled, etc.).

I will continue to attend these meetings and report back.



Jeffrey A. Frankel
07/18/97 08:40:00 AM

Record Type: Record

To: John D. Montgomery
cc: Lisa D. Branch, Caroline Thompson
Subject: Fast track

Message Creation Date was at 18-JUL-1997 08:40:00

Janet/Alice.

Is there time in Janet's schedule for a Janet-me-John (and Carrie) meeting today before the 2:30 NEC principles meeting on fast-track? How about 11 a.m.? (Or else 9:15?)

Janet and John:

I think we want to support
(1) discussion of possible future WTO round, unless this is out of order;
(2) emphasis on, e.g., comprehensive FTAA, rather than agreements specific to particular sectors and/or countries in the Pacific; and (3)
trade/labor-or-environment connections only when intrinsic to the issue. Thus I agree with John (and Larry and Berger, apparently) in the following memo.
JF

----- Forwarded by Jeffrey A. Frankel/CEA/EOP on 07/18/97
08:32 AM -----

John D. Montgomery
07/17/97 02:54:00 PM

Record Type: Record

To: Jeffrey A. Frankel
cc: Caroline Thompson
Subject: Fast track

Message Creation Date was at 17-JUL-1997 14:54:00

Jeff,

There is a principals meeting tomorrow on fast-track. (Are you attending?)
This is a follow-up to a meeting held yesterday, which Janet and I attended.
In preparation for tomorrow's meeting, she asked me to give some thought to what CEA's position on various fast-track related issues should be. This e-mail describes yesterday's meeting and some of the outstanding issues. Could you please give me your views, or can we talk?

Yesterday's meeting was chaired by Tarullo, and attended by Berger, Rubin, Summers, Eizenstat, Daley, Herman, Sperling, McClarty, and Barshefsky, among

others. Tarullo said that he wanted to decide on what to present to Congress by the end of the week, so he could present it to the President over the weekend.

Given that timetable, I was surprised at the amount of uncertainty and disagreement in the room. Barshefsky made a pitch for FTAs negotiations with Chile and with some Pacific countries (Australia, New Zealand, Singapore, and maybe the Philippines), with the FTAA in the background but not formally part of the fast-track request. South Africa is a fainter possibility. She also pitched for a set of sectoral liberalization initiatives (a la ITA), which they are currently proposing to APEC. (The U.S. proposals in APEC are chemicals, energy-related equipment and services, oilseeds and oilseed products, and automotive initiative, and MRAs in telecommunications and information technology equipment. Other countries may also make proposals.) Finally, she said the built-in agenda in the WTO would require fast-track. This includes agriculture and services.

Eizenstat suggested FTAs with Central Europe. Berger questioned the approach of choosing trade strategies based on political support (which was one reason Eizenstat suggested Central Europe and Barshefsky suggested Australia/New Zealand and the Philippines) rather than on economic [and strategic?] benefits. Summers gently suggested that we ought to have a sense of our longer term trade negotiation strategy, especially regarding when and whether to have a new GATT negotiating round. Berger noted that the President wants an FTAA, so Latin American shouldn't be forgotten, despite the greater (NAFTA-related) political opposition. Barshefsky noted that the success of sectoral initiatives depends on Europe's attitude, but Leon Brittan has stated that any new sectoral initiatives (except an extension of the ITA) must wait until the initiation of a new round, to which Summers replied that maybe we should focus on a new round, but Tarullo said that probably was premature. Barshefsky said that we will want the fast-track bill to have enough flexibility to accommodate proposals in 1998 or 1999 to start a new round, without the bill being specific about a new round.

My sense is that these issues are still open, and may be revisited at the principal's meeting on Friday. (Are you planning to attend this?) It is unfortunate that we have not been invited to participate in the working group chaired by Bob Kyle on this issue. We could have improved the clarity of thinking on fast-track.

The meeting ended with a discussion on labor and environment, which is to be continued on Friday. The "Gebhardt" approach of making labor standards a trade practice actionable under Section 301 and WTO dispute settlement is a non-starter (fortunately) in Congress, because Republicans would not vote for it. Republicans may agree to an approach of allowing language on labor and environment if it specifically pertains to trade (e.g., an environmental regulation used as a discriminatory trade barrier). However, the GOP doesn't trust the Administration to carry this out in good faith and not bend the letter of the law or negotiate side-agreements (which don't have to be approved by Congress).

For the meeting on Friday, we need to:

1. Formulate our view on labor and environment, so Janet can present them. I

would think our view should be that labor and environment should be in trade negotiations only where there are specific connections to trade issues.

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John



Jeffrey A. Frankel
07/17/97 04:32:00 PM

Record Type: Record

To: John D. Montgomery

cc:

Subject: Re: Fast track

Message Creation Date was at 17-JUL-1997 16:32:00

Yes, I am planning on attending the fast track mtg tomorrow. (I may leave the Boeing mtg. to you, depending on time). I agree with your inclinations, including regarding a possible future round, except that there may not be enough support for it in the Administration. I think I might also be a little more inclined to push FTAA than it sounds like most of the participants (except Berger) were.

Will you be here late enough tonight to talk after the WEB mtg?

JF

John D. Montgomery
07/17/97 02:54:00 PM

Record Type: Record

To: Jeffrey A. Frankel

cc: Caroline Thompson

Subject: Fast track

Message Creation Date was at 17-JUL-1997 14:54:00

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John D. Montgomery

07/17/97 02:54:32 PM



Record Type: Record

To: FRANKEL_J @ A1 @ CD @ LNGTWY
cc: THOMPSON_CM @ A1 @ CD @ LNGTWY
Subject: Fast track

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There is a principals meeting tomorrow on fast-track. (Are you attending?) This is a follow-up to a meeting held yesterday, which Janet and I attended. In preparation for tomorrow's meeting, she asked me to give some thought to what CEA's position on various fast-track related issues should be. This e-mail describes yesterday's meeting and some of the outstanding issues. Could you please give me your views, or can we talk?

Yesterday's meeting was chaired by Tarullo, and attended by Berger, Rubin, Summers, Eizenstat, Daley, Herman, Sperling, McClarty, and Barshefsky, among others. Tarullo said that he wanted to decide on what to present to Congress by the end of the week, so he could present it to the President over the weekend.

Given that timetable, I was surprised at the amount of uncertainty and disagreement in the room. Barshefsky made a pitch for FTAs negotiations with Chile and with some Pacific countries (Australia, New Zealand, Singapore, and maybe the Philippines), with the FTAA in the background but not formally part of the fast-track request. South Africa is a fainter possibility. She also pitched for a set of sectoral liberalization initiatives (a la ITA), which they are currently proposing to APEC. (The U.S. proposals in APEC are chemicals, energy-related equipment and services, oilseeds and oilseed products, and automotive initiative, and MRAs in telecommunications and information technology equipment. Other countries may also make proposals.) Finally, she said the built-in agenda in the WTO would require fast-track. This includes agriculture and services.

Eizenstat suggested FTAs with Central Europe. Berger questioned the approach of choosing trade strategies based on political support (which was one reason Eizenstat suggested Central Europe and Barshefsky suggested Australia/New Zealand and the Philippines) rather than on economic [and strategic?] benefits. Summers gently suggested that we ought to have a sense of our longer term trade negotiation strategy, especially regarding when and whether to have a new GATT negotiating round. Berger noted that the President wants an FTAA, so Latin American shouldn't be forgotten, despite the greater (NAFTA-related) political opposition. Barshefsky noted that the success of sectoral initiatives depends on Europe's attitude, but Leon Brittan has stated that any new sectoral initiatives (except an extension of the ITA) must wait until the initiation of a new round, to which Summers replied that maybe we should focus on a new round, but Tarullo said that probably was premature. Barshefsky said that we will want the fast-track bill to have enough flexibility to accomodate proposals in 1998 or 1999 to start a new round, without the bill being specific about a new round.

My sense is that these issues are still open, and may be revisited at the principal's meeting on Friday. (Are you planning to attend this?) It is unfortunate that we have not been invited to

participate in the working group chaired by Bob Kyle on this issue. We could have improved the clarity of thinking on fast-track.

The meeting ended with a discussion on labor and environment, which is to be continued on Friday. The "Gebhardt" approach of making labor standards a trade practice actionable under Section 301 and WTO dispute settlement is a non-starter (fortunately) in Congress, because Republicans would not vote for it. Republicans may agree to an approach of allowing language on labor and environment if it specifically pertains to trade (e.g., an environmental regulation used as a discriminatory trade barrier). However, the GOP doesn't trust the Administration to carry this out in good faith and not bend the letter of the law or negotiate side-agreements (which don't have to be approved by Congress).

For the meeting on Friday, we need to:

1. Formulate our view on labor and environment, so Janet can present them. I would think our view should be that labor and environment should be in trade negotiations only where there are specific connections to trade issues.
2. Decide whether we can add anything to the type of negotiations that should be covered by fast-track authority. I would like to see us throw some cold water on the politically easy but economically (relatively) unproductive approach of USTR of focussing on bilateral FTAs and sectoral negotiations. (Think of the horrendous rules-of-origin problems that an FTA with Singapore would create.) I think we should push for a clear strategy for moving to a new round where some progress could be made on: (a) barriers in protected sectors like foodstuffs and textiles and apparel, (b) anti-proliferation agreement on AD/CVD, and (c) trade and competition policy.

John

Principals only on fast-track, 7/10/97

Deleted possibly
Pres view

Core says:
multilateral, but in 1990
by, various,

Seated
Ch

Regional/bilateral
Chile FTA
Long period for FTA
S. Africa
Good Thessalonica

Unapproved

How much to supply. Not An
What to do is Asia: FTA with Asia, NZ, Sing.
Large initiative (regional)
New GATT round
7th FTA

Zero industrial tariff

CB: need stuff we can give away...

Have UK only be
then fish, oilseed
not for
Low meat, oil, wool
FTA2

Chile not worth the price

So we also talk about...

APEC
FTA
Asia

Pres. position

Should encourage rationalization for each

Argentina - 100%
All else but politically
APTC:

Could do:

Aust

NZ

Sing

wed high income

Could also have Aust - goodwill on Hill

~~But~~ Sandy (X)

Need to

Pres was let. Am covered

Spelling:

Tell Pres, best way to do what he wants

Other side wants to make this a referendum on NAFTA
danger, want to make it ref on trade expansion

Message should point away from let. Am

- Different playing field than NAFTA critics
w/llards, ~~mess~~ Exports on home message.

Lead w/ strength of US economy.

Make it broader than W. Hemisphere

Summers. To ponder

1) What is there behind to FTA, w/ countries

Environ - to w/ many covered

Knowning agent - diff scope - FTA better

2) FTA issue trade strategy, or about actual agent

For this, Africa forced by power.

3) need to confront policy toward Europe.

Torullo:

Heenan Vision is important

Fourth: As we talk stipulated venture to neg FTA w/

Torullo: Can go back for others.

Fifth: Every country close to US will want FTA.

Summers: A question to better shape ~~down~~ nature of

~~Barro~~ Torullo: Sector equity depends on Europe.

Only if says no.

Billon says no further related initiatives & new round, ex. I.T.A.

Summers: Maybe we should press on new round

Torullo: Prob. premature

Bushchepsky: want bill to accommodate men
round 1998-9, but not be specific yet, cause
political is regular

Tanillo: ~~Risk~~

~~Sum~~ need to thread needle on vote

Tanillo: Just keep close, or else Pacific?

Fuerth: like NAFTA expansion, need to keep that open

Santa: Opportunities increased on bill

Hope benefits of us moving various countries

labor + env

Tanillo: labor + environment

Biz communities + GOP are moving away from
accommodation.

Bushchepsky:

Gethardt: Put in body ^{of Trade Act} so we can start

Republicans formerly say no labor or environmental
now willing to allow what is in NAFTA

we need to be clear on what our view is

Gethardt approach a cross-stake - no GOP vote
Now we should say if it trade-related, can go on
agreed.

And say regarding substantial labor + env
stand, come out in support, + way to get it
is in dispute.

No details on case-by-case, under executive authority

only need put track for what's Trade-related

Tanillo: what is Trade-related varies..

Bushchepsky: Cong. GOP concerned about loaded up trade
and

Tanillo: need mty on Friday on labor/environmental

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

July 24, 1997

STATEMENT BY THE PRESIDENT

I am pleased to announce the appointment of Jason S. Berman to serve as Special Counselor to the President and coordinate the Administration's effort to pass fast track legislation.

During his tenure at the White House, Mr. Berman will take a leave of absence from his current position as Chairman of the Recording Industry Association of America. I am grateful to him for setting aside this work to join our team. Mr. Berman's extensive knowledge of trade policy and unparalleled experience on the Hill will be invaluable to our effort.

I am also pleased to announce that I have asked Victoria L. Radd, an outstanding member of my staff, to join Mr. Berman in coordinating this effort. Ms. Radd is an Assistant to the President and Chief of Staff to Erskine Bowles. During the past four years, she has also served as Associate Counsel to the President and as Deputy Director of Communications. Prior to joining the White House, she was a partner in the law firm of Williams & Connolly.

The economic strategy of my administration, based on reducing the deficit, investing in the education and skills of our people and opening markets, has helped produce the strongest economy in the world. I am calling on the Congress to enact fast track legislation so we can continue our aggressive drive to open markets to our goods and services and create more high skilled jobs for the American people. Every President, Republican and Democrat, in the past two decades has had this vital tool to maintain effective American leadership in the global economy. Fast track authority is in the national interest of the United States, and my appointment of Jay Berman makes clear my determination to fight for passage of this important legislation.

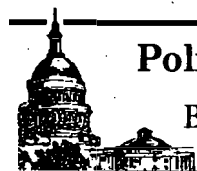
Fast or Fatal Track for Democrats?

To: { JF
CT
From: JM

The Irishman, as William Butler Yeats wrote, has "an abiding sense of tragedy which sustains him through temporary periods of joy." If political parties were nationalities, the Democrats would be Irish.

For Democrats, joyful over the schisms plaguing Republicans, there is a looming calamity: the fast-track initiative President Clinton will propose in September to give him authority to negotiate free-trade agreements.

There are two realities here: One, fast-track is essential if the U.S. is to continue to play a leading role in the global economy; but two, it will seriously exacerbate fault lines within the Democratic Party. It is a foregone conclusion that a decisive majority of congressional Democrats will vote against the president; the ensuing tensions will make it considerably harder for them to win back control of Congress in 1998.



Politics & People

By Albert R. Hunt

The fast-track legislation would simply give the president the authority to negotiate trade agreements, whether bilateral deals with Chile and South Africa or sectoral pacts in areas like agriculture and financial services. These treaties then would be brought back to Congress for up-or-down approval but couldn't be amended or changed.

Without fast-track, any trade pact would become a special-interest bazaar in the legislative branch. When Congress started to reject portions of trade agreements a quarter-century ago, this procedure was necessitated. Such authority expired several years ago, and without it, any major trade deals are impossible.

As right as it is on the merits, the politics of fast-track are dicey. The opposition will include labor, many environmental-

ists, the Pat Buchanan-led economic nationalists and Ross Perot.

Despite the strong economy, the public is skeptical of unfettered free trade. In this week's Wall Street Journal/NBC News poll, respondents by a stunning 2-to-1 margin opposed giving the president fast-track authority.

Some of this is a residual effect of the 1993 North America Free Trade Agreement. U.S. Trade Representative Charlene Barshefsky, in laying the groundwork for fast-track legislation, has talked to more than 175 members of Congress, and practically every one offers a Nafta horror story of some plant that moved or jobs that were lost. Actually, much of this is exaggerated; Nafta hasn't yet produced some of the benefits proponents promised, but neither has it caused the ills critics claim.

But the White House will try strenuously to divorce fast-track from these Nafta perceptions. "We won't fight this on the Nafta battleground," says Victoria Radd, a top White House aide who has been detailed to the fast-track fight. "We will fight it on the future battleground." Similarly, Ambassador Barshefsky says: "To say that fast track is Nafta ignores the necessity for U.S. leadership in the global economy."

But no matter how the argument is framed, it splits the Democratic party. It's a little bit of the New Democrat vs. Old Democrat schism. But more than that, it reflects different constituencies—the more traditional and usually industrial districts vs. higher-tech, cutting-edge sectors of the economy.

These splits will be symbolized today. The president will meet with several dozen House Democrats at the White House to pitch fast track. At about the same time, a few hundred yards away in the AFL-CIO building, the top labor chieftain, John Sweeney, will convene a meeting of leading legislative, political and media officials from major unions to map an anti-fast-track strategy.

It also goes to the politics of 2000. Leading the fight against fast track will be House Minority Leader Dick Gephardt (D., Mo.). Within the administration sits an uncomfortable Vice President Albert Gore, who knows the issue is going to cause him grief with core constituencies.

Mr. Gephardt has tried to persuade the administration to water down any request for fast-track authority, in order to limit the political fallout; even free-trade Democrats like California's Vic Fazio have voiced concern to both Mr. Gephardt and the White House over the likely political damage. But Clinton operatives are con-

Uphill Track

President Clinton will ask Congress to give him "fast-track" authority to negotiate more free trade agreements. This would mean that once the negotiations are completed, Congress would take an up-or-down vote, but not make any amendments or changes. Do you favor or oppose this?

FAVOR 32%

OPPOSE 61%

Poll taken July 26-28, 1997.

THE WALL STREET JOURNAL/NBC NEWS POLL

temptuous of Mr. Gephardt's motives, charging he only advances thinly disguised protectionist pitches that the president finds unacceptable.

The administration plans an all-out push. It has hired an outside lobbyist to direct the campaign; the top cabinet officials will be actively engaged this fall; and it has enlisted two highly resourceful former members of congress, Republican Vin Weber and Democrat Tom Downey, a close confidant of Mr. Gore.

The battle will be waged first in the House, where Republicans publicly insist the White House must deliver 90 Democ-

rats—privately, that number is more like 70—out of the 206 total House Democrats. But according to a reliable Democratic strategist, there are currently fewer than 60 Democratic votes for fast-track. At a White House meeting last week, Rep. Charles Rangel of New York, the ranking Democrat on the Ways and Means committee, pointedly warned the president he has to do more for workers displaced by trade pacts.

Other concessions may prove very elusive. The Nafta side agreement on labor and environment has proven toothless. Leading congressional Republicans now insist on going the other way, telling the White House there must be language that makes it clear that any trade negotiations involving labor and environmental matters will be very limited.

"If the president tries to cater to Dick Gephardt and John Sweeney, he's not going to get fast-track," bluntly warns Rep. David Dreier (R., Calif.), a key GOP trade strategist.

In the end, the president will probably succeed. Despite public opinion and formidable opposition, presidents almost invariably win major foreign policy and trade initiatives. Moreover, for all the rhetoric of labor, the pro-trade business community has more resources. And there would be consequences if fast-track fails. Trade negotiations would continue without the U.S.; only recently Canada cut a deal with Chile.

Moreover, as the president showed in the recently completed budget deal, when he needlessly caved in on some tax provisions in order to get a quick deal—to clear the decks for fast-track this fall—he often prefers dealing with Republicans. Thus, the likely final resolution—another second-term victory for the White House that virtually assures continued GOP control of the House in 1998—is a bargain to which Bill Clinton and congressional Republicans are growing accustomed.

cc: Jeff

cc: NR

mm

NEC Trade Principals Meeting

Thursday, January 7, 1998

2:30 - 4:30 p.m.
Room 180 OEOB

AGENDA

FY 99 Trade Priorities

--Fast Track

--WTO Round

--Asia Project 5

Clinton Presidential Records Digital Records Marker

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It Is Time For Trade Law Reform

**Recommendations for the
106th Congress**

**20th Anniversary
Labor/Industry Coalition for International Trade
LICIT**

January 1999

NR

January 22, 1999

Dear Friend,

With the breakdown of bipartisan cooperation and the collapsing consensus in favor of expanding trade, the passage of significant trade legislation this year looks unlikely. However, the trade policy debate continues in the United States against a backdrop of *global* economic turmoil and increasing *domestic* uncertainty about the benefits of further trade expansion and globalization.

To continue its support for free and fair trade, the Progressive Policy Institute (PPI) is pleased to enclose three recent papers from PPI analyst Jenny Bates which address the most important trade issues at hand today:

- ▶ The PPI Trade Fact Sheet: *Putting the East Asian Experience in Perspective*, sets the recent economic crisis against a longer-term view. It shows the unprecedented economic growth exhibited by these countries over the past three decades was built on, among other things, increased integration into global markets.
- ▶ The January 1999 PPI Backgrounder, *Administration Strikes the Right Balance on Steel Imports*, argues that the Clinton Administration's recent actions to help the US steel sector reflect an appropriate mix of support for the principles of free and fair trade and help for a sector suffering from the continuing fallout of the Asian crisis.
- ▶ Finally, an updated version of the December 1998 PPI Backgrounder, *Going Bananas — The United States, the European Union, and a Slippery Slope in the World Trade System*, explains how a bilateral dispute over a seemingly unimportant commodity is threatening to undermine the rule-based structure of the world trade system.

In order to prevent the trade debate from being hijacked by those calling for greater protectionism, policymakers in support of free and fair trade must address these pressing issues. If you have any comments or questions, please contact (202) 547-0001 or visit our Web site at: <http://www.dlcpipi.org>.

Cordially,



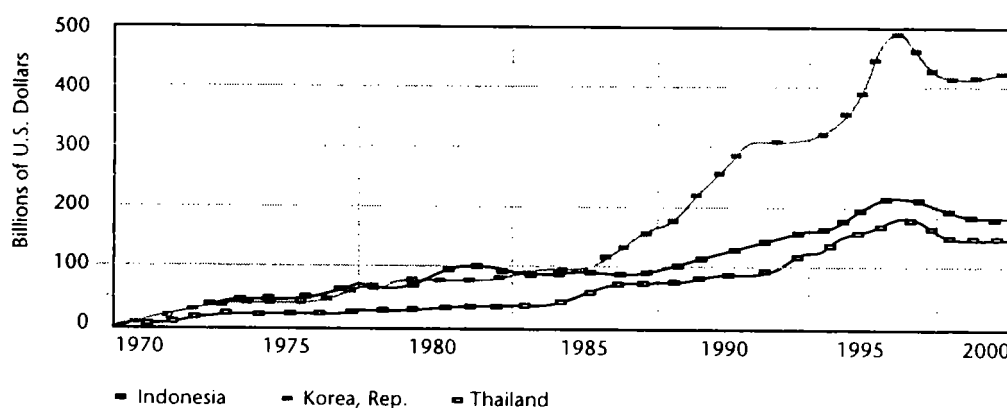
Will Marshall
President

Putting the East Asian Experience in Perspective

The Globalization Debate and the Asian Experience

- The Asian crisis has heightened two critiques of globalization. First, the critique that globalization poses a threat to standards of living, to jobs, to the environment, etc. and, second, that globalization results in greater inequality—both *between* developed and developing countries and *within* countries.
- The crisis began with the devaluation of the Thai Baht in 1997 and quickly spread to Indonesia, Malaysia, South Korea, and the Philippines. The economy hardest hit appears to be that of Indonesia, with its Gross Domestic Product (GDP) estimated to have *contracted* by 15 percent in 1998. Thailand, South Korea, and Malaysia are all estimated to have *contracted* by 5 percent to 7 percent in 1998.¹ These macro figures show nothing of poverty, homelessness, unemployment, and ill-health, all of which are increasing in most of the countries concerned.
- A long-term perspective on the development experience of the “Asian Tigers” profoundly challenges the anti-globalization view.² Take, for example, South Korea. In 1957, it had the same Gross National Product (GNP) per capita as Ghana. In 1996, South Korean GNP per capita was *more than seven times* that in Ghana—\$13,080 compared to \$1,790—and South Korea had been sending Ghana relief aid.³ This rapid movement up the development ladder, typical of several economies in the region, was built on high levels of investment (domestic and foreign), an emphasis on education and human capital, and active integration into global markets, particularly export promotion. It was also associated with reductions in inequality *within* the countries concerned.
- Moreover, even with the recent crisis, these Asian countries will not return to their development levels of the 1960s and 1970s. (See chart below.) Many of their advances, such as improvements in infrastructure (e.g. roads, factories, etc.) and human capital (e.g. literacy) represent long-term, structural changes that will outlast the current crisis.

Gross Domestic Product



Source: World Bank

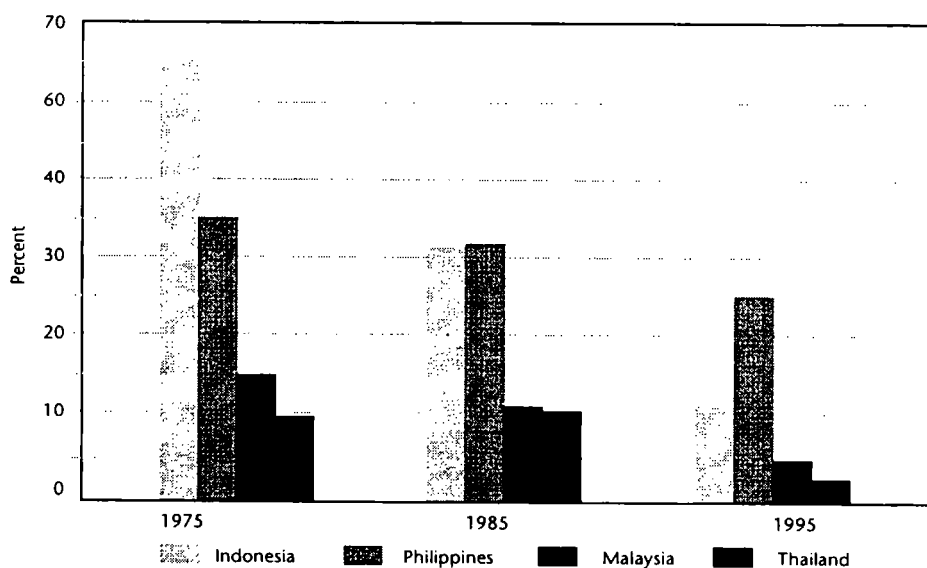
Lessons for Policymakers

- **Open markets are an integral component of rapid economic development.** Unprecedented levels of economic growth in the Asian “miracle” economies, lasting several decades, went hand-in-hand with increased integration into the world economy.
- **However, countries need a *balanced* approach to integration into the global economy.** The Asian crisis highlights the weaknesses of a development approach based on export promotion in specific sectors and without a significant liberalization of imports. Instead, all sectors need to be opened to, and disciplined by, international competition.
- **Competitive *domestic* markets and a sturdy framework of market institutions are essential companions to open markets.** The recent crisis shows that the removal of tariff barriers and capital controls, without the necessary domestic foundations for a market economy, will not ensure stable or sustainable economic development.
- **Dynamic growth abroad stimulates U.S. economic growth.** Between 1991 and 1997 alone, U.S. exports to East Asia nearly doubled—rising from \$55 billion to \$101 billion. Such rapid growth—over a period when exports to all other regions (except NAFTA countries) were growing more slowly—put Taiwan, South Korea, and Singapore in the top 10 U.S. export markets. The region has also been a key source of profitable investment opportunities for American companies and received 10 percent to 12 percent of U.S. foreign direct investment in the early 1990s. The United States has an important interest in ensuring that these countries adapt and modernize their economies, recover from the crisis, and return to the path of economic growth.

The Impressive Development Record

- With the exception of the Philippines, all of the Asian Tigers exhibited average annual GDP growth rates of 7 percent to 9 percent between 1965 and 1996. In Thailand, growth exceeded 11 percent per annum in the late 1980s. Such rapid growth rates were unprecedented. In the original industrial revolution, it took the United Kingdom 58 years to double its income. Half a century later, it took the United States 47 years to achieve the same advance. South Korea managed to double its income in just 11 years—starting from 1966.⁴
- Years of economic growth—at a rate much faster than the rest of the world—pushed these Asian Tigers up the development ladder. By the end of 1996, all eight countries were classified by the World Bank as middle- or high-income countries (ranked by GNP per capita), falling in the top 40 percent of

Percentage of Population in Poverty



Note: Poverty here is defined as living below the international poverty line of \$1 a day.
Source: World Bank.

the world rankings. Indeed, in 1997, per capita GNP in Singapore and Hong Kong exceeded that of Canada, Australia, and the United Kingdom.

- Rapid growth in Asia not only raised the overall level of income, it also helped to reduce poverty—particularly in the second wave of developing countries. (See chart on p. 2.)
- Economic growth also led to improvements in other aspects of the quality of life. In all of the countries concerned, infant mortality and adult illiteracy declined and life expectancy and secondary school enrollment increased. (See table below.) While there were also significant social and environmental costs associated with the rapid development process, many commentators concluded that these did not outweigh the long-term benefits.⁵

- Even this impressive development process was not, however, without its flaws. Much has been written on the faults of the Asian model, but two areas stand out. First, most of the Asian economies had fragile domestic financial sectors—weak regulation, closed and often corrupt “relationship lending” between banks and corporations, excessive corporate leveraging, and over exposure to high-risk sectors such as real estate. Second, the countries did not integrate into the global economy in a balanced way. Instead, some sectors (such as automobiles and electronics) faced strong export promotion, with preferential financing and tax incentives. In contrast, other sectors faced heavy protection and cartelisation, through regulation prohibiting foreign ownership or the entry of foreign firms into the market. Such protectionism acted to stifle competition, innovation, efficiency, and growth.

Measures of Progress in Health and Education

	Infant Mortality*		Secondary Enrollment**	
	1970	1996	1980	1995
Hong Kong	19	4	64	75
Singapore	20	4	58	62
South Korea	46	9	78	100
Indonesia	118	49	29	48
Malaysia	45	11	48	61
Philippines	66	37	64	79
Thailand	73	34	29	55
USA	20	7	91	97

* Per 1,000 live births.

** Percent of relevant age group.

Source: World Development Indicators 1998, World Bank.

Trade and Development

- For all of the Asian Tigers, an increased volume of trade—particularly increased exports—was a key factor in their rapid economic growth. Hong Kong and Singapore have relatively long histories as free-trading nations, with minimal or zero tariffs on most goods, and both depend heavily on trade for economic survival.
- More recently, most of the other Asian Tigers have witnessed exploding trade volumes. For example, Malaysian exports and imports increased by 685 percent and 840 percent respectively between 1980 and 1997. Similarly, Thailand’s trade volumes doubled as a percentage of GDP over the same period.
- Increased trade benefitted these economies in several ways. First, external markets provided the necessary demand to keep growth on track. Most of these countries have relatively small domestic markets and, at least initially, had low levels of per capita income. Hence, they needed foreign consumers to buy a significant proportion of their new manufactured goods. Second, producing for export markets stimulated domestic efficiency as domestic producers needed

the ability to compete in international markets. Third, increased export dependence increased the need for exchange-rate stability and therefore helped to discipline government economic policy. The growth period in these countries was indeed marked by low inflation, exchange-rate stability (at least until 1997), and government fiscal balance.

Foreign Investment and Development

- “Foreign investment” comes in many forms with different economic costs and benefits for the recipient country. The term includes foreign *direct* investment, or FDI, (such as the building of subsidiaries by multinational companies), foreign *equity* investment (foreign ownership of stocks and bonds), *loans* from foreign banks, and *speculative capital flows* (short-term purchases of stocks, bonds, derivatives, currency, etc.). Often, it may be difficult to distinguish between these different forms of investment in practice. Significant flows of foreign investment into the region, of whatever type, only really emerged once countries removed capital controls in the mid- and late-1980s.
- FDI refers to foreign investment in plant, machinery, or a controlling share of a company. This type of investment tends to be longer-term in perspective and more stable over time, and is also more likely to bring positive “spillovers” such as new technology, ideas, and skills.⁶ FDI in the East Asian economies more than doubled between 1990 and 1996, from \$12 billion to \$28 billion. Hence, by 1996 the region (excluding Hong Kong) received nearly 8 percent of global FDI even though it only accounted for 4 percent of world GDP. More than half of this investment went to Indonesia and Singapore. Interestingly, many American and European companies are viewing the recent crisis as an opportunity and are now *increasing* investment in the region.⁷
- In contrast, Thailand relied more heavily on foreign borrowing, particularly debt to foreign private banks. This type of capital inflow, especially when short-term and denominated in foreign currencies, is much more vulnerable to external shocks and exchange rate changes. Excessive short-term borrowing in foreign currencies, especially by the corporate sector, has been widely cited as a major cause of the recent crisis.

Other Factors

- Trade and foreign investment were not, however, the only engines of economic growth. High levels of domestic investment, stable macroeconomic conditions, and an emphasis on “human capital” or education also played their part. The point is that without an emphasis on integration into the global economy, economic growth would almost certainly have been slower than the 7 percent to 9 percent witnessed over the past three decades.

Conclusion

- The Asian crisis should be viewed as a crisis of capital and not as a crisis of capitalism. The countries concerned still need to adopt significant reforms—particularly in their financial sectors—before a sustainable economic recovery is possible. On the other hand, the earlier “Asian Miracle” shows that there is no substitute for market-based economic growth and integration into the global economy. Indeed, such integration, combined with further market-oriented domestic reforms, will be a key engine of economic growth for the Asian Tigers in the coming years—just as it has been over the past three decades.

Notes

1. International Monetary Fund (IMF) World Economic Outlook, October 1998 and World Bank estimates.
2. Eight economies in East and South East Asia had, until recently, been experiencing a sustained period of rapid economic growth. These countries, or subsets of them, have been given a number of names including the Asian Tigers, the Asian Miracle, Asian "Emerging Markets," and the Newly Industrializing Countries. There were essentially two waves in this process of development, beginning in the 1960s and the 1980s respectively. The first wave took place in Hong Kong, South Korea, Singapore, and the Taiwan province of China, the second in Indonesia, Malaysia, Thailand and, to a lesser extent, the Philippines.
3. Robert Kaplan. *The Ends of the Earth: A Journey to the Frontiers of Anarchy* (New York: Vintage Books, 1996).
4. These calculations start from 1780 in the United Kingdom and 1839 in the United States. Source: Jeffrey Frankel, "The Asian Model, the Miracle, the Crisis and the Fund" (April 16, 1998).
5. For an extensive discussion of the Asian Miracle and the recent crisis see Nouriel Roubini's comprehensive website (listed below).
6. FDI from Japan has been the main element to decline as a result of the crisis but this is largely due to domestic problems in the Japanese economy.
7. For example, Micron Technology Inc. (based in Idaho) will invest \$300 million in Singapore over the next two years.

Further Information

- *World Development Indicators, 1998* (Washington, DC: The World Bank, 1998).
- R. Dornbusch, "Meltdown Post-Mortem," *The International Economy* (November/December 1998).
- Nouriel Roubini at New York University maintains a very comprehensive web site on the Asian crisis (<http://www.stern.nyu.edu/~nroubini/asia/AsiaHomepage.html>).
- The World Bank web site (<http://www.worldbank.org/>) has vast information—including a special section on the social effects of the Asian crisis.

This Fact Sheet was researched and written by Jenny Bates, PPI trade and economics policy analyst. For further information about this Fact Sheet or PPI publications, please call: 202-547-0001, write: PPI, 600 Pennsylvania Ave., Suite 400, Washington, DC 20003, or visit our web site: <http://www.dlcppi.org/trade.htm>.

Administration Strikes the Right Balance on Steel Imports

by Jenny Bates

The Problem

During the first ten months of 1998, steel imports to the United States increased by 30 percent, compared with the same period in 1997.¹ More than half of this increase came from Russia and Japan—with imports from Japan reaching more than twice their 1997 level. This rise in steel imports was driven largely by the collapse in Asian demand, resulting from the Asian economic crisis. Asian countries are looking to export out of the region while non-Asian countries, such as Russia, are looking for other markets. Moreover, depreciating domestic currencies helped to make these exports to the United States even cheaper in dollar terms.² The U.S. steel industry and unions assert that this influx of unusually cheap steel has been "dumped" on the U.S. market. That is, it has been sold below the sale price in the country of origin or below the cost of production.

The Administration's response to this dilemma, detailed in a report released today by the United States Trade Representative (USTR), has been multifaceted.³ On the one hand, it is supporting expedited anti-dumping actions on behalf of the U.S. steel industry against cheap steel imports.⁴ The Administration is also pursuing negotiations with the Russian, Korean, and Japanese governments to reduce the flood of cheap imports from those nations. Finally, it is pursuing a range of measures designed to help the steel industry—including tax relief in the upcoming budget, trade adjustment assistance for workers, an early-warning system to monitor import trends, and more general policies to restore global economic growth. *The Administration has thus struck the right balance between competing interests, and its approach should be supported.*

The roots of the policy dilemma are as follows: On the one hand, these unusually cheap imports of steel cause even the most efficient U.S. steel producers to lose business and threaten U.S. jobs. Industry sources show that employment in the steel sector has fallen by around 10,000 jobs compared with 1997.⁵ Such consequences resulted in calls for action by the Administration. On the other hand, as the world's largest trading nation and leader in the global economy, the United States has an interest in upholding the multilateral, rules-based trading system enshrined in the World Trade Organization (WTO). The United States also has an interest in maintaining much-needed demand for these countries' exports during their time of crisis and preventing the global economy from slipping into recession. Much has been made of the potentially disastrous consequences of the Russian economy and society collapsing into even further chaos.

A Case for Anti-Dumping Action

An anti-dumping suit is essentially a legal process in which the filing parties—usually private companies—aim to show that they have suffered "material injury" (e.g. lost profits) due to "dumping" in the U.S. market by foreign producers. While legal under the WTO, trade economists have long argued that anti-dumping measures are highly distortionary as they tend to be imposed for long periods of time and with high tariffs (sometimes upwards of 100 percent).

Yet, the steel industry has a strong case. First, the U.S. steel industry, once uncompetitive and inefficient, has undergone significant restructuring and is now one of the world's most competitive.⁶ This is not the usual plea from an inefficient domestic industry looking to be shielded from the forces of international competition. Second, there are significant reasons for supposing that foreign exporters are indeed dumping cheap steel on the U.S. market. Most importantly, the world steel market is not truly a competitive market. Korean producers are highly subsidized by their governments and Japanese producers face a highly distorted, cartelized domestic economy. Hence, both are able to price their products below the marginal cost of production. Moreover, the Organization for Economic Cooperation and Development (OECD) recently reported that Russian and Ukrainian steel exporters often price at uneconomic levels "due to the inability of these countries...to employ standard accounting principles, the lack of finance and the use of barter, and the orientation toward production rather than profit."⁷ Third, the global economic crisis makes this case different. At the moment, a few open sectors of the U.S. economy—including steel—are bearing the brunt of the Asian collapse. A more equitable solution would spread the costs of this global crisis across all sectors of the economy and all parts of the world.

Finally, it is important to note that anti-dumping actions are legal under WTO rules. Moreover, the European Union and over 30 nations have already filed anti-dumping and countervailing duty actions, and are currently limiting steel imports in some manner.

Steely Resolve Against Further Unwarranted Protectionism

Despite the Administration's current action plan, some are demanding still greater protection for the U.S. steel industry. Yet, further short-term action, beyond the Administration's proposed measures, is unnecessary. If the anti-dumping suit is successful, which is highly likely, importers have to pay *retroactive* duties on imports into the United States—in this case, as far back as November 1998. The Administration has also stated that it is willing to consult with industry representatives about pursuing a "safeguard action". Such an action, designed to deal with sudden surges of imports, is also WTO consistent. In contrast, extreme action, such as an outright limitation on imports, would be inconsistent with WTO rules and could provoke retaliation by other nations.⁸ It could also push countries such as Russia further into economic crisis by eliminating a key source of demand and foreign exchange revenue.

Conclusion

The Administration is using WTO-sanctioned tools, imperfect though they are, to deal with a difficult political and economic situation. The global economic crisis is adversely affecting the US steel industry but, at the same time, some of the suggested remedies (such as an immediate curb on shipments from Russia) would only exacerbate the global economic crisis that is the source of the problems. The Administration's Plan is a workable and appropriate short-term fix. A longer-term solution is needed to address the issues of the subsidization of inefficient steel production in many countries, widespread anti-competitive practices in many domestic steel sectors (e.g. cartels) and the highly-distorted global steel market that such behavior produces. One partial solution is to make multilateral aid to the ailing Asian economies and Russia conditional on the restructuring and downsizing of inefficient domestic industries.⁹ Such aid should also support transition programs and social safety nets for those workers laid off as a result of the restructuring. Such conditionality should gain multilateral support as the ultimate policy goal is recovery in the affected countries, based on efficient production and a competitive global market for steel.

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For further information about PPI or its publications, please call the publications department at 800-546-0027 (in the Washington, DC metro area: 202-544-6172), write the Progressive Policy Institute, 600 Pennsylvania Ave., Suite 400, Washington, DC 20003, or visit PPI's Web site at: <http://www.dlcpipi.org>.

Notes

1. American Iron and Steel Institute, compiled from Department of Commerce data.
2. However, the recent appreciation of the Yen has acted to mitigate this effect on Japanese imports.
3. *Report to Congress on a Comprehensive Plan for Responding to the Increase in Steel Imports*, January 1999.
4. A decision is due on February 12, 1999.
5. Employment in the steel sector has fallen by 1,225 per year 1993-1997 (see Report).
6. See work by Greg Mastel (Economic Strategy Institute) on anti-dumping, such as "Russia, Steel and U.S. Policy", *Journal of Commerce*, January 4, 1999.
7. Quoted in the *Journal of Commerce*, January 6, 1999.
8. Russia is not a WTO member and thus is not subject to WTO rules.
9. Other long-term solutions include, but are not limited to, much-improved import data and monitoring (even beyond the Plan's actions in this area) and the integration/harmonization of competition policy in the workings of the WTO (e.g. to address problems with cartels).

Going Bananas

The United States, the European Union, and a Slippery Slope in the World Trade System

Jenny Bates

"We all have an interest, not only in living by the rules of the system, but in helping the system to work".

*—Renato Ruggiero, Director General
of the World Trade Organization.
December 9, 1998.*

Introduction

A long-running dispute between the United States and the European Union (EU) over trade in bananas is threatening to spill out of its box and undermine the operation of the world trade system—a system that the United States and the EU helped to create. The Clinton Administration, under pressure from an increasingly protectionist Republican-dominated Congress, is currently threatening to impose 100 percent tariffs on a range of European goods beginning in March 1999 if the dispute is not settled by then.¹ This action is in danger of undermining the dispute settlement process enshrined in the World Trade Organization (WTO). Yet, as the world's largest trader, the United States has a national interest in upholding that multilateral, rules-based system and in ensuring that it is effective in settling disputes. Unless both parties make a commitment to resolve the "banana dispute" through WTO mechanisms, bilateral US-EU relations are likely to be overshadowed by this increasingly bitter and destructive quarrel.

A Short History of the Dispute

Under the old General Agreement on Tariffs and Trade (GATT) prior to 1995, the United States twice challenged the EU's banana import regime, claiming that the regime was discriminatory because it gave preference to African and Caribbean bananas over Latin American bananas. However, the EU "vetoed" the adoption of the GATT Panel's decisions and thus was not required to undertake any reforms.

The United States and several Latin American countries, including Mexico, Guatemala, Honduras, and Ecuador, brought a third challenge in 1996, this time to the newly-formed WTO.² Under the new dispute settlement rules, the EU had no veto power and could only appeal the Panel decision. In September 1997, an Appeal Body found the

EU's regime to be inconsistent with WTO rules and the EU was ordered to reform its banana import regime by January 1, 1999. Both the Panel and the Appeal Body decisions, however, only indicated areas of the EU's existing regime that are not consistent with WTO rules, but did not detail the reforms to be made by the EU. In mid-1998, the EU announced a package of reforms intended to make the banana regime consistent with WTO rules. As required, these reforms were implemented on January 1, 1999.

Why Is the Dispute Continuing?

The sticking point is disagreement over whether the EU has complied with its legal obligation to reform its banana regime. The U.S. believes that the EU's reforms are blatantly "cosmetic."³ The EU has not met its legal obligations under the Panel decision and its "new" banana regime remains inconsistent with WTO rules. Furthermore, the U.S. argues that unilateral trade measures are legal under the WTO *if an offending party does not meet obligations as determined by a dispute Panel*. Therefore, the United States is within its rights in imposing trade sanctions on the EU.

In contrast, the EU argues that it *has* reformed its banana import regime and that it is now fully compliant with its obligations under both the Panel decision and WTO law. The EU also believes that unilateral action by the United States is *illegal* under WTO rules, and if the United States has a further complaint, it should pursue complaint through the WTO dispute process. Last week the WTO agreed to establish a panel to decide whether the reformed EU regime is WTO consistent. Yet, the United States is not giving up its right to impose 100 percent tariffs on European products. The EU has also suggested that it may retaliate against such action.

Why Bother With Bananas?

The banana dispute raises at least three "big picture" issues:

1. **It sets a bad precedent for the settlement of future trade disputes under the new WTO rules.** The policy change, (brought in with the creation of the WTO) that WTO decisions are now *binding*, enhanced the power and credibility of the dispute settlement process. In other words, it gave the WTO "teeth" in applying WTO rules as well as creating a *process* for settling disputes. The WTO rules are, however, still vague in some areas, non-existent in others, and thus open to different interpretations. Hence, the process of arbitration between differing interpretations of those rules is crucial. The first disputes subjected to this new settlement process, including the banana dispute, will clarify the rules in some areas and set a precedent for future WTO rulings. The inability, and unwillingness, of the EU and the United States, two founders of the original GATT, to agree on WTO rules and procedures undermines the operation of the entire rules-based system.

2. **It is prompting dangerous protectionist rhetoric and behavior by two global economic powers in the midst of a global economic crisis.** One of the major concerns in the wake of the recent Asian crisis has been to prevent a return to the turmoil of the 1930s—a period when nations tried to shelter themselves from global instability by imposing tariffs and other trade restrictions but succeeded only in deepening the world's recession. Having the world's two major trading partners mired in a bitter trade dispute, using protectionist language, and threatening to impose unilateral tariffs of 100 percent, undermines current attempts to prevent a slide into protectionism.
3. **It undermines broader attempts at international economic co-operation.** In the wake of the Asian crisis, many commentators have indicated the need to design "rules of the road" for international capital movements. In trade, a well-designed rule-system monitored by the WTO is already in place. The problem in this case, however, is an inability to use and adhere to that system. If the United States and the EU cannot work within the rule-system for trade, what seriously can be expected in other areas?

Everyone Is Going Bananas

The WTO. The dispute settlement procedure involves several steps. A complainant party first brings a dispute to the WTO and an initial WTO Panel makes a decision, calling on experts for advice or testimony if necessary. If either side appeals, an Appeal Body re-examines the case over a longer period. Appeal Body decisions are binding in the sense that the party at fault either has to reform its offending practices or pay compensation to the complaining party. Several aspects of this procedure could be improved. Firstly, Panel and Appeal Body decisions need to be clearer and more precise; if the Appeal Body had outlined the EU's practical obligations in reforming its regime, this dispute may never have arisen. Secondly, the pace of the settlement procedure needs to be accelerated. A major factor dissuading the United States from seeking recourse through the WTO is fear that such an approach could take another year.

The European Union. The EU is also not without fault. In adopting reforms to its banana regime, it has met, at most, the letter but not the spirit of the WTO ruling. For example, the share of the tariff-quota reserved for "newcomers" to the EU market has been increased from 3.5 percent to 8 percent. Moreover, the regime remains highly protectionist and discriminatory, involving licences for importers, and is based on old colonial preferences and structures—even if it is technically WTO consistent.⁴ Finally, the EU's moral argument that it is protecting underdeveloped countries is not particularly strong. The countries losing out under the current system—including Honduras and Guatemala—are also low income countries.⁵ Moreover, it seems likely that the EU will come under pressure to reform its regime in the future, for example during WTO negotiations on agriculture. Arguably, the EU should help these former colonies move into more diversified production patterns and away from a heavy reliance on banana exports.

The United States. The United States is understandably irritated at the time and effort it has spent on this case and the less than cooperative attitude adopted by the EU. Indeed, the WTO rules are vague as to whether the United States has the right to adopt unilateral measures in the face of, as the United States sees it, non-compliance with a Panel decision by the EU. Yet, the United States is not free from blame. Its recent decision to pursue unilateral action against the EU, at the level of 100 percent tariffs on a wide range of unrelated products, is an extreme response to a small trade dispute. It also undermines the very basis of the multilateral trade system. It is important to note that the initial complaint was brought by several countries, whereas the United States is the only country currently looking to impose sanctions on the EU. Finally, U.S. action punishes two entirely innocent groups: European exporters and American consumers of a set of unrelated products.

Solutions

1. **The Clinton Administration should resist pressure from Congress to adopt unilateral trade measures and should instead pursue its complaint against the EU *through the WTO dispute settlement procedures*.** Though it is likely to be time-consuming and costly, such an approach forces the WTO Panel to clarify its earlier decision and reinforces rather than undermine the dispute settlement process.
2. **The United States should remove its threat of unilateral trade sanctions—at least until a new WTO Panel decision is made concerning the revised EU banana regime.** Unilateral action by the United States will not guarantee EU cooperation but may eventually spur its retaliation. This will hurt U.S. consumers of unrelated products, and will undermine the multilateral nature of the world trade system. It also sends out a dangerous message about the use of trade measures at a time of global economic crisis.
3. **The United States and the EU should seek to place the WTO Dispute Settlement Procedure on the agenda at the WTO ministerial meeting in December 1999.** Still in its early stages, the new WTO dispute settlement system needs to be refined and improved. Some institutional issues also need to be addressed, such as the method of selecting Panel judges, time constraints on decisions, and existing resource limitations for the Panels. Given that the new procedure has greater power, it seems likely that an increasing number of parties will bring disputes. It is in everyone's interest to ensure that the process is ready and able to deal with them.

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Notes

1. The Uruguay Round Agreements Compliance Act passed by the House on October 10, 1998 called on the United States Trade Representative (USTR) to "take action under section 301(c)(1)(A) and (B) of the Trade Act of 1974...devised so as to affect goods or services of the European Union in an amount that is equivalent in value to the burden or restriction being imposed by the European Union on the United States." It calls on the USTR to take those actions by February 1999, unless a new WTO Panel rules in favor of the EU or the EU further reforms its regime.
2. The World Trade Organization replaced the GATT in 1995. It is significantly different from the GATT in that it is a legal entity (the GATT was a treaty), and includes a specific dispute settlement *process*. Disputes under the GATT were solved through "negotiated compromise"—with no specified *method* of reaching resolution.
3. This language was used in legislation (H.R. 4761) adopted by the House of Representatives in October 1998.
4. The EU has a special provision in the WTO which allows it to maintain preferential treatment for certain countries, mostly ex-colonies, as negotiated under its Lome Convention. It is not clear whether the reformed EU banana regime is WTO consistent but many commentators argue that it would be rejected by a WTO Panel.
5. Arguably, the main beneficiaries of the regime are the licensed importers in the EU who earn monopoly rents.

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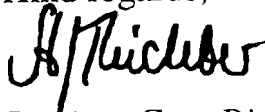
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This Week's Issue: You Can't Win Them All

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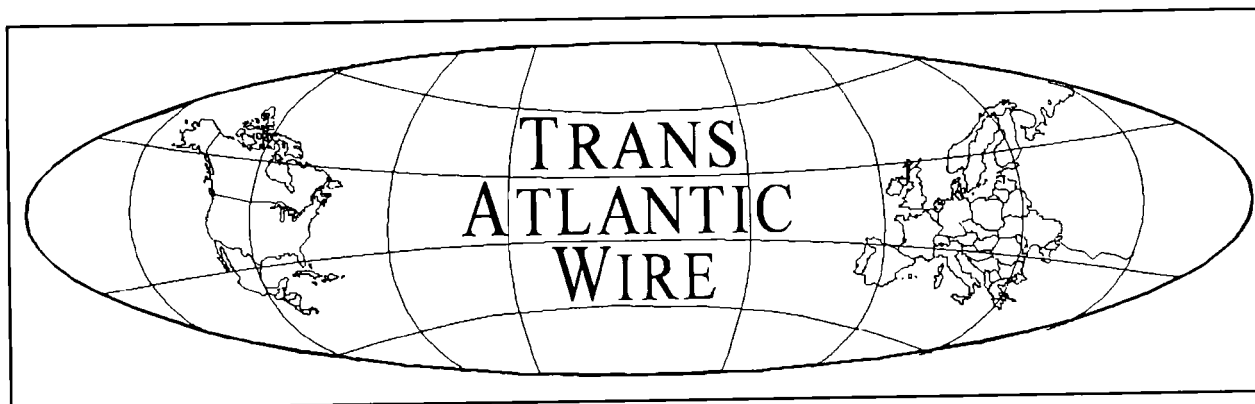
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You Can't Win Them All

Why Even Open-Minded Europeans Are Troubled by Recent U.S. Policy Moves

A disturbing pattern is emerging in the conduct of U.S. trade policy. On issue after issue, the U.S. government is attempting to throw one preemptive strike after another. From the European perspective, these efforts target those few endeavors where Europeans, against long odds, have had considerable commercial success. First, the U.S. sought a direct voice in the current restructuring of Airbus. Now, we are on to cellular phone standards. With much of the attention generally reserved for transatlantic trade disputes accorded to the "banana war," matters of significantly larger commercial importance are pushed out of the spotlight. That is unfortunate because dealing with these issues head on would be far more relevant for the dynamism of international trade and commerce.

For well over a decade, the U.S. government has advocated full privatization for Airbus. Now that the companies involved in this project are moving ahead, the U.S. government is apparently becoming nervous about finally obtaining what it has long sought. To be sure, the real issue extends well beyond what U.S. policy makers pro-

claim as their motivation — namely to ensure that no improper subsidization regime be continued under fully privatized ownership. What really concerns American strategists is a fully privatized Airbus will have a direct impact on the European industrial landscape well beyond commercial airplanes — indeed, solidly into the aerospace

On the Merciless Stance of U.S. Trade Policy

and defense areas. The worries of Seattle-based Boeing, while left unaddressed in official pronouncements, are very much in the forefront of U.S. thinking. As difficult, if not disastrous, as the period after the Boeing/McDonnell Douglas merger may have been, what redeems the underlying logic of the merger are the joint company's solid earnings from the defense area.

■ Jessie Helms Would Declare War ■

Such handsome cross-subsidization of business revenues, however, is precisely what the Europeans have pointed to all along in defending Airbus subsidiaries. "We may pay subsidies to get the airplane off the ground, but your manufacturers profit tremendously from all the defense contracts, which inoculate them against the cyclical nature of the commercial aircraft business." Come to think of it, in light of recent U.S. appeals

on the Airbus issue, it is quite unimaginable to have foreign governments publicly demanding a role in the restructuring of any large U.S. industrial entities. If the EU ever tried to pull a fast one like that, one can rest assured that all hell would break loose. Senate Foreign Relations Committee Chairman Jessie Helms would probably see to it the next day that all EU diplomats working in the United States be expelled as *personae non gratae*.

■ Only One Strong Nation? ■

Right on top of the Airbus intervention comes the further news from the U.S. side that it also seeks an integral role in Europe's efforts to come up with a new global standard for wireless phones. Never mind that the United States has made a mess of its domestic regime, where the absence of a common domestic standard has greatly complicated the desirable outcome of establishing an efficient, high-quality cellular phone network nationwide.

European business strategy over the past ten years may not have amounted to much, but the cellular phone area presents a profound exception. In the process, Europe's business landscape has even seen the emergence of new world class manufacturers from Finland and Sweden, dominating the markets against high odds. Focus — and the early establishment of a continent-wide technical standard — made this success possible. In contrast, the United States chose to rely on having as many companies as wanted to battle it out in the marketplace over which standard will emerge on top. It leaves European strategists with a taste of America as a poor loser, if the U.S. government now climbs into the ring demanding a role for its companies in the intra-European deliberations over the development of a new standard.

Why should only U.S. companies be allowed to defend their commercial lead vigorously? And should the U.S. government really turn itself into a kind of "master mercenary" — ready to demand a seat at the table for its business constituents on each and every issue where U.S. companies do not yet feel on top of the universe?

■ Poor Losers ■

In an ideal world, of course, the U.S. demand has its charm. This, after all, ultimately is a case where the Americans — having essentially failed in their quest to come up with a pan-U.S. (and subsequently worldwide) standard — now want to hop aboard Europe's ship to avoid falling further behind. The cause of world integration would benefit tremendously if the Europeans were to accede to U.S. demands. That, however, is unlikely — and it is also unneeded from the critical vantage point of global integration. There simply are not many technologies in the world today where non-U.S. manufacturers play a leading role.

One just needs to look at the U.S. dominance in the computer software and chip markets, or in investment banking, to get a flavor of that.

Given that, European corporate strategists are understandably set on *not* succumbing to U.S. efforts to open up a key role for its private sector companies in the cellular phone area. Truth be told, these European strategists are taken aback at the

U.S. government's blatant attempt to circumvent what are, after all, private corporate negotiations. European companies have difficulty fathoming why, when they face more competition in an integrating European market, the U.S. government appears willing to go to bat for a single cellular phone manufacturer. Why, European strategists ask, should there not be at least a few areas where U.S. corporations do not by right sit on top of the world? One needs only look at the Microsoft trial to understand just how merciless U.S. companies, often for legitimate reasons, can act in the marketplace to obtain commercial advantage. These are pivotal questions indeed.

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Postscript to TWI 6/99

Buy Your Own Summit

This year's World Trade Organization (WTO) ministerial summit is taking place in the United States. We speculated in a recent *Wire* — No. 1/99, on 1999 as "The Year of Trade" for U.S. policy makers — that summit organizers might choose San Diego, because of its pleasant climate and other amenities. Instead, we now learn that another city has been picked, a city where it is said to rain an average of 366 days a year: Seattle, Washington. We wonder, why pick a city where the weather is likely to sour moods even before the opening speeches are over? From a well-informed source we understand that Boeing and Microsoft — both headquartered in Seattle — offered to cover the expenses of having the WTO summit there. Naturally, we concluded, the two companies are doing

so only to show what good global citizens they are, not because they have an agenda of their own — such as increasing their own exports, which have been faltering of late. Their combined \$20 billion of exports last year probably never even entered the equation when the two corporate giants made their decision to pay for the summit. Interestingly, this episode unfolds only weeks after the scandal over how Salt Lake City "bought" the 2002 Winter Olympics. We conclude that apparently it is wrong to pay off a few corrupt IOC officials to host a sports event, but that it is perfectly okay to buy your own trade summit when you are a multinational corporation that stands to benefit greatly from opening up export opportunities around the world.

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- ☐ Which policy changes, including fuel-efficiency standards, environmental groups say are needed for the U.S. to achieve significant CO₂ emissions reductions; and
- ☐ Why even supporters of emissions trading are worried that the concept may be too complex and unverifiable to be effective.

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