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### **MEXICO'S TRADE AGREEMENTS: HARVEST TIME...**

Mexico's Secretary of Treasury reports that Mexican imports are on the increase, helping to reduce trade surpluses with its trading partners. The biggest increases in imports have been with Latin American countries with which Mexico has trade agreements; imports from Chile, Bolivia, Venezuela, Colombia and Costa Rica increased close to 80 percent during the first half of 1997. Growth in imports from Venezuela stood at an impressive 131.1 percent for the first five months, while Chilean imports grew by 98.6 percent. Exports to Latin American trading partners during the same period increased by 25.4 percent. The growth rate of trade with NAFTA partners was slower: Mexican exports to the U.S. increased 15.2 percent and to Canada 9.1 percent; imports from the U.S. for the same period increased 17.1 percent and from Canada 17.2. The Mexican trade surplus with the U.S. is a point of contention for NAFTA opponents, who argue that NAFTA has hurt U.S.manufacturers.

Noteworthy, Mexico counts among the most intensive five world users of the trade remedy mechanism: US, Canada, EU and Australia. According to the Mexican Unit for International Trade Practices (UPCI), having the General Direction for International Trade Practices as a predecessor, country's trade remedy mechanism had been carried out over 200 investigations between 1991 and 1996. Set up in 1991, and, respectively, in 1993 with the main objective to defend the national producers versus dumping or subsidised products, the Mexican bodies investigated 182 cases of dumping, 17 of subsidies and 1 of safeguard.

In parallel, at the August 5 annual meeting of the American Bar Association (ABA), Mexican lawyer Eduardo Ramos Gomez told ABA members that the North American Free Trade Agreement (NAFTA) has spawned a "silent revolution" of modernization of Mexico, and has "resulted in the privatization" of the country. Mr. Ramos noted that since 1991, 226 major legal reforms have been instituted as well as 14 constitutional amendments. He stated that these reforms have resulted in a freer economy with more open investment, and attributed much of NAFTA's success to the fact that the agreement has taken advantage of the differences in areas such as labor, rather than being limited by such differences.

In other news, U.S. Congressman Dick Gephardt, an outspoken critic of NAFTA began a week long trip to South America to discuss trade and environmental issues. Stops on his trip include Chile, Argentina and

Brazil, countries President Clinton plans to visit within the next year to promote the upcoming Free Trade Area of the Americas (FTAA). Mr. Gephardt says NAFTA is lacking in labor and environmental safeguards, and is sure to push for labor and environmental linkage in trade agreements when the Clinton Administration asks for fast-track authority next month.

Mr. Gephardt visited Mexico earlier this year, afterward condemning Mexican manufacturing plants for offering low wages and dangerous working conditions. He also criticized Mexico's poor enforcement of environmental laws. He sent a clear message to Latin American countries that any future trade agreements, such as FTAA or NAFTA expansion, must include strong labor and environmental linkage to trade. Chile, once keen for an expansion of NAFTA, has cooled off slightly, having signed separate trade agreements with Canada and Mexico, as well as becoming an associate member of MERCOSUR, the regional trading group including Brazil, Argentina, Uruguay and Paraguay. Brazil as well is reportedly taking a wait-and-see approach to trade talks with the U.S.

"Mayor crecimiento de importaciones con países que son socios comerciales de México," EL ECONOMISTA, August 12, 1997; "El sistema de prácticas desleales es útil, pero los exportadores piden... Crear un organismo autónomo. Hoy dan a conocer el informe de labores 1991-1996 de la Unidad de Prácticas Comerciales Internacionales", EL ECONOMISTA, August 11, 1997, "NAFTA credited with aiding modernization of Mexico," INTERNATIONAL TRADE REPORTER, August 13, 1997; "South America: Gephardt heads for Santiago trade talks," FINANCIAL TIMES, August 13, 1997.

#### **SLOW PROGRESS TOWARDS INDIA-PAKISTAN FREE TRADE PACT**

India has granted Pakistan Most Favored Nation (MFN) status, a favor Pakistan has no plans to return until India lifts restrictions on imports of most consumer goods. "Pakistan has only 40 items on its reserved list, while India has 2,700," Pakistan's commerce minister Mohammed Ishaq Dar noted. "With such a huge restriction list, how can we offer MFN?" The commerce minister pointed out that India's manufacturing and export sectors are much more advanced than Pakistan's, and import restrictions only allow India more time to build those sectors, while at the same time Pakistan's industrial base continues to contract. "As of today," Mr. Dar argues, "[Pakistan] would be the net loser in any liberalization of trade."

Both countries are members of the South Asian Association for Regional Cooperation, which also includes Bangladesh, Nepal, Sri Lanka, Bhutan and the Maldives. As part of the forum, Pakistan and India have made moves to increase bilateral trade, as the forum hopes to one day establish a free trade zone between all member countries.

At present, however, trade between India and Pakistan is quite modest - only \$100 million worth of goods were traded between the two in 1996, although unofficial trade in smuggled goods such as cotton products, medicine, cosmetics and kitchenware is estimated at the \$1 billion level.

"Resisting free trade with "restrictive" India," FINANCIAL TIMES, August 12, 1997.

#### **SOUTH KOREA COMPLAINS TO WTO OVER U.S. CHIP MEASURES**

South Korea last week filed a formal complaint with the WTO over U.S. anti-dumping measures against South Korean memory chips. At issue is the U.S. insistence that two South Korean chip manufacturers continue to appear on a U.S. list for possible anti-dumping investigations. A May 1993 U.S. ruling imposed dumping duties on chips exported to the U.S. by LG Semicon and Hyundai Electronics. The U.S. said that the two leading South Korean semiconductor companies sold products in the U.S. below market prices in an effort to gain market share.

For the last three years, the two companies had been assessed minimal anti-dumping duties (less than 0.5 per cent), leading South Korea last month to expect the companies to be taken off the annual list of firms facing U.S. anti-dumping investigations. The U.S. says it is keeping the companies on the list because it fears the sharp fall in global memory chip prices may prompt the companies to dump their product in the U.S.

South Korea last month filed a similar complaint with the WTO over U.S. anti-dumping measures against South Korean color television producers. Although South Korean color televisions had not had duties imposed for six years, the U.S. has continually included South Korean TV manufacturers on its investigation list. South Korea maintains in both cases that the investigation process places undue burden of both time and money on the companies.

"South Korea complains to WTO over U.S.," FINANCIAL TIMES, August 14, 1997; "Seoul will USA bei WTO verklagen," HANDELSBLATT, August 13, 1997; "South Korea Wants WTO Ruling on Chip Wrangle", INTERNATIONAL HERALD TRIBUNE, August 13, 1997.

## **GMO LABELLING MIGHT NOT COOL OFF OPPONENTS**

Labelling of genetically modified organisms (GMOs) - now required in the EU - has not answered to consumer's and environmental groups' concerns. The European Parliament on July 31 voted that all the products which "do" or "may" contain genetically modified organisms require compulsory labelling. Simultaneously, voluntary labelling scheme will be used in the case of GMO-free food. Proposed legislation which is due to take effect in November has already seized with thoughts.

Consumer and environmental groups still have big concerns over the products' long term effect on human health, and see GMO labelling only as a way of warning consumers of what the groups termed the unsafe or ramifications of GMOs in the food system. "If [food manufacturers] want to be able to reassure their customers," says Mr. Douglas Parr, who heads Greenpeace's campaign against genetic engineering in the UK, "they've got to find a way of testing for genetically modified material."

However, the GMO regulations passed by the EU may serve to promote GMO use, rather than hinder it. Food producers will most likely be only mildly inconvenienced - quite a contrast to the revolutionary effect GMO labelling was anticipated to have on the food and biotechnology industry. The regulations may actually serve to expand the market presence of GMOs. With the EU-wide labelling scheme in place, bans on GMO products underway in France, Austria, Italy and Luxembourg will be nearly impossible to uphold, thus improving market access. The labeling scheme adopted by the EU also laid to rest the possibility of segregating GMOs from conventional product. Segregating product was vehemently opposed by U.S. exporters. Segregating product, according to one study, would have required fifteen separate facilities between farm and market, making exports to the EU cost prohibitive for corn and soybean producers.

The EU instead adopted the broader labelling designation that products which "may contain" GMOs must be labelled appropriately. European consumer groups cautioned that the "may contain" category could become a catch-all for label-wary producers. Indeed, nearly three-fifths of processed foods contain soybeans, a figure likely only to increase as U.S. growers increasingly plant genetically modified soybean plants. Because the "may contain" provision will have widespread application, its stigmatizing value will likely be lost as consumers grow familiar with its presence.

EU label rules give food for thought", FINANCIAL TIMES, August 7, 1997; "Labelling the mutant tomato," THE ECONOMIST, August 9, 1997.

### **TUNA DEAL: BETWEEN SCYLLA AND CHARYBDIS?**

The compromise agreement reached two weeks ago on lifting the U.S. embargo on yellowfin tuna from Latin American countries is being criticized both by Mexican officials and some U.S. environmental groups who call it a trade agreement under the guise of environmental policy. The agreement, passed unanimously by Congress last week as the Marine Mammal Protection Act, removes the U.S. tuna embargo for countries in compliance with the so-called Panama Declaration. Belize, Colombia, Costa Rica, Ecuador, France, Honduras, Mexico, Panama, Spain, Venezuela and the U.S. signed the declaration in 1995 agreeing to keep their annual dolphin kill resulting from purse seine fishery for yellowfin tuna below 5,000.

Tuna captured with purse seine nets will obtain the "dolphin safe" label if a US National Marine Fisheries Service study, to be completed by 1999, shows that encircling tuna with these nets does not adversely affect dolphins. Until then, Mexican officials say, US boats are relatively unsupervised compared to tuna boats from Colombia, Costa Rica, Mexico, Panama, Venezuela and Vanuatu, which carry Inter-American Commission on Tropical Tuna observers or inspectors from other international and national bodies on board. "That is the paradox," said Alfonso Rosinol, Vice President of the National Chamber of the Mexican Fishing Industry, "While our operations are certified, they – who possibly kill more dolphins - sanction us." According to Mr. Rosinol, tuna boats from Mexico and other nations affected by the embargo have "proven to the hilt" that they do not kill dolphins. Julia Carbias, Mexico's Minister of the Environment and Fisheries, said, "The way in which the embargo is being lifted is neither the most satisfactory nor the most fair."

The agreement was supported by major U.S. environmental groups including Greenpeace and the World Wildlife Fund. However, the Earth Island Institute and some other environmental groups say it renders the "dolphin safe" label meaningless, arguing that Latin American tuna producers are not in compliance with the Panama Declaration. They contend that the observers on board tuna boats to keep track of the number of dolphins killed are under significant pressure from boat captains and possibly their countries' governments to under-report the kill rate.

"A political casserole of tuna and greens," U.S. NEWS & WORLD REPORT, August 11, 1997; "Mexico: dissatisfied with end of tuna embargo," IPS, July 31, 1997.

### **U.S. ACTION LOOMING OVER JAPAN'S TRADE SURPLUS**

Economists last week estimated Japan's current account surplus to be between 2 and 2.4 percent - a figure sure to increase trade tensions between the U.S. and Japan. The U.S. is believed to tolerate no more than 2.5 percent as an acceptable trade surplus level before taking action against Japan. Many economists believe Japan's surplus could rise before the year's end, despite Japanese official's assurances that the situation is temporary and the surplus will soon go down.

Japan continues to blame its April increase in consumption tax for the surge in the surplus. However, June's surplus in traded goods for Japan was 18.7 percent higher than a year ago, fueled by an increase in exports. The head of Japan's Economic Planning Agency last week conceded that the Fiscal '97 surplus would end up higher than the 1.4 percent of GDP the office initially forecast.

Two-thirds of the U.S. trade deficit with Japan comes from autos and auto parts. Sales by the Big Three U.S. auto makers (Chrysler, Ford and General Motors) in Japan were down 13.6 percent for the first two quarters of 1997. If a forthcoming review of the 1995 U.S.-Japan auto agreement reveals that Japan is not living up to its commitments under the agreement, the possibility of a serious trade feud between the two countries will be another step closer.

"Japan's surplus near 'danger mark'," FINANCIAL TIMES, August 9-10, 1997; "Japan car makers slam US claims", FINANCIAL TIMES, August 13, 1997; "Le Japon ne peut endiguer la montee de son excedent courant," LA TRIBUNE, August 11, 1997; "Barshevsky continues focus on dealers, dereg for Japan auto review," INSIDE U.S. TRADE, August 15, 1997.

## **EVENTS/RESOURCES**

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