

ECONOMIQUITY

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What next; after Seattle?

Talks to launch a new trade round at Seattle in November/December broke down due to several factors. But before the fire could die out completely, the two big trading powers: the European Union and US got together to put away their gauntlets, as it were. On December 17, the US-EU summit meeting in Washington, DC, USA called for the launching of the new Round, which would also address the concerns of developing countries and the civil society. And if these two agree and decide that a new round will take place, in all likelihood it will. There is too much at stake, including personal egos. Indeed what ever happened at Seattle was but the postponement of the D-Day. A take-off on the bicycle theory i.e. if there is no further liberalisation the bicycle would crash: at Seattle the two warring powers decided to park the tandem bicycle against the wall, and now they are ready to pick it up and start pedalling.

There are various estimates of when the suspended negotiations will be launched at Geneva, but clearly the uncertainty is unnerving for the developing world. Therefore, sooner the process is over the better it is. This time, the powers will pedal the tandem bicycle very carefully even if they can arm-twist most smaller nations into supporting their agenda. It won't be an easy task either as there is the vibrant third sector, the civil society, which is now firmly in place in the sphere of international policy making.

One particular demand was made

by both developing countries as well as the EU that the new Round be launched after the US presidential elections are over and the new president is able to get a fast track authority from the US



Congress. This would mean that the meeting cannot take place until the middle of 2001. As we have been observing during the erstwhile GATT talks, multilateral trade negotiations in the past have always been mortgaged to the fast track authority of the US president, as well as elections. This time the forthcoming elections were the stumbling block. Hopes of the new Round collapsed when the incumbent, Bill Clinton, called for labour standards with sanctions to be inserted into the WTO.

“The US president Bill Clinton ‘deliberately scuttled’ the new trade round...by announcing the agreement to include China into the WTO before

the new round and bowing to a domestic lobby of labour unions on the issue of labour standards”, fumed the eminent economist, Jagdish Bhagwati in an article in the *Washington Post*. “The Sino-US accord was timed just two weeks before Seattle. If there is any country, which arouses ire among the anti-globalisation groups, it is China. So Clinton was waving the red flag—pun intended—before the raging NGO bulls, making Seattle’s success even more problematic”.

Soon after, the elder statesman of the US, Henry Kissinger too lumped Clinton: “Instead of assuming President Truman’s leadership role in inspiring the structure of the post-World War II world, Mr. Clinton decided to play to the gallery. Mr. Clinton’s welcoming the prospects of demonstrations in advance of the conference was equal to encouraging tactics of intimidation towards a group of ministers who were America’s guests”.

STREET DEMONSTRATIONS HAD A SIGNAL EFFECT

Indeed the street demonstrations were another factor in the derailment of the talks, though at a much lower level than the other more important ones. In this writer’s opinion one important factor, which many commentators seem to have missed is the democratic deficit in the way the green room negotiations were conducted. It was an exclusive process where many of the smaller developing countries were not even allowed inside the green rooms. It was a tragedy as far as the solidarity of developing countries was concerned. Whether it was India or Egypt or Brazil. None of

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them even protested on this undemocratic process, or even thought of using the strategic value of getting the green room process bogged down. In any event most of the big developing countries were not even in favour of a new Round. They were however looking for crumbs in the process of inevitability.

Furthermore, the whole world seems to have forgotten a very important factor, which had a hangover effect at two levels. The protracted election of the director general, where the South had dug in with their heels and not succumbed to the US pressure. A new precedent was established when the deadlock was resolved by electing two DGs: Mike Moore from New Zealand and Panitchpakdi Supachai from Thailand. Each to serve cascading terms of three years, in a deal brokered by Iftekhhar Chowdhry, the Geneva-based ambassador of Bangladesh. The delay in getting the head also affected the process of getting a widely agreed draft ministerial declaration. What landed at Seattle was a 30-page text full of square brackets (disagreed text), expecting the ministers to become supermen and clear all of them in just four days. That was another vital factor for the failure of the talks.

LESSONS FOR FUTURE

To look at the lessons learnt at the Seattle meeting and the future, clearly the balance has to be among the three sectors i.e. governments, business and the third sector. The balance has to address the demands of the Northern countries (if they can agree on agriculture), and demands of the Southern countries (if the rich can agree to look at the implementation problems and review of the anti-dumping rules). Business often straddles the Southern positions except in the case of sunset industries in the North like textiles & clothing or steel. This is also where the shoe pinches the labour movement in the North, therefore their virulent and persistent demand for labour standards. The concerns of the civil society on transparency and participation cannot be ignored. There is no divide on this but on incorporating standards on environment and/or labour there is clearly a divide among the civil society members from the South and the North.

In the 17th December statement

the demand for labour standards now appears to be softer, following the EU line of having a joint working forum of the WTO and the ILO rather than a purely WTO working group being advocated by the US. Many including India are totally opposed to any such discussions, because of the fear of protectionism. Their stand on environmental standards is also similar. Closely on the heels of these two issues, animal rights, human rights and gender concerns are also baying for insertion in the powerful WTO. After all needs, standards and values differ a huge amount among various societies, and any kind of homogenisation in a heterogeneous world is quite wrong. The trouble is that the developing countries are always in a Catch 22 situation or faced with carrot/stick situations, so how will the talks progress is yet to be seen.

Many in the South feel that such linkages are totally unacceptable. The way forward will be to continue to engage in a dialogue so that the sharper edges are blunted. For example, environmentalists in the North now see reason in the arguments of the South that any sanctions-based mechanism will not allow progress in the actual situation of addressing environmental concerns. At a panel discussion on Linkages organised by CUTS at Seattle on the sidelines of the ministerial, the WWF representative, Charlie Arden-Clarke made such an appeal. Our problem is that once an issue gets in even as a whisper, then sooner or later there is a demand for enlargement.

For example on labour standards, at the first ministerial meeting of the WTO at Singapore in December 1996, it was resolved that the International Labour Organisation is the competent body to discuss. However the ministerial declaration also said that the ILO should collaborate with the WTO on this. This small mention enabled a section of the more vociferous and well-endowed trade union movement to get their foot into the door. However there is an equally large section of the global trade union movement, which is against arming the WTO with any authority over labour standards. Therefore the way forward on labour standards is to ask the ILO to set up a working group on trade, globalisation and labour standards which will discuss the manner in which the ILO could be armed with powers of sanctions

should there be a violation. Let the WTO secretariat be an observer in this group.

Similarly on environment, a permanent forum at the United Nations Environment Programme should be established which would oversee all the existing and future multilateral environmental agreements, which have elements of trade in it. A suggestion was made by the former DG of WTO, Renato Ruggiero, to establish the World Environment Organisation to do all this. This forum would deal with trade disputes also, and should have the powers to resolve them. Similarly the TRIPs agreement, which has no business to be at the WTO, should be sent to the World Intellectual Property Organisation, which has the mandate.

Now to the business of the WTO. Tariffs are an inherent aspect of the GATT and negotiations to reduce and harmonise them should be launched. Simultaneously, tariff peaks and tariff escalation must be addressed in the same framework. Both of these are a tax on development and seek unfair protection of sunset industries in the industrial world. Similarly, anti-dumping rules must be reviewed which will help to curb unfair use by countries, in particular the rich ones. Investment (including investment measures under the TRIMs agreement) and competition policy have little business to be here at the WTO, and therefore should not be discussed at all. This is not to say that there is no need to have a multilateral understanding on them. The same agenda can be pursued at UNCTAD, which is a much more balanced forum without the fear of Damocles swords hanging over the heads of poor countries.

Fortunately, the UNCTAD X is being organised at Bangkok in mid-February and these issues can be discussed at length there. Given the background of Seattle, its theme is rather appropriate: *"Applying the lessons of the past to make globalisation an effective instrument for the development of all countries and of all people."* If only the developed world takes the UNCTAD seriously, we can achieve much progress there. The rich need to understand that unless the poor in the world get a better deal out of the WTO-led globalisation, people will continue to march on the streets, and that will not be good for either the present or the future.

To Starve Off Economic Crisis

A new global forum, Group of 20 (G-20) has emerged to propose reforms that stabilise the world economy after the financial crisis in 1997-98. It consists of the G-7 industrialised nations along with thirteen emerging economies including Brazil, China, India, Indonesia, Mexico, Russia, and Turkey. It also includes representatives from the European Union and the International Monetary Fund.

According to the Canadian Finance Minister, Paul Martin, who is to chair the Group for its first two years, emerging market countries needed to be included in the discussions of the global finance system which are subject to swings and volatility.

The issues on the Group's agenda are financial regulation and supervision, debt management, exchange rate regimes, and international codes and standards.

(BS, 13.12.99; FT, 15.12.99)

Exit of Joseph Stiglitz

The World Bank's Chief Economist, Joseph Stiglitz has given his resignation, much to the relief of James Wolfensohn, the Bank President. He seemed to be a thorn in the flesh to the US Treasury Secretary, Larry Summers who, according to rumours, had made the reappointment of Wolfensohn for five more years at the Bank conditional upon Stiglitz's departure.

This brilliant iconoclast has criticised the action of the IMF and the WB on many occasions questioning whether the market-based strategies

Mundell Gets Economics Nobel

Robert Mundell, currently a Professor at Columbia University, New York, USA, has won the 1999 Nobel Prize for Economics worth nearly \$1mn. His research on monetary and fiscal policy under different exchange rate regimes pointed the way for Europe's economic and monetary Union.



Mundell has been working on monetary dynamics and optimum currency areas for nearly forty years, and his research has inspired not only policy makers, but also thousands of economists, and researchers. His work explains the concepts on how monetary and fiscal policy affect the integration of international capital markets, how these effects depend on whether a country fixes its currency or allows it to float freely, and whether a country should even have a currency of its own.

(BL, 14.10.99)

No More Tax Haven

The Organisation for Economic Co-operation and Development (OECD) at a meeting in November 1999 has decided to intensify efforts to identify jurisdictions that function as tax havens. Steps are to be taken to eliminate the adverse consequences that those jurisdictions have on the world economy.

As per the 1998 OECD Report, a tax haven is a jurisdiction that imposes practically no taxes and it is a place where the non-residents escape in order to avoid paying taxes in their own countries. It makes the enforcement of tax laws in the home countries difficult. It also lacks effective exchange of information and transparency, attracting businesses with no substantial activities. For example, from 1985 to 1994, the value of investments into the low tax jurisdictions of Caribbean and South Pacific Islands grew to over \$200bn.



The OECD has not yet disclosed a list of countries branded as "tax haven", as it is undertaking a technical evaluation of the jurisdictions meeting the criteria for being a tax haven. But the Caribbean Financial Action Task Force has identified 17 countries as tax havens, including Antigua, Bahamas, Bermuda, Jamaica, and the Panama.

Along with the strive to bring about transparency into the tax havens, OECD member countries are doing a self-review of their own preferential tax regimes in order to eliminate any harmful feature in their domestic legislation. *(ET, 26.11.99)*

followed by them over the past twenty years have been necessary or sufficient for economic development. He argued that the standard IMF procedure of fiscal and monetary tightening for collapsing exchange rates was inappropriate in a context of pronounced weakness in the financial sector and the opening up of fragile developing economies to short-term capital flows.

The most intense objection raised by Stiglitz was to the economics underlying the rescue programmes for countries hit by recent financial market turmoil and the reform programmes for Russia and East Europe. *(ET, 09.12.99; FT, 25.11.99, 26.11.99, 29.11.99)*

World Bank Warns About Recovery

Although the recovery from the financial crisis of 1997-98 in the developing countries is faster than anticipated, the World Bank, in its short-term forecasts, has given a warning that the recovery is both fragile and uneven.

The benefits from the acceleration in growth and reduction in interest levels in the industrialised nations have touched only some developing countries in East and South Asia, as they face improved monetary conditions and a high GDP (gross domestic product) growth rate.

There are heavy social and economic losses in the emerging

markets of many Latin American, African, and East European countries where outputs have declined along with the increase in poverty and unemployment, and population as they still struggle to recover from the aftermath of the crisis. The aggregate real per capita incomes in 1999 are expected to decline and stagnate in these regions. *(BL, 08.12.99)*

Germany: On a New Growth Phase

The German economy is on an upswing as that its growth rate is expected to be at 2.7 percent in 2000. According to the Bundesbank, the GDP was likely to have grown by a seasonally 0.75 percent in the third quarter of this year compared with the second quarter mainly due to increase in industrial production. This new phase of economic growth will help in reducing differences in performance between the Euro countries in terms of economic growth and inflation rates.

The unemployment rate in Germany is also reported to have a sharper fall than expected with the seasonally adjusted jobless total had fallen by 10.4 percent of the workforce.

However, OECD has accused the German government of not paying attention to labour market reforms and tax and welfare systems, and advised the inclusion of compulsory private pension provision to the existing system. *(FT, 23.11.99, 08.12.99)*

MNC's Worry on Transfer Pricing

A 1999 survey done by Ernst & Young, a global leader in transfer pricing consultancy, states transfer pricing as the most important international tax issue considered by multinational corporations (MNCs) worldwide. The survey covers 19 nations including Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, UK, USA, Brazil, Mexico, and Spain, interviewing over 500 MNCs and their subsidiaries. The proportion of MNCs citing it as the most important issue grew to 61 percent, from 52 percent in 1997.

Transfer pricing is used as a pricing mechanism by

international companies to transfer funds to their parent office abroad, while minimizing tax incidence when there is a ceiling or ban in doing so. It is also applied in countries where the tax rates are very high.

MNCs are concerned because they have to operate in a continuously



How They Weigh

	Overall Importance '99
Transfer pricing	61
Double taxation	18
Tax reform	13
Value added taxes (VAT)	8
Global tax norms	7
Customs Duties	5
Controlled foreign corp rules	4
Foreign tax credit	4
Taxation of expatriate staff	2
* multiple selections allowed (in %)	

changing environment, where operations have become seamless while revenue audits have become high.

The survey also indicates a relationship between double taxation and transfer pricing, and that MNCs who faces problems with the former also fall prey to the latter. (ET, 19.11.99)

Turkish Economic Reforms

Turkey will move to an exchange rate policy based on forward-looking inflation targets as part of a bold disinflation programme backed by the International Monetary Fund (IMF). It is also expected to restructure four or five troubled private sector banks as part of "prior actions".

Turkey sees IMF's seal of approval as crucial for giving its financial markets the confidence to reduce high real interest rates that could otherwise raise its domestic debt to intolerable levels.

Turkish reforms conducted so far give it little option but to continue the programme of belt-tightening and structural reform. "The government has burned all its bridges," said one western analyst. "If they back away, the markets will never forgive them." (FT, 07.12.99)

Brazil: Temporary Rise in Inflation!

There is new evidence of continuous price rise in Brazil, although senior officials claim it to be a temporary phenomenon. The price rise was possibly due to food prices, affected by the recent draught in parts of Brazil, and cars, due to a change in tax treatment. It may pose a difficulty to the government's inflation-targeting regime.

The currency crisis in January set off an initial rise in prices, and the government had announced an inflation target of eight percent for the year 1999. The inflation was

controlled due to temporary factors such as a bumper harvest, and low international commodity prices. But it had to resort to currency devaluation following further price rise over the last two months.

On the other hand, Brazil's plans to streamline its complex and inefficient tax system have been thrown into disarray after the administration and legislature clashed over the draft legislation. The government had hoped to create a single national sales tax, which is charged by each of the 27 states, and to tax at the final destination of a product, rather than its origin. (FT, 22.11.99, 27.11.99)

Businesses Depressed in Japan

A survey done by the Central Bank of Japan shows that there is cautionary approach among large companies over investment in new plant and equipment, as they remain gloomy about Japan's economic prospects. There are plans to cut capital spending by 10.8 percent as over 28 percent of the large companies have excess capacity.

The service sector remains the hardest hit by competition from Asia and poor domestic demand. The survey also shows contraction of the economy in the third quarter of 1999.

The Japanese government is to proceed with the spending package of Yen18,000bn, which is expected to pave the road to recovery of its stumbling economy by the end of the

first quarter of 2000. The only good news refers to the improvement in the availability of credit, probably due to the government's recapitalisation of the banking system. (FT, 14.12.99)

Difficult to Measure US GDP

Alan Greenspan, Chairman of the Federal Reserve Bank of USA, is finding it increasingly difficult in measuring the \$9tn US GDP as newer less tangible sectors are entering the market. In a meeting of the Commerce Department he stated that there is a need to revamp the GDP measuring process as it has limitations.

The US Statistics Report has stated a large increase of 5.5 percent in the third quarter of 1999. According to Greenspan, the stock values of some of the latest businesses like Internet and other related companies are highly marked in the market due to the belief that they have brainpower or other attributes that make them valuable.

The changes made in the process in October 1999 led to the tallying of software as a business investment rather than a business expense, which means that the value of software is now added to GDP growth. It is going to be a challenge to keep pace with an economy producing intangible goods like information and ideas, instead of manufacturing goods like iron and steel. (BL, 09.12.99)

Rising Costs of Inflation Fighting

A study by the Bank for International Settlements (BIS) states, 19 biggest economies in the OECD group of countries sacrifice an average of 2.5 percentage points of economic growth for every one percentage point reduction of inflation. Thus, there is a big increase in the cost of fighting inflation.

For example, Germany, the US, and the UK currently give up about 3.4, 3.3, and 1.8 percentage points, respectively. The higher costs are largely attributed to changes in economic behaviour as inflation declines.

Many economic research bodies suggest that countries should not strive for absolute price stability as the cost of lowering inflation rises as the inflation rate drops. But despite the conclusion drawn by the BIS study it has been found that costs have risen more slowly for countries that adopted formal inflation targets. (BL, 13.12.99)

Keynes: Top Economic Thinker



His theories may not be high fashion these days, but economists are clear on their Thinker of the Modern Age: John Maynard Keynes. The British economist came out on top in a Reuters poll ahead of a Scotman whose ideas are very much in vogue: Adam Smith, the great 18th century advocate of free trade.

In the poll, economists ranked their top three economic thinkers of the modern age. Perhaps the surprise of the poll was Karl Marx. Said Hans Jaeckl, Head of European Economic Research at DG Bank, Frankfurt, Germany, "Karl Marx should now be rehabilitated for his far-sighted analyses of capitalism. He shouldn't be blamed for what others made of his ideas."

Keynes wrote his greatest works in the 1930s during the depth of the Great Depression. He refused to accept that chronic unemployment of the time was incurable, advocating state spending on borrowed money to stimulate economic growth. (BL, 25.12.99)

China to Boost her Economy

The Chinese government is to inject a whopping \$12bn into the economy to stimulate the growth rate to the forecasted seven percent in 2000. The investment will be on the targeted areas of infrastructure like extension of the underground rail track, and technological upgradation by issuing state bonds.

The economy now suffers from an urban unemployment figure of about 16-18mn and more labourers are expected to lose their jobs as Chinese companies are retrenching staff to gain efficiency.

Economists have suggested the government to sell a part of the Bank of China, the Industrial and Commercial Bank of China, the Chinese Construction Bank, and the Agricultural Bank of China to non-state investors, as part of the ownership restructuring reforms. (FT, 26.11.99, 10.12.99; ET, 07.12.99)

Battle over Savings Tax

The European Commission was exploring how the administrative costs of providing information on cross-border interest payments could be cut in an attempt to overcome UK's opposition to its plans for a tax on non-

resident savings. The proposal for a 20 percent withholding tax had put Britain in dispute with most of its European Union partners.

But, UK has agreed to consider the compromise proposals put forth by the European Commission. The proposal "would require the UK neither to impose a withholding tax on interest payments nor to introduce an additional layer of regulation." This would enable the UK to use simplified reporting procedures based on existing legislation to inform other member states of private investors holding bonds in the UK.

One UK government official said, "we welcome the general tone, but have considerable questions about whether the proposals are workable." The proposed special arrangement to preserve the competitiveness of London's international bond market were a "radical simplification" of the existing draft directive on cross-border savings. (FT, 06.12.99, 09.12.99)

Bullish on Growth

European companies are optimistic about increasing their workforces next year than at any time in the past five years. This was revealed in a survey of nearly 1,500 of the continent's biggest business. Among the main European countries, Spain, Germany and France are likely to achieve the biggest growth.

The survey adds to evidence that the business climate across Europe is improving on the back of low interest rates and a strengthening world economy. However, optimism on conditions for expansion was markedly higher among service

sectors, in fields such as retailing and business services, compared with manufacturing.

Similarly, the European Commission produced a bullish economic forecast indicating that 5.5mn jobs would be created in the European Union between 1999 and 2001, a result of growth in the 15-nation European Union expanding from 2.1 percent in 1999 to three percent in 2000 and 2001. (FT, 29.11.99)

ASEAN Sights on Common Market

Ten South East Asian nations hoped to start on a journey towards a powerful common market spanning all of East Asia and a single regional currency. They were to be joined later by Japan, Korea and China. This was expressed in a meeting of ASEAN (Association of South East Asian Nations) plus three held in Manila, The Philippines.

"If we persevere and work harder, may be the promise we fulfil will realise ... an East Asian common market, one East Asian currency and one East Asian community—a family from the happy union of the north and south," said Philippine President, Joseph Estrada. The region want to set an agenda for cooperation in the hope of avoiding any repeat of the regional economic crisis which brought recession and political turmoil in 1997 and 1998.

China, however, has poured cold water on the single currency proposal, saying it is better to focus now on more financial cooperation. Japan, which has its own plans to internationalise the Yen, says it's a good idea but still in the incipient phase. (ET, 29.11.99)

Hong Kong: The Freest Economy

Hong Kong has been given the world's freest economic status by the US-based Heritage Foundation for the sixth consecutive year, although it almost missed the boat due to certain government interventions. It seems that the government's efforts to dispose off large stock holdings had helped it retain the top ranking.

Hong Kong's number one title came as a surprise as the Foundation had warned that the government's massive intervention in the

stock and futures markets in 1998 could knock the city off the top spot. But the government's efforts to dispose of its large stock holdings has helped it retaining the top ranking.

Singapore, while keeping its number two slot, had fallen slightly because of its increase in income tax and large public sector investments, the Foundation said in its report.

Asian economies featured in four of the top ten spots, with New Zealand third and Australia eighth. (BS, 01.12.99)

THE RANKINGS

The top 10 freest economies		The bottom five	
1	Hong Kong	157	Cuba
2	Singapore	158	Somalia
3	New Zealand	159	Libya
4	Bahrain	160	Iraq
5	Luxembourg	161	North Korea
6	United States		
7	Ireland		
8	Australia		
9	Switzerland		
10	Britain		

Business Investment Slowed Down

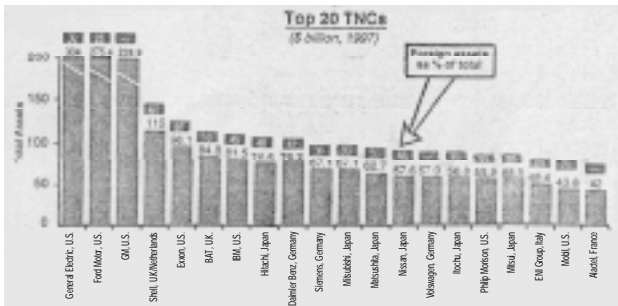
Investment by big companies slowed down in all the world's main business regions in 1998-1999, according to an international study of 800 companies. The report of the study, published by the UK Trade and Industry Department, shows that capital expenditure fell by five percent in the Pacific Basin, mainly because of declining investment by Japanese companies. The report is intended to provide a benchmark for British companies, which invest about a third less than their international competitors.

A separate analysis of the figures made by the Financial Times shows that

investment rose by only ten percent in the America and by six percent in Europe, as compared with 17 percent and 14 percent in 1997-1998, respectively. Capital investment by the 73 Pacific Basin companies surveyed was only 7.4 percent of gross fixed tangible assets.

British officials said the report suggests that there has been

widespread postponement or cancellation of investment because of slow growth in Europe and Japan, economic collapse in Russia and the 1997 economic crisis in East and South East Asia. (FT, 06.12.99; BL, 12.11.99)



Overseas Listing Dispute

Controversy has erupted between different branches of China's government over the approval process for an increasing number of private Chinese companies, which wish to list on foreign stock exchanges. The outcome of the debate will have a significant impact on start-up companies that have attracted significant investments from foreign venture capitalists over the past years.

It will also influence the success of competing foreign stock exchanges in their attempts to lure the best and brightest of China's emerging high-tech companies to list on their exchanges.

The controversy boils down to whether or not private Chinese companies require the approval of the China Securities and Regulatory Commission (CSRC), the securities industry regulator, before seeking an overseas listing. (FT, 07.12.99)

Boost for Brazilian Investors

Brazilian shareholder groups have won the rights of minority investors after the government changed the rules surrounding the share capital of recently privatised companies. The Brazilian stock market regulator (CVM) has intervened to regulate the restructuring of the share capital of minorities and the privatised companies treating them. The CVM's decision marks the latest stage in the growing debate in Brazil about the interests of minority shareholders.

Privatisations in Brazil have been conducted as trade sales with a consortium usually buying a controlling stake in a holding company which in turn controls the operating asset. The controversial aspect has been the use of a tax credit available to the controlling shareholder.

As the controlling shareholder does not make profits, the tax credit cannot be used. However, by merging holding and operating companies together, the tax credit becomes available. Under the new rules, the companies can only issue new shares once a year to the controlling shareholders in relation to the exact value of the tax credit realised that year. The CVM decision only counts for restructurings that have not yet been approved by shareholders. (FT, 10.12.99)

Fed to Examine Policy Bias

A policy step taken by the Federal Reserve Bank of USA, which aimed at increasing the openness about its decision making, admits the Central Bank, confused financial markets. The bias has long been a part of Fed decision-making, but this year the Fed started to issue statements about whether it was leaning towards tightening or loosening monetary conditions or leaving them unchanged.

The Fed is said to be unlikely to alter its internal decision-making methods. Alan Greenspan, the Fed Chairman, is believed to value the bias device as a way of achieving a better consensus within the Federal Open Market Committee.

More likely to emerge is an explicit statement about how to interpret the bias statement that it represents a snapshot of current thinking and is not intended to predict what the next move will be. (FT, 14.12.99)

Investment in Cable Network

NTL, the UK cable group, revealed its investment plan up to \$1bn in Cablecom, after winning the auction to buy the Swiss cable groups network. The deal represents the first significant move into Europe for NTL.

Cablecom was up for sale after the European Commission put pressure on former telecom monopoly to sell their cable assets in order to boost competition. Cablecom's network has not been set up to carry telephone or high-speed data services. Up grading the network to carry telephony would cost about \$500 for each subscriber.

The company is financing the deal through a borrowing of \$2.3bn from a consortium of banks. It is unclear where it will find the remaining \$1.4bn. (FT, 14.12.99)

Urge for Greater Reforms

Prof Barry Eichengreen from the University of California, USA, in a lecture on the new international financial architecture, organised by the Indian Council for Research on International Economic Relations (ICRIER) and the Oriental Bank of Commerce, said, "International financial stability requires domestic financial stability, which in turn requires institutional reforms. It is here that the developing countries should accelerate their reforms process."

He argued that there are four aspects in the time of financial crisis, which will make the world a secure financial place:

- the international financial structure,
- disincentives to discourage short-term capital flows,
- greater exchange rate stability and
- an alternative role for the International Monetary Fund (IMF).

The IMF has been criticised as the standards prescribed are easy to prescribe to crisis-ridden nations, but they are difficult to implement. Moreover, the existing standards prescribed by the IMF should aim at bringing about greater market discipline. (BL, 15.12.99)

Summers Urges Reforms of IMF

Larry Summers, US Treasury Secretary, proposed scaling back the role of the International Monetary Fund to allow the private sector a greater role in providing finance to poorer countries. He said the IMF had to reflect changes in the global financial system, and focus on preventing and responding to international financial crisis.

He called on the IMF to focus on its "core competencies" by giving up the provision of long-term finance to countries that ought to be able to use private sector resources.

He added that the IMF should concentrate on providing short-term financing for countries threatened by balance of payments problems, financial contagion or market panics. He proposed that the IMF should do more to collect and share financial information, and to disseminate that information to global markets and investors.

It should also promote better assessments of whether countries are likely to run into trouble, for example by running unsustainable exchange rate regimes.

The IMF said it had read Summers' proposals "with keen interest". Economists have welcomed US efforts to reform and refocus the IMF towards its original objectives. *(FT, 15.12.99)*

Move against Credit Suisse

Japanese prosecutors are to launch criminal proceedings against the London headquarters of Credit Suisse Financial Products (CSFP), a subsidiary of Credit Suisse Group, for violating Japan's banking laws.

The prosecutors allege that Shinji Yamada, former head of the Tokyo Branch of CSFP, obstructed an inspection of his branch by Japan's financial regulator, the Financial Supervisory Agency (FSA). He is accused of providing a misleading sketch of the offices that failed to include a room containing transaction records.

The prosecutors also allege CSFP employees sent documents overseas and shredded others, hindering the FSA's investigation. Credit Suisse admitted there was "isolated conduct by some former employees...which might have delayed, but did not actually obstruct, the examination".

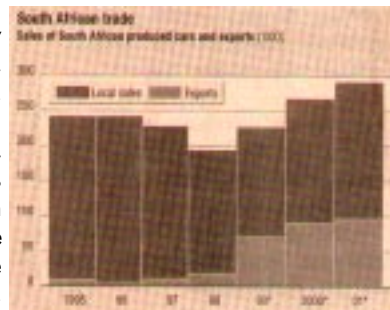
Following a six-month inquiry, the FSA accused CSFP of a "systematic evasion and obstruction of

Learn to Export or Die

German car companies in South Africa are falling over themselves to increase production of right-handed cars for export, mainly to the UK. Car giants like Daimler-Chrysler, Volkswagen and BMW, have stepped up their investments—not out of a desire to benefit the "new South Africa" but for solid financial reasons.

The key is the Motor Industry Development Programme (MIDP), developed by the government in 1995, to revitalise a flagging and chaotic sector. The secret of the MIDP is export credits, allowing manufacturers to offset duties on imported cars and components with exports. In the last year investments have soared to R3bn (\$500mn). "It is a case of export or die," said Dave Galloway, Economist with Investec in Johannesburg.

The programme has helped manufacturers. German carmakers, traditionally strong in South Africa, have been the quickest to reap its advantages. The benefits of MIDP have already started to trickle down to local component manufacturers. *(FT, 01.12.99)*



inspections" and of selling products that "deeply undermined the soundness of Japanese financial markets". *(FT, 09.12.99)*

Debt Restructuring and Bad Loans

The Indonesian Bank Restructuring Agency is planning to speed up the long-delayed restructuring of local companies' huge debts by threatening recalcitrant debtors with bankruptcy. The aim is to put pressure on the unhelpful debtors to be more flexible in restructuring negotiations. Foreign bankers say a functioning bankruptcy court is crucial if Indonesia is to resolve quickly its corporate debt problem.

In a related case, data from the Bank of Thailand showed that the country's financial system is slowly getting into the grips of bad loans. But, total non-performing loans held by Thai banks and finance companies fell to an average 43.82 percent of assets at the end of October, against 44.66 percent a month earlier.

Thai financial institutions also made progress in restructuring their bad loans, raising the total value of rehabilitated loans to about 827bn Baht at the end of October from 763bn Baht a month earlier. *(FT, 26.11.99; ET, 09.12.99)*

Dream to Unite Africa

Since 1993, Jinnah Mbaru, the Chairman of the Nairobi Stock Exchange, has spearheaded the African Stock Exchanges Association (ASEA). He believes that the fractiousness of Africa's leaders can be tempered in a very 20th century manner by mobilising capital, cross-listing stocks and creating a lattice of regional exchanges.

ASEA's goal is the creation of a continental exchange in Johannesburg. "The benefits are clear. It would give companies access to a huge capital base, which is fully linked to international capital markets. And rating agencies are fully developed in South Africa, making it easier to raise money through corporate bonds," said Mbaru.

A general lack of vibrant trading has proved crippling to Africa's attempts to stimulate growth: Africa accounts for only three percent of foreign direct investment flows to developing countries. *(FT, 29.11.99)*

Saudi Arabia Opens up

Foreigners are to be allowed to invest on the Saudi Arabian stock market through local mutual funds, announced the Finance Ministry. The move is a part to liberalise the oil-based economy and open its financial sector to improve the kingdom's chances of membership of the World Trade Organisation. The government is expected to allow foreign ownership of property and to cut the high tax rates on foreign companies to promote investment.

The decision to allow foreign investment through 119 mutual funds was aimed at developing the stock market and improving the investment environment.

Bishr Bakheet, Head of Riyadh based Bakheet Financial Advisers said, "The decision to open up and the statements of Crown Prince Abdullah are courageous because they open a can of worms. We will now have to tackle so many issues that have been ignored for so long." *(FT, 02.11.99)*

EU Plans to Burst Cartels

The European Commission's merger taskforce is to "judge, jury, and executioner" in all takeover deals in which the companies involved have takeovers of more than \$250mn. The EU has a clear timetable for approving deals. But companies say it is best to approach officials informally as soon as possible. Exxon and Mobil, the US oil companies were involved in talks for about five months with Commission officials before even formally notifying them of a deal.

Moreover, the Commission is planning to beef up its cartel-busting activities by developing routine competition law enforcement to national governments. However, this will require "a whole host of conditions" to make it work, an influential body, the European Economic and Social Committee said.

The EU regulatory process differs from the US procedure where regulators test a deal for its effect on consumer welfare. The US authorities have to make out a case in court against a merger whereas in the EU, the same officials deal with each stage of the process. (FT, 07.12.99, 15.12.99)



Financial Times

Action against France

The European Commission lost patience with France and took legal action over its failure in opening up the electricity market to competition. Brussels gave the country just two weeks to justify the failure to deregulate.

British, German, and Dutch Ministers have complained that Electricite de France, the state owned power group, has been able to compete in their markets while the French electricity market has remained closed.

Nick Scheele, Chief Executive of Ford Europe, said his company wanted France to open up its market "right now". He added: "We would like to buy from the cheapest source in France but we are prohibited from doing so by the government." Helen Liddell, UK Energy Minister said, "For competition to be beneficial we must all play by the same rules". (FT, 13.10.99, 25.11.99)

Novartis-AstraZeneca in Pact

Switzerland's Novartis AG and Anglo-Swedish AstraZeneca PLC are spinning off and merging their agribusiness. The deal will create the world's biggest agribusiness, with pro-forma 1998 sales of \$7.9bn. The merged company, Syngenta AG, would rank first in agricultural chemicals and third in seeds, the companies said.

The deal is expected to face major competition issues in a global industry where just nine players control around 80 percent of the world market. But the AstraZeneca Chief Executive, Tom McKillop played down the potential anti-trust problems.

Analysts said the agreement might be the death rattle for the life sciences strategy, pioneered by Monsanto that married fields such as biotech drugs, nutrition and agriculture. Sano Shimodo, Head of BioScience

Securities, a California-based firm said, "Monsanto is fighting fires on all fronts." (BL, 03.12.99, 04.12.99)

Mannesmann Finds Allies

Li Ka-Shing, the Hong Kong based tycoon, has stepped into the world's biggest takeover battle. He announced that he doesn't want German telecom and engineering giant Mannesmann to be brought over by Britain's Vodafone Air Touch. A spokesman of Ka-Shing's company, Hutchison Whampoa said, "Mannesmann will be an outstanding company and better positioned than Vodafone for future opportunities."

Mannesmann has also announced that it will spin off its engineering and automotive business rapidly. This is expected to increase the value of the telecom division and make a hostile takeover bid more difficult.

The Vodafone-Mannesmann takeover bid has created a furious row both in Britain and Germany. German Chancellor Gerhard Schroeder has intervened in the battle and said that it should not go ahead. British Prime Minister Tony Blair also stepped into the fray and took up the issue with Schroeder. (BS, 27.11.99)

MCI Takes Over Sprint

MCI WorldCom, the second biggest long distance telecom company confirmed its \$115bn take over of US Sprint Corp. However, William Kennard, Chairman of the US Federal Communications Commission (FCC) made clear that buying Sprint would be no push over for the MCI. He said, "How can this be good for consumers? The parties will bear a heavy burden to show how consumers would be better off."

He added that Sprint's agreement to a take over "appears to be a surrender" in the price war that has been raging in the US long-distance

telephone business. But, MCI executives are confident that the company could shoulder the burden and prove the acquisition was pro-competitive.

US consumer groups welcome Kennard's statement. "This is the first time I've ever heard him speaking against a merger. For once we find ourselves in agreement with the Chairman of the FCC," said James Love of the Consumer Project on Technology. (FT, 06.10.99, 07.10.99)

Hostile Bid on NatWest

A battle for control of the UK's National Westminster Bank set to broke out when the Royal Bank of Scotland (RBS) unveiled a counter-bid of about \$41.86bn in opposition to raised offer from Bank of Scotland (BoS).

NatWest rejected the RBS proposals at a board meeting, as the terms were not clear enough to satisfy the board. Sir David Rowland, NatWest's Chairman said: "The board did not feel it warranted a recommendation. If Royal bank wishes to make an offer to our shareholders, it will do so."

The formal offer from RBS triggers a ferocious battle between the two Scottish banks. RBS and BoS were working on a joint bid for NatWest, but talks broke down over the dividing up of the spoils. Both bids are made up mostly of shares, and the outcome will hinge on the credibility of the two managements.

With 320 branches in England, and an especially strong geographic representation in the northwest, RBS certainly overlaps more with NatWest than the BoS does. RBS's concern remains the possibility that the government might refer its bid to the Competition Commission. But, it is generally felt that the competition issues raised by the RBS are not compelling, and a reference remains unlikely. (FT, 29.11.99)

No Reforms Before 2001

Competition officials in Brussels played down suggestions that a UK inquiry into new car prices would prompt a rapid overhaul of the European block exemption covering car distribution. Thus, expectations of a shake-up in car retailing and hefty price cuts have been curtailed. The Commission warned that it would not consider reforms to the current franchised dealer system before 2001.

Under current EU law, the block exemption allows carmakers to avoid normal competition rules by selling new cars only through captive dealers in exclusive territories. The UK Competition Commission recommended radical reforms to the way cars are sold and distributed in the UK. It called for changes in retail prices set by manufacturers.

According to consumer groups, the 14-year old exemption has allowed manufacturers to operate an elaborate price-fixing cartel, with cars costing up to 40 percent more in the UK than other parts of Europe. (FT, 09.12.99)

Competition over Canadian Sky

Robert Milton, Chief Executive of Air Canada has won the battle to acquire rival Canadian Airlines, creating a strong national and international carrier that will be the world's 10th largest. Montreal-based Air Canada has acquired over 50 percent of common and non-voting common shares of Calgary-based Canadian Airlines.

The agreement will give Air Canada a virtual monopoly in the national airline sector. All carriers in the Star Alliance global aviation group will be able to code share with it.

It clears the Air Canada's way to acquire Canadian Airlines, and operate it as wholly owned subsidiary, and proceed with the restructuring of Canada's airline industry, pending clarification from the Canadian government on out-standing regulatory and legislative issues. Milton said the two would rationalise their heavily overlapping services in the domestic market while Air Canada would start flying on the profitable routes that Canadian Airlines has been unable to serve.

In a related case, the European Commission signalled its concern about consolidation in the airline industry, when it launched a full scale probe into Onex Corp's acquisition of Air Canada and Canadian Airlines. The EU anti-trust body said the

merger would reduce competition on long-haul flights between London and Canadian airports. (FT, 06.12.99, 19.10.99; BS, 10.12.99)

US-EU Anti-trust Cooperation

US and European Union anti-trust authorities agreed to set up a joint committee to discuss how to intensify their cooperation in policing mergers that requires approval on both sides of the Atlantic. The new body will discuss enforcement, the timing of the authorities' decisions on mergers and the transatlantic exchange of confidential information.

"The committee will attempt to formalise some of the lessons learned over the last few years," said Joel Klein, US Assistant Attorney General for Anti-trust. US and EU authorities have been working closely together since 1991, when they signed a cooperation treaty. Their disagreement over the merger of Boeing and McDonnell Douglas has encouraged them to try to deepen their cooperation. (FT, 07.10.99)

Call for New Takeover Laws

Hans Eichel, German Finance Minister, called for new take over rules in Europe to avoid a culture clash between Anglo-American capitalism and the consensual German model. "There should be intensive efforts to develop a common corporate culture or at least to make them more compatible. It would be rather sensible if we were to begin to give ourselves

some rules, because cultures must be brought into line," he said.

According to Henning Schulte-Noelle, Chairman of Allianz, one of Germany's most powerful companies, German companies must brace themselves for more hostile bids as the country adapts to the Anglo-American model of competitive capitalism. He was convinced that it would soon be 'normal' for one European company to take over another as economic and political convergence in the European Union was moving "much faster than many people imagined." (FT, 23.11.99, 03.12.99)

Poles Offered Rival Deal

The Polish Treasury Minister, Emil Wasacz, said that PKO BP, the state-owned savings bank, was a potential partner for Bank Handlowy should the latter's merger with BRE Bank be blocked. The idea was broached as an alternative to the BRE-Handlowy merger, which was opposed as a poor deal for minority Handlowy stake owners like the Treasury.

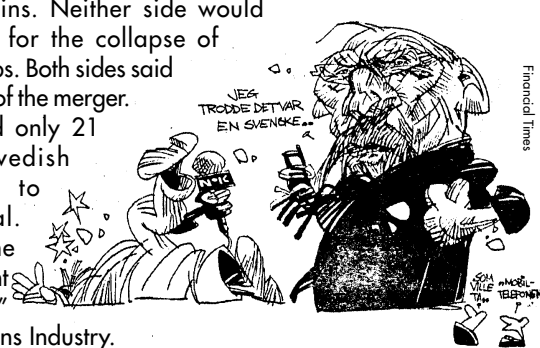
But the Minister did not rule out facilitating a deal that could save the BRE-Handlowy deal, which would create Central Europe's biggest bank in terms of share capital. "In my opinion, a better solution would be a merger between Handlowy and PKO BP, after a proper restructuring of the state bank," he said. The Treasury owns nearly seven percent of Handlowy, which was privatised in 1997. (FT, 14.12.99)

Telia-Telenor Tie Collapses

Cross-border merger between Sweden and Norway's state-owned telecom groups, Telia and Telenor finally collapsed after months of bitter wrangling triggered by nationalistic rivalries. The ambitious attempt to create Europe's sixth largest telecom operator and launch of the Nordic region's biggest share flotation turned into ruins. Neither side would demand compensation for the collapse of \$47bn fusion of the groups. Both sides said they regretted the failure of the merger.

A Gallup poll found only 21 percent of 1,000 Swedish interviewees wanted to continue with the deal. "Cancel the merger! The Swedish people don't want the Telia-Telenor merger," said business daily Dagens Industry.

The latest dispute was sparked by decision to place the headquarters for the rapidly growing mobile division in Stockholm, Sweden. Norwegians feared the Swedish telecoms domination over the merger. The divorce has left both the companies smaller than they otherwise were. For the politicians the divorce is simply too painful to contemplate. Senior managers of the Telia and Telenor were against the merger and morale was low. (ET, 18.12.99, 16.12.99; FT, 15.12.99)



Strategy against Microsoft

The judge in Microsoft's landmark anti-trust trial has crafted a twin-track strategy to resolve the yearlong litigation. Judge Thomas Jackson has kick started settlement talks, a voluntary process, under the mediation of an outside judge, Richard Posner, in an effort to bring the warring parties (Microsoft against the US Justice Department and 19 states) together.

However, in court, Justice Jackson has set a series of rolling deadlines for the two sides to submit their arguments over whether Microsoft has in fact violated anti-trust laws.

Microsoft insists it will not compromise on the design of its Windows operating software, while the government insists the design of Windows lies at the heart of Microsoft's monopoly power.

Robert McTamane, anti-trust partner at Carter Ledyard and Milburn, New York said, "I think Justice Posner is strong enough to remind the government that they have own the first round but there is a long road to go and they could well lose substantially or even entirely on appeal." (FT, 24.11.99)

First Merger in China

China's first merger was unveiled, paving the way for more to follow-up. The merger of Raw Water Supply and Lingqiao Tapwater, both state-run firms, would produce one stronger company. "This is the first time that two listed companies plan to merge. If it goes well, there could be many more to come," said a broker at Guangfa Securities.

In this planned merger, both companies are profitable, but it could break down resistance to removing some ailing companies from the exchanges. Some brokers said the merger could streamline the industrial lay out in the stock markets, leaving more room for the future listing of prosperous companies. (FT, 16.12.99)

US Regulator Relaxes Rules

The US Securities and Exchange Commission (SEC) approved a sweeping relaxation of regulations on domestic and cross-border mergers. The new rules will particularly help small US investors with stakes in non-US companies. The SEC has taken a more aggressive stance on issues relating to information disclosure and the relationship between companies and the analyst community.

Arthur Levitt, Chairman of the SEC said: "Over the last 15 years,

takeover activities of public companies has reshaped entire industries of corporate America. But as the landscape has changed, our regulations have remained relatively static. Today, the Commission proposing rules that will modernise that regulatory scheme so that it better reflects the realities of the market place." (FT, 20.10.99)

Tough on Oil Industry Mergers

Anti-trust officials at the US Federal Trade Commission (FTC) would adopt a tough stance towards further consolidation in the US oil industry after clearing Exxon's takeover of Mobil. "There is certainly a trend in this industry towards consolidation, although there are at least a dozen significant refiners and marketers of gasoline," said Robert Pitofsky, the FTC Chairman.

On the other hand, the European Commission is to launch a full anti-trust investigation into Total-Fina's \$51bn bid for French oil group Elf Aquitaine after the company failed to allay its concerns. The EU's anti-trust watchdog has become increasingly concerned about mergers that put too much power into the hands of a small number of companies.

The recent wave of oil company mergers has attracted particular attention. There have been concerns that competition could be eroded as the number of companies falls. (FT, 01.12.99, 06.10.99)

Biggest Truck and Bus Group

Japan's Mitsubishi Motors and Sweden's AB Volvo were teaming up to form the world's biggest truck and bus group. This would be possible after a deal with Volvo taking an initial five percent stake in Mitsubishi. Under the deal, Mitsubishi Motors would spin off truck and bus operations into a separate unit in which Volvo would take 19.9 percent, expanding Volvo's reach into Asia and offering some relief for debt-burdened Mitsubishi.

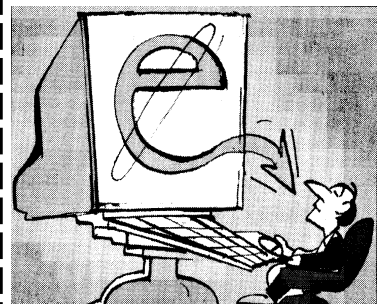
"We simply had to make up our minds to do something bigger and better than that was before and that's what we did," AB Volvo's President and Chief Executive Officer, Leif Johansson said.

The two groups will jointly develop medium weight trucks, and Mitsubishi will sell light trucks through Volvo's European network. The new venture, likely to be named as Mitsubishi Truck, will be set up by the end of 2001 and employ around 6,000 people. (ET, 14.12.99; BS, 09.10.99)

Is Competition Perfect on the Internet?

The explosive growth of the Internet promises a new age of perfectly competitive markets. Studies show that online retailers tend to be cheaper than conventional rivals and that they adjust prices more finely and more often.

Price dispersion (the spread between the highest and lowest prices), a sign of market inefficiency, is often as wide on the Internet as it is in the shopping mall.



The Economic Times

In an ideally competitive market with identical products, perfect information, free market entry, large number of buyers and sellers and no search cost, the retailer makes all sales with the lowest price. Search cost on the Internet might be expected to be lower and online consumers to be more easily informed about prices.

Consumers could use services offered by web-sites (with better search tools, product reviews and samples) to choose what they want to buy, that too from the cheapest site. Biggest reason for online price dispersion is that consumers are willing to pay a premium to shop at sites that they trust.

Some online retailers are able to charge more than others. Individual retailers can discriminate in their prices. Enabling the consumers to collect better information about prices, the Internet allows retailers to gather information about the consumers.

(ET, 28.11.99)

Revival of East African Trio

The Presidents of Tanzania, Uganda and Kenya reestablished their long defunct East African Community, but shied away from committing the bloc to a clear timetable for trade liberalisation. "If some kind of devil was responsible for the break-up of the last community, by the signatures we have just penned down we are sending that devil back to hell," said Benjamin Mkapa, President of Tanzania.

The treaty calls for the creation of an East African customs union and common market, and the eventual establishment of a monetary union and political federation.

Partner states will conclude a protocol establishing a customs union within four years, superseding a commitment to eliminate tariffs by the middle of next year. In the mean time, states will apply tariff reductions at the same level as the COMESA bloc of Eastern and Southern African states. (FT, 01.12.99)

Mexico-EU Signs Free Trade Pact

Trade officials from the European Union and Mexico signed a free trade agreement, the first between Europe and a Latin American country. The agreement aims to bolster transatlantic commerce and investment and provide a counterweight to Mexico's increasing business ties with the US. "At least in terms of coverage, it is the most comprehensive free trade agreement ever negotiated by the EU," said Pascal Lamy, the EU Trade Commissioner.

Lamy said the agreement would have to be ratified by the 15 member states of the EU, as well as Mexico's Senate. Mexican officials have said they do not expect the agreement to take effect until mid-2000.

The two sides gave few immediate details on the contents of the agreement. However, they said it included the gamut of trade in manufactured and agricultural goods and services, as well as rules of origin, public procurement and dispute settlement mechanisms. (FT, 25.11.99)

Cost of WTO Entry

Entry to the WTO will cost Taiwan more than \$5bn in world trade next year, according to government forecasts. The Cabinet-level Council for Economic Planning and

Moore Welcomes US-China Accord

World Trade Organisation (WTO) Director General Mike Moore welcomed the US-China accord on Chinese accession to the WTO. But he cautioned that substantial work remained before Beijing becomes a member of the organisation.

This is a major step forward in China's accession to the WTO. I have said many times that we are not a World Trade Organisation until China has joined. *A door to history has been opened and now member governments must walk through it together,*" Moore said (emphasis original). "The China WTO agreement is good for the US, it's good for China, it's good for the world economy," said US President Bill Clinton.



A US statement said China agreed to reduce its average import duties to 17 percent from 22.1 percent. Export subsidies will be eliminated and tariffs on farm goods will come down. US firms will be granted access to China's distribution networks, and auto firms will be permitted to vehicle financing. The deal will also benefit banks, insurers, telecom companies, the statement said.

Interestingly, China's Trade Minister Shi Guangsheng told the WTO Conference in Seattle, USA that the WTO has failed to fully reflect the rights, interests and demands of developing countries. He argued that WTO Members must decide whether the trade talks will allow more nations, including the developing countries, to enjoy the opportunities and benefits brought about by economic globalisation, or whether they will "widen the gap between rich and poor countries and even to allow some countries to be marginalised." (WTO Press Release, 15.11.99; ET, 16.11.99; WSJ, 02.12.99)

Development predicted that exports would fall 2.66 percent and imports rise 2.73 percent, leading to a \$5.39bn fall in the trade surplus.

The report says imports will rise significantly faster than exports between 2001 and 2004. This will cut \$2.72bn from the yearly trade surplus, potentially causing a trade deficit by the third or fourth year of membership.

In a related development, China said Taiwan must lift decades-old ban on direct trade, transport and postal links after they both join the WTO. "After the two sides join the WTO, we think the two sides should further strengthen exchanges, especially the Taiwan side, which should implement the direct links between the two sides," the Chinese Foreign Ministry Spokesman, Sun Yuxi said. (FT, 30.11.00; BL, 26.11.99)

Approval of Trade Initiatives

The US Senate approved a trade bill that would expand the trade benefits to sub-Saharan Africa and Caribbean Basin Initiative (CBI) countries. The Senate also approved an amendment to ensure that none of the imports entering the US under the generalised system of preferences are not made with forced and indentured child labour in violation of the Convention for the Worst Form of Child Labour.

The Senate rejected several efforts to change the provisions of the Africa and CBI bill. These amendments would have required a determination from the US President that a country

benefiting from the CBI and African preferences is making progress towards establishing a market-based economy.

It voted down another amendment that would have required countries receiving benefits under the trade bill to lower their tariffs for imports to their markets. (Inside US Trade, 05.11.99)

S. Africa-EU Free Trade Pact

The European Union and South Africa signed a long-awaited free trade agreement, overcoming last minute objections from France and others about wines and spirits. The agreement is expected to take effect in January 2000 and free 90 percent of trade between the two sides within two years.

France, Spain, Portugal, Italy and Greece insisted that South Africa reaffirm its commitment to phase out the use of the words 'port' and 'sherry' for its fortified wines. Describing the EU negotiating tactics "quite disgraceful" South African President Thabo Mbeki said: "The agricultural lobby in Europe really holds the whole European Union hostage. Last year we spent arguing about port and sherry, now it's grappa and ouzo."

South Africa's trade negotiations are being closely watched by the US, which also has disagreements with the EU about the world trading system and intellectual property rights. "The problem for South Africa is that they are caught between the EU and the Americans on this," said one European official. (FT, 12.10.99)

ACP Countries Close to Deal

The European Union and 71 African, Caribbean and Pacific (ACP) former colonies are set to hold a further meeting in January 2000 to reach a final agreement on a new trade and aid pact to replace the existing Lome Convention. The new deal was in danger of being blocked by disagreements over the size of EU development funding.

The failure of the WTO meeting in Seattle, USA to agree an agenda for a new trade round also affected the

climate, strengthening ACP countries adherence to trade preferences with the EU.

The two sides agreed on an eight-year roll over of the existing trade preferences. New regional free trade accords are due to be negotiated during that period. The EU had pressed for preferences to be replaced by agreements covering all but least developed ACP countries after five years. ACP countries had demanded a ten year transition period. *(FT, 10.12.99)*

He further said countries should turn to agriculture to make up for lower incomes from falling metal prices to enable them to produce enough to feed the population. Countries relying on raw materials exports are being hit hard and foreign companies operating in mining are moving out of Africa. *(ET, 13.11.99)*

Call for Higher H-1B Cap

Raising caps to the number of visas granted to foreign, highly skilled workers is a short-term, but necessary, fix to the shortage of workers in the US information technology industry. High-tech business leaders expressed this view to the Senate Judiciary Subcommittee on Immigration.

The 1999 cap on H-1B visas, 115,000, was reached in June, according to the Immigration and Naturalisation Service. American high-tech business expects that the quota for the year 2000 may be reached by January.

"Continuing shortages of high-tech professionals diminish the capacity of America's most dynamic businesses to bring existing and innovative new products and services to market in the most cost-efficient, internationally competitive manner," said William T. Archey, President of the American Electronics Association.

The companies rebutted concerns that companies that seek foreign-born workers to fill high-tech jobs are taking jobs away from Americans. *(The Bureau of National Affairs, Washington DC, USA, 22.10.99)*

Unified Tariffs in Gulf States

After 16 years of wrangling, leaders of six Gulf Arab states are expected to agree on a unified external tariff. The six states, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates are members of the Gulf Cooperation Council (GCC), which collectively owns about 45 percent of global oil reserves and 15 percent of the world's gas.

Senior Gulf officials have indicated that the group could set a common tariff at between five to seven percent or six to eight percent. King Fahd Bin Abdul Aziz Al Saud, Saudi Arabia's Prime Minister, said the world was advancing quickly toward open markets and borders, and the GCC could not deal equally with huge economic unions without a single Gulf economic body. *(FT, 29.11.99)*

UNCTAD's Efforts to Help Trade Negotiators

The United Nations Conference on Trade and Development (UNCTAD) published a "Handbook for Trade Negotiators from Least Developed Countries". It was part of its effort to strengthen the capacity of the 48 least developed countries (LDCs) to integrate successfully into the world economy and the international trading system.



The Handbook explains the features of the WTO Agreements and reflects the preoccupations of the LDCs with respect to the imbalances and the shortcomings in the Agreements. It also provides concrete proposals for addressing them, in light of experiences gained so far in their implementation.

In a foreword to the Handbook, the Secretary General of UNCTAD, Rubens Ricupero, underscores that the credibility of the multilateral trading system lies in its ability to ensure the full participation of the LDCs in particular, and of the developing countries as a whole, both in the rule-making process and in deriving an equitable share of the benefits from global trade liberalisation.

The group of LDCs, which comprises 600mn people, account for only 0.4 percent of world exports. At present, 29 countries are Members of the WTO and nine are observers, of which six (Cambodia, Laos, Nepal, Sudan, Samoa and Vanuatu) are in the process of accession. *(UNCTAD Press Release, 25.11.99)*

US to Fight E-trade Barriers

The US Government will vigorously oppose the erection of barriers which would restrict global electronic commerce, said Richard Fisher, US Deputy Trade Representative. "We are going to tenaciously fight for an open electronic commerce world with as few trade barriers as possible," he said.

According to him, many products and services could be delivered more efficiently electronically than physically. He cited telemedicine, entertainment and classroom instructions.

Meanwhile, the Organisation for Economic Cooperation and Development has adopted guidelines for electronic commerce. "These guidelines contain the building blocks to develop confidence in a global electronic market," said an official of the US Federal Trade Commission.

In Asia alone, revenue from electronic commerce was expected to grow to \$30bn by 2001, but lack of access, training and legal and regulatory framework could prove obstacles. *(FT, 02.11.99; TH, 11.12.99; BL, 27.10.99)*

Africa Urged to Move Away

African countries should focus less on production and exports of primary goods such as metals amid declining world prices due to over supply. This view was put forward by delegates at a Commodity Development in Africa Conference held in Cairo, Egypt.

"The real problem is prices. Countries that are almost totally dependent on these commodities such as Zambia, where nine percent of the economy depends on copper, are going broke," said Joseph Gopo, Director of the Zimbabwe-based Biotechnology Research Institute. He suggested instead Zambia should process the copper and export goods like copper rings and copper plating.

Not So Free Trade



United Nations Secretary General Kofi Annan warned of a backlash from developing countries against free trade if the current round of world trade talks did not give them a better deal.

Addressing delegates at the Seattle Ministerial Conference of the WTO, he said this was not the place to negotiate labour, environmental and other social issues. Instead, he said UN bodies dealing with these matters should be strengthened to avoid giving industrial nations a pretext for more protectionism.

The WTO, he said, "must not be distracted from their vital task—which is to make sure that this time a new round of trade negotiations really does extend the benefits of free trade to the developing world."

He added: "It seldom makes sense to use trade restrictions to tackle problems whose origins lie not in trade but in other areas of national and international policy." (ET, 01.12.99)

Ricupero on "Development Round"

Addressing the Seattle Ministerial Conference of the WTO, UNCTAD Secretary General, Rubens Ricupero argued that the central objective about making the new trade negotiations into a "Development Round" must be to change that rhetoric into substance in the agreements themselves. This is the way to give practical effect to the efforts by developing countries to become full-fledged—not shadow—members of the system.

He commented that the developing countries in the past have been linked to the 'free-riders' in the system. This was never true, and by their actions, the developing countries have shown just how wrong this view is.

Citing more than 110 detailed and concrete proposals submitted by developing countries during the preparatory process of the Seattle Ministerial, he said, this is not only the best, but the only, way to deal with the problem of legitimacy, which stands now at the very heart of the trade debate. (Excerpts from Rubens Ricupero's statement at Seattle, 30.11.99)

Urge for Poor Nations

Michel Camdessus, outgoing Managing Director of the International Monetary Fund, said that recent initiatives to expand debt relief for poor countries would be "almost irrelevant" without parallel opportunities for them to export more to the industrialised countries.

"Debt relief alone is non-sense," he told journalists after addressing the Seattle Ministerial Conference of the WTO. Thus, he underlined the importance of trade in pulling countries out of poverty.

Similarly, the World Bank President, James Wolfensohn urged the WTO Members to "seize the day and work flexibly and creatively towards a world trading system that really makes a difference for developing countries."

Lamenting that rich countries were restricting market access in areas like agriculture, construction and textiles to poor nations, he said "It is precisely these areas where developing countries have a comparative advantage." (FT, 03.12.99; BL, 30.11.99)

Thought on Social Justice

As a run-up to the Seattle Ministerial, the World Federation of Trade Unions (WFTU) has raised some points, which have a direct bearing on jobs, living standards and working conditions in all members states of the United Nations.

Seeking a positive thought and action, the WFTU has stressed for a system of regular consultations between the WTO and international and regional trade union organisations and other NGOs to find effective ways of dealing with all trade issues and the enforcement of international labour standards and social justice.

The WFTU believes that effective mechanisms exist within the tripartite structures of the International Labour Organisation (ILO) to oversee the implementation of international labour standards. It has also sought an imperative strengthening of cooperation between the WTO, the ILO and international trade union movement.

In a memorandum to the Ministerial Conference, the WFTU has suggested that laws on corporate governance should be updated and institutions should be

established for a social audit to look into social consequences of all economic decisions. (TH, 06.11.99)

WTO Warns against Protectionism

The WTO's Annual Report for 1999 underscores the fact that in the wake of economic pressures that began with the financial crisis in a number of East Asian countries, the good sense of governments and WTO rules and disciplines served to keep open markets for goods and services. Trade made a crucial contribution to the recovery.

Gains in 1999 trade volume are expected to be in the order of four percent, much the same as in 1998. Once again, these gains are in excess of growth of overall output. For 2000, with stronger growth, trade volume could expand by six to seven percent, close to the average rate of 1990s.

Surging imports into the US, up by close to ten percent this year, have been the main prop to world trade, the Report says. The WTO Director General, Mike Moore told the Members that the state of the world trading environment was "generally sound", with "no evidence of a return to protectionist measures". (WTO Press Release, 17.11.99; FT, 24.11.99)

To Seek Common Ground

US President Bill Clinton and Romano Prodi, the European Commission President, will attempt to rebuild common ground on trade and other issues in the wake of the failed WTO Conference in Seattle. Both sides have agreed to work with other WTO Members to try to map out a new agreement on a global trade agenda.

However, analysts think, little is likely to happen until after US Presidential election next year. US officials are also irritated with comments by some European Union officials suggesting the US was largely to blame for the Seattle debacle.

The US is hoping that Prodi will reaffirm joint US-EU support for a new trade round that goes beyond the "built-in agenda" of agriculture and services. But, the EU may prefer to wait until next year before endorsing such a commitment.

The two sides are not expected to make significant progress in resolving outstanding disagreements on issues such as biotechnology, data privacy and hormone-treated beef. (FT, 17.12.99)

OPINIONS

Rank Hypocrisy

Developing countries must indeed be engaged in the process, but this cannot be simply to go along with a process that does not serve their interests.

What does it mean to have a market-driven, multilateral trading system if it is not to allow those countries that have a comparative advantage in certain sectors to exploit those strengths to the hilt?

Over half a century after the birth of the GATT, a few industrialised countries continue to drag their feet on liberalising their textiles and clothing industries, claiming they need still more time for their economies to adjust.

Meanwhile, they insist that weak developing countries swallow the bitter medicine of adjustment to agreements on issues such as TRIPs as quickly as possible—preferably in under five years.

What is sauce for the goose is sauce for the gander. All the rest is rank hypocrisy.

*Rubens Ricupero
Secretary General
UNCTAD
Geneva, Switzerland
(FT, 08.12.99)*

Clinton Scuttled Seattle

The US President Bill Clinton “deliberately scuttled” the new trade round planned in Seattle by announcing the agreement to include China into the WTO before the new round and bowing to a domestic lobby of labour unions on the labour issue.

The Sino-US accord was cynically timed just two weeks before Seattle. If there is any country that arouses ire among the anti-globalisation groups, it is China. So Clinton was waving the red flag—pun intended—before the raging NGO bulls, making Seattle’s success even more problematic.

Clinton did not want to alienate the US labour lobby and his insistence on forming a working group on labour standards at Seattle torpedoed the negotiations.

Clinton emerges having won the minds and cash of the business community with his China deal, and hearts and cash of the unions with his destructive grandstanding at Seattle on labour rights.

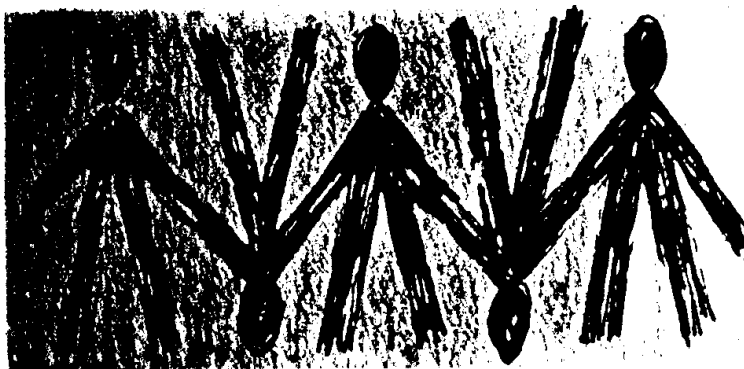
The labour issue was the undoing of the Seattle round as poor countries felt the threat of sanctions against them by Clinton was a ‘cynically’ protectionist measure targeted at them.

*Prof. Jagdish Bhagwati
Columbia University
New York, USA
(ET, 09.12.99)*

NGO Statement on WTO Crisis in Seattle: A Call for Change

The World Trade Organisation (WTO) is in crisis. The process of trade negotiations is fundamentally flawed and cannot be the basis for global policy making for the new millennium. Any outcome of such a process is illegitimate. As the events of the last few days have illustrated, the WTO is:

Undemocratic—both between people and their governments, and among the governments of the world. For example, without consulting and over the objections of civil society and European Union member states, the European Commission announced its support for a Biotechnology Working Party, causing 15 EU Trade Ministers to issue a joint statement of disagreement.



Unjust—denying meaningful participation of developing countries, ignoring their needs, and overriding their positions. For example, the chair of the Working Group on New Issues ignored the dissent of developing countries, and mischaracterised their criticism as support for the inclusion of new issues.

Untransparent—as “green room” deals exclude developing countries, and as civil society continues to be ignored and denied information. For example, African nations, small island states, and least developed countries were excluded when a small group of powerful countries brokered a deal addressing the lack of implementation of existing WTO commitments.

Unbalanced—elevating short-term economic interests of a few over broader concerns for equity and sustainability. For example, the EU and others continue to promote an investment agreement despite the deep concerns of civil society as demonstrated by the defeat of the Multilateral Agreement on Investment (MAI). Similarly, the US Trade Representative told NGOs working on forest issues that their concerns about the impacts of forest product liberalisation would be disregarded.

These examples illustrate a systemic flaw. The ascendancy of a narrow set of business interests over all other interests of society must be reversed. As the protestors worldwide have made clear, WTO negotiators must not return to Geneva to continue business as usual behind closed doors. Rather, we must all engage in a broader search for a democratic, humane, and sustainable international system.

Action Aid; Action Aid, Brazil; Africa Trade Network; AIDC, South Africa; Asia Indigenous Women’s Network; Centre for International Environmental Law; Citizens Trade Campaign, USA; Common Front on the WTO, Canada; Consumer Project on Technology, USA; Council of Canadians; Consumer Unity & Trust Society, India; Consumers Association of Penang, Malaysia; Friends of the Earth International; Friends of the Earth, Japan; Friends of the Earth, USA; Greenpeace, Brazil; Independent Farmers Association, Japan; Institute for Agriculture and Trade Policy, USA; International Coalition for Development Action; International Forum on Globalisation; International South Group Network; NCOS, Belgium; Network for Safe and Secure Food and Environment, Japan; Tebtebba Foundation, The Philippines; Oxfam Fair Trade, Belgium; Pesticide Action Network, Asia and the Pacific; Polaris Institute, Canada; Public Citizen’s Global Trade Watch, USA; Royal Society for the Protection of Birds, UK; Seikatsu-Club Consumers Cooperative Association, Japan; South Asia Watch on Trade, Economics & Environment, Nepal; Third World Network; Toto Consumers Cooperative, Japan; World Development Movement, UK.

Heap More Blame on Barshefsky

Not only did Charlene Barshefsky, US Trade Representative, try and fail to both as WTO Ministerial Conference chairperson and chief US negotiator, but in the weeks before Seattle she ignored the warning signs of trouble coming out of the preparatory Geneva discussions.

These discussions were clearly deadlocked for many weeks in late October and all of November. She did not focus on these problems and spent most of her time getting an agreement that would pave the way for China's accession to the WTO.

The draft 'decision' that circulated late in the last day of the Conference and which is the basis for Mike Moore, the Director General of the WTO, saying that "much was done", should have been the draft that come out of Geneva, not Seattle.

*Costas Michalopoulos
Brussels, Belgium
(FT, 09.12.99)*

A WTO Parliamentary Assembly?

The massive demonstration at Seattle against the WTO coinciding with the launch of the millennium round have underlined that civil society issues, such as those of environment and labour standards, are being pushed on to the traditional trade agenda.

This increased emphasis on regulatory barriers, environmental and labour standards, and now internet rules, can no longer be handled through inter-governmental process alone.

The elected representatives of the people need to be involved to bring democratic legitimacy to the international trading process. In the absence of structured, multilateral parliamentary involvement in the future of development and functioning of the WTO, it is inevitable that the supranational political debate surrounding its policies and decisions will remain largely the province of NGOs from every sector of activities.

Perhaps the idea recently approved in the Schwaiger Report in the European Parliament, suggesting that a WTO Parliamentary Assembly should be considered to achieve greater democratic accountability, is an idea whose time has now come?

*James Elles
Member of European Parliament
Brussels, Belgium
(FT, 02.12.99)*

Hopes Trampled on

Throughout much of the 1980s and the 1990s economic growth has lifted per capita income for large proportions of the total population of the developing world. In 1997, for example, developing countries where per capita income increased by three percent or more accounted for over 70 percent of the total population of developing countries, compared with 44 percent in 1991.



In other words, prosperity has been spreading. It is this that gives reason for hope for the future of developing countries. It is this hope that was trampled on in Seattle. Prosperity has been spreading in an atmosphere of continuing liberalisation of trade.

It surely is perverse to applaud big labour in industrial countries as it attempts to bring the process to a halt. It is even more so when that attempt is packaged as good for developing countries.

*Mahfuzur Rahman
New York, USA
(FT, 24.12.99)*

Recognising Needs

The European Union's commitment to offer duty-free access for "essentially all" products from least developed countries is a welcome first step in recognising the special needs of poorer countries. There is a great deal further to go, however.

First, it should not be used as a bargaining chip to extract yet more concessions from the developing countries. Second, the offer should cover all goods, including the sensitive products currently excluded by the existing formulation. Finally, developing countries should be given significant support in building their domestic capacity, necessary in order to be able to take advantage of greater market access.

More important than any of these initiatives, however, would be a commitment to listen to developing countries. There should be an agreement to no further liberalisation until the social and environmental impacts of existing free trade commitments have been assessed, problems put right, and the

implementation difficulties currently faced by developing countries fully addressed.

*Caroline Lucas
Member of European Parliament
Brussels, Belgium
(FT, 03.12.99)*

Give WTO Human Face

The street protests surrounding the WTO Ministerial Conference reflect growing public revulsion at the increasingly successful efforts of multinational corporate interests to rewrite the rules of everything from worker rights to the environment in their favour.

The claim that trade unionists in higher income countries did not become concerned about the plight of workers in exporting industries out of benevolence but because of fear of their competitiveness is both insulting and arrant nonsense.

The time has come to humanise the WTO in the interests of both rich and poor countries, though perhaps at the expense of some greedy multinational corporate interests. Failure to do so will make the WTO even more unpopular—if that is possible.

*Neil Kearney
General Secretary
International Textiles, Garment
and Leather Workers' Federation
Brussels, Belgium
(FT, 07.12.99)*

To Tackle Social Issues

There was public unease with capitalism and the forces of globalisation evidenced by the many dissenting groups at the WTO meeting in Seattle. This unease has basis in fact, especially in relation to the effects of sudden outflows of capital from developing countries.

Which "specialist organisations" are capable of taking up the social issues like the environment and labour? The weak and poorly-supported International Labour Organisation? What global environmental forum is capable of such a task?

Until the partisans of the WTO get serious and show by their actions a real appreciation of the need for strong "specialist organisations" dealing with social issues, those concerned with such issues will continue to suspect that the real agenda is simply to dismiss them.

*Jeffrey Stark
Director, Research and Studies
University of Miami, USA
(FT, 07.12.99)*

Brazil and Canada Face Scrutiny

The dispute settlement body of the WTO gave the go-ahead for a panel to examine whether Brazil and Canada fully removed illegal export subsidies to their regional jet manufacturers. In August the two countries were given 90 days to comply with panel and appellate body rulings to remove the subsidies in the case of Brazil's Embraer and Bombardier of Canada.

Canada says Brazil is now bound to remove subsidies totalling \$3.7bn on all aircraft contracted for but not yet delivered at the time of the ruling. Brazil says it cannot violate contractual obligations, and counter-claims that Canada's rejigged aircraft development programme continues to provide an element of export subsidy.

The panel is due to report its findings within 60 days. Failure to comply could result in WTO-approved sanctions against the transgressor. But Brazil said it reserved the right to appeal against the panel report. (FT, 10.12.99)

Legal Centre for Poor Nations

Nearly 30 rich and poor members of the WTO launched an independent legal advice centre to help developing countries make full use of the WTO's dispute settlement mechanism. The Advisory Centre on WTO Law, to be based in Geneva, will provide poorer nations with low-cost legal advice on taking and defending cases, as well as representation before WTO panels and the appellate body.

Canada and several European countries have provided the bulk of the \$14mn needed to set up the centre. About 20 developing countries have also agreed to contribute to the \$8mn endowment fund.

Since the WTO was created in 1995 developing countries have brought 45 complaints and defended 62. (FT, 01.12.99)

Nicaragua in Tariffs Wrangle

Nicaragua, Central America's poorest country, stepped into a dispute with neighbouring Honduras by raising tariffs on Honduran imports, breaking a regional free trade agreement. Nicaragua plans to put up a 35 percent tariff on Honduran goods. Goods have previously entered free of duty as part of a Central American regional agreement.

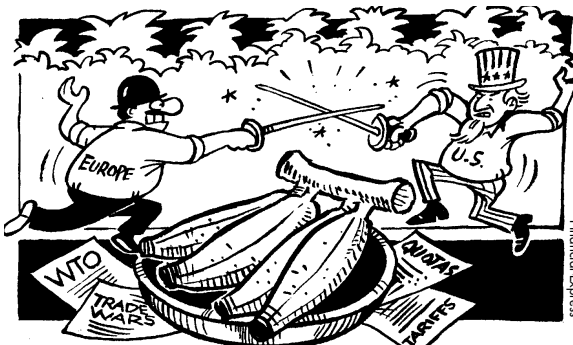
The move is Nicaragua's retaliation for Honduras' ratification of a 1986 maritime treaty with Colombia,

US Rejects EU Banana Proposal

A US trade official said the EU's latest attempt to resolve a contentious WTO dispute over banana trade was still not enough to satisfy the US. "It's difficult to see how this proposal would resolve the dispute," the official said.

The EU's failure to make its banana regime conform to WTO rules led the WTO in April to allow the US to impose 100 percent tariffs on \$191.4mn worth of EU goods. The US official said those tariffs would only be completely eliminated after the EU fully complied with the WTO ruling, and that the new EU proposal still fell far short. The EU proposals include plans for an interim regime based on tariff rate quota.

The EU proposed that it maintain a banana quota of 2.535mn tonnes under which Latin American bananas would be subject to a tariff of 75 Euros per tonne. Bananas from Africa, Caribbean and the Pacific countries (former colonies of European countries) would not be subject to any tariffs. The EU said it would distribute import licenses for this so-called first-tier quota on a first-come, first-served basis. The US official said the distribution of import licenses would discriminate against suppliers of Latin American bananas. (BL, 12.11.99; FT, 11.11.99)



recognising the South American nation's claim to some small Caribbean islands and the surrounding seas.

Any retaliation by Honduras against Nicaraguan goods could severely hamper Nicaragua's exports. Around half of which is exported through the Honduran port of Puerto Cortes. There was no immediate word from Honduras on any reprisals against the Nicaraguan measures. (FT, 02.12.99)

Falls Foul of Rules

Few countries expected to gain more from the WTO's binding dispute settlement system than Canada. As a small open economy, it has long believed stronger international rules are in its interest because they restrain the market power of big economies. But with a growing string of lost cases at the WTO, Canada's enthusiasm for tougher trade disciplines is being tested.

In October 1999, Canada was handed two defeats on a single day. A WTO panel ruled that the 34-year old auto pact with the US discriminated against imports of Japanese and some European motor vehicles, while the WTO appellate body upheld most of a previous decision that will force Canada to drop an export subsidy for milk sales.

The rulings have caused particular consternation because the country was one of the intellectual architects of the WTO's binding disputes procedure and prides itself for playing by the rules. It has also contrasted with its experience under the North American Free Trade Agreement, where anti-dumping and countervailing duty issues have tended to favour Canada, over the US, much to the aggravation of the US Congress. (FT, 28.10.99)

Over A Cup of Instant Coffee

Brazil would likely to seek a dispute settlement panel at the WTO to address its complaint against the EU import regime for instant coffee. Brazil said the EU discriminates against Brazilian instant coffee exports in favour of instant coffee from Andean Pact and CARICOM countries in Latin America.

EU exempts these countries coffee exports from tariffs as a means toward encouraging a shift in production away from cocaine. Brazil, which is not a major grower or producer of cocaine, is exempted from the EU programme. Brazilian coffee growers estimate that exports to the EU dropped by 47 percent between 1991, when the EU regime was introduced, and 1998. (ICTSD Bridges Weekly Trade News Digest, 20.10.99)

US May Seek End to...

The US may ask the International Civil Aviation Organisation (ICAO) to revoke the voting rights of the EU if agreement is not reached in a long running dispute over aircraft noise. David Aaron, US Deputy Commerce Secretary said that the US aviation industry has lost \$2bn as a result of an EU law banning the use of noise mufflers, or "hush kits", to curb aircraft noise on older US-made aircraft.

"Aviation is the quintessential global industry," he said. If every country imposed unilateral standards, there would be chaos. The US is set to implement multilateral noise standards agreed by the ICAO. The EU will not be putting the ICAO standards into effect until 2002.

However, the EU Transport Ministers signalled that they would delay or change new aircraft noise restrictions to avert a trade dispute with the US. "Just as it is in the EU, aircraft engine noise is of growing environmental and political importance in the US," they said. (FT, 10.12.99; 07.10.99)

WTO Backs US Sanctions Law

A WTO dispute settlement panel has ruled that the controversial US legislation used by Washington as the basis for imposing sanctions for trade disputes does not violate world trade rules. But, it warned that the US must not use the legislation in a way that would be inconsistent with the WTO's dispute settlement system.

The EU had complained that the so-called Section 301 legislation breached WTO rules. The legislation has been used as the basis for hundreds of millions of dollars of US sanctions imposed on the EU after disputes over banana and hormone-treated beef.

Both the EU and US claimed that the ruling vindicated their positions. But the US is not required to change its legislation as a result. (FT, 23.12.99)

Dismay at Steel Dumping Rules

Large non-US steel companies expressed their displeasure over US anti-dumping rules, calling the trade restrictions unfair. Senior executives of European, Asian and Latin American steel makers also highlighted the complex dilemmas facing trade in steel.

"We stand on both sides," said Johannes Sittard, President and Chief Operating Officer of Ispat International. Ispat owns US

steelmaker, Inland, as well as operations in Mexico, South America, Europe and Canada. "As a global company, we are against trade restrictions," he said.

Steel prices hit a post-second world war low following the collapse of Asian economies and the economic repercussions later in Russia and Latin America. US steel makers tried to halt the flow of cheap imports and pressed President Clinton to impose anti-dumping rules to protect American steel against government-subsidised foreign producers.

In a related development, a WTO panel was expected to rule against US anti-subsidy duties imposed on a British steel maker. The judgement could have broad implications for US sentiment towards the WTO. The US is expected to appeal against the ruling. (FT, 09.12.99; 23.11.99)

India Wins Textiles Case

The appellate body of the WTO has ruled in favour of India in its disputes with Turkey regarding the imposition of quantitative restrictions on textile items from India. The case was filed against Turkey on imports of 19 categories of textile and clothing products from India consequent to Turkey's joining a customs union with the European Union.

The WTO panel ruled that Turkey's moves were inconsistent with the provisions of Articles XI and XIII of the General Agreement on Tariffs and Trade and consequently with those of Article 2.4 of the Agreement on Textiles and Clothing. The panel rejected Turkey's defence that the introduction of any such otherwise GATT/WTO incompatible import restrictions is permitted by Article XXIV of the GATT.

Turkey went on to appeal against the ruling and the recommendations of the panel on the ground that the panel erred in law in its interpretation of Article XXIV. The Appellate Body held that Article XXIV does not allow Turkey to adopt, upon the formation of a customs union with the European Commission, quantitative restrictions on imports of 19 categories of textile and clothing products from India. (ET, 24.10.99)

Dispute Over Rules of Origin

The US Senate approved a trade bill that contains a provision to settle a long-standing fight with the European Union on textile rules of origin, and another that has the

UK Attacks France over Beef Ban



Tony Blair, the UK Prime Minister, launched a robust attack on the French government over its refusal to lift the ban on British beef. He has accused France of floating the basic principles of the European Union. The UK leader said: "The European Union is founded on the rule of law. You cannot pick and choose [which laws to implement] in this way."

France announced a ban on British beef imports because of fears of contamination from BSE, or mad cow disease. The EU, however, cleared British beef exports—a ruling that member states are obliged to follow.

David Byrne, EU Food Safety Commissioner, said the European Commission was taking legal advice about whether it could apply for an injunction against France before the European Court of Justice takes up the case.

In a related development, Germany said it would not lift its embargo on British beef before the middle of December. (FT, 10.12.99; 28.11.99)

potential for increasing trade tensions.

The latter is a provision that would require the US Trade Representative to periodically revise retaliation lists targeting exports to the US of foreign countries that have not implemented a WTO panel finding.

The EU has been very critical of this so-called carousel approach, and is trying for a review of the Dispute Settlement Understanding to limit a country's ability to change a retaliation list once authorised.

The textile provision reverses the effect of a US rules of origin change approved as part of the Uruguay Round implementing bill, which assigned origin to the countries where fabrics were knit or woven, not finished. As a result of that change, many EU fabrics or accessories were considered the product of China or other Asian countries. (Inside US Trade, 05.11.99)

Globalisation and Social Justice

To a growing number of the world citizens, in particular from the developing nations, globalisation has become synonymous with the mostly negative issues rather than the positives.

A survey conducted by the UNICEF (United Nations Children Education Fund) and the UNDP (United Nations Development Programme) reveals that only three countries in Africa are allocating more than 20 percent of budget funds for use in basic health care, education and nutrition, a target set by the 1995 UN Social Summit in Copenhagen, Denmark.

According to Kofi Annan, the Secretary General of the United Nations, 44 percent of all Africans and 51 percent of these in sub-Saharan Africa live in absolute poverty. The average African households consume 20 percent less than it did 25 years ago.

Call for Debt Relief

The US lawmakers have called for forgiveness of debts of more than 40 of the world's poorest nations. This would cost Americans merely the price of a milkshake (\$1.20) each year for three years and would save the lives of 20,000 people each day in poor nations.

The International Monetary Fund and the World Bank have also said they had secured the funds needed for their heavily indebted poor country initiative. The scheme would cut the debts of 33 of the world's poorest nations, to about \$45bn from \$90bn.

More fundamental is the very debt-based financial system, which has been challenged by Michael Rowbotham in his book "The Grip of Death: A Study of Modern Money, Debt Slavery and Destructive Economics".

He argued that if all the nations of the world are in debt, then who is the creditor or who are they in debt to? The more developed the nation is, the more is the value of its debt. For instance, UK's debt is about GBP400bn, while that of Canada's is C\$650bn, Germany's DM500bn, Japan's \$2tn and USA's \$5tn.

FAO Forecast on Cereal Stock

The latest issue of *Food Outlook* published by the United Nations Food and Agriculture Organisation (FAO), confirms another above-average cereal output of 1,866mn tonnes in

1999. However, at this level, production would be less than the anticipated consumption requirements in 1999-2000 and stocks built-up over the past three years would have to be drawn down.

World utilisation of cereals in 1999-2000 is forecast at 1,876mt, up 10mt from the previous year. The figure exceeds global production for the first time in four years.

The world trade in cereals in 1999-2000 is forecast to increase by nearly four percent to 221mt, up 8mt from the previous year. The bulk of the increase is expected in wheat and coarse grains, while rice imports are tentatively forecast to remain virtually unchanged. (BL, 02.12.99)

Rich and Poor Gap Widens

Even after the fall of state-controlled economy, it seems that the economies of Eastern European nations have not improved. Moreover, the gap between the rich and poor has widened. The future is less certain for millions of East Europeans, who have not learnt to cope with market-based economy.

After dismantling of controlled economy, production plummeted across the former Soviet bloc as behemoth steel works and other factories found that neither their former customers in the east nor their prospective ones to the west wanted shoddy, outdated products.

Of all the countries of the former Warsaw Pact, only Poland has built its economy back to a level of that before 1989, although Hungary and

Estonia are close.

"In economic and social terms, we are much worse off than before," said Andrzej Lepper, leader of the Polish farmers' movement, Samoobrona. "We have a group of rich people, about five percent. Another 15 percent, including state officials, live a good life, and 80 percent Poles live in poverty," he said. (ToI, 12.11.99)

Anger at Reform Plans

Dutch employers' organisations and trade unions are at loggerhead with the government on the shape of the social security system, after the cabinet said it would push a plan to reorganise the welfare apparatus.

The centre-left coalition has parliamentary backing for a move to create a single organisation from a number of agencies that approve and pay out different benefits. The "social partners" currently involved in that decision-making would be reduced to an advisory role.

Union leaders are threatening that they would resign en masse from the posts at social security agencies unless the government shows willingness to negotiate. The government's tough line follows its retreat from a move to privatise core social security functions.

At barely three percent of the workforce, the Netherlands has a lower official unemployment level than any European Union country except Luxembourg. But it has a persistently high over all rate of non-participation in the labour market. (FT, 29.11.99)

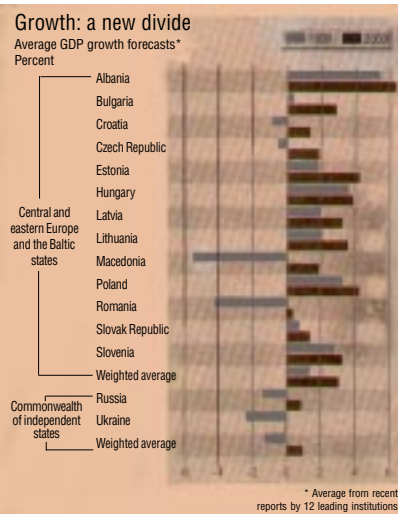
Corruption: A Big Hurdle to Progress

The European Bank for Reconstruction and Development has singled out corruption as one of the most important obstacles to economic progress in the former communist block.

The Bank's Annual Transition Report says that while many countries have reduced direct state intervention in the economy and privatised enterprises, they have not necessarily cut the "overall level of intervention or the informal tax imposed on firms in the form of bribes and time spent dealing with government officials."

According to a survey the bribes are heavier in countries of the Commonwealth of Independent States at 5.7 percent of revenues compared to 3.3 percent in Central Europe, the Balkans and the Baltic States.

The report argues that the spread of bribery highlights how long and complex is the transition from state-control to free markets. Sound macroeconomic policies, liberalisation and privatisation are no longer seen as sufficient for building genuine free market economies. Governments must also promote market-supporting institutions such as fair and transparent laws, efficient courts, and active competition authorities. (FT, 09.11.99)



Key to Farm Yield Breakthrough

Globally, the area under transgenics has witnessed a 15-fold increase in the last three years. Worldwide, only about eight countries have taken to commercial planting of transgenic crops. It is estimated that the biotechnology market would increase from \$2bn to \$34bn by 2010.

The scientific community, by and large, is in favour of using biotechnology in agriculture "because it is impossible to achieve a breakthrough in agriculture through conventional methods." Taking the present population growth into account, it is believed that by the year 2020, only 0.15 hectare per capita of the cultivated land would be available for food production, a drop from 0.26 hectare per capita.

Researchers feel that the proponents of the technology should be called to seriously and scientifically confront the unorganised and organised negative campaigners. (BL, 25.12.99)

The Most Expensive in EU

According to a report of the European Union, Denmark is the most expensive country in the EU for a whole range of domestic items and Portugal is the cheapest. Denmark comes top on price for almost all food stuffs except oils, alcohol and tobacco. Portugal is bottom of the price range for most foods as well as clothing, rent, fuel, power, household equipment, recreation and restaurants.

UK is the cheapest EU country for books, newspapers and magazines, furniture and floor coverings, while France is most expensive for household textiles and Finland charges most for books.

The survey also looks at the

backlog of EU laws awaiting implementation by member countries and the number of infringement procedures instigated against them for failing to put EU legislation on to national statute books. Greece, France and Luxembourg have the worst record on adopting EU laws, with more than five percent of backlog, while Denmark, Finland and Sweden have the best record. (FT, 03.12.99)

Poverty: Top Priority for IMF

"The fight against poverty has gained centerstage in our programmes," said Michel Camdessus, the Managing Director of International Monetary Fund. He admitted that the inter-relationship between growth and social development has so far been very loosely defined in their activities. He stressed that the systemic risks entailed by widespread poverty around the world need no elaboration but certainly calls for urgent and decisive action.

Critics have accused the IMF of neglecting the poor by linking its loans, especially in East Asia, Africa and Latin America, to austerity measures that led to higher unemployment and took money from social services.

The IMF has decided to keep an eye on the level of unproductive spending to ensure that adequate room exists within national budgets to allow the governments to promote minimum standards of health care and education compatible with the level of development of the country. (BL, 13.10.99)

Roll Back the Corporate Power

Thirty progressive activists and researchers assembled in Cordoba, Spain in mid-October, for a European

strategy session, solidifying an international network and movement challenging the increasing power of corporation. They concluded that time has come to structurally challenge the political activities and power exercised by corporations and their lobby groups. They agreed to make efforts, as the next step, to roll back the corporate power.

For this purpose they pledged to work together to:

- work to share information and strategies to challenge the corporate power;
- expose and challenge the major corporations involved in the public relations industry;
- expose the impact of Transatlantic Business Dialogue on government regulations and institutions and the political influence gained by large companies through this anti-democratic corporate-state alliance; and
- reject the global compact between the United Nations and international business as it is based on the flawed concept of self regulation by "corporate global citizens".

Drive to Fight Malaria

A joint venture between international public agencies and the pharmaceutical industries, called the Medicines for Malaria Venture (MMV), has been launched to develop malaria drugs.

It been created because the increased costs of developing and registering pharmaceutical products, coupled with the prospects of inadequate commercial returns, have resulted in withdrawal of the majority of research-based pharmaceutical companies," said Gro Harlem Brundtland, the Director General of the World Health Organisation (WHO).

MMV, which will operate alongside the WHO's Roll Back Malaria Project, plans to raise \$30mn a year, with the aim of registering one new anti-malarial drug in every five years. Roll Back Malaria aims to halve the global malaria burden by the year 2010.

MMV's inaugural partners are WHO, the International Federation of Pharmaceutical Manufacturers Associations, the World Bank, the Rockefeller Foundation, Global Forum for Health Research, and the UK, Swiss and Dutch governments. (FT, 04.11.99)

Call for Children's Rights

The United Nations Children's Fund (UNICEF) is calling on world leaders to reaffirm their commitment to children's rights. In its Annual Report *The State of the World's Children 2000*, it said that the progress in achieving the goals of 1990 World Summit for Children (including reduction of child mortality and universal access to basic education) has been patchy and inadequate. "The world has more children living in poverty now than it did ten years ago and is more unstable and more violent than it was in 1990", the Report notes.

The Report said that the governments have failed to tackle widening inequalities due to globalisation, leaving women and children as main victims. The number of people living in poverty has grown to more than 1.2 bn, or one in every five, including more than 600mn children. More than 500mn children in the world, one in four, live in dangerous and unstable situations.

It also castigated governments for their failure to tackle the AIDS epidemic, which each day infects 8,500 children and young people and kills 2,500 women. In Africa last year, the disease killed 2mn people, ten times as many as wars. This pattern, according to the Report, is set to repeat in South Asia. (FT, 13.12.99)



Rise in US Workers' Productivity

The increase in the American workers' productivity (output per hour) rate has recorded to be fastest in seven years, while keeping labour costs under control. After almost a quarter century of steady but sluggish productivity growth of around 1.75 percent per year, output per hour has suddenly accelerated in the second half of the 1990s. It was averaged 2.25 percent since 1996, and has accelerated to a rate of 2.75 percent in the last two years.

Economists attribute this growth to a long-awaited positive impact from heavy investment in information technology equipment by companies in the last 20 years. However the growth is concentrated solely in the high-tech sector. *(FT, 08.12.99)*

Sharp Fall in Technical Aid

Technical aid for the poorest of the Commonwealth Members has fallen by 40 percent in real terms over the past ten years. Because of cuts or delays in Member's contributions, spending by the Commonwealth Fund for Technical Co-operation has declined from GBP28mn in 1991 to GBP18mn in 1999.

This fall has continued in the face of a summit pledge four years ago to restore funding to its 1991 level. However, looking back on his ten years as Secretary General of the association, Chief Anyaoku claimed that promotion of democracy and good governance is the Commonwealth's main achievement. *(FT, 04.11.99)*

Concern over UNDP Revamp

The 133-member Group of 77, the largest coalition of developing nations, has expressed strong reservations over restructuring of the United Nations Development Programme as proposed by its Head, Malloch Brown.

The group has specifically cautioned him against placing a higher priority on "global governance," a concept strongly advocated by western donors and broadly encompasses multi-party democracy, free and fair elections, respect for human rights and corruption-free administrations.

The group said that any proposed reforms should be guided by two main objectives: an increase in the resources available to the organisation and improved delivery of services to the developing countries, in keeping with their national

Philippines for Ban on Worst Forms of Child Labour

Child labour abusers could be charged with more airtight cases, while freed victims would be guaranteed access to education and proper rehabilitation. These are part of a comprehensive child labour treaty to declare a sweeping ban on the worst forms of child labour in the Philippines.

This was announced by Senate President Blas Ople, who led the Philippine delegation to the 87th International Labour Conference organised by the International Labour Organisation (ILO) in June 1999. The Conference approved the ILO Convention 182, which concerns the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour.



There are 3.7mn child labourers in the Philippines, 2.2mn of whom are exposed to hazardous work environments. The most viable worst forms include mining, deep-sea fishing, scavenging, fireworks-making and prostitution.

Noting that slave-like practices, prostitution, trafficking and other hazardous work are jeopardising the health, safety and morals of children, Cecilia Flores-Oebanda, Philippines Coordinator of the Global March Against Child Labour said, "This Convention, wisely used, offers broad practical strokes to end our collective shame."

development objectives and priorities. Under the proposed reforms there is also a plan to decentralise the organisation by shifting more staff to the field.

The group also said that while it supports the proposed establishment of 'increased partnerships' between the UNDP, the private sector and NGOs, it strongly urged that such partnership should be in accordance with the established policies governing the activities of UNDP and keeping with the overall mandate of the organisation. *(BL, 27.11.99)*

Improved Transparency in Asia

According to Amartya Sen, one of the positive effects of 1997 economic crisis in East and South East Asia is democratic progress in several countries. "The crisis had the effect of bringing out the weakness of the previous argument that democracy was not needed in Asia—that it's against Asian values and it's not needed anyway," he argued.

The crisis has forced countries to implement reforms to improve financial transparency and accountability. He believes that democracy and greater practices of democracy will play a very positive role in future.

To him one of the reasons of severe crisis was that warning signs

were ignored. "Unfortunately, people didn't react when there were straws in wind and sometimes they didn't even react when there were trees in the wind." *(ET, 18.12.99)*

Accused of Fuelling War

Three Canadian diamond mining companies have been accused of fuelling the bloody war in Sierra Leone. They were providing military supplies or acting as go-between with mercenaries in order to get at the country's rich diamond resources.

The accusation was levelled in a report on the role diamonds have played in the war-torn West African country.

The report, "The Heart of the Matter: Sierra Leone Diamonds and Human Security," was funded in part by the federal (Canadian) government and sponsored by Partnership Africa Canada.

The three companies--Diamond Works Ltd, Rex Diamond Mining Corp, and AmCan Minerals Ltd--strenuously deny any wrongdoing.

However, Ralph Hazelton, one of the author, was adamant that the Canadian companies were involved in activities that go far beyond the diamond industry. The companies were lumped in with the warlords and gangsters, the report said.

Ready for A Cleaner World

As the world leaves the smokestack era behind, industrial pollution may not seem such an environmental ogre anymore. It is predicted that by the middle of the next century, industrial processes would have completely changed. However, countries or traders exporting dangerous and toxic substances will be held liable for any accidents caused during transboundary transportation of such chemicals.

This liability protocol was included in the Basle Convention for the Transboundary Movement of Hazardous Wastes. The protocol was adopted at the fifth Conference of Parties of the Convention held at Geneva, Switzerland in December. The Convention restricts or bans trade in hazardous chemicals between developed and developing countries.

"This is the first attempt at creating an international liability mechanism and though it is weak clause it is a first step," said Ravi Agarwal of the Basle Action Network. Environmentalists believe that the liability clause gives a foretaste of how by the next decade businesses in both developed and developing countries will be fully responsible for the waste they produce. *(ET, 25.12.99)*

US Politics and Global Warming

Environmentalists and Democrats in the US are expected to push hard to make global warming a big issue in next year's presidential election. Many observers believe that candidates could not afford to ignore the issue. This is because the global warming

talks are taking place during the height of the US electoral race. Delegates at international climate change talks held in Bonn, Germany agreed to conclude by November 2000 final negotiations on a global agreement to reduce emissions (known as Kyoto treaty).

This could pose a problem for Republican politicians, who have been sceptical on the issue. Senator John McCain, a leading Republican presidential candidate, has called for further scientific studies, but maintains "serious concerns about the Kyoto treaty because it fails to include the cooperation of countries such as China."

Ironically, the potency of global warming as a US election issue grows out of lost US clout in Bonn. Washington pushed hard for a delay for final negotiations but was outvoted. *(FT, 08.11.99)*

Green Threat to Metal Recyclers

Environmental laws may pose even greater challenges for the metals recycling sector in the next ten years than it faced in the last decade. This was expressed by Caiman Rowntree, President of the British Secondary Metals Association (BSMA). While the industry had adapted well to green rules its very existence is still under threat, he added.

The scrap trade is battling against its tag as a waste disposal operator. But BSMA said that scrap is a vital and often expensive secondary raw material and not waste. A recent survey by the BSMA showed that 400,000 tonnes of refining/smelting capacity closed in the UK alone in the

past ten years.

In the coming years the scrap trade could expect to hear much of the so-called proximity principle, where waste must be disposed of close to its source of generation, and producer responsibility, under which producers are liable for what happens to their products at the end of life. *(BL, 10.12.99)*

CTE Adopts 1999 Report

The Committee on Trade and Environment of the World Trade Organisation held its third formal meeting of the year in October. Members discussed all ten items on the work programme agenda. These include environment and services, relationships between inter-governmental and non-governmental organisations, transparency, linkages between multilateral environment and trade agendas, and thematic clusters relating to market access.

The majority of the discussion focused on the market access items, primarily those concerning agricultural and fisheries subsidies. Item No. 7 of the work programme, concerning domestically prohibited goods, also warranted some discussion.

Both the 1999 CTE Report and the work programme were adopted, as was the meeting schedule for 2000. The CTE also agreed to extend observer status to the inter-governmental organisations of the Islamic Development Bank and the South East Asian Fisheries Development Centre. *(ICTSD Bridges Weekly Trade New Digest, 20.10.99)*

Dutch to Halt Gas Exploration

The Dutch government bowed to objections from local politicians and pressure groups and backed down from allowing gas exploration in an environmentally sensitive coastal region.

Three Ministers (for environment, agriculture and economic affairs) told the parliament that uncertainties over the environmental impact of drilling in Waddensee, an area of wetlands in the north of the country, meant they could not permit gas exploration by NAM, a joint venture between Royal Dutch-Shell and Esso.

NAM wanted access to a gas reserve beneath the sea-bed in an area that is home to a wide variety of wildlife. In October the government said it was prepared to allow drilling at three sites so long as there was no irreparable damage. *(FT, 08.12.99)*

Japan Hit by Nuclear Accident

Japan suffered a serious nuclear accident in October when the workers of JCO, a subsidiary of Sumitomo, mixed 16 kg of uranium oxide (the normal being 2.4 kg) with nitrate solution and transferred it to a precipitation tank. Three workers were in a critical condition, exposed to 17,000 times the normal radiation, and at least 49 people were taken to hospital due to exposure.

Residents within 350 metre radius of the power plant at Tokaimora, about 140 km north of Tokyo were evacuated, and nearly 313,000 residents with a 10 km radius were asked to stay inside their homes for three days. Reports say that the radiation around the plant was 20,000 times the normal levels.



Financial Times

The manager of the plant had later admitted to using illegal standards for uranium processing and changing its procedural manual without government approval. Japanese citizens were outraged to hear that the workers were disregarding safety rules for four years by using

10-litre stainless steel buckets rather than the equipment designed to regulate the amount of uranium solution being transferred into the mixing tank. Greenpeace, the environmental group had asked for the closure of the country's nuclear plants. *(FT, 01.10.99, 02.10.99, 04.10.99)*

Drive May Hurt Forests

The Clinton administration was poised to release a report, which says Washington's accelerated phase out of tariffs on wood products. This would have a significant negative impact on forests in Indonesia and Malaysia.

Environmental groups attacked the report for identifying the environmental impact of increased wood trade but failing to develop serious options to mitigate the effects. The report recommended continued technical assistance to developing countries for forest protection, but concluded that the overall impact of increased trade on the world's forests would be minor.

"The administration has missed the forests for trees. The report shows that the administration's trade policy is driven by the timber industry and does not take into account threats to forests worldwide," said Brent Blackwelder, President of Friends of the Earth. *(FT, 03.11.99)*

Environmentalists Gain Spot

Environmentalists are entitled to representation on committees advising US Federal officials about how to negotiate trade agreements governing wood and paper products, a judge ruled. US Trade Representative Charlene Barshefsky must name at least one environmentalist to each of two panels that advise her on wood and paper products negotiations, said Justice Barbara Rothstein.

Limiting membership on the advisory committee to timber and paper industry officials violated the Federal Advisory Council Act, which requires the advisory panels represent a "fair balance" of viewpoints, Rothstein ruled, "Matters affecting the wood and paper products sector are dramatically and inextricably intertwined with the environmental health and protection of this nation."

Her decision came in response to a lawsuit filed by Earthjustice Legal Defence Fund on behalf of six environmental organisations. "Finally, a long-existing wrong is slowing behind righted," said Patti Goldman of Earthjustice.

Ending Subsidies Could Help ...

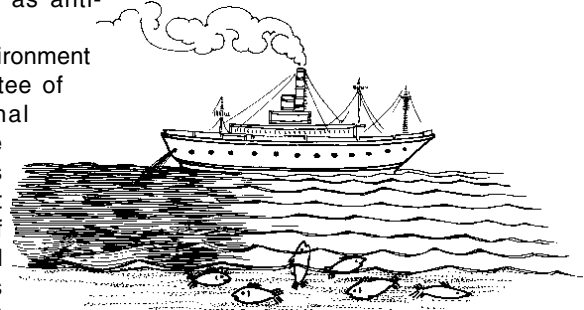
An accord on ending government subsidies to farming fishing and energy industries could make a major contribution to environmental protection, a WTO report said. The

All at Sea

The pollution regulator of the world's shipping industry is at the centre of a propaganda battle over proposals to ban tin-based paints, used to prevent marine organisms attaching to ship's hulls. For years environmentalists have been arguing that such paints, based on a compound called tributyltin (TBT) cause widespread damage to marine life and should cease to be used as anti-foulant.

The Marine Environment Protection Committee of the International Maritime Organisation is recommending that no new coatings of TBT paints should be applied to ships after January 2003 and that there should be a total prohibition of the compound by January 2008.

However, shipping operators and manufacturers of TBT coatings are adamant that it is premature to set firm dates for a ban, arguing that suitable alternatives have not yet been developed. But other manufacturers who have developed non-tin-based coatings claim that their products have been shown to perform just as well as the current TBT coatings. *(FT, 11.11.99)*



report also suggested they could help fight global pollution by dropping all barriers to trade in modern technologies and environmental services.

"Every WTO Member governments support open trade because it leads to higher living standards for working families which in turn leads to a cleaner environment. Trade and environment cannot be contradictory, but can indeed be complementary," said WTO Director General, Mike Moore.

The report, which some trade diplomats said could upset big industrial firms and both developed and developing countries, suggested a new trade round could tackle these issues.

Canada Faces High Charges

Canada would probably face the highest economic costs of any industrialised country if it met agreed targets to lower greenhouse gas emissions as set out in the 1997 Kyoto Protocol on Climate Change. This was according to a study prepared by Canada's oil and gas industry.

The study warns, "Of all the OECD (Organisation for Economic Cooperation and Development) countries, Canada is probably in the most disadvantageous position to respond to the Kyoto Protocol." It predicts that the costs of meeting the targets would be from C\$8.4bn to C\$17bn annually by 2010, which

equals a decline of 0.66-2 percent in annual economic growth. *(FT, 26.10.99)*

Protest against Mitsubishi Corp

The money managers of 15 US mutual funds announced that they would no longer buy Mitsubishi Corp stock and urged other investors to join them. They are organising a movement aimed at blocking the company's plans to build "the world's largest salt factory" on Mexico's Pacific coast.

The movement, which encompasses 55 Mexican environmental groups and the US-based International Fund for Animal Welfare and the Natural Resources Defence Council, has its highest visibility in California.

The proposed salt factory is a joint venture between Mitsubishi and the Mexican government. It would be sited on Laguna San Ignacio in Baja California, the last breeding habitat of the Pacific gray whale. Mexican environmental groups say another Mitsubishi salt plant to the north was responsible for the death of 94 endangered turtles after a 1997 release of toxic brine.

Mitsubishi is expected to complete an environmental impact assessment. It complained that environmentalists were not allowing science to dictate the debate. However, 34 scientists, including nine Nobel Prize winners, have opposed the project. *(FT, 23.10.99)*

USPTO Cancels Patent

Indigenous peoples from nine South American countries won a precedent-setting victory, when on their challenge, the US Patent and Trademark Office (USPTO) canceled the patent issued to a US citizen for the 'ayahuasca' vine. The plant, *Banisteriopsis caapi*, is native to the Amazonian rainforest. Thousands of indigenous people of the region use it in sacred religious and healing ceremonies, as part of their traditional religions.

The USPTO based its rejection on the fact that publications describing *Banisteriopsis caapi* were "known and available" prior to the filing of the patent application. According to David Downes of the Centre for International Environmental Law, the PTO needs to change its rules to prevent future patent claims based on the traditional knowledge and use of the plant by traditional peoples.

Other suggestions are that: the PTO should require that patent applicants identify all biological resources and traditional knowledge that they used in developing the claimed invention; applicants should also disclose the geographical origin; and provide evidence that the source country and indigenous community consented to its use.

Disputes over Trademark

The Visa card network has, in a groundbreaking trademark case, blocked an attempt to market condoms carrying Visa branding. The ruling, by an appellate tribunal in the UK, for the first time disallowed the trade name being used for an unrelated product. Last year Ever Ready, the batteries company, failed to stop a condoms manufacturer using its brand.

In the UK the 1994 Trademarks Act extends protection even to dissimilar products, but so far it has not been effective because companies have argued successfully that they had valid reasons to adopt the same. In this case the tribunal rejected the argument, by the condom manufacturer, that the name Visa was a pun on "permit to entry".

In a different trademark suit, a US district court jury awarded \$143mn in damages to British pharmaceutical supply company Trovan Ltd against Pfizer Inc, the leading US drug maker, for alleged trademark infringement and unfair competition. The

judgement was largest to be awarded in a trademark case. (FT, 07.10.99; BL, 14.10.99)

Tough with Domain Name Abusers

The World Intellectual Property Organisation (WIPO) is getting tough with cybersquatters, the name for cases of bad faith. It has filed its first dispute under the new Uniform Dispute Resolution Policy applicable to the top level domains (.com, .net, .org) with its Arbitration and Mediation Centre.

Corporations and organisations finally have a court for such cyberspace delicts to which they can resort to. The first dispute concerns a domain name registered with Melbourne IT, one of the first five registrars accredited by Internet Corporations for Assigned Names and Numbers to accept registrations, in addition to Network Solutions Inc, in the .com, .net, and .org top-level domains. (ET, 23.12.99)

Amazon vs. Barnes & Noble

Amazon.com, the online retailer, has filed a lawsuit against rival Barnesandnoble.com, claiming that its 1-Click technology patent has been infringed upon. The technology allows returning customers to buy a product without repeatedly filling out personal information.

The Amazon lawsuit comes on the heels of a similar dispute between Priceline.com and Microsoft. Priceline has charged that Microsoft's use of a "name your price" scheme on its Expedia travel web site infringes a patented process first used by Priceline to sell bargain airline tickets and hotel reservations.

Both the cases involves patented "business processes". If the validity of the patents is upheld, the landscape of e-commerce will be changed. Critics charge that these patents stand in the way of progress and amount to a "land grab" by businesses attempting to erect barriers to competition. (FT, 25.10.99)

Czechs Urged to Protect Beer

The Czech Republic, birth-place of pilsner-style lager, has asked the World Trade Organisation to extend the protection of geographical indication under TRIPS Agreement to include beer in addition to wine and spirits.

If the proposal wins support, only lagers made in Plzen in the Czech Republic would be able to hold the

trademark pilsner or pils, just as only wine made in the Champagne region can be called champagnes.

If the protection is extended, it could also influence the long-running battle over the Budweiser trademark between Anheuser-Busch of the US and the Czech brewer Budejovicky Budvar. Only beers such as Budvar that are brewed in Budweis, the old Austrian name for Ceske Budejovice, could be called budweisers. (FT, 23.11.99)

Move against Music Piracy

The international recording industry has launched a coordinated move to stem Internet music piracy. It includes action to close down sites hosting hundreds of illegal music files and steps to shore up legal regime against on-line piracy.

The move, by the International Federation of Phonographic Industry (IFPI), is

targeted against two groups of operators, those who 'upload' infringing material on the Internet, which is then downloaded for free of payment; and Internet service providers who host illegal web sites.

In Taiwan, IFPI located 67 Internet sites containing infringing material. Some 44 sites containing as many as 10,000 files have been shut down. In South Korea, 50 pirate sites were shut down, while in Hong Kong the number is 55. In Sweden and Denmark, over 1,000 such sites have been shut down, while in Germany it is 500.

One of the main reasons for such piracy is lack of legislation and poor international copyright regime for on-line delivered music. So far only ten countries have ratified the international clauses laid down in the 1996 WIPO (World Intellectual Property Organisation) treaties, while another 20 need to ratify these treaties for them to come into force. (ET, 04.11.99)



The Economic Times

Gulf of Piracy

Figures for Gulf Cooperation Council countries from the International Planning Research Corporation show that in the United Arab Emirates (UAE), with the best record in the region, 49 percent of software used has been pirated. Saudi Arabia comes in at 73 percent, Qatar is at 87, Kuwait at 88, Bahrain at 89 and Oman at 93 percent. US figures on motion picture piracy show Oman at astonishing 99 percent, Kuwait at 85 percent, Bahrain, Qatar and Saudi Arabia at 50 percent.

According to the Business Software Alliance (BSA) estimates, illegal copying of software in the West Asia led to information technology industry revenue losses of some \$190mn in 1998.

The UAE and the Gulf in general grew on smuggler and on pirates' trading. Traditionally, the concept of free trade in this part of the world was thought to be anybody trading in anything they like. Furthermore, relatively new corporate laws and the problem of putting the laws into action contributed to the high rate of piracy in the region.

Also the laws in this region does not provide much deterrence for software piracy. The IPR violations should be regarded at par with any other sort of theft and dealt with accordingly. *(BL, 07.12.99)*

IBM Alleges Patent Infringement

International Business Machines (IBM) has filed a lawsuit against EMC, its strongest rival in the data storage equipment market, alleging patent infringement and fraud. IBM charges that EMC secretly transferred disputed patents to a shell company in violation of a patent sharing agreement reached by IBM and EMC in March 1999.

EMC called the lawsuit frivolous and said it had fully complied with its patent agreement with IBM. The patents in question were previously held by Data General, a pioneer in the minicomputer market, which was acquired by EMC in October 1999. Data General had previously filed lawsuits claiming that IBM's mid-range AS/400 computers violated the patents.

Ironically, the dispute arises as IBM and EMC, long-time rivals, appeared to have reached a détente. In March the companies announced a five-year business and technology alliance valued at \$3bn. *(FT, 24.12.99)*

Plug-off Counterfeit Kettles



Financial Times

Chinese authorities are cracking down on pirated versions of kettles with counterfeit controls that could jeopardise consumer safety. Recently at a consumer goods exhibition in Guangzhou, government inspectors raided several stands operated by Chinese companies and confiscated kettles.

Further, acting on allegations over patent infringements, authorities ordered a local factory to stop making a specific kind of electronic connector and to destroy molding machines used to make it.

European Commission officials have begun an inquiry into allegations that counterfeit kettles are entering Europe from China. An estimated 2mn kettles from China are thought to make their way into Europe each year, many fitted with controls that could be faulty.

It is believed that Beijing's crackdown on kettle copying may be linked to a more general anti-piracy effort, to soothe western anxieties in the run-up to China joining the WTO. *(FT, 14.12.99)*

Taking on Big Boys

Khyber Technologies Corporation, an US-based firm headed by an Indian American, has filed a patent lawsuit against big companies such as Casio Inc, Everex Systems Inc, HewlettPackard, Philips Electronics North America Corporation, Philips Mobile Computing Group and UNIDEN America Corporation. The suit claims that there has been a violation by the defendants of the patent issued to the plaintiff in December 1997.

The patent grants, as claimed the plaintiff exclusive right to making, using, importing, offering to sell or selling within the US the device viz. pocket-sized organisers. The device can store and retrieve audio messages and handwritten messages entered on the screen of the device. The patent also covers such pocket-sized devices within a homebase station for transmitting and receiving to and from the device. *(ET, 12.12.99)*

Index for Knowledge Economy

The Patent & License Exchange Inc., a US based company, has compiled an Intangible Asset Market Index, which will track the knowledge economy particularly the values of patents, copyrights and trademarks worldwide in five technology sectors viz. advance materials, automotive technology, express-package transport and logistics, health technology, and information technology.

The Patent & License Exchange has tracked what it calls the

"enterprise value" of 30 companies in each of the five technology sectors it covers. Enterprise value is calculated each day by subtracting a company's book value from its market capitalisation. Each score is then averaged into one number representing the index for its sector.

But many observers are skeptical. Because the index is based on market values, it "is useless to investors," said Baruch Lev, Accounting and Finance Professor at New York University, USA. *(ET, 21.10.99)*

Mistakes of "Open Market"

Open Market is one of the first sellers of electronic commerce software and one of the first assignees of Internet commerce patents. While Open Market is still number one seller of consumer e-commerce software, its market share is slipping. It made several mistakes, such as going after the wrong markets, branching out to less profitable lines etc.

It is the type of situation where a patent portfolio can help, for example by asserting it against competitors to obtain license fees. However, Open Market's patent portfolio doesn't seem to be doing much for them.

There are mainly two problems with Open Market's patent portfolio. First, like too many other Internet patents, they are probably of questionable variety. Secondly, may be the patents are good, but the size of the portfolio or the scope of the patent claims is insufficient. *(PATNEWS, 26.10.99)*

Consumer Backlash Over Gene Food

The massive lawsuit filed against the US giant Monsanto, and rival biotech companies, gives legal expression to the fury generated by the unholy alliance between big businesses and western governments that would determine the destinies of the world's poor. The law firms, led by Cohen, Milstein, Hausfeld and



Financial Times

Toll and supported by farmers and environmentalists, are challenging the very US regulatory system under which genetically modified (GM) crops have already been approved.

Having seen the area of the world sown with GM crops multiply 15 times between 1996 and 1998, the five main biotech companies watched in dismay as Europe rejected GM foods. Now, the US consumers too are belatedly waking up to the controversial aspects of GM foods.

US farmers are now wondering whether to plant more GM seeds, and risk finding no buyers, or revert to conventional hybrids. Analysts' predictions of the fall in GM seeds widely range from 50 to 10 percent. Monsanto looks the most vulnerable of the involved companies. (FT, 15.12.99)

has a UK base in Cambridge, said rivals could undercut British Telecom (BT) if customers had a choice of operators.

In Britain, customers have to dial a four-digit code, before beginning their calls, to be able to use a long-distance network other than BT. EC wants consumers to be able to use long-distance operator of their choice without having to dial any special code. (ET, 15.12.99)

Fizz Out of the Coke

A Belgian court has ordered Coca-Cola to stop a promotional campaign set up in the wake of a drinks-contamination scare after finding that the company was misusing its market position, according to a rival company.

Chaufontaine Distribution said the President of Brussels Commercial Court had decided that the campaign disrupted the market and unlawfully strengthened Coca-Cola's position at the expense of the competitors. The campaign involved distribution of free cases of products and the exertion of pressure to obtain orders.

The judge ordered Coca-Cola to inform all its wholesalers and the 60,000 outlets of the order under forfeiture of BFr20,000 (\$510) per outlet per day, its rival said.

Coca-Cola launched the promotional campaign after a June contamination scare in which hundreds of consumers apparently fell ill after drinking the company's soft drinks. Products were subsequently withdrawn in Belgium, France, the Netherlands and Luxembourg. (FT, 30.11.99)

EU to Devour Pizza?

European Union (EU) officials, with a penchant for regulating everything, picked a soft target this time, one very close to the hearts and stomachs of the Italians. State-run television, national newspapers and politicians of various political hues are already marshalling protest against a new EU directive that promises to spell the end for the national Italian dish, the pizza.

Bureaucrats in Brussels want to do away with the traditional wood-fired ovens, the beloved of the pizza-bakers. For perceived reasons of improved hygiene and health, they are to be replaced with the ones heated by gas or electricity.

Clay ovens are seen as being essential for giving the pizza dough its unique consistency. The guardians of Italian cuisine are becoming increasingly nervous over the EU action. (TH, 18.12.99)

Cyber Consumer Protection

Consumer protection norms in the cyber mall have been largely ignored. No guidelines exist for issues such as accurate information of the goods sold, details of the actual transaction, payment system, refund policies, redressal measure *et al.* Worldwide studies indicated that very few cyber players resorted to fair play.

Finally, the voice of the consumer has been heard, initially, at least in the

29 countries of the Organisation of Economic Cooperation and Development (OECD). This is likely to prompt other non-member countries to follow suit.

The OECD member countries agreed to a set of guidelines, "The Guidelines for Consumer Protection in the Context of Electronic Commerce". The main aim is to ensure consumers are equally protected while shopping on-line as when buying from their local store or ordering from a catalogue. Like other OECD guidelines, they are recommendatory in nature.

They have the approval of Consumers International, world's largest consumer groups, and emphasise the need for cooperation among governments, businesses and consumers at all levels. (ET, 14.12.99)

Complaint over UK Exemption

The European Commission (EC) is likely to grant Britain a three-month exemption from plans of making it easier for consumers to choose their long-distance operator. All European Union (EU) countries will be required to introduce measures to enable customers to select their long-distance phone company. However, Oftel, the telcom regulator, had asked for a two-year moratorium for technical reasons.

Michael Potter, Director of California-based Sun Telecom, which

Ban on Chemicals in Toys

Teething toys for children under three made from PVS softened with so-called phthalates face a ban amid safety concerns. The European Commission is pressing for an immediate ban which would hit all products containing the controversial chemicals designed to be put in babies' mouth.

Consumer organisations and Greenpeace welcomed the Commission's move, though they said it should have covered all toys. But the toy industry denied that products containing phthalates posed a serious or immediate health risk.

Phthalates makers said the proposals were disproportionate and not supported by science, and they would consider legal action if a ban is imposed. (FT, 11.11.99)

Car Price Protests Gather Speed

Pressure on car manufacturers and dealers was mounting after months of complaints of the UK prices of new cars being too high. The UK Consumers' Association was running a "Great British Car Rip-Off" campaign at the London Motor Show.

It urged consumers to avoid showrooms as indications of sales decline accumulated and expectations of manufacturers being forced to cut prices grew. Its claim of the industry suffering a sales decline was supported by government figures indicating that the UK car output would decline for the first time in a decade.

The Society of Motor Manufacturers and Traders said the figures showing falling car output "reflect the continued struggle by domestic players against the sustained strength of Sterling". Total output was likely to fall by more than 2.5 percent to some 1.7mn from last year's 20-year high of 1.75mn.

In an effort to counter the mood-shift among the buyers, Ford introduced the Ford Price Promise scheme guaranteeing reimbursement of any subsequent price cuts. However, Ford denied that the sales had been falling. *(FT, 21.10.99)*

Wal-Mart Offshoot Criticised

Wal-Mart's Asda offshoot, the UK's third-biggest super-market chain, has been criticised by an advertising watchdog over a pricing promotion. The Advertising Standards Authority (ASA) ruled on a report of press advertisements describing as "permanently low" some lines that later increased in price.

The strategy is the key to Asda's market position, which emphasises "everyday low prices" rather than sporadic discounting.

Asda and Tesco, the market leaders, have been taking the market share from J. Sainsbury and Safeway. The ASA said, "Claims such as 'we are permanently reducing prices' and 'stay low, not short term' misleadingly implied that all lines in the promotion stayed at permanently reduced prices." *(FT, 08.12.99)*

Hospitals Face Regulations

Private hospitals, doctors and cosmetic surgery clinics, along with all residential and nursing homes, are to be regulated by a care standards commission, the UK government announced. However, the proposals were attacked by medical insurers for

not going far enough and by the Independent Healthcare Association for not embracing paybeds in state hospitals.

Under the care standards bill, all private hospitals and most cosmetic clinics will have to meet minimum standards, publish results and complaints and face annual checks and spot visits.

They will also face a wider range of sanctions and penalties for failure. At present, clinics can only be deregistered. Ministers have, however, not yet decided to require private hospitals and doctors to share clinical audit data with the new inspectorate.

Tim Baker, Commercial Director of Norwich Union, insurers, said that was "a missing element". "Data needs to be shared both to assess the overall results of treatments and the overall performance of doctors who work both in the NHS (state service) and privately." *(FT, 04.12.99)*

"Customer is the King"

Opinion poll leader Gallup said it had developed a proprietary customer management system that helps a company treat its customers like kings and not necessary evils. It increases customer loyalty, cuts costs, increases revenue and is aimed at companies that have a high degree of customer contact.

Glenn Phelps, Research Director of The Gallup Organisation, said the "Gallup Customer Loyalty Management System" had already produced results.

A major telecom company with large US operations had cut its absenteeism among employees who interface with customers by 52 percent, decreased staff turnover by 25 percent, reduced customer attrition by 2.3 percent and cut customer service costs by 5 percent, all over a period of 12 months. *(ET, 30.10.99)*

Politicians to Have Final Say

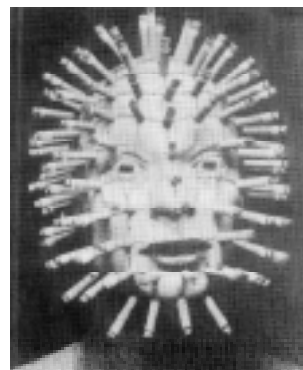
Food safety decisions in Europe are set to remain in the hands of politicians rather than experts under EC plans for an EU food safety agency. David Byrne, EC's Consumer Protection Commissioner, said the planned "independent authority" would only have an advisory role.

Speaking at the Commission's publication of a report by three EU scientists, he insisted the management of risk and law making had to be undertaken by "those who are accountable to the people". This

Smoking Kills Labels Proposed

Under the proposals approved by the EC, tobacco manufacturers have to print "smoking kills" or "smoking can kill" labels on the most visible surface of the packet and any outside packaging, in black on a white background with a black border and declare the non-tobacco ingredients such as sweeteners.

They also have to print the tar, nicotine and carbon monoxide yields of cigarettes on the packet in the country's official language so that a tenth of the surface is covered. The percentage would be 12 for countries with two official languages.



Under the proposals to be approved by member states collectively and the European Parliament, the tar contents of each cigarette would be cut from a maximum of 12 to 10 mg. Carbon monoxide would be limited to 10mg and nicotine to 1mg.

David Byrne, EU Consumer Protection Commissioner, said the EU, under the Amsterdam treaty, had a legal obligation to protect health. Ceccm, representing tobacco companies, said its affiliates were willing to enter into a "constructive and earnest consultation" on the proposals. *(FT, 17.11.99)*

suggests the agency will have less powers than the US food and drugs administration.

This may disappoint both the EU's trading partners and parts of the EU food industry, who frequently complain that food safety decisions are too influenced by political considerations rather than science.

Professors Gérard Pascal, Philip James and Fritz Kemper, members of the EU's Scientific Steering Committee, said the authority should be responsible for providing scientific advice on all health issues, excluding drug approvals. The reformed system should be more transparent and provide for better communication with the public. *(FT, 14.12.99)*

Compulsory Licensing Urged

India should provide for parallel imports and compulsory licensing, particularly of essential drugs on WHO (World Health Organisation) lists in its proposal on the amendment to the Trade Related Intellectual Property Rights (TRIPs). Muchkund Dubey, former Foreign Secretary of India at the annual general meeting of the Indian Drug Manufacturers Association (IDMA), argued this.

The Government should persuade other developing countries to enact similar legislation and, if necessary, take initiatives for seeking suitable amendments in the TRIPs. He urged the Indian drug manufacturers to prepare themselves for the eventuality of India not being able to avail of the flexibilities in the TRIPs agreement and the discontinuation of the system of process patents.

An adverse feature of the functioning of TRIPs is a spate of applications for patenting processes like that of *Neem*, *Haldi* and *Basmati*. President of IDMA, G K Nair suggested that the Patent Amendment Bill should not be rushed through. Instead, it should be referred to a Joint Select Committee of the Parliament. (BL, 16.12.99)

India to Attract Big Investment

At the 15th WEF (World Economic Forum) India Economic Conference, optimism was expressed about the ongoing "second phase" of economic liberalisation, considering it was being undertaken in the backdrop of a more favourable global economic scenario.

Kenneth Courtis, Chief Economist and Strategist of Deutsche Bank Group, Asia Pacific, observed that the

economies that had contracted in the previous year had now started to expand.

India has "a uniquely favourable financial environment" as investors are looking for places to invest. Investments would sharply increase if the recent policies are followed through. He said prosperity could reach a new level that would surprise many.

The WEF Director, Colette Mathur, remarked that his predictions had never been wrong. India could also, if it tried, deepen its international role in restructuring the rules of the international economy. (BS, 07.12.99)

India Needs A Competition Law

According to Prof Thomas Charles Heller, an expert on competition law and transnational law from the Institute for International Studies, Stanford University, USA, India should accord top priority to enacting a competition law that would complement its existing trade laws.

On the other hand, viewing competition law merely as a substitute for trade laws would be a 'mistake' in an increasingly global world. Trade laws cannot be effective in the absence of a competition law that would facilitate the opening of markets to foreign companies.

In developing countries like India, opening up of the economy will not be really effective unless the excessive powers of certain existing market players are reduced. He suggested India should look at the model being followed by the US and have competition bureaus in each of the 25 states. The legal system should be simplified to make it easier for the

aggrieved consumers to file private suits. (BL, 10.12.99)

Indian Software to Buy

India's fast-growing software industry has urged the government to allow it to acquire technologies overseas. NASSCOM, the industry lobby, had asked the Ministry of Finance to allow Indian software companies to spend 25 percent of their market capitalisation, up to a limit of \$500mn, on overseas acquisitions.

This request coincides with the announcement that for the first time market capitalisation of the export-oriented sector crossed Rs1,000bn (\$23bn).

Two-and-a-half years ago, the industry's market capitalisation was just Rs28bn. This sharp increase has given it the muscle to shop abroad. "The current market capitalisation gives us the unique opportunity to acquire companies in India and abroad," said NASSCOM President, Dewang Mehta.

In August 1998, the government announced that the companies that had earned more than \$25mn in software exports in the past three years could spend up to \$25mn on foreign acquisitions, without prior approval. (FT, 01.10.99)

Bill on Intellectual Property

The government has introduced the Trademarks Bill, 1999, in the Parliament. It seeks to simplify the registration process of trademarks, for both goods and services, and ensure that registration of imitation of popular trademarks does not take place. The Bill enlarges the scope of permitted use and the grounds for refusal of registration. It also encourages investment flows and transfer of technology.

An appellate board will be set up for speedy disposal of appeals and rectification of applications. The setting up of an Intellectual Property Appellate Board is estimated to cost Rs 35 lakhs (\$79,550). It will consist of a Chairman, Vice-Chairman and other staff. The final authority for registration will be the registrar of trade marks.

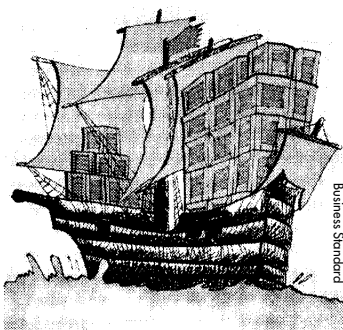
To prevent the sale of spurious goods, the Bill provides for enhanced punishment for offenders. The use of second party's trade mark is also prohibited. It seeks to include countries that are members of groups of unions of countries and inter governmental organisations. (BS, 14.12.99)

Global but Poor

India appears to have been more global in 1900 than today. Till 1894, there were no tariff or non-tariff barriers on imports. On an average, 60,000 people emigrated (net emigration) every year. In exports, Britain had a 30 percent share, China 11, USA seven and Japan two percent. In imports, India was a big market for finished goods for Britain, which had a share of 66 percent.

Earlier, exports used to be indigo, raw silk, opium and cotton. By 1900, food-grains, jute, oilseeds, tea, hides and skin and cotton textiles began to figure in the export basket.

Because of cotton textiles, there was a sharp increase of almost 20 percent in the share of manufactured goods in the export basket. Imports were mostly capital goods and manufactured consumer goods. Between 1860 and 1913, the stock of gold and silver in the country more than doubled. (BS, 01.12.99)



Dumping Law Proposed

The Commerce Ministry is evolving a comprehensive Import Remedial Measures Act (IRMA) that would cover anti-dumping, anti-subsidy, countervailing and safeguard measures to stymie Finance Ministry's bid to gain control over the dumping directorate.

The Trade Policy Division in the Commerce Ministry has come up with this suggestion of a new Act to bring about better coordination between different bodies dealing with import related measures, official sources said.

While the anti-dumping and anti-subsidy procedures have been initiated by the Commerce Ministry, safeguard measures have been taken by the Finance Ministry.

However, the Revenue Department has been laying claim over bringing the anti-dumping directorate under the Finance Ministry. In its note, the Commerce Ministry had said IRMA was essential because the existing system violated the Customs Tariff Act. (ET, 04.10.99)

Global Strategy for SSIs

The Government was in the process of chalking out a strategy to make small-scale industries (SSIs) globally competitive.

"There is an urgent need to reorient production towards those products in which we have a comparative advantage...the emphasis has to be changed towards ensuring better quality of products. Quality is the key word as the 25-crore strong Indian middle-class has begun to be more quality conscious and (is) willing to pay a little extra for the goods they purchase," said D P Bagchi, Secretary, SSI Ministry.

The multi-pronged strategy would focus on three elements: technology, ensuring better credit flow to the SSI sector and better brand promotion. It would ensure SSIs in the country do not get wiped out in the face of liberalised trade regime under the aegis of the World Trade Organisation. (BS, 04.12.99)

Child Labour in Tea Gardens?

The Indian tea industry got entangled in a controversy with the *Sunday Mirror*, London, recently reporting the use of child labour in its tea plantations. The issue was exacerbated by the British Consumer Minister Kim Howells' comments on the need to raise the matter at the

Growing Rural-Urban Income Disparity

Rural-urban income disparity in the country is growing, according to a survey by Micro Impact of Macroeconomic and Adjustment Policies (MIMAP)-India Project. Rural income accounted for 55.6 percent of the gross income generated in the household sector in 1994 against 66.8 percent in 1974-75.

Rural population, as a percentage of the total population, in this period went down from 79.1 percent in 1974-75 to 74.6 in 1994-95. One in every 25 rural households had an income of more than Rs 72,000, while every fourth urban household reported a similar income.

Average annual rural-household income is 23 percent below the all-India average of Rs 35,694.

Annual urban average income at Rs 57,675 is, however, 61.6 percent higher than the national average. In both rural and urban areas, however, the maximum number of households is in the Rs 24,000 to 48,000 bracket. Over 55 percent rural households are below the Rs 24,000 bracket. (BS, 16.12.99)

Widening Gap			
Percentage distribution of households			
Annual income group	Rural	Urban	All-India
Up to Rs 12,000	16.2	2.3	12.4
Rs 12,001 to 18,000	25.7	7.7	20.8
Rs 18,001 to 24,000	17.9	9.6	15.6
Rs 24,001 to 48,000	29.9	35.8	31.5
Rs 48,001 to 72,000	5.9	19.8	9.7
Rs 72,001 to 96,000	2.1	11.3	4.6

WTO ministerial meeting at Seattle.

Indian industry has reacted to it strongly and requested Howells to take remedial action. The report, "Real price of your Cuppa", written by Graham Johnson has named England-based George Williamson and Co as one of the users of child labour. Its Indian subsidiaries own over 50 tea gardens, making the group the country's single-largest tea producer.

Tetley, one of the buyers of George Williamson, said it expects its suppliers to comply with the existing local legislations. UNICEF's representative in India, Alan Court, has also said no child under 14 should work in a tea plantation.

The Indian Tea Association, however, rebutted to Howells saying the report was a "gross representation of facts and it cannot be taken as authentic or authoritative". (BS, 12.11.99)

Mind Your Qs and Rs, or else ...

The US decision to give India only 15 months to do away with quantitative restrictions (QRs) on imports of agricultural, textile and industrial products is not surprising. However, both the government and industry were hoping the Dispute Settlement Panel (DSP) of the WTO may give India some exceptional flexibility.

The panel had justified a phase-out period longer than 15 months on the ground that India's other trading partners had reached a mutually agreed solution of lifting import curbs. India has negotiated a six-year phase-out period with some other countries.

The US had initiated dispute settlement proceedings against India in 1997 in the WTO, after the WTO Committee on Balance of Payments failed to hammer out an agreement

on a phase-out period to India.

The US has held that the WTO should remove the "largest barrier" to increase exports to India. A complete removal of QRs will not be very difficult or taxing as Commerce Ministry has already begun shifting a number of items from the restricted to free and special import licence lists. (ET, 18.10.99)

Five Items Dominate Exports

In a presentation made by the Union Commerce and Industry Minister, Murasoli Maran, only rice, marine products, gems and jewellery, cotton yarn fabrics, made-ups and ready-made garments have a weightage of one percent in terms of commodity destination.

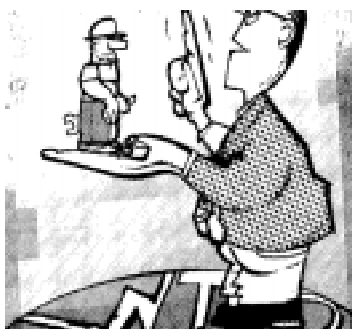
Analysis shows exports to most of the Southeast Asian countries have recovered. Exports to Indonesia, which fell by 57 percent in 1998-99, rose by 122 percent this year. Exports to South Korea and Malaysia, which fell by 41 and 35 percent, respectively, last year, rose to 80 and 30 percent, respectively, this year.

Exports to Singapore, which fell by 33 percent last year, went up by 33 percent this year. Exports to Thailand also rose by 22.05 against a fall of 7.18 percent last year. However, exports to Japan continued to fall in the current year. A study of the countries to which India's exports are over \$0.5bn, shows exports to most have risen.

Exports to West Europe and Germany have risen by 7.4 and 6.9 percent, respectively. Higher increases have been registered to the UK, Asia and Oceania of 18.4 and 10 percent, respectively. Exports to the US are up by 7 percent. Exports to Japan and East Europe are a negative 5.6 and negative 2.5 percent, respectively. (BS, 14.12.99)

Trade Sanctions Based on Linkages Won't Work

The CUTS Centre for International Trade, Economics & Environment, Jaipur, India and the Institute for Agriculture and Trade Policy, Minneapolis, USA organised a Panel discussion on linkages as a side-event to the Third Ministerial Conference of the World Trade Organisation (WTO) held at Seattle, USA. More than 60 representatives of different labour and other civil society groups from various countries attended this event.



The Economic Times

Impassioned Plea

"Unless we get out of the debate of a sanctions framework on trade-related environment and labour standards, we will not be able to progress in achieving better standards". This was the impassioned plea by Charlie Arden Clarke of the World Wildlife Fund for Nature (WWF), International. Many in this much emotionally charged meeting agreed with this cry, though some trade union activists did not.

This event was organised to debate the issue of environmental and labour standards as trade measures, which are being pushed by the USA and European Union along with other developed countries for incorporation into the WTO.

The issue is being stoutly opposed by the developing world, perhaps the only issue on which they are together unhesitatingly. On the one hand there are genuine concerns that these can lead to increased protectionism, thus there is a clear North-South divide on the matter.

"The organisation of such a dialogue was very pertinent and useful, specially when emotions have been running high on these issues in developed and developing countries," said Ricardo Melendez of the Geneva-based International Centre for Trade and Sustainable Development, who was moderating the discussion.

WTO: Not the Right Platform

Speaking on the occasion, the noted trade theorist, Prof Jagdish Bhagwati of Columbia University, New York, USA was categorical that although an interface exists between trade and environment, this is not an issue for being adjudicated by the WTO.

More importantly, he was concerned that by raising issues pertaining to labour standards, developed countries were forcing a moral agenda to address their concerns in the area of competitiveness. He added that concerns pertaining to labour standards could be addressed "by putting teeth" in the mouth of the International Labour Organisation (ILO).

Many in the audience were not convinced by Bhagwati's arguments.

However, there were a few from the developing countries, who voiced their support for his views, one of which was the whole issue of market access being adversely affected by such non-tariff barriers.

"The WTO was not the right platform to deal with problems to environment and labour standards even if they had an oblique relationship with trade. Pursuing a sanction based on the WTO platform would harm the potential of having an integrated social development package to address such issues," said another panellist, Kristin Dawkins of the IATP.

Stronger Institutional Relations

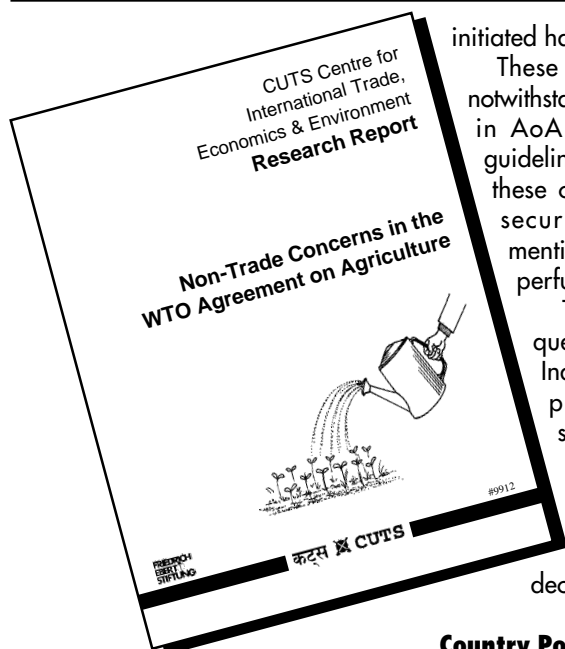
James Howard of the Brussels-based International Confederation of Free Trade Unions (ICFTU), and the main protagonists of the social clause, asserted that stronger institutional relationship between the WTO and core labour standards was the only solution for addressing labour abuses resulting from export oriented activities.

Reacting to this proposal, representatives from developing countries mentioned that organised labour was only five percent of the total work labour force in developing countries and wondered how the remaining 95 percent from the unorganised sector could be pulled out of misery and poverty.

On the issue of child labour, Pradeep Mehta of CUTS argued that it is a complex socio-economic phenomenon and thus cannot be resolved through trade sanctions. "According to a study done by CUTS in India, it would cost anywhere from \$12bn to 18bn per annum to send all the existing and potential child labour to schools. The government of India does not have these resources, while the overseas development aid is shrinking", he added.

Howard agreed that child labour was a complex socio-economic phenomenon and was not an easy problem to tackle.

Indeed the debate was highly charged, and many in the meeting agreed that the issue should be continued to address through such dialogues in future.



initiated has been emphasised.

These references to the NTCs notwithstanding, existing provisions in AoA do not provide clear guidelines with which to address these concerns. Only the food security issue has found a mention and that too in a very perfunctory manner.

This raises several crucial questions for countries like India where the acquisition price for building food stocks had been lower than the international price for a long time before the latter registered steep decrease in the recent past.

Country Positions on NTCs

The third section provides various country positions on NTCs. The discussions in the WTO Committee on Agriculture on the NTCs have brought out two clear dimensions of the NTCs. The first is the issue of the "multifunctional character" of agriculture. This included protection of the environment in general and conservation of biodiversity in particular. The second aspect of NTCs is that of food security.

Norway, Japan and the European Union (EU) have provided an elaborate view of what they perceive as the multifunctional character of agriculture. They have raised two substantive issues in presenting what can be termed as the developed country perspective on the multifunctional character of agriculture.

The first pertains to ensuring of the viability of the rural areas, which, in their view, provides sustenance to a sizeable section of the population. The second is the support provided by agriculture to the preservation of the environment and that of the rural landscape.

Australia, however, contended the view that there exist strong links between agricultural activity and rural landscape as the habitat for biodiversity is an attempt to justify subsidisation of agriculture in a selective, and at times, misleading way.

On a different plane, Mauritius has tried to indicate the significance of multifunctionality for a small island

developing country, which is dependent on single crop.

On the issue of food security, there are four strands of arguments put forward by WTO Member countries. Norway focuses on the role of domestic production in ensuring food security. Japan and Republic of Korea have presented the perspective of the large net importers of food grains as regards food security. In view of Switzerland, the question of supply of food grains needs to be formulated not just in quantitative terms but also in qualitative terms. The latter, quite clearly, encompasses the genetically modified foods, one of the raging controversies of late.

The developing countries perspective on food security has been emphasised by India. The points made by India address two characteristic features of developing countries, which are pertinent in the context of the issue of food security. These are (i) dependence of a large proportion of the population on the rural economy, in particular, agriculture and (ii) high incidence of poverty.

Improving Food Security

The fourth section analyses perspectives on improving food security through trade, including country experiences with respect to trade liberalisation and food security. It has been found that in the past decade the increasing degree of trade liberalisation has put the trade sector in the primordial position in all countries.

But while trade may not help in meeting the food gaps in the deficient countries, excessive reliance on trade may be counterproductive for the food sector.

An attempt is also made to analyse the relationship between global food stocks and food security. The trends indicate that quite contrary to what has been argued, the prospects for global food stocks do not appear to be very promising.

Conclusions

Finally, the concluding remarks argued that it is necessary to focus on the domestic food grains sector in ensuring food security. This would require a reorientation of the AoA, which would be a major challenge for the review process.

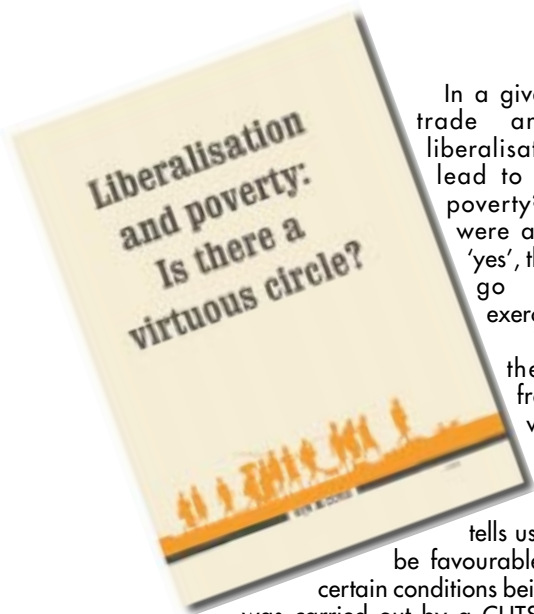
Policies governing the agricultural sector are currently going through a series of changes the world over as countries make attempts to fulfil their commitments under the Uruguay Round Agreement on Agriculture (AoA). The central focus of the AoA is clearly on the introduction of mechanisms that would ensure a better climate for agricultural trade.

However, the AoA also made references to several non-trade concerns (NTCs) that would have to be taken on-board while the Agreement is being implemented by the Member countries of the World Trade Organisation (WTO). These NTCs include food security and protection to the environment, among others.

This Research Report, written by Dr. Biswajit Dhar and Dr. Sachin Chaturvedi of Research and Information System for the Non-aligned and Other Development Countries, New Delhi, provides a detailed analysis of the NTCs, covering various dimensions indicated by the AoA.

Dimensions of Non-trade Concerns

The preamble to the AoA provides some indication as to what can be termed as the NTCs. Food security and protection of the environment have been identified as the major NTCs that the AoA was mandated to address. The NTCs also find a mention in Article 20 of the AoA, wherein the need to continue the reform process that it has



In a given economy, do trade and investment liberalisation necessarily lead to a reduction in poverty? If the answer were an unconditional 'yes', there is no need to go through this exercise.

The motivation for the study comes from the fact that we have a body of theoretical and empirical evidence that tells us that the link can be favourable, depending on certain conditions being met. The study was carried out by a CUTS-led consortium,

which includes Indira Gandhi Institute for Development Research, Mumbai, India; the Centre for Policy Dialogue, Dhaka, Bangladesh; and the Sustainable Development Policy Institute, Islamabad, Pakistan. The project was awarded by the Department for International Development, Government of the United Kingdom.

The theoretical arguments are based on the reallocation of resources that would take place as the relative prices of imported and exported commodities change. If an economy has abundant labour, then trade and investment liberalisation will shift relative prices in favour of labour-intensive commodities. Depending on the economy's ability to facilitate the movement of resources across sectors, this shift can help to alleviate poverty by increasing employment, as well as wages, as labour is more productively utilised.

The Analytical Framework

There are four links in the analytical chain. First, industrial activity shifts towards more labour-intensive commodities. Second, this generates an increase in the demand for workers. Third, there is a population of workers who are willing and able to do the jobs that are being created. Fourth, the overall economic environment is conducive to these three potential links being achieved.

If the wages for the kinds of jobs being created lie significantly above the poverty line, then this creates the final link between liberalisation and poverty alleviation.

Literature Survey

This chapter provides a review of literature on the problems of low income, poor working conditions and insecurity affecting the world's poor today, especially in the backdrop of globalisation. The first part of the literature survey presents theoretical literature that traces the possible effects of various types of liberalisation measures on wages of different types of workers. The second part provides a survey of empirical literature on the linkages between trade and investment liberalisation, growth, inequality and poverty.

Employment, Earnings and Poverty in India

This chapter explores the behaviour of several characteristics of the Indian economy over a period, which

straddles the major liberalisation initiatives of 1991-92.

With respect to poverty line and earnings comparisons, it appears that employment in the organised sector pays enough to keep the average household out of the poverty line, even at the lowest wage levels. Informal sector wages, in many states, do not provide enough to the individual worker to keep the average household above the poverty line.

Field Survey

The survey was carried out in different parts of India. Three sectors, which have been relatively successful in exports and employment generation over the last few years, were chosen for the survey. These were readymade garments, gems and jewellery, and food processing. Two sectors, which have seen a shrinkage in their activity during the 1990s, plywood and glass, were also surveyed.

It was found that availability of unskilled labour is not a constraint for the growth of labour-intensive sectors. The problem surfaces in the area of upward mobility of incomes.

The Bangladesh and Pakistan Study

The Bangladesh study identified five areas where a poverty sensitive growth strategy in a liberalising economy may concentrate its efforts: a) proper phasing and sequencing of the liberalisation process; b) investment in human capital; c) raising of the governance capacity of the state; d) strengthening of bargaining power in the global trade regime; and e) adequate design of social policies and safety nets as compensatory mechanism for safeguarding the interests of those who are unable to take advantage of the new opportunities, and those who are directly and adversely affected by the process of liberalisation.

The Pakistan study revealed that policy changes have not had a significant positive impact on poverty for a number of reasons: a) inconsistency in reform policies; b) lack of debt management in budgetary efforts; c) the emergence of an uncompetitive market structure and loss of competitiveness; d) persistence of anti-export bias in policies; and e) import-substituting foreign investment.

Conclusions: A Policy Handbook

This chapter extracts policy implications from the combined findings of the study. The first set of implications deals with the macroeconomic and external environment in which the process of liberalisation is taking place. A major message is that the proliferation of non-tariff barriers may slow down the export growth of the very commodities that developing countries would rely on to generate large volumes of employment.

The second set of recommendations is with regard to the problems of industrial restructuring. The main lessons here relate to the need to facilitate restructuring by developing an equitable mechanism for sharing the costs of exit.

The third set of implications is with respect to the functioning of the labour market. In the lower skill categories matching up jobs with workers is generally not a problem. However, there is a collective under-investment in training, which calls for a sharing of the costs of training.

The last section of the policy handbook discusses the relevance of these conclusions from the collective viewpoint of the three countries, based on perceived similarities and differences between them.

SOURCES

ET: THE ECONOMIC TIMES; BS: BUSINESS STANDARD; BL: THE HINDU BUSINESS LINE; TH: THE HINDU; FT: FINANCIAL TIMES; WSJ: THE WALL STREET JOURNAL