Trade Friction Looms as U.S. Weighs Export Relief for Asia

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While the world's economic heavyweights are moving to extend debt relief to tsunami-hit countries, a fight is brewing over the assistance some Asian nations also want: new trade concessions that give them wider access to Western markets.

Sri Lankan textile executives are calling on their government to press for reduced tariffs on exports to the U.S. and Europe, and the Thai prime minister wants lower tariffs for shrimp exports. The pleas for assistance underscore the broader pressures on the region, and the difficulties that lie ahead as relief efforts turn from emergency aid to crafting a broader recovery plan. Those demands will face big political and legal hurdles in the U.S. and in Europe, though Europeans seem more receptive.

Even before tsunami waves swept through the Indian Ocean three weeks ago, southern Asia was facing significant economic challenges, in particular the end-of-2004 expiration of the international system that controlled trade in textiles involving dozens of nations and hundreds of billions of dollars.

Under the 1973 Multifiber Agreement, developed markets set quotas that limited the amount of apparel imported from less-developed markets. The end of the quota system opens the door to cheap-labor competition from China that threatens to cut jobs and economic growth in Sri Lanka and several other textile-producing nations in southern Asia.

In the catastrophe's aftermath, Europe and the U.S. are united behind the idea of providing, at minimum, debt relief. Yesterday, the Paris Club group of 19 creditor nations offered to allow Asian nations to suspend all debt payments so that they could use the money to help cover the costs of rebuilding after a disaster that took at least 150,000 lives (see related article).3

The choice facing the West entails challenges similar to those posed after the Sept. 11, 2001, terrorist strikes in the U.S., when Washington juggled requests by Pakistan -- a key ally in the Afghan war -- for special textile trade preferences. The U.S. ended up granting Pakistan only marginal relief.

On the issue of providing broader economic assistance, Europe seems more prepared to go along. U.S.
officials say they are open to considering action. But Washington's immediate focus is on delivering emergency provisions, and officials stress that the details of any long-term U.S. recovery package are still in the formative stage. "We have been in active consultations with the trade ministries from tsunami-affected countries, discussing possible ways to help facilitate reconstruction efforts," says Richard Mills, spokesman for the U.S. Trade Representative's office.

Pressure is mounting in the U.S. from shrimp and textile producers to resist extending any special favors to countries hit hard by the tsunami. Both industries complain that they have suffered from low-priced foreign competition, and have fought in recent years for greater government protection.

Shrimp from six Asian and South American countries have been involved in a long-running trade dispute over American shrimpers' complaints about low-priced imports. Last week, the U.S. International Trade Commission determined that shrimp imports from the countries, including India and Thailand, had harmed U.S. fishermen and processors. The action set the stage for the administration to impose new duties on foreign shrimp, but the ITC said it would initiate a review of the India and Thailand cases in light of the catastrophe.

The Southern Shrimp Alliance, an American advocacy group representing fishermen and processors in eight Southern states, is pressing the administration not to overturn the actions against India and Thailand. "We should do all we can to aid those who have lost so much," said Eddie Gordon, president of the alliance. But "we do not believe the tsunamis change our legal cases."

Already bracing for a surge in textile and garment imports from China, the U.S. producers of these goods also bridle at granting relief. "You don't go to the intensive-care unit when you're looking for blood donations," said Jim Schollaert, a top lobbyist for the American Manufacturing Trade Coalition, an influential textile advocacy group. "This industry has already been bled white."

The U.S. imports more than $3 billion of shrimp annually, and more than $70 billion in garments. And imports are much in the spotlight as the U.S. trade deficit ballooned last year to $561.33 billion through November, compared with the $496.5 billion deficit for all of 2003 (see related article above).

There's no doubt that Washington policy makers will eventually address economic assistance for southern Asia. When lawmakers reconvene later this month, calls are likely to grow for an aid package dedicated to reconstructing the damaged countries. But the details could be difficult to work out, especially if the legislative debate turns to providing targeted assistance.

"We certainly need to show leadership in helping those countries, but these are all tough issues," says Rep. Jim Davis of Florida. Mr. Davis, a moderate Democrat, is generally a supporter of free trade, but he worries about the economic health of shrimpers in his Tampa-area district. "These folks haven't got all the money in the world to hire lawyers, and wait five years for results."

European Union trade officials are exploring several ways to help southern Asia. In particular, they are considering a proposal to speed up overhaul of a system that hands trade preferences to poor and developing countries. All developing countries can benefit from the new rules once they are in place. Exports to the EU of Thai shrimp, Indonesian fish and Indian and Sri Lankan textiles are expected to boom once the new rules kick in. Significantly, the rules will give Sri Lanka duty-free access to EU textiles markets.
The EU is also looking into diverting existing funds into trade-assistance plans targeting the affected areas. Every year, the EU gives several million euros toward long-term trade development projects such as training. These funds could, for instance, be redirected to help rebuild devastated fishing industries to be in line with international food-safety standards. That way, rebuilding will also ensure the long-term health of those countries' export markets, officials said. Such measures could help Indonesian and Thai tuna and shrimp exports.

"The important thing is to reorient the aid so that it helps countries trade in the long run," said EU spokeswoman Claude Veron-Reville.

The near-term focus is on debt relief. The debt moratorium envisioned by the Paris Club could last for as long as a year. So far, only Indonesia, Sri Lanka and the Seychelles have indicated they would take up the creditors' offer, said Jean-Pierre Jouyet, the Paris Club chairman. Thailand, which also suffered from the tsunami but doesn't have large debt obligations to the Paris Club, has said it isn't interested.

Indonesia, which sustained the highest losses, welcomed the offer but said it needed more aid. "We are perfectly grateful for the efforts made to relieve our debt," Foreign Minister Hassan Wirayuda said in Paris on Tuesday. "But it is obvious that we would also appreciate receiving donations rather than new credits." Indonesian officials said their projected debt-service cost for 2005 and 2006 will total $3.6 billion and that they preferred a two-year moratorium.

---- Juliane von Reppert-Bismarck in Brussels and Patrick Barta in Bangkok, Thailand, contributed to this article.

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