

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

RESTRICTED
C/RM/OV/M/5
23 November 1995
Limited Distribution

(93-3706)

COUNCIL
15 December 1994

MINUTES OF MEETING

Held in the Centre William Rappard on 15 December 1994

Chairman: Mr. M. Zahran (Egypt)

**Overview of developments in international trade
and the trading system**

1. Pursuant to the Decision taken by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403), the Council held a special meeting on 15 December 1994 to conduct an overview of developments in international trade and the trading system. The discussion was assisted by the Annual Report of the Director-General (C/RM/OV/5)¹, reviewing recent trends in world trade and trade policies, and setting out major GATT activities for the period April 1993 through November 1994. In addition, the Report provided a brief summary of the results of the Uruguay Round, and of the challenges ahead in order to ensure that the WTO become the framework for a truly global trading system.
2. The Chairman opened the meeting by reminding delegations that the Annual Report of the Director-General was primarily intended to assist delegations in putting forward their own views on the trading system and in facilitating exchanges among members. Representatives who wished to draw attention to errors or omissions in the document were invited to communicate these to the Secretariat in writing after the meeting.
3. In his introductory remarks, the Director-General said that the extraordinary events in the world trading system that had taken place since the previous overview in April 1993 were well-known. First and foremost was the successful conclusion of the Uruguay Round of negotiations, the endorsement of the results at Marrakesh, and their submission for approval to domestic authorities. More than fifty-five countries had either formally ratified or at least completed all domestic ratification processes, and the date of 1 January 1995 had been agreed for the entry into force of the World Trade Organization. One was therefore in a state of transition between the system created by GATT 1947 and the system that would come into existence under the WTO in just over two weeks. This unique moment in the history of the trading system, between the past and the future, had been reflected in the Annual Report. The strengths of the present system, and its weaknesses, were evident from the survey of GATT activities over the past twenty months. All would agree that the multilateral trading system would continue to play an essential role in sustaining the long-term health of the world economy. The system's ability to do so had been significantly reinforced in at least three ways by the results of the Uruguay Round. First, the credibility of the system had been restored by the negotiated solutions that had been found for textiles and clothing, agriculture, and grey-area measures. Second, the relevance of the system to economic relations was ensured by the more open and secure markets for trade in goods, and the new framework for trade in services and intellectual property protection, as well as the global acceptance

¹A corrigendum was issued subsequently as C/RM/OV/5/Corr.1.

of the WTO framework as the basis for trade relations. A more effective dispute settlement system would protect the benefits of all the agreements reached. Third, the momentum of the system would be forward-looking due to an active programme of negotiations in services, the ongoing work programme for trade and environment, and the further negotiations planned for agriculture, as well as the active process of accessions already under way. These and other items that might be added to the WTO agenda would be overseen by governments at the highest level.

4. These elements promised to make the multilateral trading system a more effective support to governments in resisting protectionist responses to problems of domestic adjustment and would ensure that the system provided a forum for dialogue and negotiations. This was vitally important because a number of developments promised to make international commercial relations even more challenging in the coming decades. Among these was the ongoing integration of the world economy and the attendant adjustment pressures on domestic economies, the ongoing reform process in many developing economies, the transition to the market in Central and Eastern Europe and the States of the former USSR, the divergent demographic trends around the globe, the continuing trend to regional integration agreements, and the likelihood that the agenda of the trading system would continue expanding into policy areas formerly considered as purely domestic.

5. Several of the more immediate challenges to turning the promise contained in the Uruguay Round agreements into reality for enterprises and consumers over the world had been discussed in the concluding section of the Annual Report. The most important among these was maintaining confidence in the new system by a willingness to abide by the letter and spirit of the WTO Agreement. All that had been achieved, and the organization which was being established, was dependent upon its credibility, which in turn was dependent upon the willingness of the parties that had endorsed the Agreement to live up to the letter and spirit of the law. The complex and far-ranging set of commitments that governments would shortly put into place or begin to implement was a finely balanced package, reflecting the political compromises made in the negotiation phase. He urged all to respect this balance in the implementation phase and to make judicious use of the flexibility provisions in order not to undermine the legitimate expectations of trading partners. Another of the challenges mentioned in the Report, and to which he wished to draw attention as being of particular relevance and importance, was that of ensuring the effective participation of developing countries in the trading system. An area of particular attention was to carry out the mandate of the Decision on Measures in Favour of Least-Developed Countries.

6. The present overview and past such exercises had taken place in the context of a close monitoring of developments in the trading system by the GATT 1947 contracting parties, whether in the context of their regular sessions, the Uruguay Round Trade Negotiations Committee or more recently the Preparatory Committee for the WTO. Once the WTO was in place, however, the annual overview would provide WTO Members with a unique opportunity to gather at the end of each year, to reflect upon and debate the issues confronting the multilateral trading system. The essential value of this overview exercise lay in the opportunity to engage in a frank exchange of views, from which valuable new directions for collective action would certainly emerge.

7. The representative of Canada, commenting on the Trade Policy Review Mechanism (TPRM), said that Canada had been one of the principal instigators of the TPRM process at the Montreal mid-term Ministerial meeting in December 1988, and had actively sought its inclusion in the Final Act of the Uruguay Round negotiations. Canada continued to support the objectives set by the original drafters of the TPRM, and noted with satisfaction that the TPRM would soon exist as a full-fledged instrument for increasing transparency and surveillance of Members' trade regimes in the WTO. Canada shared the view of the Chairman of the CONTRACTING PARTIES expressed on the occasion of the Fiftieth Session, that the TPRM should be reviewed and streamlined where possible, making it less burdensome both for the Secretariat and the delegations involved.

8. Approximately fifty reviews had been conducted under the TPRM until the present. As one moved to reviewing governments under the six year cycle, as well as re-examining governments under the two and four year cycles, the burden on the Secretariat's resources would increase substantially. Moreover, the TPRM under the WTO would cover new areas such as services and intellectual property. Having undergone three reviews of Canadian trade policy, his authorities were concerned about the direction in which the process had evolved. Reviews had often become simply question and answer sessions on technical points of law or regulation without producing any real dialogue on the trade policies of the governments being reviewed. If the consequences of further strain on the system were to be avoided, the TPRM process would need to be turned back to serving its original intent, namely that of examining broader policy themes of the reviewed government's trade regime.

9. With regard to streamlining the TPRM process, he recalled that the Council had adopted a decision on 10 May 1994 (L/7458) to change the format of the government report to that of a policy statement. Canada had been the first to write its report in the new format. Although the success of the new format would require time to evaluate, Canada hoped that the new format would focus more on the policy directions underlying a government's legal framework and less on the tools by which they were pursued. There was also a need to restore credibility to the TPRM, which would only be partly achieved by reform measures. Canada wished to emphasize to all the need to attach a higher level of importance to the TPRM as an instrument for fostering business confidence through increased transparency and surveillance, and in promoting a well-functioning multilateral trading system. With a full review of the TPRM system, other measures could be identified to further streamline the process, and strengthen governments' commitments to the TPRM. Canada looked forward to working with others to improve the TPRM.

10. The representative of Australia recalled that Australia had been among those countries that had placed great importance on the development of the TPRM in the Uruguay Round negotiations. Australia was ready to participate constructively in efforts to continue to streamline and improve the functioning of the TPRM, and believed that the mechanism would be even more important with the establishment of the WTO and the need to keep trade policy measures in relation to all the areas covered by the WTO in goods, services, intellectual property, and other areas under regular surveillance. Australia looked forward to efforts to improve the process, but the process itself remained very important to it.

11. Addressing an issue important for the future of the multilateral trading system, namely the move towards greater regional economic cooperation which one had seen in Europe, in the Americas and in the Asia-Pacific region, he said that regional trade arrangements could make an important contribution to global trade liberalization, provided they did not raise barriers to non-participants. On the other hand, regional trade arrangements could also provide impetus to multilateral and unilateral liberalization by demonstrating the benefits of liberalization; by exposing industry to competition and reducing the cost and impact of MFN liberalization to participants; as testing grounds for new and emerging trade agendas; and by encouraging non-participants to support multilateral liberalization to avoid discrimination. In the Asia-Pacific region, Australia had strongly welcomed the commitment by APEC leaders in Bogor, Indonesia, to a goal of GATT-consistent free and open trade and investment in the region no later than 2020. Developed countries would reach this goal by 2010. Australia had also strongly endorsed a number of supporting initiatives agreed in Bogor, which included accelerating implementation of Uruguay Round commitments, continuing unilateral trade and investment liberalization, refraining from introducing measures which would effectively increase levels of protection, and examining options for a voluntary consultative dispute mediation service which would supplement, and not detract from, GATT/WTO dispute settlement procedures.

12. A second key issue facing the WTO system would be a heavy ongoing workload on accessions, reflecting the heightened interest since 1993 in membership of a successful multilateral trading system.

The exponential increase in the number of applications in this period bore particular testimony to the regard in which the GATT/WTO system was held by those presently outside it, in building a trading system of benefit to all countries. The negotiations taking place at present as well as those due to commence shortly were important for all and for the system. Newly acceding governments would clearly strengthen the GATT/WTO system. It would be important, however, that acceding governments came into the WTO with a full understanding and readiness to accept the obligations of membership as well as the benefits.

13. The third feature to which he wished to draw attention was that the completion of the Round and the creation of the WTO made a vital contribution to the building of a genuine global economy, from which all countries should be able to benefit on the basis of comparative advantage. Clearly, the Round did not do the whole job, and more remained to be done in future negotiations to move further along the course that had been charted. If this were to be achieved, the more active participation of developing countries that one saw in the Round would be essential in the WTO. One of the fundamental reasons that the Round ultimately succeeded was that a sufficiently critical mass of developed and developing countries had been, during the course of the seven years of the Round, embarking on a process of domestic reform and of market deregulation on goods and services which made it possible to accept commitments across the broad range of the negotiating spectrum of the Round. There was much in the Uruguay Round package of benefit to developing countries as well as those with economies in transition in increasing their trade and growth prospects, both with the developed countries and with each other. There was also much that many developing countries could still do to get maximum benefits from the Uruguay Round package, by looking harder at how domestic policy reforms could reinforce the scope for further trade growth, and by their more active participation in the use of WTO mechanisms in the future.

14. The representative of Japan said that, as mentioned in the Annual Report, the international economy, as well as international trade, were expected to see a substantial recovery, boosted by the economies of Europe and Japan. One of the prime objectives of Japan's trade policy was the realization of sustainable development and economic growth without inflation. The present trend was toward the improvement of the world economy and Japan was eager to promote this situation by making further contributions to its recovery. On 8 December, Japan's legislature had approved the WTO Agreement. For those governments that had yet to complete their own domestic procedures, he hoped that their increased efforts to ratify the Agreement would enable as many governments as possible to finish this task before the end of the year. Expansion and prosperity of world trade would be strengthened by the development of an open multilateral trading system. Under the WTO, it was possible to see a bright future, though there still remained some obstacles to hinder the liberalization of the world trade system. During the process of approval of the WTO Agreement in Japan's legislature, concerns had been expressed about remaining unilateral measures, such as Section 301 of the US Trade and Competitiveness Act of 1988. Deviations from the trade system established under the Uruguay Round agreements undermined the functioning of the system as a whole. All had to do their best to observe the letter and the spirit of the WTO to prevent such unilateralism, or any other deviations such as abuse of anti-dumping measures, from distorting the Uruguay Round agreements. In addition, regarding the use of such measures as anti-dumping, the frequent recourse to dispute settlement procedures had been a notable feature of recent years, which showed an increased tendency towards settling trade-related disputes according to multilateral rules. Given this somewhat positive situation, one would soon have to deal with implementation procedures including the selection of Appellate Body members to make the dispute settlement framework practical and operational.

15. Another hindrance to the liberalization of world trade was the recent trend toward regional trade agreements which might weaken the open multilateral trading system. As pointed out in section IV of the Annual Report, the WTO would need to examine the consistency of such agreements with multilateral rules and regulations. It would also need to act in cooperation with the IMF and the World

Bank to achieve a greater coherence in global economic policy-making. In this respect, Japan supported the statement by the Council Chairman at the Fiftieth Session of the CONTRACTING PARTIES concerning Article XXIV. In conclusion, he wished to reiterate that Japan's trade policy was based on the maintenance and reinforcement of a free, non-discriminatory and open multilateral trading system. Japan had been supporting the GATT ever since its first participation therein. The number of participants in the Uruguay Round had reached 125, and the GATT/WTO system was thus becoming more universal. Japan hoped that the WTO would appropriately deal with such new issues as trade and environment and function as a global organization for world trade. Japan was ready to contribute to the development of the functioning of the WTO.

16. The representative of Mexico said that Section IV of the Annual Report, entitled "The Challenges Ahead", was very important, and in particular the sub-section entitled "Completing the Ratification Process". With regard to the TPRM, although it had functioned well until the present, he shared the opinion of Canada that it could be reviewed and streamlined where possible, and expressed his delegation's interest in participating in such an exercise.

17. The representative of the United States said his delegation fully supported the Director-General's statement. Like Canada and others, the United States fully supported the TPRM as an excellent vehicle for improving transparency and surveillance of the world trading system, and looked forward to the future operation of the TPRM in the WTO, in particular with its broader scope which would include both intellectual property and services for the first time. Like Canada, however, the United States also believed that all should continue to work to seek improvements and to streamline the TPRM process, and his delegation was prepared to work with others to that end.

18. The representative of Poland said that the Annual Report reflected an objective overview of recent developments in international trade and the trading system. His delegation attached importance to the TPRM, and welcomed the improvements made in 1994 aimed at achieving greater complementarity between the government and Secretariat reports by proposing that governments submit "policy statements" rather than a parallel full report. However, if a government wished to submit more detailed information or some recent data it should be free to do so. His delegation believed that trade policy reviews should provide a forum for more focused discussion, especially with respect to general macroeconomic problems. Also, the TPRM should keep its business-oriented profile with respect to important issues of the trade policy of a government under review. The last stage of the review, namely the distribution of written answers after the review, should be more transparent and efficient. Poland agreed with the opinion in paragraph 17 of the Report that reviews of developing and transition economies "underlined the progress of autonomous trade liberalization and steps to enhance economic efficiency through deregulation, the reduction of the role of the public sector in commercial activities...". The commitment of transition economies to liberalize further their trade regimes was apparent from the evaluation of the Uruguay Round results by the Secretariat in a study entitled "Results of the Uruguay Round of Multilateral Trade Negotiations". The foreign trade performance of some of these countries in 1993 was marked by a significant expansion of trade flows and improvement of trade balances while other East European countries continued to see a deterioration in their trade balances. The rate of trade expansion in Poland in 1993 was 18.4 per cent for imports and 7.2 per cent for exports, which demonstrated the process of Poland's integration into the world economy. In concluding, he drew attention to two inaccuracies in the Annual Report.

19. The representative of the European Communities said that the Community was a major participant in the international trading system, and had a keen interest in keeping a healthy trading system in place. The present exercise was therefore important to the Community. Without doubt, the major development during the period under review was the conclusion of the Uruguay Round. However, although the negotiations had been concluded, there was, and would be, work to be done, including finalizing the ratification process, implementing in full the commitments made, the enlargement of the organization

to include the new emerging economies, and ensuring that the proliferation of regional trading arrangements did not undermine, but rather provided an impetus, to the multilateral trading system. As regards the TPRM exercise, the Community was greatly attached to it and had been instrumental in the launching thereof. As others had stated, in the WTO framework, this exercise would be important with the inclusion of new areas of policy to be reviewed. Undoubtedly, there were areas that could be improved, and the Community was ready to work with others in any review of the system.

20. The representative of Brazil said his delegation agreed with the Director-General's statement. The Annual Report was a useful reminder of the collective achievements made in the Uruguay Round, as well as of the achievements in the area of trade liberalization, particularly by the developing countries, during the period under consideration. Brazil had expressed in other fora the notion that the more developing countries participated in the multilateral trading system, the more demanding and involved they would be with the different aspects of the system, and that they really wanted to obtain the benefits that the multilateral trading system had to offer in exchange for the opening of their economies. The Annual Report showed clearly the challenges that lay ahead, among which were the completion of the ratification process for the WTO and ensuring the effective participation of developing countries in the trading system. His delegation was pleased to announce that Brazil had completed its process of ratification and hoped to deposit the instrument of ratification with the Secretariat as early as the following week or shortly thereafter.

21. The representative of Hong Kong recalled the Director-General's statement that maintaining confidence in the new system was one of the important challenges facing all and that a critical factor in this connection would be the willingness of governments to abide by the commitments entered into during the course of the Uruguay Round negotiations. Unfortunately, there were already some signs that governments' commitments in one or two areas were in question, particularly in regard to domestic legislation on the implementation of the Uruguay Round agreement on anti-dumping. In one or two areas, major users of anti-dumping legislation were stretching the agreements that had been reached in the Uruguay Round, which did not bode well for the future. The area of anti-dumping was flashing dangerous signals not only because of the tendency to which he had referred but also because more and more participants were starting to set up anti-dumping legislations. While Hong Kong saw this as a worrying sign for the future, it did not at all have a negative attitude towards the start of the WTO.

22. The Director-General thanked representatives for their positive remarks about the Annual Report and its contents. With regard to the issue of regionalism and the relation between regionalism and multilateralism, he noted that with the exception of two or three regional agreements in the late 1940s and the recent Czech and Slovak Customs Union, no Article XXIV Working Party had reached a consensus on the conformity of the agreements with Article XXIV. In November 1991, the Chairman of the Working Party on the United States-Canada Free Trade Agreement had suggested that the current procedures for examination of agreements submitted under Article XXIV produced unsatisfactory results and that the Council might discuss how examinations of such agreements should be conducted and the kind of conclusions they could most usefully seek. The Council had agreed to revert to this question at a future meeting. The improvements to Article XXIV agreed in the Uruguay Round probably had not improved the situation greatly. This was therefore an ongoing issue that was of concern to governments, and the proliferation of regional trading agreements made it all the more necessary that this issue was considered seriously. With regard to Australia's statement that regional trade was positive as long as the external frontiers were not made more difficult, he said that when protectionist barriers were removed within a region in regard to others within the region, there was a gain also to others outside the region because protectionism to the industry in question was rolled back within the region. However, there were concerns with regard to such arrangements, and this issue had to be addressed seriously and not avoided in the future.

23. With regard to accessions, which were going to be a major focus of attention in the coming year, he said that in many instances one was dealing with difficult negotiations and also with a very real need to provide technical assistance if the negotiations were to be effectively and properly concluded. With regard to economies in transition and countries in Sub-Saharan Africa, there were particular responsibilities for all. As to the reform of trade policy reviews, he said he had noted the statements by Canada, both at the present meeting and on earlier occasions, and believed that consultations and further refinement to the process would be useful as early as possible in the coming year.

24. The Chairman noted that some fifty-six governments had already ratified the WTO Agreement, and that more were expected to do so soon. As representatives had noted, the multilateral trading system, after the entry into force of the WTO on 1 January 1995, would continue to play an important role in sustaining the long-term health of the world economy. Indeed, as the Director General had stated, the multilateral trading system's ability to influence the international economy had been reinforced by the results of the Uruguay Round in at least three ways: by a restoration of credibility in the system, the relevance of the system to economic relations, and the forward-looking momentum of the system. As had also been noted by representatives, an important part of the Director-General's report was the discussion in its concluding section of the more immediate challenges ahead. As regards the TPRM, he noted the suggestions that there should be further improvements to the process, and that it should be streamlined and adapted to the needs of participants, and adjusted to the evolution of the international trade system. Comments had also been made that regional integration agreements were spreading and that they should remain complementary to the world trade system, and not contradictory to it. As regards economies in transition and developing countries, it had been suggested that their participation in the international trading system should be promoted, in particular that of the least-developed countries including those in the Sub-Saharan Africa region. Finally, he noted the statements that confidence in the trading system was very important, and said that all governments should be committed to the full implementation of the WTO Agreement in letter and in spirit and to maintaining the multilateral emphasis of trade policies.

25. The Council took note of the statements and agreed that the overview of developments in international trade and the trading system had been conducted.