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COUNCIL OVERVIEW OF DEVELOPMENTS IN THE INTERNATIONAL TRADING ENVIRONMENT

Annual Report by the Director-General*

I. WORLD OUTPUT AND TRADE

1. Strong expansion continues in 1989

Current indications are that world production and world merchandise trade will expand this year in real terms by 3 and 7 per cent, respectively. Although this represents a modest slowing from 1988's unexpectedly strong growth, it will be the third best performance of the decade. Inflation in the developed countries is expected to reach an estimated 4½ per cent this year, up from 3½ per cent in 1988.

This year also marks the fourth consecutive year in which the volume of merchandise trade has expanded at a significantly faster rate than world production. Clearly, world trade is not only being stimulated by the growth in world output, but is also a driving force behind the prolonged expansion. While technological innovation, investment and better economic policies in individual countries continue to be the basic ingredients of growth, the gains they bring are being multiplied - and spread to other countries - by the ongoing integration of the world economy and the transborder opportunities which this creates for trade, investment and job creation.

Investment activity played an important rôle in domestic output growth in most developed countries and several developing economies in 1988. Trade in capital goods was particularly strong, especially for the leading traders in machinery and transport equipment. Available data for 1989 indicate a continuation of these trends, despite an overall deceleration in the growth of world merchandise trade. In Japan, the Federal Republic of Germany, the United Kingdom and the United States, the growth of trade in capital goods on both the export and import sides appears once again to be above the

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average for all products. Driven in part by export orders, the manufacturing sector in Western Europe reached a new record level of capacity utilization in mid-1989 with particularly strong gains in the investment goods industry.

Since mid-1987, weather-related price increases have boosted the value of trade in agriculture and reduced the budgetary costs of the farm support programmes for cereals, dairy products and sugar in the European Communities, the United States, and other developed countries. The average prices of many food products peaked in the first quarter of 1989 and in some cases, have declined significantly in the course of 1989. While some food prices still remain above their 1988 levels, it is likely that by the end of 1989, their average price will be below the 1988 end-of-year level. Barring some unforeseen event, the medium-term outlook for food prices is for a return to the range of pre-drought levels, in which case the costs of agricultural support programmes for many products will begin to rise again.

Table 1 presents statistics for the six regional trade flows which in 1988 accounted for 5 per cent or more of world merchandise trade.[1] Both in 1988 and for the period 1980-88, the three most rapidly growing trade flows in the Table all involved Asia (trade with North America and with Western Europe, plus intra-Asia trade). It is still too early to say with any certainty what has happened to these flows this year. Data available for the first half of 1989 indicate that on a value basis trade flows within Asia and between Asia and some other regions, while not escaping the slowdown in trade growth, continued to expand much faster than overall world trade. Intra-North American trade expanded in the first nine months of 1989 by about 10 per cent, close to the average for world merchandise trade. Intra-West European trade accelerated in volume terms, but due to the appreciation of the dollar (up 9 per cent vis-à-vis the ECU for the first 9 months of 1989), trade growth expressed in dollar values is below the 1988 growth rate.

Among the larger developed countries, the slowdown in economic activity in 1989 has been most pronounced in North America, while the Federal Republic of Germany was the only one to record an increase in the rate of economic growth between 1988 and 1989.

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[1] This calculation is based on the same seven-region breakdown as is used in GATT's annual report International Trade. With seven regions, there are 21 inter-regional flows plus seven intra-regional flows, for a total of 28. Trade between two regions is defined in Table 1 as the sum of exports in both directions - either between members of the same region (intra-regional trade) or between two regions.

In 1973, there were seven regional trade flows with shares of 5 per cent or more - the six in Table 1 plus intra-regional trade within Eastern Europe and the USSR (the latter figure stood at 4.4 per cent in 1988, as compared with 5.2 per cent in 1973).

Table 1
Selected regional merchandise trade flows
(Percentage)

	Share of world merchandise trade	Annual change in value	
	1988	Average 1980-88	1988
Intra-Western Europe	31.4	6½	12½
North America's trade with Asia	10.8	11½	20
Intra-Asia	9.8	10	29½
Western Europe's trade with Asia	7.5	11	21½
North America's trade with Western Europe	7.4	6½	14
Intra-North America	5.2	8	14

2. The world economy in 1990

Marking the eighth year of the expansion, world output and trade are expected to grow in 1990 at a somewhat slower rate than in 1989, while inflation in the developed countries is expected to moderate slightly. The trade and output performances of the various regions are projected to differ, with the strongest impetus to world production and trade coming from countries in Western Europe and Asia. In 1990, the United States, Canada and the United Kingdom are expected to grow at rates below the average for all developed countries, the West European countries at rates around the average (of about 3 per cent for real output), and Japan at the highest rate among the developed countries. This cyclical disparity between North America and the United Kingdom on the one hand, and the rest of the developed countries on the other, is the reverse of the situation prevailing in the period 1986-87. With the major countries in different phases of the business cycle, the world economy is expected to avoid the wide swings in economic activity that occur when all of the major countries are expanding or contracting at the same time.

The persistence of large external imbalances among the leading traders - despite the relatively slower growth expected in the major countries with current account deficits - is likely to be a continued source of attention,

partly because of uncertainty about when and how they will be corrected, and partly because of their possible repercussions on the trade policies of the countries concerned. The uncertain outlook for primary commodity prices next year - and the increasing divergence in price behaviour evident in recent trends - are likely to contribute to important differences in the trade performances of individual developing countries. Many countries in Latin America and developing Africa face another year of projected zero or negative growth in per capita income. Efforts to arrest the decline in living standards in these countries and to support programmes of domestic reform will remain a priority for decision-makers in the coming decade.

3. Specific aspects of the global picture

Dynamic traders. It is by now well known that in the last decade or so, the ongoing diversification of production and trade in a number of economies has allowed them to move up substantially in the ranking of the world's leading merchandise traders. Table 2 indicates the 1988 export and import performances of twelve of these economies.[1] Keeping in mind that

Table 2
Merchandise trade performance of selected economies, 1988
(Billion dollars and percentages)

Rank in world trade			Value		Annual change 1987-88	
Exports	Imports		Exports	Imports	Exports	Imports
11	11	Hong Kong	63.2	63.9	30.3	31.8
12	15	Korea, Rep.	60.7	51.8	28.4	26.3
13	16	Taiwan	60.5	49.8	12.4	43.0
16	14	China	47.5	55.3	20.2	27.4
17	12	Spain	40.3	60.5	18.0	23.2
18	18	Singapore	39.3	43.9	37.0	34.7
22	21	Mexico	30.4	27.7	9.4	52.2
30	35	Malaysia	21.1	16.6	17.7	30.5
33	37	Ireland	18.7	15.6	17.0	14.4
35	29	Thailand	15.7	19.5	34.7	50.3
37	30	India	13.3	19.2	17.0	14.3
40	40	Turkey	11.7	14.3	14.4	1.3

[1] These twelve economies were selected on the basis of (i) being among the top 40 exporters and importers in 1988, and (ii) having moved up in both the export and import rankings since 1973, with at least one of the two gains being of four places or more.

total merchandise trade increased by 14 per cent last year, it is evident that several of these economies turned in impressive performances in 1988, particularly in terms of imports. Very preliminary figures for 1989 suggest that while the trade of these countries was affected by the slower growth in the value of world trade, nearly all of them continued to expand their trade significantly faster than the global average. The highest growth rates for trade (exports plus imports) in the first half of 1989 have been reported by Thailand and Malaysia, which also experienced exceptionally strong growth in 1988. Turkey, whose trade expanded less rapidly than world trade last year, reported that its exports and imports actually fell in dollar terms during the first six months of this year.

An exception to the general slowdown are the exports of Mexico, which rose by about 15 per cent in the first half of 1989, largely due to increased earnings from petroleum exports and the continued strength of exports from processing zones. The growth of Mexican imports during the same period is again the highest among the twelve economies and exceeds by a substantial margin the growth of exports.

A number of countries are not sharing in the expansion. The generally encouraging state of the world economy as a whole hides the serious economic situation that exists in many countries, and in particular in the least developed countries and the highly indebted countries. The shares of each group in world merchandise trade remains well below the levels of a decade ago.

For the highly indebted countries, the recovery of aggregate exports in 1988 to a level that surpassed the 1982 level was a positive development. Many of the highly indebted countries participated in the 1988 export boom, and export performance is again expected to go beyond previous levels in 1989. Aggregate imports are also expected to increase in 1989 for the third consecutive year, but the total is likely to remain well below the 1981 peak of about $145 billion. While imports of capital goods into the highly indebted countries (as a group) have recovered since 1986, they are far short of what is required to make up for the imports "foregone" during the 1982-86 period.

For the least developed countries, the decline in their overall economic situation in the 1980s has been precipitous. Per capita income growth rates in Sub-Saharan Africa have been negative for most of the decade. Data on merchandise trade for the least developed countries is very sketchy even for 1988, but there is likely to have been some recovery of export receipts in those countries exporting ores, minerals and non-ferrous metals. Nevertheless, as a group these countries have suffered a significant erosion in the purchasing power of their exports for most of the 1980s, and the generally unencouraging medium-term outlook for commodity prices (on which many are dependent for export earnings) suggests that future sources of economic growth will have to be sought elsewhere.

Current account imbalances continue. Available data for the first nine months of 1989 indicate that the pace of adjustment - in terms both of the dollar value of the imbalance, and of the imbalance expressed as a percentage of GDP - has slowed in the United States. While the dollar value

of Japan's current account surplus registered a strong decline in the first ten months of this year, the ratio of that surplus to GDP is very likely to decline less this year than it did in 1988. Full data for 1989 are expected to show an increase in both the ratio of the current account surplus to GDP of the Federal Republic of Germany and the ratio of the current account deficit to GDP of the United Kingdom.

Among the leading Asian exporters of manufactures, divergent trends in merchandise exports in 1989 are expected to boost Taiwan's current account surplus and lead to a sharply lower surplus for the Republic of Korea. The ratio of the current account surplus to GDP in both economies in 1988 was about twice that of the Federal Republic of Germany. Among other leading traders in Asia, Hong Kong and Singapore have recorded small merchandise trade deficits and small current account surpluses (each measured in dollars) since 1986.

Even though the growth of United States merchandise exports leveled off in the third quarter of 1989, the increase in value for the first nine months of 1989 (15 per cent) is more than double the increases in the dollar value of exports recorded by Japan and the Federal Republic of Germany. The United States thus seems certain to regain this year its spot as the world's leading exporter in terms of the dollar value of merchandise exports, a position which it relinquished to the Federal Republic of Germany in 1986. Although at 15 per cent export growth was strong, it also represents a sharp deceleration from the 29 per cent increase recorded in the first nine months of 1988. Meanwhile, import growth slowed down only marginally (from 9 to 8 per cent). As the difference between export and import growth narrowed sharply, the reduction of the United States' trade deficit lost momentum.

Although the trade deficit (f.o.b.-f.o.b.) in the third quarter of 1989 was largely unchanged from the second quarter, the United States' trade deficit declined by 12 per cent in the first nine months of 1989 relative to the same period of 1988. For the year as a whole, the decline in the current account deficit is likely to be smaller than the decline in the merchandise trade deficit because of developments in invisibles trade.

II. OVERVIEW OF TRADE POLICY DEVELOPMENTS

Developments in 1989 have continued the trend of recent years, which has seen GATT's contracting parties actively invoking their GATT rights and obligations in the conduct of their trade policies, while at the same time vigorously pursuing the negotiations in the Uruguay Round. This year has also seen the implementation of the first results of the Uruguay Round; the introduction of the Trade Policy Review Mechanism, improvements in the dispute settlement procedures, and the early implementation of offers on tropical products by the developed and a number of developing countries. Furthermore, notifications concerning the fulfilment of commitments by the developed countries in the area of agriculture - including both a "freeze" on current support and protection levels until the completion of the

negotiations in December 1990, and reductions in support and protection levels for 1990 - are now being received. Mention should also be made of the autonomous measures of rollback or liberalization notified to the Surveillance Body by the European Communities, Australia and Canada.

The Uruguay Round negotiations have contributed to a favourable environment in which several measures of liberalization and reform in trade policy regimes have been introduced, including a number this past year (Appendix Table 1 contains a selected list of 24 such actions since September 1986, including 15 by developing countries). The positive conclusion this year of the negotiations for Bolivia's and Costa Rica's accessions to the GATT is tangible proof of the major liberalization reforms that these countries have committed themselves to carry out in respect of their trade policy regimes. Nine other countries are also seeking GATT membership. The Working Party on China's Status as a Contracting Party is scheduled to reconvene before the end of the year. These membership developments are welcome as an indication of the growing interest of countries in participating in the multilateral trading system as a means of promoting economic development.

1. Seeking solutions within the ambit of the GATT

Dispute settlement. Since the beginning of the Uruguay Round, governments have demonstrated their determination to use GATT procedures to resolve disputes. Leaving aside complaints involving the Tokyo Round Codes, a total of 48 complaints have been initiated (under Article XXIII) since September 1986, a majority of which involve agricultural products. This represents one-third of all the complaints filed in GATT's forty-one year history. Since May 1989 there have been nine requests for consultations under Article XXII and XXIII. Ten panel reports have been adopted this year, and five new panels have been established. Currently there are six disputes being examined by panels.

Overall, the experience with the adoption of panel reports continues to be good. There has so far been no instance in which a panel report was neither adopted nor implemented merely because the party complained against refused to accept the panel's recommendations. Moreover, for the most part, adopted panel reports have been implemented within a reasonable period of time.

Article XIX. In 1989, there was one safeguard action taken under Article XIX, covering processed cherries imported into the European Communities. Twenty-one Article XIX actions remain in force, of which about one-third involve agricultural products.

Countervailing duty actions. In its report covering the twelve months ending on 30 June 1989, the Committee on Subsidies and Countervailing Measures noted that five of its 24 signatories had notified the Committee of countervailing duty actions (Australia, Canada, the European Communities, New Zealand, United States). Informal consultations were held by the Chairman on the four panel reports (out of a total of six) which have been submitted since 1980 but not yet adopted by the Committee.

Anti-dumping actions. The Committee on Anti-Dumping Practices reported that during the twelve months ending on 30 June 1989, ten of its 25 signatories had notified the Committee of anti-dumping actions during the period (Australia, Brazil, Canada, the European Communities, Finland, Republic of Korea, Mexico, New Zealand, Sweden, United States). On 16 January 1989, the Committee established its first panel, to deal with a dispute between Sweden and the United States regarding the imposition by the United States of definitive anti-dumping duties on seamless stainless steel hollow products from Sweden. Here mention should also be made of the Council's acceptance of Japan's first ever request for a panel to examine its complaint against the provisions and methods of application of the European Communities' anti-dumping regulations with respect to local assembly.

Because of the increased interest this past year in the subject of anti-dumping, as well as its importance as a trade policy instrument, a few additional observations are in order. Despite a recent decline in the number of anti-dumping investigations initiated in the United States and the European Communities, anti-dumping remains (after tariffs) the most frequently invoked trade policy instrument in these countries.[1] Some specific instances of anti-dumping measures or related actions which have attracted attention during this year were the imposition of anti-dumping duties by the United States on imports of anti-friction bearings from several countries; the initiation of investigations by the European Communities and the United States on imports of certain products already subject to quota limits negotiated in the context of the Multifibre Arrangement; the application of tighter rules of origin by the European Communities through focusing on the processing of parts in the production of photocopiers and integrated circuit boards; the imposition of anti-dumping duties by the European Communities on video cassettes from Hong Kong and the Republic of Korea; and the possible acceptance by the European Communities of price undertakings from Japanese exporters involved in an anti-dumping investigation on imports of memory chips.

The scope of anti-dumping procedures has tended to become broader, with sector-specific implications. In practice, such broadening of scope has manifested itself both in the adoption of specific legislative or regulatory measures, and in changes in the methods used to determine whether dumping has occurred. Of particular relevance are the controversies surrounding the treatment of sales below cost of production and the closely related increase in the use of the constructed value approach to determining whether

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[1] The four leading "users" (Australia, Canada, the European Communities, United States) have initiated over 1,000 investigations since 1980, of which more than 500 led to protective action of some sort being undertaken.

dumping has occurred.[1] Concerns related to the "circumvention" of anti-dumping duties have also led to increased interest in rules of origin, as the ongoing internationalization of production and distribution makes the "origin" of a product more open to argument. One reflection of the increasing range of issues in this area is the increase in trade disputes involving anti-dumping.

It is evident that the existence, widespread use, and recent expansion of the scope of anti-dumping procedures has important implications for the multilateral trading system. The extent to which changes in existing patterns of production and trade justify an increased presumption of dumping is a matter for discussion in the relevant negotiating group. It is evident, however, that in taking production and marketing decisions, exporters must increasingly take into account the effect of their actions on the competing domestic industry in the importing country. This in turn runs the risk of reducing firms' willingness to engage in vigorous competition, and of strengthening the incentives to engage in implicit or explicit price-fixing agreements with firms in the importing country. If this were to happen, it would contrast starkly with the purported rationale of anti-dumping, namely to sustain competition by protecting domestic firms against predatory behaviour - as distinct from competitive behaviour - by foreign producers.

The Multifibre Arrangement. There has been little or no reduction in the overall restrictiveness of the measures governing textiles and clothing trade since the introduction of MFA IV insofar as product, country coverage, growth rates and flexibility provisions are concerned. The number of agreements has remained broadly constant (114 versus 115 in MFA III). Restraints continue to be applied almost exclusively to developing economies (94 of 114), while most of the remainder deal with exports from East European countries.

Some developed country members have continued to apply the MFA sparingly (Austria and Finland), and others have introduced greater flexibility and higher growth provisions than prevailed under MFA III (Norway and Sweden); it should also be noted that Sweden has announced that it will terminate all MFA restrictions when MFA IV expires in September 1991. Other developed country members, while introducing some improvements, still have rather restrictive agreements (the European Communities). In other instances, the number of restraint agreements under MFA IV has risen, coverage is wider, growth rates generally unchanged or lower than before, and flexibility provisions largely unchanged (Canada and United States).

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[1] That is, instead of determining whether dumping has occurred via a comparison of market prices in the exporting and importing countries, the "normal" value of the good is calculated by the investigating authority, and this constructed value is compared with the price charged in the import market.

A recent worrying feature has been the appearance, in some MFA agreements, of restraints agreed to on products on which there have been little or no exports from the countries in question. This action is against both the spirit and letter of the MFA.

2. Seeking solutions outside the GATT

The contracting parties' determination to use GATT dispute settlement procedures was noted above. Unfortunately, this has not put an end to actions taken outside the GATT framework.

Discriminatory export restraints. At the present time there are approximately 249 discriminatory export restraint-type arrangements in force involving GATT contracting parties (see Appendix Table 2).[1] A great majority of the restraints involve the following product groups: food and other agricultural products, textiles and clothing, steel and steel products, electronic products, motor vehicles and equipment, footwear and machine tools. A review of the individual measures reveals that there was no noticeable decline this year in the number of outstanding export restraint arrangements (although over the past three years the number of industry-to-industry arrangements with exporters has declined); that some 40 per cent of the known measures appear to have been introduced in the last five years; and that, as far as can be determined, just over 60 per cent of the measures have no explicit expiration date.

The number of arrangements which restrain exports from developed countries (130) is larger than the number which restrain exports from developing countries (82).[2] However it must be kept in mind (a) that total developed country exports exceed total developing country exports by a factor of three and a half, and (b) that the multitude of discriminatory quantitative restrictions imposed under the Multifibre Arrangement mostly restrain the exports of the developing countries. There is therefore no doubt that discriminatory export restraint-type arrangements fall disproportionately hard on exports from developing countries.

Two other points may be mentioned briefly. First, when the United States administration decided this year to renew the voluntary restraint arrangements covering imports of steel from several countries, the renewal was for two and a half years instead of the five sought by the industry, pending the negotiation of improved international disciplines on the subsidization of steel production. Second, considering that restrictions

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[1] While the 59 discriminatory arrangements governing a limited range of food and agricultural products are characterized more by restraints imposed at the importing rather than the exporting end, they are included as their effect on the volume of trade is quantitatively no different.

[2] The remaining restraints apply to exports from East European countries.

imposed under the Multifibre Arrangement are not included among the 249 known export restraint arrangements, it is all the more striking that restrictions on textiles and clothing are close to the top of the list of export restraints broken down by product category.

Section 301. Among developments in national trade policies, there is little doubt that the single trade policy initiative which has most galvanized the attention of the international trading community this past year was the inclusion of the "Super" and "Special" Section 301 provisions in the United States' Omnibus Trade and Competitiveness Act of 1988.

The possible implications of this legislation in terms of actions not based on GATT provisions, and the reaction of other contracting parties to it, have been and are being discussed in various GATT fora. It should be noted that many of the actual or threatened unilateral actions this past year have involved attempts to resolve issues not covered by existing GATT rules and obligations. In such instances, they serve more as stark examples of how international commercial relations might be carried out in the absence of multilateral rules and disciplines, than as evidence of alleged inadequacies of existing dispute settlement procedures, or as signs of a "turning away from the GATT" by the parties involved.

III. FACTORS BEHIND RECENT TRADE POLICY DEVELOPMENTS

Trade policies are influenced by a number of factors, including changes in trade flows and conditions of competition. The following paragraphs attempt to identify some of the principal factors shaping trade policies. Four of the five factors on the list involve basic trends in world markets which are likely to be with us for the foreseeable future. The remaining factor, which is treated first, may be of a more short term duration.

1. Current account imbalances

The first part of this report documented the continued existence of historically large current account imbalances in several of the leading traders, and noted the dim prospects for major reductions in those imbalances in the next year or two. This situation, in turn, poses two related risks for the multilateral trading system.

Most economists and many policy makers accept the view that a current account imbalance is the result of an imbalance between national expenditure and national output (or, what is the same thing, an imbalance between savings and investment). But this has not prevented a wide cross-section of the public and politicians in the deficit countries from believing that trade policies are, if not the only factor at work, at least one of the important causes of the persistent imbalances. The result has been a variety of pressures on trading partners to change their trade policies. The problem is not just that such an approach could involve policy actions

which would be inconsistent with the spirit - if not the letter - of the General Agreement, but that these policies by themselves will be ineffective in bringing about a lasting reduction in the imbalances.

Persistent current account imbalances also often lead the deficit countries to a mistaken emphasis on bilateral imbalances. In a multilateral system, it makes no more sense for a country to describe its global deficit as the result of excessively large bilateral deficits with some countries, than to describe its deficit as the result of excessively small bilateral surpluses with other countries.

It is in everyone's interest not only that the adjustment of imbalances be supported by appropriate domestic policies, but that it occurs in a way that expands markets in both the surplus and deficit countries.

2. The ongoing integration of national economies into the global economy

This process, which has been treated at some length in recent issues of GATT's annual report International Trade, is most evident in the statistics on the rising share of trade in the national production of most GATT contracting parties. As it continues, not only is the rôle of trade in the national economy becoming more important, but trade flows and trade prospects are increasingly seen to be affected by a variety of partner countries' policies.

The success of previous GATT rounds in reducing border measures has inevitably drawn attention to non-border measures that restrict trade. The growing contribution of trade to GDP has also increased countries' interest in trade-related policies, many of which are applied not at the border, but "inside" the economy. Together, these two developments have acted to enlarge the definition of "trade policies", thereby reducing the scope of policy actions which can be decided upon without taking into account their impact on trading partners. They have also served to emphasize the importance of the General Agreement's capacity to deal adequately with domestic support policies in particular, and with conditions of competition in general. Finally, they have been the driving force behind the decision to include new issues in the Uruguay Round - trade in services, trade-related intellectual property rights and trade-related investment measures.

While it is clear that the definition of trade policy is being broadened to cover a range of policies that have not previously been addressed in the context of multilateral trade negotiations, for many countries there are still problems in reconciling this trend with domestic policy objectives.

3. Regional trade patterns

This decade has seen a renewed interest in economic relations among members of certain geographic regions. The circumstances and objectives

vary enormously. In Western Europe, the European Communities continues an integration process, began more than three decades ago, through the decisions taken to achieve a single internal market by 1992. In this context, efforts are also being made to intensify cooperation between the EFTA countries and the European Communities. The Free Trade Agreement between Canada and the United States which came into force at the beginning of the year brings closer together two countries which are already one another's most important trading partner.

Other initiatives for closer economic cooperation are being pursued in Latin America, within the ASEAN region and in Africa. More recently, discussions have taken place among countries of the Pacific Rim on the subject of closer cooperation on a range of trade and investment issues. The participants in these discussions have made it very clear that what they are considering is not a preferential trading group, but rather a forum in which they can, among other things, coordinate and pool their efforts to promote trade liberalization and strengthen the multilateral trading system.

These various developments and discussions have nourished a debate on the possible implications of greater regional cooperation for the multilateral trading system. Two points are worth noting. First, a brief examination of regional trade patterns in the 1980s makes it clear that trade between regions has been as dynamic a force in world trade as trade within regions. Three of the six trade flows in Table 1 above are between regions, and two of the three fastest growing trade flows in that Table are between - not within - regions. In these circumstances, any attempts to develop regional markets as inward-looking trading blocs are likely to be both a source of economic conflicts and of welfare losses.

Second, in judging the many arguments and assertions being put forward, it is useful to recall that the increased interest in regional markets is just one part of a broader interest in foreign markets stimulated by the progressive integration of national markets into the global economy. The desire of enterprises to have uninhibited access to the entire world market to fully capture economies of scale, to be able to source inputs on a worldwide basis, and to compete on an equal footing in dynamic new markets indicates that while regional markets might promote increased productivity and growth, they are not sufficient by themselves.

It is thus easy to understand the importance which those participating in regional trading initiatives attach to the broader tasks of multilateral trade liberalization, and to the strengthening and extension of multilateral trade disciplines.

4. The emergence of new traders

In the last decade or so, ongoing diversification and industrialization in a number of developing economies has brought them into the top ranks of the world's traders. Virtually all of the economies in Table 2 above, for example, are developing economies. The increase in the relative importance

of this group of developing economies in world merchandise trade has been primarily the result of increased exports (and imports) of manufactured products. More generally, the share of developing countries as a whole in world exports of manufactures has continued to rise significantly in this decade. The sharp rise in exports of manufactures, together with the decline in earnings from petroleum and other primary commodities, has produced a dramatic change in their export structure. Although definite data are not yet available, it seems likely that in 1988 for the first time manufactures accounted for one-half of developing countries' exports.

This explains the growing awareness on the part of these countries of the contribution that export growth can make to improved economic performance, as well as their active involvement in all aspects of the Uruguay Round negotiations - including the "traditional" market access issues, rules of competition and the new areas.

5. Other countries start down the same road

The desire to rely more on market forces to promote growth and raise living standards, and a corresponding desire to participate much more actively in world markets for goods and services, has spread beyond the developing economies to include a number of East European economies (see Appendix Table 3 for an indication of the current importance of some of these countries in the merchandise trade of the developed countries). In turn, these policy shifts can be expected to increase their interest in participating more actively in the multilateral trading system.

Among significant developments in 1989, Poland and Hungary have introduced reforms designed to greatly enhance the role of the market, including a broad unilateral liberalization of their trade regimes. In measures designed to facilitate trade with these countries, the European Communities have undertaken to reduce specific barriers to their imports, the United States has granted MFN status to Hungary, and a number of countries have extended trade concessions. Although changes in the East European countries' economic policies are still in progress, it is clear that they will add up to greater trade with countries outside the region. In particular, the anticipated restructuring of their economies will require substantial inflows of capital goods which, for many reasons, are expected to be supplied primarily by countries outside the region.

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The issues dealt with above bring out the importance of the Uruguay Round in efforts to deal with the adjustment problems which inevitably accompany the ongoing integration of national economies at the global and regional levels, the entry of new players in world markets, and the process of adjustment of current account imbalances. Each of the three main issues being treated in the Round - increasing market access, improving existing rules (as well as the observance of those rules), and writing multilateral rules and disciplines for policies in the new areas - has important implications for the adjustment process.

Appendix Table 1
Announced trade liberalization measures undertaken since the launching of the Uruguay Round in September 1986

The following list has been compiled on the basis of information currently available to the Secretariat. Due to space constraints, the list does not include all trade liberalization measures undertaken since the beginning of the Uruguay Round. The inclusion or omission of a country from the list does not prejudge the nature and extent of its trade reform.

Argentina: In October 1988, tariffs were reduced on a substantial number of items, and the overall average tariff fell from 38.2 per cent to 29.4 per cent. Obligatory import permits were abolished for 2,000 items and further changes are planned.

Australia: In April 1988, all quotas were abolished on imported passenger cars, tariffs were lowered and will be reduced to 35 per cent by 1 January 1992. The government's May 1988 Economic Statement announced a plan to lower assistance levels to industries, including a phased reduction in tariff levels to 15 or 10 per cent for most products by 1 July 1992 and an elimination of import quotas. Textiles, clothing and footwear quotas will be phased out and maximum tariffs and bounty rates will be gradually reduced. Among the measures announced in 1989, the sugar embargo of 66 years was replaced with specific tariffs, the wheat market was deregulated, and the voluntary export restraint agreements on New Zealand's exports of dairy products were terminated.

Austria: On 1 January 1990, an advance reduction of a large number of tariff rates will take place (these will be provisional until 31 December 1991).

Bolivia: In the context of an ongoing programme of trade liberalization, import duties on capital goods were reduced to 10 per cent in April 1988, customs duties for other goods are to be reduced by the end of 1989, and a universal rate of 10 per cent is foreseen for all goods by mid-1990.

Brazil: In July 1988, the average duty rate was reduced from 51 per cent to 41 per cent and was further reduced to 37.5 per cent in 1989. In the ongoing reform of its import licensing procedures, the number of items for which import licenses were generally not available dropped from 4,451 to 2,358 in 1987, and to 1,165 in 1988.

Colombia: As part of the ongoing programme of import liberalization begun in 1985, the average tariff was cut from 41 per cent in 1985 to 31 per cent in 1987 and 26 per cent in 1989. Regarding the licensing of imports, a number of items were transferred to the free list, reducing the proportion subject to prior licensing to 60 per cent.

European Communities: As of 13 November 1989, a number of residual quantitative restrictions were eliminated concerning, among others, imports from Japan, Hungary and Poland.

Ghana: The government's liberalization policy introduced in 1983 continued in 1989 with the elimination of import licensing regime and all remaining restrictions taken for balance-of-payments purposes under Article XVIII:B.

Hungary: As of 1 January 1988, all economic units became eligible to engage in foreign trade, except for products on a negative list, whose coverage has since been progressively reduced. In 1 January 1989, import licensing was abolished for approximately 40 per cent of the value of imports transacted in convertible currencies.

India: In March 1988, 793 products were added to the list of products where imports do not need to be cleared by the relevant sponsoring authorities. These included 137 capital goods items, 209 items of medical equipment, and 108 pharmaceutical products.

Japan: Following the GATT Council's February 1988 adoption of the Panel Report on "Japan: Restrictions on Imports of Certain Agricultural Products", Japan announced that it had decided to implement market-opening measures for the products in question. Major changes, for items such as certain dairy products and food preparations, included the termination of import allocation systems between October 1988 and April 1990, tariff changes, and measures to improve market access during the period before the ending of the import allocation systems. In a second set of market opening measures, Japan announced the planned elimination of quantitative restrictions on beef, citrus fruit and some other food items.

Republic of Korea: The second phase of a ten-year programme of import tariff reduction was announced in 1988 with the goal of lowering the average tariff rate from 18.1 per cent to 7.9 per cent by 1993. In addition, it was agreed this year that all remaining restrictions taken for balance-of-payments purposes under Article XXVIII:B will be eliminated or brought into conformity with GATT by 1 July 1997.

Malawi: In September 1988, the government announced the liberalization of 30 per cent of its imports. With the exception of several strategic items, all imports are to be liberalized by 1991.

Mexico: As part of the complete restructuring of its economy introduced in 1982, the maximum tariff was lowered to 45 per cent in 1986 (the ceiling on rates in the Protocol of Accession is 50 per cent). In 1988, the tariff range was further compacted to 0-20 per cent, official import reference prices were completely eliminated, and the number of products subject to import licensing requirements was reduced to a number which currently accounts for 20 per cent of import value.

Morocco: In the context of the trade liberalization programme initiated in 1983, between 1987 and 1989, 852 items were transferred to a list where import licensing is automatic.

New Zealand: As part of an overall deregulation of its economy, a tariff reduction program was introduced in 1986 with the goal of achieving a 50 per cent reduction in tariff levels by 1991. As of 1 July 1988, import licensing was abolished for half the items previously affected by import controls. The majority of the remaining items under controls will be gradually phased out by 1 July 1992. In agriculture, New Zealand has undertaken to reform and liberalise its policy comprehensively, eliminating virtually all trade policies affecting imports and exports.

Peru: In 1988, the multiple exchange rate system was modified to unify the applicable rate and increase the scope of the free foreign exchange market. On 24 November 1988, tariff rates were reduced on a number of products and a ceiling of 84 per cent introduced. Further reductions in tariffs were announced in June and July of 1989, and import licensing was suspended on a total of 658 tariff headings.

Poland: The Harmonized System, which was introduced on 1 January 1989, applies to all trading partners, including CMEA countries. As of October 1989, the state's monopoly on foreign trade was abolished. All economic units are free to engage in foreign trade, provided they obtain hard currencies, and licensing is automatic except for 6 product groups.

Sweden: Announced the elimination of all MFA restrictions on textiles and clothing when MFA IV expires in 1991.

Thailand: The average tariff on approximately 2,300 items was reduced by about 50 per cent in 1988.

Tunisia: In 1987, a number of decrees were amended under the "Plan de Redressement" liberalizing imports of 357 products for industry, agriculture, hotel and catering and hospitals.

Turkey: In the context of an ongoing program of deregulation in place since 1980, customs duties for 11,000 articles were reduced in 1989, on top of already significant tariff cuts undertaken previously (a ceiling of 50 per cent was set on all customs duties as of 1 January 1988). Since 1986, the number of articles on a list for which import authorization is required dropped from 245 to 33 in 1988 and 17 in 1989. In August 1989, authorities replaced the managed float with a free foreign exchange rate market.

United Kingdom: The government announced that industry-to-industry voluntary export restraint arrangements between domestic and foreign producers are unjustified and encouraged industries concerned to bring them to an end. Almost all such arrangements have been terminated, including those on colour televisions from Japan, Singapore, the Republic of Korea and Taiwan.

Yugoslavia: As of 1 January 1989, a large number of items were moved from a system of quotas fixed by quantity and value to liberalized imports, a substantial number of items that had been conditionally liberalized were liberalized, and "import accordance" was cancelled for a large number of items.

Appendix Table 2

Known discriminatory export restraint arrangements involving Gatt Contracting Parties*

Arrangements in force as of September 1989

A. By period of introduction		B. By product	
Prior to 1975	36	Food and other agricultural products	59
		Textiles and clothing*	44
1975-1979	39	Steel and steel products	44
		Electronic products	22
1980-84	69	Motor vehicles and equipment	20
		Footwear	12
1985-89	105	Machine tools	12
		Other	36
Total	249	Total	249

*Excluding bilateral quantitative restrictions on textiles and clothing imposed under the Multifibre Arrangement.

Note: The restraint arrangements included in the table include voluntary export restraints, orderly marketing arrangements, export forecasts and discriminatory import systems, plus non-governmental and/or arrangements on an individual industry or industry association level, as well as unilateral restraint decisions.

Appendix Table 3

Trade of developed countries with Eastern Europe and the USSR, 1988
(Billion dollars)

	A. IMPORTS FROM						
			Eastern Europe				
	World	USSR	Total	Czecho-slovakia	German Dem.Rep.	Hungary	Poland
Developed countries	2121	25.4	26.8	4.3	7.0	4.4	6.1
Western Europe	1300	21.9	24.2	4.0	6.7	3.9	5.5
EC	1087	15.3	18.0	2.6	5.5	2.6	4.0
Other	213	6.6	6.2	1.4	1.2	1.3	1.5
North America	571	0.7	1.9	0.2	0.2	0.3	0.4
Japan	187	2.8	0.7	0.1	0.1	0.2	0.1

	B. EXPORTS TO						
			Eastern Europe				
	World	USSR	Total	Czecho-slovakia	German Dem.Rep.	Hungary	Poland
Developed countries	2037	27.3	25.2	4.1	7.4	4.3	5.5
Western Europe	1272	19.8	23.1	3.9	7.1	4.1	4.7
EC	1069	11.9	16.6	2.5	5.6	2.8	3.3
Other	203	7.8	6.4	1.4	1.4	1.3	1.5
North America	438	3.7	1.0	0.1	0.2	0.1	0.3
Japan	265	3.1	0.8	0.0	0.2	0.1	0.3

Note: Figures for developed countries, Western Europe and the European Communities include trade between the Federal Republic of Germany and the German Democratic Republic.