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REVIEW OF DEVELOPMENTS IN INTERNATIONAL TRADE
AND IN THE URUGUAY ROUND;
IMPLEMENTATION OF PART IV AND OPERATION OF
THE ENABLING CLAUSE

Note by the Secretariat

Introduction

1. The Committee on Trade and Development regularly reviews developments in international trade and in the Uruguay Round of particular interest to developing countries. It also keeps under continuous review trade policy measures of relevance to the implementation of Part IV of the General Agreement, and the operation of the Enabling Clause.

2. Section I of the present note highlights recent developments in international trade that have a bearing on the trade and payments situation of developing countries. Section II contains a brief overview of recent developments in trade policies of relevance to the operation of Part IV and of the Enabling Clause.* Section III refers briefly to specific topics of relevance to the Uruguay Round which were previously discussed in the Committee on Trade and Development.

SECTION I: DEVELOPMENTS IN INTERNATIONAL TRADE

3. The Annual Report of the Director-General to the GATT Council (C/RM/OV/2) contains an overview of developments in international trade from which the following points are highlighted for the purpose of the review of developments in international trade in the Committee on Trade and Development.

* Sections I and II of this note draw on material from the Annual Report by the Director General on Developments in International Trade and the Trading System (C/RM/OV/2 of 12 April 1991), the preliminary review by the GATT secretariat on world trade results and trends in 1990 (GATT/1504 of 19 March 1991), and contain other relevant information available in the secretariat.

Volume and value of world trade

4. The growth of world merchandise trade in volume terms fell from 7 per cent in 1989 to 5 per cent in 1990. This marks the second year in a row of trade growth deceleration in volume terms. However, because of the US dollar's depreciation against major European currencies, the value of world merchandise trade increased by 13 per cent in 1990 to a new record of US\$3.5 trillion. Services trade - covering sectors like transportation, tourism, telecommunications, insurance and banking - is estimated to have grown by 12 per cent last year to a value of US\$770 billion. The Report also notes that world trade continued to expand more rapidly than world output thus providing a source of strength in the generally weakened economic environment.

5. Boosted by the valuation effects of a lower US dollar, the value of Western Europe's exports last year rose by almost 20 per cent and its imports by 21 per cent. Due to continuing economic expansion and growth of domestic demand in united Germany, import demand in Western Europe remained stronger than in North America. Japan recorded only a 4.5 per cent increase in its exports and 11.5 per cent in imports. North America's merchandise exports grew an estimated 8 per cent last year, well above the world average of 5 per cent, but its imports increased by only 3.5 per cent.

6. The export and import performances of countries in Central and Eastern Europe and the USSR were marked by a continuing steep decline in intra-regional trade, only partly offset by an expansion in trade with partners outside the region. The ongoing transition of most of these countries to market-oriented economies, coupled with the virtual demise of the system of trade managed under the Council for Mutual Economic Assistance (CMEA), were the main factors in the declining importance of traditional trade ties.

Trade performance of developing countries

7. Export volume growth of developing countries as a whole was slightly above the world average while import volume growth was 3.5 per cent. In value terms the group's exports increased by 13 per cent and imports by 15 per cent. The Report notes that import demand from developing countries as a group provided important support to world trade growth in 1990.

8. Most OPEC members reported sharply higher export earnings last year, largely due to the 25 per cent increase in crude petroleum prices related to the Gulf crisis. The surge in these prices, in contrast, worsened the economic situation in the oil-importing countries, particularly in those which also had to cope with lower prices for their exports of primary commodities.

9. The leading Asian exporters of manufactures saw their export earnings grow more slowly in 1990, with the result that imports again grew more rapidly than exports.

10. Export growth in value terms was above the world average for African countries and other developing countries in Asia, but below the world average in Latin America, largely as a result of the contraction of Brazil's exports. Trends in commodity prices contributed to these mixed performances as exporters of such products as cocoa, cotton, jute, hides, lead, sugar, meat, tobacco and iron ore benefited from higher prices on international markets, while prices were lower or unchanged for other major primary commodities. Also noteworthy is the decline in the dollar price of wheat - down over 30 per cent from the peak in the first quarter of 1989. Factors behind this decline include record harvests in major exporters and importers, and the effect of export subsidies on sales in third markets granted by several leading exporters.

Highly indebted countries

11. The preliminary review by the GATT secretariat of world trade results and trends in 1990 (document GATT/1504 of 19 March 1991) observes that the value of merchandise exports from fifteen highly indebted countries¹⁾ rose an estimated 11 per cent in 1990, somewhat above the rate recorded in 1989. Import growth of about 16 per cent pushed imports of the group to a level just below the 1981 pre-debt crisis peak of US\$145 billion. Overall, the aggregate merchandise trade surplus (on a f.o.b. - c.i.f. basis) declined from US\$30 billion to US\$27 billion. Trade surpluses of Venezuela, Nigeria and Ecuador which export primarily crude petroleum increased sharply. Their combined surplus rose from US\$11 billion to US\$18 billion. Trade developments in the other twelve highly indebted countries were mixed. The combined surplus of these countries declined from US\$19 billion to US\$9 billion mainly as a result of a sharp decline in Brazil's surplus and a very substantial increase in Yugoslavia's deficit. Fuel exports from Mexico and Colombia rose by 20 and 30 per cent, respectively, but the lower share of fuels in their exports lessened the impact on overall export performance. Argentina reported the largest increase in merchandise export earnings (24 per cent) among the oil-importing countries in the group. As imports declined, in response to the weakness of the domestic economy, Argentina's trade surplus reached a record level of nearly US\$8 billion. Brazil and Peru, in contrast, recorded absolute declines in the value of exports, coupled with sizeable increases in imports.

12. The relation between exports of goods and services and required debt service payments continued to improve for the Latin American debtors in the Group (excepting Brazil and Peru). Within the broader group of highly

¹Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.

indebted countries, Mexico, Morocco, the Philippines and Venezuela reduced outstanding obligations under the Brady plan, and Nigeria obtained limited public debt relief from the United States. The report by the GATT secretariat notes that while per capita income remains below the level of the early 1980s in thirteen of the fifteen countries - Chile and Colombia are the exceptions - debt relief and sustained programmes of structural reform are pointing to continued (if gradual) improvements in the economic situation of the highly indebted countries.

The economic impact of the Gulf crisis on developing countries

13. Although the economic impact of the Gulf crisis at the global level appears to have been small, the impact on a number of individual developing countries was substantial. At one level, there is the economic devastation of Kuwait and Iraq. Among their trading partners, the importance of Kuwait and Iraq as export markets was particularly high for Jordan, Turkey, Romania, India, and Yugoslavia, implying substantial foregone export earnings as a result of the trade embargo. Reduced sea transport through the Red Sea affected Egypt and Djibouti, among others. Declining tourism in the region had a significant impact on Cyprus, Kenya, Malta, Jordan, Tunisia, Morocco, Egypt, Turkey and Israel. A number of countries in the Middle East, North Africa and Asia, lost an important source of foreign exchange as a result of the interruption of worker remittances from Kuwait and Iraq. Expressed as a proportion of merchandise exports, losses were important for Lebanon, Sudan, Yemen, Egypt and Bangladesh, as well as Sri Lanka, India and the Philippines.

Current outlook

14. The Report by the Director-General notes that there is, as yet, no evidence that the slowdown in economic growth in the major industrial countries - including a fall in output in France, the United States and the United Kingdom in the fourth quarter of last year - has run its course. A world recession is unlikely, but the timing of a broadly based pick-up in growth rates is also unclear. Uncertainty about the output growth in the G-5 countries during the remainder of 1991, in turn, clouds the outlook both for world trade and for the level of economic activity in the rest of the world. The Report concludes that, despite some recent positive developments related to the cease-fire in the Gulf which have increased consumer confidence, as well as, to the ease of interest rates in a number of countries and some recovery of investor confidence, the best estimate at this point is that for 1991 as a whole there will be a further but modest slowdown in the growth of world output and trade.

SECTION II: RECENT TRADE POLICY DEVELOPMENTS

Greater integration of developing countries in the multilateral trading system

15. Recent accessions to GATT and negotiations for accession currently underway, demonstrate the increased interest of developing countries to seek fuller integration in the multilateral trading system, which is one of the basic objectives of the Enabling Clause.

16. Following the accessions of Tunisia, Venezuela, Bolivia and Costa Rica in 1990, Macau became a member in January 1991. El Salvador's accession takes effect on 22 May this year and Guatemala is very close to completing the ratification process of its accession to GATT. Algeria, Honduras, Nepal and Paraguay are in various stages of the accession process. Negotiations relating to China's status as contracting party continue. Since 1986 twelve developing countries have become GATT members.

17. The main features of the commitments undertaken by the new members and countries which are close to completing their accession to GATT are the following: (i) reduction and binding of most, if not all, tariffs; (ii) ceiling binding of the entire tariff with provision for further lowering of the ceiling rate; (iii) immediate or progressive liberalization of non-tariff measures covering removal of import prohibitions, restrictive import licensing requirements and other quantitative measures; (iv) adherence to certain MTN Codes such as Customs Valuation, Import Licensing and Anti-Dumping.

18. These developments reflect the increased interest of developing countries in adopting more liberal trade regimes as a means of promoting their economic development and growth, as well as their willingness to undertake a higher degree of commitments under the multilateral rules and disciplines of GATT.

19. Another positive development is the continued trend in developing countries towards outward-looking trade policies. In 1990 and 1991 many countries have added their names to the list of trade liberalization initiatives undertaken since the commencement of the Uruguay Round. These include action in the tariff and non-tariff areas as well as the disinvocation of Article XVIII: B. These initiatives reflect a shift to a more market-oriented liberal trade regime, the desire for greater participation in the global economy and increased support for the multilateral trading system including the broad objectives of Part IV and the Enabling Clause. These developments in developing countries call for strong positive response from their developed trading partners in order to ensure the success of the reforms being undertaken and encourage the trend towards outward-looking trade policies.

Recent measures of relevance to Part IV provisions and the Enabling Clause

20. In 1990 the Committee reviewed the implementation of Part IV and the operation of the Enabling Clause at its Sixty-Eight and Sixty-Ninth

Sessions held in June and October respectively. In the course of these reviews the Committee took note of the notifications made by Austria, Japan, New Zealand, Norway, Switzerland and the United States on their GSP schemes. The Committee also took note of a notification concerning the Global System of Trade Preferences Among Developing Countries, as well as a report by the member States of the Bangkok Agreement and a report by the member States of the Andean Group.

21. For the purpose of the review of the implementation of provisions of Part IV and of the operation of the Enabling Clause at the Seventieth Session, the Committee will have before it the notifications made by governments since its Sixty-Ninth Session in October 1990. At 30 April 1991 the secretariat has received notifications from Austria (L/4108/Add.41), Finland (L/3694/Add.21), Japan (L/4531/Add.22), Norway (L/4242/Add.34 and Add.35), Poland (L/5321/Add.2) and the United States (L/5153/Add.13). The main features of the notifications received are the following:

- Austria has notified that with effect from 1 July 1990 the People's Republic of Mongolia has been included in the list of preference-receiving countries (Group 1);
- Finland has notified that with effect from 1 November 1990 Albania, Aruba and Namibia have been added to the list of beneficiary countries. Other changes relate to additional items which have been included in the product coverage of the Finnish GSP Scheme.
- Japan has notified that its GSP scheme has been extended for a third period of ten years until 31 March 2001. For some items, where ceilings were based on imports from beneficiaries in 1982, the base year for ceiling calculation is now 1989. As a special measure for FY 1991 ceilings on thirty-seven items have been further expanded by 50 per cent, 30 per cent or 10 per cent. As a result the total amount of ceilings is expected to rise in FY 1991 to 1.3 trillion yen representing an increase of 35 per cent over the previous fiscal year.
- Norway has notified that with effect from 1 January 1991 Namibia was included in the list of preference-receiving countries. Also with effect from 1 January 1991 the duty-free treatment accorded to India, Sri Lanka and Thailand in respect of certain handwoven fabrics was extended to handwoven unbleached and one-coloured (but not printed) cotton textiles under H.S. positions 52.08 and 52.09.
- Poland has notified that "with effect from 15 January 1991 the preferential rates of duty amount to 0.7 of the MFN base rate (instead of 0.3 previously)". Other changes include the provision that "preferential treatment is granted to imports from non-European developing countries and regions if the value of their per capita GDP does not exceed the value of the per capita GDP of Poland".

- United States has notified that on 1 February 1991 the Office of the United States Trade Representative announced four new beneficiaries of the GSP programme: Namibia, which was designated as GSP beneficiary for the first time and the Central African Republic, Chile and Paraguay which were reinstated as beneficiaries.

22. A further notification on the Andean Group activities has been received from the Board of the Cartagena Agreement (L/6841).

23. Concerning other measures of relevance to the provisions of Part IV which have come to the attention of the secretariat since the last session of the Committee, Italy has introduced a measure which consists of an increase in internal taxes on coffee and cocoa with effect from 1 January 1991.

SECTION III: URUGUAY ROUND NEGOTIATIONS

24. At the end of February 1991, the Trade Negotiations Committee agreed to resume the Uruguay Round Negotiations on the basis of a programme of work covering all areas of the negotiations and with the understanding that the provisions of the Punta del Este Declaration and the Mid-Term Review Decisions would remain in force. Through this agreement the Trade Negotiations Committee confirmed the political commitment undertaken by governments at the December 1990 Brussels meeting to pursue the negotiations and to ensure a successful conclusion of the Round.

25. The Committee on Trade and Development has regularly reviewed developments in the Uruguay Round. In the course of these reviews the Committee also addressed some specific topics of particular relevance to trade between developed and developing countries, such as interlinkages between trade, money and finance and the question of credit and recognition for unilateral trade liberalization measures undertaken by developing countries. The Committee addressed these issues in the light of the relevant provisions of the Punta del Este Declaration and of the Mid-Term Review Decisions with the view to making a useful contribution by way of ideas and suggestions which would help delegations in their participation in negotiations while avoiding duplication with work of Negotiating Bodies of the Uruguay Round. There was a broad measure of agreement that the Committee might revert to these topics at its future meetings and take up, in the discussion, other specific topics. However, with respect to the question of "interlinkages" another view was that these matters would be more usefully discussed in other fora than the Committee on Trade and Development.

26. The paragraphs below summarize the exchange of views held in the Committee on the above-mentioned specific topics. These summaries are meant to recall the main points involved in past discussions in the Committee on the questions of "interlinkages" and "credit and recognition" in order to enable Committee members to decide on whether and how they might wish to continue the debate on these specific points.

Interlinkages between trade, money and finance

27. In the debate on this topic several speakers pointed out that interlinkages between trade, money and finance were particularly relevant in the case of many developing countries and emphasized that policies in these areas had an important bearing on the trade between them and developed countries. It was recalled that the debt problem had tremendous adverse effects on economic development and growth in indebted developing countries and was putting social stability in a number of these countries at risk. The ability of developing countries to contribute to the expansion of world trade had been impaired as a result of import contraction in many indebted countries. This situation had negative effects on the trade of developed countries also. Furthermore, the export performance of indebted countries and their financial and payments position had been adversely affected by grey-area measures, recourse to unilateralism and difficulties encountered by them on financial markets. Finding remedies to problems in these fields was of outstanding importance both for developing countries' participation in the Uruguay Round and for improving the trading and financial environment. The GATT must therefore increase its work in the area where trade and finance interact.

28. Other speakers stressed that interlinkages between trade, money and finance was an issue of relevance not only to indebted countries but to the trading system as a whole. This issue required more attention than it had received up to now but the GATT should approach it from the perspective of the management of the international trading system.

29. Some speakers emphasized the importance of achieving greater coherence between policies in trade, monetary and financial areas. While the interaction between debt and trade was widely recognized, inconsistencies between policies in these areas still existed at both international and national levels. One example of inconsistencies was the trade restrictive policies of some industrialized countries affecting exports of indebted countries which would ultimately have an adverse impact on the financial interests of the industrialized countries themselves. Another speaker referred to contradictory demands addressed to indebted countries for increasing exports and reducing imports to generate trade surpluses for servicing the debt, and at the same time to liberalize their trade in GATT negotiations which at least in the short-term would not result in trade surpluses for servicing the debt.

30. Another view was that in any further informal discussion of the trade and finance link the Committee should also consider topics such as the impact of trade policies on development and growth as well as on adjustment to external imbalances and the impact of uneven obligations for different GATT members on the trading system and trade liberalization process.

31. In the course of the debate some representatives referred to certain specific proposals of relevance to the trade and finance link put forward by their delegations in the Round. One such proposal was aimed at establishing a linkage between the ability of indebted countries to face

their international financial obligations and an improvement of the trading environment through the Uruguay Round. Another proposal concerned the establishment of adequate financial programmes in favour of net food importing developing countries in order to alleviate the burden of import bill for food products which might be aggravated by the outcome of the negotiations on agriculture.

32. In concluding the debate the Chairman said that further contacts with delegations might be useful in order to explore the contribution which the Committee, as the main standing body responsible for trade and development issues, might make to work on the question of "interlinkages" while avoiding duplication with the negotiating bodies of the Uruguay Round where the same issue was being addressed.

Credit and recognition for trade liberalization measures undertaken by developing countries

33. The Committee held an exchange of views on these issues with the view to offer an opportunity to delegations to discuss all aspects related to the use in negotiations of trade liberalization measures, keeping in mind the relevant Mid-Term Review Decisions which provide for credit for bindings and recognition for autonomous trade liberalization measures.

34. Several speakers recalled that while trade liberalization measures adopted in recent years by a number of developing countries, either autonomously or as part of adjustment programmes agreed with international financial institutions, were for the good of the countries concerned they also had a positive impact on market-access conditions for their trading partners and constituted a contribution to the objectives of the Uruguay Round. The countries which had already undertaken trade liberalization measures now expected similar moves to come from their trading partners. Appropriate mechanisms should be used in order to ensure that countries concerned receive credit and recognition for those measures. This would help them in resisting domestic pressures against trade liberalization and would be an incentive for the continuation of such policies which also benefit their trading partners and strengthen the multilateral trading system. Some representatives further noted that in certain cases the servicing of foreign debt imposed limitations in continuing the process of trade liberalization as the measures already adopted had resulted in a significant increase in imports and a decline in trade surpluses.

35. In regard to approaches to be followed some speakers said that in certain cases the existing GATT procedures such as adherence to MTN Codes and undertaking of bindings including ceiling bindings might be used in order to obtain credit for trade liberalization measures. The existing procedures might be further elaborated by defining appropriate criteria or guidelines for giving credit. However there might be cases where trade liberalization measures could not be adequately dealt with under existing procedures. It would therefore be useful to explore different procedures or arrangements which would take account of particular circumstances in developing countries. In order to define the form of recognition for

certain trade liberalization measures participants in negotiations should perhaps define a new kind of contractual agreement which would contain commitments at a lesser level than the traditional bindings. Such agreement would have to be in accordance with the principle of relative reciprocity which states that developing countries should not be requested to make contributions in negotiations beyond their individual capabilities. Some delegations emphasized that in accordance with the Mid-Term Review text on tariffs a clear distinction should be made between the notions of "credit" and "recognition". Credit should be given for measures that would be bound in GATT, while an appropriate form of recognition should be defined for those measures which would not be bound.

36. Other representatives, while acknowledging that autonomous trade liberalization measures by developing countries represented an encouraging trend, emphasized that in order to receive credit for these measures they must lose their unilateral character and be bound in GATT. Some speakers also felt that the notion of credit was applicable in certain areas of negotiations only such as tariffs, non-tariff measures and agriculture. While some representatives believed that in such areas an attempt might be made to define appropriate criteria for giving credit, others questioned this idea and suggested the credit could be extended on a case-by-case basis in the give-and-take process of negotiations.

37. A number of questions of relevance to the issue of credit were raised by some representatives with a view to further examination. Such questions included: (i) the type of measures for which credit might be sought; (ii) whether credit should be given even for liberalization of GATT-inconsistent measures; (iii) the trade significance of bindings required for receiving credit; (iv) should countries expect to get credit for binding tariffs if the effect of such measures was nullified by quantitative restrictions or vice-versa; (v) would unbound liberalization measures for which a country was seeking recognition be subject to reversal through the "escape" provisions of the GATT such as Articles XVIII and XIX.

38. The question of credit and recognition for trade liberalization measures has also been discussed in relevant areas of the Uruguay Round negotiations, particularly in the market-access negotiations. It may be noted that while discussions focused on liberalizing measures adopted since the start of the Uruguay Round the question of defining approaches to give credit and recognition for autonomous measures which might be adopted after the completion of negotiations, has also been raised. Some participants saw a possible rôle for the Committee on Trade and Development in defining such approaches.