INTERNATIONAL TRADE AND ECONOMIC POLICIES

Recovery in sight, but serious problems remain

Just issued in a press release\(^1\) is the text of the first chapter of the annual report on international trade prepared by GATT’s economists. In their view, while there are undeniable signs of an economic recovery, no-one is predicting any vigorous expansion of trade. The mechanism by which national upswings are transmitted internationally has clearly weakened. After analysing the major component elements of international trade, the GATT economists study the rôle which trade policy can play in efforts to sustain and expand economic recovery and to find a solution to the international debt problem. The recovery as such, they say, cannot be expected to solve the basic problems of capital shortage, indebtedness and protectionism; it represents an opportunity, however, to introduce policies in the framework of which these three problems could be resolved over time.

I. Beginnings of recovery after the 1982 decline

The volume of production and international trade deteriorated in 1982; by mid-1983, however, recovery was well underway in North America and world trade was showing signs of a modest upturn.

World production declined by an estimated 2% in volume in 1982, the first such decline since 1975. Led by a 4⅞% decline in the industrial countries, world manufacturing production fell by somewhat less than 2%.

Unemployment again increased in 1982, reaching a post-war high; in contrast, inflation in industrial countries dropped to little more than half the 13% increase recorded in 1980.

II. Current problems in economic policy

Slacker international trade

The volume of world trade declined by an estimated 2% in 1982. Viewed in terms of two- or three-year averages, the performance of world trade since 1980 is the poorest in 35 years.

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\(^1\) GATT/1340, available free of charge in English, French and Spanish from the GATT Information Service. The full report will become available in the three languages in October and may be ordered from the GATT secretariat or through booksellers, at a price of Swiss francs 30.

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The Agreement on Customs Valuation

The economic importance of the Agreement on the implementation of Article VII of GATT, commonly known as the Customs Valuation Code or Agreement, is little known except by importers and those engaged in international trade. And yet the effect on trade of methods of customs valuation of goods can sometimes be greater than that of customs duties themselves.

Of all the non-tariff agreements resulting from the Tokyo Round, the Customs Valuation Code seems to have raised the fewest problems. It does not explicitly provide for revision, as do the other non-tariff agreements, but it has been the subject of a continuous process of interpretation, mainly at the technical level, with a view to ensuring uniformity in its application.

Objectives and Disciplines

Improvement and uniformity in the various existing systems of customs valuation emerged from the outset of the Tokyo Round as one of the objectives of the negotiations.

Indeed, the diversity and imprecision of the methods adopted by customs administrations for the valuation of goods—and hence the amount of customs duty and charges payable—constituted a source of insecurity and sometimes of arbitrariness harmful to international trade.

Article VII of the General Agreement, which is the main provision of GATT on this subject, did not provide all the elements necessary for establishing a uniform method of valuation; it left each country free to determine the

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1 See article in FOCUS No. 19 (January-February 1983).

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The Brussels Convention, drawn up by the Customs Co-operation Council and signed in 1950, was not applied by all countries either, and was no longer suited to existing economic conditions; efforts to secure its revision had been in progress for several years. The Tokyo Round negotiations provided an opportunity for recasting all the different systems of customs valuation applied, and resulted in a draft Agreement. Towards the end of the negotiations a draft Protocol was prepared under the impetus of the developing countries, which considered that the special and differential treatment accorded to them was not sufficient; this Protocol is considered to be an integral part of the Agreement on Customs Valuation.

The main object of the Customs Valuation Code is to define an equitable, uniform and neutral system of determining the customs value of goods, which is in conformity with commercial facts and excludes the use of arbitrary or fictitious customs values. The Code develops Article VII of GATT in more precise detail; it specifies five methods of valuation and fixes the order in which they are to be applied.

**Ranking of methods**

It is only when a valid determination of the customs value cannot be made by the first method that a customs administration can have recourse to the second method, and so on.

- The first and principal method of valuation is based on the transaction value of the goods, that is, the price actually paid or payable (i.e., usually the invoice price) subject to various adjustments specified in Article 8 of the Code (transport costs, commissions and brokerage, cost of packing etc.). Article 1 also sets out the conditions that must be satisfied for the transaction value to be considered acceptable, in particular when the seller and the buyer are related. This question of relation was discussed at length during the negotiations, for it concerns in particular multinational corporations.

- If the transaction value of the goods imported is not acceptable, the customs administration must apply the second method, which is based on the transaction value of identical goods sold for export to the same country of importation at about the same time.

- If this method cannot be used, the value of the goods must be determined on the basis of the transaction value of similar goods sold under the same conditions. The Code defines what is to be understood by “similar” and “identical” goods.

- If none of these three methods can be used, the importer may choose between the application of a fourth and fifth method of valuation. In the case of developing countries, this choice must be approved by the customs administration of the developing country concerned.

These two methods introduce elements of calculation, which are specified in Articles 5 and 6 of the Code; they are based on the “deduced value” and the “computed value”.

- Article 7 of the Code provides that if none of these five methods can be adopted, the administration shall apply a method of “last resort”, by which the customs value shall be determined using reasonable means consistent with the provisions of the Agreement and of Article VII of GATT, on the basis of data available in the country of importation. It precludes the possibility (Continued on page 3)
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of using certain methods of valuation
and fictitious or arbitrary values, which it
enumerates.

Management and supervision of the Agreement

The Committee on Customs Valuation, of which the parties to the Agreement are members, monitors the implementation of the Agreement and provides the signatories with an opportunity of consulting one another on matters relating to the administration of the Agreement.

A Technical Committee on Customs Valuation, under the auspices of the Customs Co-operation Council at Brussels, is responsible for ensuring, at the technical level, uniformity in the interpretation and application of the Agreement; it reports to the GATT Committee on Customs Valuation and to the Customs Co-operation Council.

Consultation and settlement of disputes

The Agreement includes procedures for consultation similar to those provided for in the other non-tariff agreements. In view of the highly technical nature of the matters dealt with, the Committee on Customs Valuation may request the Technical Committee to assist it in its dispute-settlement functions.

Special and differential treatment

Article 21 of the Agreement provides that developing country parties may delay application of the Agreement for a period of five years and application of certain provisions for a further period of three years. Developed countries which are parties to the Agreement are required to furnish technical assistance and advice regarding its application.

The Protocol on the implementation of Article VII of GATT recognizes that application of the Agreement may raise problems for developing countries and goes beyond the special and differential treatment accorded by the Code. It permits extension of the period during which application of the Code may be delayed and provides for specific derogations.

Operation of the Agreement

Summing up, after two years of operation of the agreement, the Committee on Customs Valuation noted with satisfaction that no substantial difficulties had been encountered. This was confirmed by the fact that there had been no consultations within the Committee and no recourse to the specific dispute settlement procedures established by the Agreement.

The Committee is now discussing two questions on which it would be desirable to reach agreement:

- whether the amount of interest payable under a financing agreement for the purchase of imported goods should or should not be included in the value of the goods;
- the lack of uniformity in the treatment of computer software, in which international trade is growing fast.

The way in which the answers to these two questions could be integrated into the Agreement is also being studied. It appears from information communicated by the parties to the Agreement that, in accordance with its objectives, the transaction value is by far the most widely used method of customs valuation. This information needs further analysis to provide a valid basis of comparison between the parties. In the opinion of the United States, which recently submitted a detailed report on the subject, the implementation of the new system of customs valuation has saved time and money and improved the efficiency of import transactions.

Technical assistance activities have been actively carried on. In order to adapt them even better to the needs of developing countries, the latter have been asked to describe their main difficulties and concerns in applying the Code.

The principal difficulties mentioned by the twenty-nine developing countries which have already replied are, in decreasing order of importance:

- training of customs personnel,
- increased danger of fraud,
- determination of procedures and practices, and the drafting of laws and regulations governing the implementation of the Agreement,
- loss of revenue attributable to certain provisions of the Agreement,
- the information to be furnished to importers,
- transactions between related persons.

Like all the Tokyo Round agreements, the Customs Valuation Code will be reviewed as a whole by the Contracting Parties this autumn.

ECONOMIC POLICIES

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profitable exports or to attract capital resources from abroad.

Actually, the protectionism of the last fifteen years has been more ideological than pragmatic in origin. "It has been a logical concomitant of a particular perception of the powers and responsibilities of governments that emphasized the importance of protecting existing jobs and existing wage levels, even in the face of market pressures for structural adaptation".

Such an approach overestimates what governments can actually do and is bound to create frictions among them. The bilateral and commercial conflicts among the large industrial countries originate in their agricultural trade, where government interference is the most advanced.

That is why, in the opinion of the GATT economists, it is of decisive importance to stabilize the conditions of international trade. "It need not be free trade; what we mean is liberal trade, a condition in which those industries which are deemed to deserve protection are protected by non-prohibitive MFN tariffs which remain stable for long periods or move gradually downwards, and in which competition is not impaired by quantitative restrictions (voluntary or otherwise) or trade-distorting subsidies. Together with price level stability, these conditions are sufficient to ensure that the price system of each national economy will work efficiently - indeed that there will be an efficient international price system signalling potential scarcities or surpluses anywhere in the world economy", for which corrective measures can thus be taken in time. Distortions in the price system have very substantial adverse effects on economic development, in both developed and developing countries. "Without a working price mechanism, economic development is without an inner momentum; it must be kept going by promiscuous, day-to-day interventions", such as price controls, licences to pursue activities, etc.

In conclusion, the GATT economists maintain that the ultimate solution of the problems mentioned "lies in restoring competition and a more efficient working of the price mechanism", whose distortions are caused largely by trade policy and in particular by quantitative restrictions.

"In the immediate sense the effect of lower trade barriers would consist of avoiding both a waste of capital through investment in heavily protected industries and the appearance of inflationary bottlenecks as recovery proceeds". They go on to emphasize that "allowing a greater role for competition in the determination of relative prices implies, at the same time, a stimulus to the expansion of each country's export industries". In their view, any government could greatly improve the performance of its own economy by taking steps in that direction without waiting for others. A new joint initiative is needed to restore the full effect of the General Agreement and to retrieve its original purpose - that of strengthening governments against the particularist pressures emanating from national economies.
INTERNATIONAL TRADE (continued)

This decline in the volume of world trade, combined with a 4% decline in dollar unit values, reduced the value of world trade in 1982 to $1.850 billion, 6% below the 1981 level.

There were only minor changes in the regional distribution of trade in 1982.

Growth of world exports, 1963-1982 (Average annual percentage changes in volume)

<table>
<thead>
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<th>Year</th>
<th>Agricultural Products</th>
<th>Minerals</th>
<th>Manufactures</th>
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<tr>
<td>1963-73</td>
<td>8%</td>
<td>3</td>
<td>5 1/2</td>
</tr>
<tr>
<td>1973-82</td>
<td>5 1/2</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>1979</td>
<td>5</td>
<td>-6</td>
<td>-12</td>
</tr>
<tr>
<td>1980</td>
<td>3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>-2</td>
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</tbody>
</table>

* Including fuels and non-ferrous metals.

Trade and payments balances: smaller deficits and surpluses

- The combined trade surplus of the traditional oil-exporting developing countries contracted by nearly $50 billion in 1982 to around $70 billion, only 40% of its level in 1980. This essentially reflected changes in volume.
- The trade deficits of the industrial area were reduced by a little over $20 billion in 1982.
- The trade deficit of the oil-importing developing countries decreased by nearly $15 billion, reflecting mostly changes in volume. Some three-quarters of this decline originated in trade with industrial countries, and the remainder in trade with the traditional oil-exporting developing countries.
- The trade surplus of the Eastern trading area increased by an additional $8.5 billion in 1982, of which $7 billion was from trade with the industrial countries.
- There was an estimated $4 billion decline in the combined 1982 trade deficit of Australia, New Zealand and South Africa.

It is much more difficult to say anything specific about recent trends in current account balances, because of dramatically increased statistical discrepancies between surpluses and deficits.

Indebtedness and foreign trade adjustment

Under increased pressure of debt servicing, there was a moderate decline in the combined trade deficit of the oil-importing developing countries in 1982. In volume terms, their exports are estimated to have increased by 1 per cent with a 4 per cent decline in their imports.

For a group of sixteen developing countries, the GATT economists have examined recent trends in exports, imports and trade balance, and have found that import cuts have played a role in nearly all those countries. 70% of their exports are currently sold to industrial countries, whose imports from those sixteen countries were above the 1979 level but below the levels recorded in 1980 and 1981. Over the four-year period, the sixteen countries as a group nevertheless expanded their market share in all the categories of manufactured goods, though to varying degrees.