COUNCIL

At the Council's meeting on 2 October, textile-exporting developing countries drew attention to measures taken by the United States in this sector. On 4 and 5 September, these countries had already expressed before the Textiles Committee their concern about the serious repercussions that the measures could have on their exports.

Speaking on behalf of the textile-exporting developing countries, the representative of Pakistan said that the Council had an important rôle to play in overseeing commitments in regard to protectionism and increased trade liberalization, inter alia in the textile area, as well as strict observance of the rules of the Multi-Fibre Arrangement, in accordance with undertakings given at the Ministerial session of November 1982.

In the view of the representative of Pakistan, neither the regulations defining new rules of origin applicable to textile imports into the US, nor the countervailing investigations opened against thirteen developing countries take account of the objectives of the Ministerial declaration on the MFA. He underlined that recourse to restrictions additional to those already provided by the MFA was strictly limited by Article 9 of that instrument. The new rules of origin alone could affect trade representing $3 billion.

Developed and developing countries

A new round of consultations, held between 9 and 12 October by the Committee on Trade and Development, afforded a better understanding of trade policies and measures in the context of Part IV of the General Agreement, as well as of problems and difficulties that developing countries are still experiencing in their trade. The European Community, United States, Japan and a group of developing countries which are members of the Latin American Integration Association (Argentina, Brazil, Chile, Colombia, Peru and Uruguay) took part in the consultations.

The aim of these consultations, which were launched by the Ministerial Declaration of November 1982, is to promote more effective application of Part IV of the General Agreement, which contains provisions for more favourable treatment to developing countries in several areas, by reviewing the trade policies and specific measures applied by consulting countries in the light of Part IV commitments.

During the consultations, many important issues were raised including promotion of economic efficiency and growth, protection of essential national interests in particular sectors such as agriculture or certain industrial sectors, regional integration arrangements, differential treatment granted to developing countries (including the generalized system of preferences), as well as liberalization efforts including those among developing countries.

1 Consultations with the Nordic countries, Austria and Hungary took place last October (see FOCUS No. 25). A feature article on better application of GATT provisions on developing countries' trade was published in FOCUS No. 21.
PROSPECTS FOR INTERNATIONAL TRADE

In the last quarter of 1983 there was a sharp acceleration in the value and volume of world trade, which seems to have continued in the first months of 1984, say GATT's economists in the first chapter of their report, "International Trade 1983/1984." They expect the growth in world trade in 1984 to be in the range of 5 to 7 per cent in dollar value.

Nevertheless, the current recovery remains highly differentiated and has failed to spread internationally to the same extent as previous post-war recoveries. Among the reasons suggested by the GATT economists, trade policies and, in particular, fragmentation of the world market caused by discriminatory protection are emphasized.

I. Main developments

Diversified recovery
Apart from North America, notably the United States, which experienced an unexpectedly strong expansion of production, some developing countries in South-East Asia and South Asia exhibited a satisfactory economic performance. The recovery has been moderate in most of the industrial countries where, with the exception of the Federal Republic of Germany and the United Kingdom, external demand was the main, often the only, stimulus to output. This external stimulus originated mainly in the United States. In many parts of the developing world, notably in Africa and in Latin America, economic activity remains depressed. Recovery was moderate in the Eastern trading area, too.

Unemployment continues to be a serious problem, particularly in Western Europe.

Trade expansion
The volume of world trade recovered by about 2 per cent in 1983; the growth in manufactures—excess of 4 per cent—being larger than for agricultural products (1 per cent). Exports of manufactures from developing countries, mainly to the industrial countries, are estimated to have increased by 9 per cent in value (a gain of approximately US$10 billion).

II. Recent developments

Trade and recovery
The most striking feature of the current recovery has been the weak response of the world economy to the vigorous boom in the United States; this is all the more noteworthy because of the unusually large increase in imports into that country (by nearly 35 per cent in value during the first five quarters of the recovery).

A lack of trade-related investment may be at the heart of this weak response. Expanding demand for exports has been mainly satisfied from existing capacity. While high interest rates are the conventional explanation, business uncertainty, structural rigidities and the weak response of raw material prices to the recovery also seem to have played a major rôle.

General business uncertainty
The international debt issue, concern as to the future course of monetary and fiscal policies in the major countries and their effects on exchange rates, and—last but not least—the increasing unpredictability of trade policy, have made private investors more cautious and more sensitive to minor changes, such as, for example, transitory rises in the rates of inflation. The result has been reduced investment, reduced economic activity and reduced job creation.

Structural rigidities
Various European governments have taken steps to increase the flexibility of their economies but so far the success of such measures has been limited, because the change of policy perception is of recent origin. In addition, such efforts inevitably meet with natural inertia, which is all the more pronounced where policies have created impediments to adjustment that have become deeply embedded.

Uncertain market access
Notwithstanding a number of encouraging signs, including the announced advance implementation of the Tokyo Round tariff cuts on the part of the industrial countries, trade policy does not yet provide for the stable conditions needed to buttress investors' confidence. In Europe and North America, market access has been further tightened, or become more uncertain, in such sectors as agriculture, consumer electronics, automobiles, textiles, clothing, copper and steel. Pending anti-dumping and countervailing duty cases add significantly to trade uncertainty. Where trade policy discipline deteriorates to a point at which production becomes easily available to almost any industry anywhere, it would be imprudent to invest in an expansion of export capacity.

Debt, trade and investment
Trade uncertainty and a high level of indebtedness inevitably have adverse effects on the investment climate in developing countries.

In 1983, for the first time in more than three decades (except for a negligible surplus in 1965), the combined merchandise trade deficit of the thirteen indebted countries examined by GATT turned into a sizeable surplus ($13 billion), as their imports fell distinctly more steeply than their exports.

Information for 1984 is still scarce. Nevertheless, it would seem that for an increasing number of countries the process of export contraction is finally coming to an end. Trade policy changes in creditor and debtor countries could support this process.

(Continued on p. 3)
Prospects for international trade (continued)

Weak markets for food, energy and raw materials
The explanation of the weak response of commodity markets to the recovery includes weak demand from industrial countries as well as high interest rates which hamper replenishment of stocks. Nevertheless, this weak response also reflects structural changes, and in particular the fact that, in the United States and several other industrial countries, the present recovery is characterized by a shift toward service activities. Lastly, the application of new technologies in the dynamic modern manufacturing sector has supported the saving and substitution processes in respect of energy and raw materials.

Supporting the recovery
A determined effort of the major countries to roll back protectionist forces could support and prolong the recovery, domestically and abroad. While enlarging the scope for the heavily indebted developing countries to earn foreign exchange for debt service, such an initiative would instantaneously strengthen confidence in the international financial system and thus alleviate one form of present uncertainty. By opening up new profitable investment opportunities and by furthering investment security, in particular with respect to trade-related investment, firm commitment to liberal trade policies would translate the enhanced flexibility into additional production and employment, in debtor and creditor countries alike. The GATT economists also underline the harmful economic effects of import restrictions.

Restoring a more integrated world economy
GATT's economists explore the importance to each nation of an international economy functioning as an integrated system, and what makes it function.

When the world economy is fragmented, “communication” between different economies is poor and hampers reallocation of resources to the most profitable sectors. If there is to be real adjustment permitting self-sustaining growth, a rehabilitation of the international price system is a necessary condition for it will permit investment decision-making on a rational basis.

The rise of protectionism, however, has predominantly taken the form of a proliferation of quantitative restrictions which have distorted the price mechanism. In this connection, GATT's economists underline that protection could never have risen to its present levels if it had not been possible for governments to implement protective measures in a discriminatory manner.

(Continued on p. 4)

**MFN commitment – basis of the trading system**

The GATT economists consider essential a return to the most-favoured-nation system, and recapitulate its functions:

1. From the economic viewpoint it ensures that each country will satisfy its total import needs from the most efficient sources of supply, allowing the operation of comparative advantage.
2. From the trade policy viewpoint, the MFN commitment protects the value of bilateral concessions and “spreads security around” by making them the basis for a multilateral system.
3. From the international-political viewpoint, the commitment to the MFN clause mobilizes the power of the large countries behind the main interest and aspiration of the small ones which is to be treated equally. It represents the only way to realize the ideal of sovereign equality of nations; in more practical terms, it guarantees the access of newcomers into international markets.
4. From the domestic-political viewpoint, the MFN commitment makes for more straightforward and transparent policies and for greater simplicity of administration of protection.
5. Ultimately, the unconditional MFN commitment is of a constitutional significance. It serves as the safe constraint on the delegated discretionary powers of the executive branch in trade matters.

**Without a return to sound trade policies, the recovery could be short-lived, warns GATT's Director-General**

Presenting to members of the press the main conclusions of GATT's economists regarding international trade in 1983/84 (see article opposite), Arthur Dunkel, Director-General of GATT, noted that the most striking feature of recent developments has been weak international transmission of the economic recovery which had begun in the United States. With the exception of a few countries, including the United States, the recovery has not been accompanied by increased investment in export-oriented industries, and there has been a consequent failure to create many new jobs.

Although the high level of interest rates remains a problem, the GATT economists have identified three other central reasons for this investment failure: structural rigidities in national economies, distorted functioning of the price system and, above all, growing uncertainty regarding trade policies compounded by the often discriminatory application of restrictive measures.

Arthur Dunkel underlined the need to restore a trading system based on multilateralism and observance of the most-favoured-nation clause, and to avoid the tendency to think in terms of individual economic sectors. GATT's Director-General recalled that this is not the first diagnosis of its kind, nor the first appeal by GATT in favour of global trade policies and renewed observance of the fundamental principles that have allowed international trade expansion. Unfortunately, he added, the facts show more and more that we were right: if governments want to “save” the international trading system, they will have to take urgent and concrete action.

**GATT FOCUS**

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TEXTILES COMMITTEE

Concerns of developing countries

The Textiles Committee met on 4 and 5 September at the request of textile-exporting developing countries to examine the revised customs regulations of the United States which were to be implemented with effect from 7 September, and the countervailing investigations against thirteen countries on the entire range of their textile products, including the products already subject to quota restrictions.

The Textiles Committee noted a common view that:

(a) the stated objectives of the interim regulations envisaged by the United States could or should be met through the existing provisions of the GATT, the MFA or the bilateral agreements;

(b) the United States should withdraw or at least postpone implementation of new rules of origin to enable urgent bilateral or plurilateral consultations to be held between the United States and concerned countries, with a view to finding appropriate solutions, consistent with the provisions of the GATT and the MFA, to any problems that may have given rise to the new US regulations;

(c) the matter of CVD actions should, as requested by exporting developing countries, be examined by the Textiles Surveillance Body in the light of Article 9 of the MFA1 and paragraph 23 of the 1981 Protocol, and the result of this examination should be considered by the Textiles Committee on 17 October.

The Textiles Committee agreed to keep these and related matters under consideration and to review the situation in the light of developments at its meeting on 17 October.

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In brief...

TECHNICAL BARRIERS TO TRADE: settlement of a dispute

The Committee which administers the Agreement on Technical Barriers to Trade concluded in the Tokyo Round has adopted a recommendation designed to improve type-approval procedures applied by Spain in respect of heating radiators and electrical medical equipment. This recommendation came after examination of a dispute between the European Economic Community and Spain, which was brought before the Committee under Article 14.4 of the Agreement—the first issue to be brought before it under that provision.

Prospects for international trade (continued)

There is no way of maintaining an international trade system, in the full sense of regularity, orderliness and predictability, without the most-favoured-nation commitment, the advantages of which deserve a re-capitulation (see box on page 3).

Need for joint action
The decline in trade policy discipline, and the consequent proliferation of conflicts, has led to proposals for a new round of trade negotiations, note the GATT economists. It is believed that in one general negotiation it might be possible to trade off national concessions on particular issues and thus to arrive at a “balanced package” which, while not containing ideal solutions to today’s problems, would still be an improvement on the status quo.

The present state of trade policy does indeed call for an overall appraisal and joint action if an international market–capable of securing compatibility, and thus profitability, of investment decisions in all participating economies—is to be restored. While it is true that the technical aspects of the different issues require expert attention, they must not be allowed to overshadow the central concern that it is the system that has to be strengthened, and that underlying all these issues is the basic problem of discrimination. The Contracting Parties, and in particular the major trading countries, would have to indicate in some binding manner their willingness to return to the non-discriminatory trading system embodied in the General Agreement.

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40th session of Contracting Parties
At the 40th session of the Contracting Parties, to be held from 26 to 29 November, GATT members will be reviewing major developments since the 39th session and implementation of the work programme resulting from the Ministerial session of 1982; they will also be able to decide on such future action as they consider appropriate.

Coming GATT activities

Provisional schedule of meetings for November

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<td>26-29</td>
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1 Article 9 of the MFA provides that, in the event of additional trade measures and if consultation fails to achieve a mutually satisfactory solution, the countries that consider themselves adversely affected may refer the matter to the TSB, which shall make appropriate recommendations.

2 Paragraph 23 of the 1981 Protocol provides that participants should refrain from taking measures on textiles covered by the MFA, outside the provisions therein, before exhausting all the relief measures provided in the Arrangement.

4 Committee on Tariff Concessions
5 Committee on Balance-of-Payments

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Provisional schedule of meetings for December

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