MULTIFIBRE ARRANGEMENT EXTENDED

After intensive negotiations, the Arrangement Regarding International Trade in Textiles, generally known as the Multifibre Arrangement, was extended for a further period, from 1 August 1986 to 31 July 1991. The extension was decided at a meeting on 31 July of the Textiles Committee, which is the body responsible for administering the Arrangement and in which all of its signatories are represented. The Arrangement was extended by means of a Protocol, which refers to some agreed points recorded in conclusions adopted by the Textiles Committee on 31 July. The Protocol is now open for signature by governments.

Principal provisions of the Protocol

In the new Protocol, the participants agree that the final objective is the application of GATT rules to trade in textiles. In this regard, they recognize the need for co-operative efforts by all the participants. They also undertake to improve bilateral agreements concluded under the Arrangement, which should provide for increased effective access in overall terms, in order to further the economic and social development of developing countries and to help them obtain a greater share of world trade in textile products.

The Protocol deals with cases in which there is market disruption or a risk thereof, and indicates that actions taken because of such situations cannot be based solely upon the level or growth of imports; due consideration must be given to the evolution of the state of the domestic industry in the importing country, including its export performance and the market share it holds.

The Protocol contains provisions for dealing with real difficulties caused in importing countries by sharp and substantial increases in imports as a result of significant differences between the restraint levels negotiated and actual imports. It also recognizes the problems of countries having a small market, an exceptionally high level of imports and a correspondingly low level of domestic production; it authorizes them to apply lower positive growth rates to their imports, on the understanding that future bilateral agreements concluded in this connection shall represent meaningful improvements over earlier agreements.

Towards Punta del Este...

On the eve of the Ministerial Meeting at Punta del Este, which is to decide on whether to launch a new round of multilateral trade negotiations in GATT, there has emerged a general political will on the part of the members of GATT to give the go-ahead to such negotiations and to seek, within a collective and multilateral framework, a solution to today's trade problems. However, overall agreement has yet to be reached on all the objectives, topics and modalities of the negotiations, with a number of fundamental questions remaining to be settled.

On 31 July, the Preparatory Committee ended its work by deciding to forward to the Ministers three draft ministerial declarations, in which there are areas of agreement and disagreement. Each of the proposals includes "standstill" commitments regarding protectionism and undertakings concerning the "rollback" of protectionist measures inconsistent with the GATT. They all recognize the importance of securing a new safeguards understanding and the need to negotiate in the area of agricultural trade. They recognize the principle of special and differential treatment for the developing countries and the need for negotiations on tropical products. They also have a number of other common features, including tariff negotiations and trade in natural resource products. Among the issues still to be tackled are the nature of the commitments to be entered into on those questions as well as the inclusion in the negotiations of trade in services, trade-related aspects of intellectual property rights, and trade-related investment measures.

As regards services, Ambassador Felipe Jaramillo (Colombia) who has chaired the meetings on services, will forward to the Ministers a report prepared on his own responsibility describing the work done so far in this area and indicating the questions raised by various delegations.

The Punta del Este meeting will be a session of the Contracting Parties held at ministerial level. In addition to the contracting parties, the meeting will be open to those countries having observer status in sessions of the Contracting Parties and to certain international organizations. The meeting will be opened on the afternoon of Monday, 15 September, by the President of Uruguay, Julio Maria Sanguinetti, and will be chaired by Mr. Enrique V. Iglesias, Uruguay's Minister for Foreign Affairs. The meeting will last one week.
As regards exporting participants predominant in the export of textiles in cotton, wool and man-made fibres, they may agree with importing participants to a mutually acceptable solution concerning the growth of their exports and the flexibility included in bilateral agreements, but in no case should such growth and flexibility be less favourable than in the past.

The Protocol also indicates that more favourable treatment shall be given to exports from least-developed countries, small suppliers and new entrants, on which restraints shall not normally be imposed, as well as to exports of cotton textiles from cotton-producing countries, which should benefit from improvements in bilateral agreements. In addition, special consideration shall be given to the problems of developing countries highly dependent on their exports of wool textiles, should restrictions of their exports prove necessary because of market disruption or a risk of such disruption.

The new Protocol also recognizes that substantially increased imports of textiles made of vegetable fibres, blends of vegetable fibres and blends containing silk—hitherto not covered by the Multifibre Arrangement—may be directly competitive with the textiles subject to restraints and may cause market disruption or a risk thereof. In such cases, it authorizes the countries concerned to invoke the provisions of the Arrangement. However, such restraints may not be applied to textiles which were internationally traded in commercially significant quantities prior to 1982.

In pursuance of the objective of trade liberalization embodied in the Arrangement, the participants reaffirmed the need to monitor adjustment policies and measures as well as the process of autonomous adjustment.

They further agreed to cooperate fully in dealing with problems of circumvention of the Arrangement, relating to the origin, quantity and type of textile products presented for import. They also noted the concern expressed by a number of countries regarding the problem of the counterfeiting of registered trademarks and designs in trade in textiles and clothing, which should be dealt with in accordance with relevant national laws and regulations.

### Coming GATT activities

**Tentative schedule of meetings for**

**September:**

15-20  MINISTERIAL MEETING of the Contracting Parties at Punta del Este (Uruguay)

22-23  Committees on Milk Powders, Milk Fat and Cheeses

25-26  International Dairy Products Council

29-30  Textiles Surveillance Body

**October:**

1  Textiles Surveillance Body

1-3  Group on Quantitative Restrictions and Other Non-Tariff Measures

3  Committee on Tariff Concessions

6-7  Technical Sub-Committee on Trade in Civil Aircraft

7-8  Working Party on the Accession of Spain and Portugal to the European Communities

8  Committee on Trade in Civil Aircraft

8-10  Textiles Surveillance Body

9  Council

13-14  CARIBCAN Working Party

13-14  Committee on Technical Barriers to Trade

14-15 and 17  Committee on Balance of Payments

15-16  Committee on Government Procurement

16  Committee on Import Licensing

### 62nd GATT Commercial Policy Course

The sixty-second Commercial Policy Course organized by GATT opened on 18 August. The course, for English-speaking officials from developing countries, will run until 9 December. There are twenty-five participants, drawn from as many countries.

The course, which has a practical orientation, aims at giving the participants a greater understanding of trade policy matters, of the work being done by GATT, and of major current problems of international trade.

Since the programme was set up in 1955, 977 officials from 112 countries and ten regional organizations have participated in the commercial policy courses.
PROSPECTS FOR INTERNATIONAL TRADE
Call for major policy changes in the trade area

While unusually large trade imbalances in the world's three leading trading nations, and frequent and large movements in exchange rates clearly have added to protectionist pressures, the reluctance of groups of producers to adjust to changes in comparative advantage remains the primary challenge to the trading system. The GATT allows for protection, of course, through bound tariffs and various types of temporary increases in import barriers subject to agreed rules. The aim is to put a ceiling on and gradually bring down overall levels of protection. Recent increases in protection are therefore disturbing. Even worse, world trade is threatened by the forms that protection is taking, their lack of consistency with the rules, and what this is doing to confidence in the trading system.

The danger in the present situation is that policies centred on subsidies and discriminatory quantitative restrictions, whose bankruptcy is evident from the experience in the three most protected sectors (agriculture, textiles and clothing), will continue to spread to other parts of the economy.

Even if current policies do not lead to open trade warfare, continuing down the road of managed trade and market sharing would invite a prolonged stagnation - or decline - in world trade through the cumulative effect of distorted competition on investment decisions and business confidence. There is little need to add that such a development would cripple efforts to deal with such pressing problems as servicing debts, creating jobs and promoting economic growth. At this juncture, and in the perspective of the GATT Ministerial Session in Punta del Este, governments need to demonstrate the same capacity for major policy changes in the area of trade as they have in other areas when the costs of inappropriate economic policies became too high.

These are the main conclusions drawn by GATT economists in their analysis "International Trade 1985/86". The full report is scheduled for release in October.

In 1985, the value of world merchandise trade is estimated to have increased by 1 per cent and the volume by 3 per cent, the latter figure being above the average growth rate for the years 1980-83 but well below the 9 1/2 per cent recorded in the recovery year 1984. According to the figures so available, trade during the first half of 1986 continued to increase in volume at the 1985 rate and in value at a rate of 8 per cent, reflecting in part the impact of the depreciation of the dollar on unit values.

Current estimates for world trade growth in 1986 are somewhat lower than many forecasts anticipated earlier this year. The failure of trade growth to pick up appears to be largely due to the fact that economic activity in the industrial countries has responded less strongly than expected to the changes in key prices that have occurred over the past eighteen months. These include the decline in interest rates, the sharp fall in petroleum prices and the return of exchange rates to levels generally perceived to be more in line with economic fundamentals, in particular the depreciation of the dollar against West European currencies and the Japanese yen.

Current forecasts indicate that the volume of world trade is likely to increase by about 3 1/2 per cent in 1986, which is somewhat higher than in 1985 but lower than the 5 1/2 per cent average recorded during the 1970s.

Trade in manufactured products was the only buoyant element of world trade in 1985 in both developing and industrial countries, the most dynamic product groups being road motor-vehicles, household appliances and machinery for specialized industry.

(Continued on page 4)
In contrast, there were particularly sharp declines in the value of world exports of food, fuels and non-ferrous metals, reflected in a fall of total exports from Latin America, Africa and the Middle East and from developing areas as a whole.

Export earnings of the developing areas declined in 1985, but the value of their imports fell even more, so that their combined trade surplus reached $30 billion in 1985. Imports into the developed countries grew in value by 2 per cent and their exports by 3½ per cent. Their combined trade deficit decreased to $100 billion. The growth of imports into the Eastern trading areas was particularly strong, mainly as a result of a sharp increase in China's imports, causing the combined trade balance of the area to move into deficit in 1985.

Two particularly striking features of world trade in 1985: sharp deterioration in the trade of developing areas and increased trade imbalances of the major industrial countries

- The total share of the developing areas in the value of both world exports and imports has fallen continuously since the early 1980s, and the decline accelerated in 1985. This poor export performance is due in large part to developments in the world markets for petroleum and many non-fuel primary commodities, which remain the principal source of foreign-exchange earnings for most developing countries. The decline in the share of developing countries in world imports was particularly sharp in 1985, reflecting import contraction by the fuel and other primary-commodity exporters, the indebted countries, and other countries that have been encountering persistent balance-of-payments difficulties. This import contraction is shown most clearly in manufactured products, where their share in world imports has decreased from 29 per cent in 1981 to 22 per cent in 1985.

On the other hand, the developing areas have succeeded in expanding their exports of manufactures more rapidly than other suppliers; their world market share increased from 7 per cent in the mid-1970s to 12½ per cent in 1985.

- The growing trade imbalances of the three biggest trading nations—the United States, Japan and the Federal Republic of Germany—which have been a focus of attention since 1983 widened in the first half of 1986. It has been argued that the sharp decline in oil prices will lessen the United States trade deficit although they will increase the trade surpluses of Japan and the Federal Republic of Germany. In the view of the GATT economists, however, while it is certain that these factors will affect the imports and exports of those countries, their impact on trade balances is less straightforward. In addition to the lag before the volume of imports and exports adjusts fully to new exchange rates, there is the more basic issue of whether an exchange rate change alone can reduce the imbalance between national expenditure and output. On the one hand, some part of the oil savings will be spent on other imported goods. More significantly, the oil-exporting countries have already begun to cut their own imports in the face of declining export revenues, and this process is likely to continue throughout 1986.

The most important factor is that in each country trade imbalances reflect internal imbalances between national output and expenditure. Efforts to reduce these imbalances need to focus on the fiscal and monetary policies that have a direct impact on the output/expenditure relationship, rather than on changes in exchange rates, whose effects are less direct and more difficult to foresee.
Current issues

Pressures on the trading system from other areas

Longer-term strategies favouring growth, including export and import expansion, are badly needed to resolve the debt problem. Reductions in border restrictions in the debtor countries will enable them to use their resources more efficiently. A combination of increased net capital inflows and increased export earnings would facilitate these changes. Most-favoured-nation liberalizing actions and reduced subsidies to agriculture and manufacturing by the industrial countries are critical elements in this process.

As regards exchange-rate volatility, a direct link between it and the level of world trade has not been clearly established; however, volatile or misaligned exchange rates can harm world trade indirectly by causing price signals from world markets to be harder to interpret and less reliable.

Another source of pressure on the trading system has been the growing trade imbalances in the world economy. To find a solution for the underlying problem, initiatives have been launched over the past twelve months to improve the compatibility of monetary, fiscal and exchange rate policies among the major developed countries. If the participating countries can agree on both the goal to be achieved and the means to be employed, international co-operation can be particularly helpful in overcoming domestic pressures that threaten to block the pursuit of sound fiscal and monetary policies at the national level.

Erosion of the trading system from within

The pressures on the trading system from outside exacerbate the pressures for protection rooted in microeconomic concerns, which are clearly the main source of the trading system’s problems.

The GATT system is having increasing difficulties not only in furthering trade liberalization but also in safeguarding previously negotiated levels of market access. In fact, the most blatant policies disregarding GATT principles and rules are found in the agriculture, textiles and clothing sectors of the developed countries. Despite current restrictions, trade in these products still account for nearly 20 per cent of world merchandise trade.

To crown it all, protectionist policies, despite their heavy costs, are not notably effective in achieving their stated goals, the GATT economists find. In agriculture, for example, empirical work casts considerable doubt on the effectiveness of price policies as a means of supporting farmers’ incomes. There are, however, ways of redistributing income which are effective, and efficient, in the sense that the goal is achieved at minimum cost, in particular, direct government grants to families whose regular income falls short of a desirable minimum level. As for saving jobs, high levels of protection and extensive discriminatory quantitative restrictions on imports from most developing areas have not prevented large declines in employment in the textile and clothing industries of the developed countries. The GATT economists believe that the conversion of the textile industry into a capital-intensive industry behind trade barriers has largely been a waste of scarce capital which could have been used for rejuvenating the economy and creating jobs that are viable without import protection. Instead of protecting jobs, import barriers protect machines.

The danger is that these policies—whose bankruptcy is already obvious—will continue to spread to other areas.

Resisting protectionism

There is a strong need for new policies in the agriculture and textile sectors that recognize the inefficiency and ineffectiveness of restrictions, and there is a pressing need to stop the spread of market-sharing and subsidy arrangements. Even without open trade-warfare, a continuation of current trends towards managed trade and market-sharing is certain to act as a major restraint on economic growth and job creation throughout the world economy. The long and difficult fight in the early 1980s to bring inflation in the industrial countries under control shows that countries can “bite the bullet” and take hard decisions when the costs of bad economic policies become too high.
On 24 August, Mexico became a member of GATT, thirty days after signing its Protocol of Accession to the GATT.

The terms of Mexico’s accession were negotiated in a working party, and the Protocol was approved by the GATT Council on 15 July. The decision on accession was subsequently taken by GATT member States in a postal ballot. The necessary two-thirds majority of Contracting Parties—sixty-one affirmative votes—was attained within two days.

By becoming a contracting party, Mexico benefits from all the tariff concessions negotiated by contracting parties to the GATT since its inception. In case of a trade dispute with another contracting party, it may have recourse to the conciliation and dispute settlement procedures offered by the GATT.

It will participate fully in all of GATT’s work, including the Ministerial Meeting, to be held in September at Punta del Este on the launching of a new round of multilateral trade negotiations.

In anticipation of its accession, the Mexican Government independently undertook adjustments of its fiscal measures, import licensing system and other non-tariff measures. Mexico also undertook to bind its customs duties to a maximum rate of 50 per cent. Many imports will enjoy a lower bound rate.

Mexico is also expected subsequently to join a number of the Tokyo Round non-tariff agreements.

In terms of the value of international trade in 1985, Mexico was the world’s 23rd largest exporter and 29th largest importer.

COUNCIL

New accessions to the GATT

At its meeting of 15 July, the Council approved the terms of the protocol of Mexico’s accession to GATT, as well as the relevant draft decision, which was then submitted to a vote by postal ballot. It also adopted the report of the working party which had ruled on Mexico’s application to accede to the General Agreement (see item on page 6).

Speaking as an observer, the representative of the People’s Republic of China affirmed his Government’s intention to resume its status as a contracting party to the GATT. He recalled that China had been one of the original contracting parties to the General Agreement and, for historical reasons, had suspended its formal relationship with GATT and other international organizations. China was currently engaged in reforming its economic structure and opening it to the outside world. It wanted to see expansion of its trade relations with the contracting parties and to receive the more favourable treatment accorded to developing countries members of GATT. China hoped to complete a memorandum on its economic system and foreign trade régime by the end of 1986 or the beginning of 1987. Its Government was prepared to enter into substantive negotiations with the contracting parties at a convenient time.

The representatives of many countries welcomed China’s decision. The Council would set in motion the formal procedures for examining China’s request in due course.

At the request of Morocco, the date for the signature of the protocol of its accession to the GATT was postponed from 1 August to 15 October 1986. Morocco wished to have some additional time to reach agreement on the establishment of a schedule of tariff concessions. The request did not mean any modification in Morocco’s basic position on accession.

The Council had adopted the report of the working party which had recommended Morocco’s accession to the General Agreement, along with the draft decision to that effect, in May 1986 (see Focus No. 39). The vote by postal ballot would be held when the schedules of concessions were communicated to the members of GATT.

Dispute settlement

The representative of the United States informed the Council that the Manufacturing Clause (United States copyright legislation), which a panel had found inconsistent with GATT rules, had expired on 1 July 1986 and had not been extended by Congress. The recommendations of the panel are therefore implemented.

At the request of the European Community, the Council decided to establish a group of governmental experts, open to all interested contracting parties, “to examine problems falling under the competence of the General Agreement relating to current trends in world trade in copper, including the supply and demand situation for copper concentrates and refined copper, and to report to the Council”.

The 42nd session of the CONTRACTING PARTIES will open on Monday, 24 November, for a duration of three to four days.