INTERNATIONAL TRADE IN 1986 AND CURRENT PROSPECTS

World trade in manufactures turns in one of the poorest performances in three decades

The volume of world merchandise trade is estimated to have grown by 3½ per cent in 1986; matching the 1985 performance. The value of world exports passed the US$2,000 billion mark for the first time, up 10 per cent to US$2,110 billion. Nevertheless, this advance is largely accounted for by the depreciation of the dollar, note GATT’s economists in their first assessment of developments in world trade in 1986/1987, just published.

World trade in manufactures, traditionally the most dynamic sector, turned in one of the poorest performances in three decades, rising 3 per cent in volume compared to 5½ per cent in 1985.

The 1 per cent growth in agricultural trade volume continued the pattern of slow growth, lagging behind production, in that sector during the 1980’s.

In contrast, trade in mining products increased strongly, by 7 per cent in volume, boosted by a sharp decline in petroleum prices.

Trade of country groups: performance differs from 1985

In 1986, the dollar value of merchandise exports and imports recorded strong gains in the developed countries and, somewhat less, in the Eastern trading area, largely because of an appreciation of many of these countries currencies against the dollar. Global exports of the developing countries declined significantly in dollar terms (largely because of the sharp decline in petroleum prices), while their imports increased moderately. Their exports of manufactures in contrast, were up 13 per cent in value terms. Last year, developing countries for the first time earned foreign exchange selling manufactured goods than selling either fuels or non-fuel primary products.

A difficult year for indebted countries

The combined merchandise trade surplus of the 16 indebted countries whose trade performance the GATT secretariat has been following since 1982 fell by more than half – from US$29 billion in 1985 to an estimated US$13 billion, as a result of sharply lower export earnings and virtually unchanged imports.

Increased trade imbalances of the three largest trading nations

Widespread predictions of a reduction in the large current account imbalances of the United States, the Federal Republic of Germany and Japan as a result of the major alignment of exchange rates were not borne out.

GATT’s economists note that there has been a welcome tendency for United States export volume to increase. However, as they explain in detail in their report, a substantial reduction in the current account deficit will require a

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Tropical Products

Although trade in tropical products does not represent a large percentage of world trade, it is important to developing countries, many of which largely depend on tropical products for their export earnings. For some developing countries, this dependency declines as their exports of industrial products increase, but tropical products nevertheless remain a major revenue source for them. In addition, export diversification possibilities are limited for many exporters of tropical products.

The tropical products sector covers items like beverages, (coffee, tea, cocoa), spices and essential oils, cut flowers, plants, certain oilseeds, vegetable oils, tobacco, rice and tropical roots (e.g. manioc), fruits such as bananas and fruit juices, tropical wood and rubber, jute and hard fibres.

Progress in trade liberalization

• In the Tokyo Round, tropical products were treated as a special and priority sector. Of 4,000 dutiable items for which requests for concessions were made by developing countries, MFN concessions and GSP contributions were granted with respect to 2,930. Most of these concessions were implemented ahead of schedule, in 1976-77. Liberalization was particularly marked for coffee and tea and their extracts, spices, cocoa and cocoa products, and miscellaneous animal products. The results of the negotiations were less favourable in respect of non-tariff barriers, in particular domestic taxes on coffee, cocoa, tea and bananas.

• Following the 1982 Ministerial Declaration, the GATT Committee on Trade and Development held consultations in 1982, 1983 and 1984 on seven tropical product groups: tropical beverages (coffee, tea and cocoa); spices, flowers and plants; certain oilseeds, vegetable oils and oilcake; tobacco, rice and tropical roots; tropical fruits and nuts; tropical wood and rubber; jute and hard fibres.

During these rounds of consultations, an in-depth examination of the problems affecting exports of developing countries at the specific product level was carried out and specific requests submitted by developing countries were discussed. Representatives of developed countries gave indications of recent trade liberalization measures taken in their respective countries, in particular on tropical fruits and nuts, spices and flowers, and, to a lesser extent, tropical wood and rubber. In general, they considered that global liberalization of tropical products should be the object of negotiations.

In addition, developed countries have made some improvements in access to their markets in the framework of their GSP schemes.

Coverage of the negotiations

The Ministerial Declaration of Punta del Este recognized that special attention should be given to negotiations on tropical products, aiming at the fullest liberalization of trade in these products, including in their processed and semi-processed forms, and covering both tariff and non-tariff measures affecting trade in these products.

At present, the main obstacles in this area are the following:

• Tariff measures:
  Tropical products are subject to a variety of tariffs, ranging from MFN duties to the GSP duties applied under the GSP schemes of developed countries. In addition, some countries grant special preferences.
  In general, the industrialized countries apply low or zero tariffs to unprocessed tropical products. On the other hand, there is tariff escalation, higher tariffs being applicable according to the degree of processing of the product.

• Non-tariff measures:
  Quantitative restrictions still exist in a limited number of cases. Domestic taxes and sanitary and phyto-sanitary regulations constitute major obstacles to trade liberalization in this sector. In certain countries, domestic taxes are high, as much as 100 per cent of the value of the product. Specific taxes on products such as coffee, cocoa, tea and bananas have the same effect as tariffs to the extent that these products are not produced by the importing country and the taxes apply solely to the imported product. They are a heritage from the time when these products were considered to be "easily taxable luxury items", but non-alcoholic beverages which compete with them are generally not taxed in the countries concerned.

The negotiating plans adopted in January 1987 mark out the principal phases of the negotiation process, which will be monitored closely so as to ensure that concrete progress is made and implemented as soon as possible.

The main issues to be addressed in the negotiations are the following:

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TRADE IN CIVIL AIRCRAFT

Request for clarification of certain provisions of the Code

The Committee on Trade in Civil Aircraft held a special meeting on 19 and 20 March, at the request of the United States, which had invoked Article 8.7 of the Code on Trade in Civil Aircraft. The United States considered that Articles 4 and 6 of the Code, the former regarding government-directed procurement, mandatory sub-contracts and inducements the latter, and government support, export credits and aircraft marketing, were in urgent need of clarification. In its view, the Article 8.7 procedure was designed to be used to avert potential crises among signatories.

The European Community indicated that while it was willing to discuss the United States request in the Committee, it considered that Article 8.7 was not the appropriate basis for such discussion.

1 Under this Article, any signatory which considers that its trade interests have been or are likely to be adversely affected may request review of the matter by the Committee.

INTERNATIONAL DAIRY COUNCIL DISCUSSES SERIOUS MARKET SITUATION

The serious situation in the world markets for butter and anhydrous milk fat was discussed at a series of meetings held within the framework of the GATT.

GATT PUBLICATIONS

The International Markets for Meat in 1986/87

Commenting on the general situation in the bovine meat sector during 1986, the report notes that there was an increase in both volume and value of traded beef and veal, and that international demand strengthened while prices began to recover in spite of the dampening effect of large availabilities of all types of meat.

The report suggests that 1987 will probably be a more favourable year for the international bovine meat sector compared to the last few years although there are still significant uncertainties.

The GATT report is available from the GATT Secretariat. Price Sw F12.–.

administered International Dairy Arrangement in the middle of March 1987.

A number of participants claimed that renewed efforts by the European Community and the United States to dispose of dairy surpluses abroad were creating uncertainties in the world dairy market.

Consultations are being pursued between the Community and other participants to alleviate problems caused in the traditional trade of butter and milk fat.

The United States (not a member of the Arrangement) will be informed of the concerns expressed and the suggestion made that whenever the US makes offers or sales under its new Dairy Export Incentive Program, care should be taken not to disrupt international trade nor depress dairy prices observed under the Arrangement.

1 Milk fat with 99.5% of fat by weight, compared to 80% in butter.
First Meetings Held on Safeguards, Subsidies and Intellectual Property

**Safeguards – 10 March**

Many delegations made clear, during this first meeting of the group, that the question of safeguards was centrally important to the Uruguay Round as a whole. The considerable history of negotiations on safeguards means that the main arguments are well-known—the negotiating plan for this group calls for the early tabling and discussion of specific suggestions. Debate centred around the questions of whether or not a safeguard agreement should be based upon the principle of non-discrimination; whether discussion should concentrate initially in particular areas such as the temporary nature and degressivity of safeguard measures, or on all elements from the start; and on the proliferation and status of so-called 'grey area' measures.

**Subsidies – 16–17 March**

Discussion focused particularly on the rules affecting subsidies on primary products. It was widely believed that the group would need to review fundamentally the nature and operation of the relevant articles of the General Agreement (VI and XVI) and of the Tokyo Round Subsidies Code. Initial proposals on the content of such a review were tabled by two countries. Many developing countries, who wished to participate fully in the subsidies negotiation, drew attention to the harmful effects on their exports of some countervailing duty practices. Also discussed were the respective roles of the subsidies and agriculture negotiating groups with respect to the treatment of subsidies affecting primary products.

**Trade related aspects of Intellectual Property Rights**

25 March

In the first discussion, comments were made about the relation between international trade, on the one hand, and the adequacy of the existing protection given to intellectual property rights (for example in terms of coverage and duration) as well as the effectiveness of the enforcement of such rights under existing national legislation on the other. Many participants also stressed the need to ensure that action to protect and enforce intellectual property rights did not give rise to barriers to legitimate trade. The extent to which and the way in which these various issues should be addressed in the Group was also discussed; some participants referred in this context to activities and initiatives in some other international organizations, such as World Intellectual Property Organization.

In regard to trade in counterfeit goods, some delegations wished to base the work in this area upon the work of the GATT Group of Experts which reported in late 1985. GATT's economists believe that the draft code should be signed and implemented immediately as a first step in the negotiation.

**INTERNATIONAL TRADE (continued)**

sizeable reduction in the gap between national savings and the demand for borrowed funds on the part of domestic investors and the government. Put another way, the level of expenditure is in excess of competitively produced output in the United States. The result is a continued strong demand for imports to make up the difference.

GATT's economists conclude, therefore, that the current account imbalances did not decline because the exchange rate changes were not backed up by the needed changes in macro-economic policies. Moreover, while an increase in United States trade barriers would result in little or no reduction in the current account deficit, it would increase inflation and reduce world trade.

**Prospects for 1987**

GATT's economists believe that the volume of world trade will expand by about 2½ per cent in 1987. They note that: (1) since 1959 there has been a tendency for each successive recovery to be weaker and shorter than the preceding one, which suggests that there has been a growing mismatch between adjustment needs and adjustment capacity in the world economy; and (2) the inadequate pace of adjustment is the result of market rigidities which are to

**Antigua and Barbuda becomes 93rd GATT Member**

Antigua and Barbuda has become, with effect from 30 March, a contracting party to the General Agreement on Tariffs and Trade. Antigua and Barbuda became independent from the United Kingdom in November 1981 and has since applied the GATT rules in its trade on a de facto basis. Having now decided to seek full GATT membership, it has been able, through a simple declaration to this effect, to become a contracting party under Article XXVI of the General Agreement.

The accession of Antigua and Barbuda brings the total of GATT members to 93.

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