Low business investment leads to poor trade growth
say GATT economists

UNCERTAINTY A KEY FACTOR

In the first chapter of GATT's report “International Trade 1986–87”¹, GATT economists give a somewhat downbeat assessment of trends in world trade and the short-term prospects.

While the updated figures for 1986 generally confirm their initial estimates made in March 1987, the GATT economists have raised their estimates for 1987 as a whole: the increase in the volume of world trade will probably be close to the 3.5 per cent achieved in 1986 (as against the earlier 2.5 per cent estimate at the beginning of the year). This upward revision is the result of the strong export performance in the first half of 1987 by the United States, certain developing economies in Asia, and Western Europe.

They point out, however, that a number of factors continue to have a dampening effect upon the possibilities of a major pick-up in economic growth and trade in 1987/88. The growth rate of the world economy is expected to remain under 3 per cent in 1987 (about 2.5 per cent in the industrial countries and 3.5 per cent in the developing areas, as in 1986).

GATT economists view weak business investment in plant and equipment as one of the key elements in the disappointing performance of world output and trade. This sluggishness stems in part from a number of uncertainties linked with the problems of debt, the twin United States budget and current account deficits, and exchange rate trends.

All the same, the volume of world merchandise trade has nearly doubled in the past 16 years . . .

Even if growth has not been as strong as hoped in recent years, world trade has nevertheless almost doubled in volume between 1970 and 1986.

- With an annual growth of 7.5 per cent in 1986, the volume of trade in mining products (including fuels) recorded its largest one-year gain since 1973.
- In contrast, manufactured goods – which account for the largest share of world merchandise trade (more than two-thirds, on a value basis), and in which trade usually grows fastest – posted an estimated growth of 3 per cent, a slowdown compared with 1985 and well below the 4.5 per cent annual average thus far in the 1980s.

This slowdown appears to have been the result of a number of factors:

- An asymmetric response by producers to the large movements in real effective exchange rates since March
- A fall of roughly one-fifth in the volume of imports of manufactures by the members of OPEC last year.
- An estimated 2 per cent decline in the volume of imports of manufactures into the developing areas which are not members of OPEC. This was because of falling or low commodity prices and increasing debt-service obligations. The rise in oil prices and the recent trend of major price increases for some primary commodities are likely to improve economic conditions in some developing areas and thus could stimulate their imports of manufactures.

- On a very preliminary basis, it is estimated that trade in agricultural products declined by 1 per cent while production increased by 1 per cent.

Growth of the volume of world merchandise trade and production by major product group, 1960-1986 (Average annual percentage change)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>4</td>
<td>4½</td>
<td>1</td>
<td>0</td>
<td>−1</td>
</tr>
<tr>
<td>Mining</td>
<td>7</td>
<td>1½</td>
<td>−1½</td>
<td>−2</td>
<td>7½</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10½</td>
<td>7</td>
<td>4½</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>All merchandise</td>
<td>8½</td>
<td>5</td>
<td>3</td>
<td>3½</td>
<td>3½</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>2½</td>
<td>2</td>
<td>2½</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Mining</td>
<td>5½</td>
<td>2½</td>
<td>−1½</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7½</td>
<td>4½</td>
<td>2½</td>
<td>3½</td>
<td>3½</td>
</tr>
<tr>
<td>All merchandise</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Secretariat estimates.

(continued on page 3)
Trade in counterfeit goods and other trade-related aspects of intellectual property (II)

The previous issue covered the main problems that arise in relation to trade in counterfeit goods and other aspects of intellectual property, and gave an overview of the existing international legislation. This article will briefly review the main GATT provisions that could apply in this field. Because of the lack of space available in this issue, the account of work carried out within GATT in this area, which will conclude the file on this subject, will be included in our next issue.

Relevant GATT provisions

The General Agreement contains two types of provision of relevance to the trade aspects of intellectual property:

1) Some provisions, while not specifically mentioning intellectual property rights, nevertheless define general rules or principles that may affect some aspects of these rights. These are, specifically, Article III, which in substance provides that imported products shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations, requirements or internal charges; general most-favoured-nation treatment (Article I), which applies not only to import and export formalities but also to internal regulations; Article XI, which lays down the principle of the general elimination of quantitative restrictions; and Article XII concerning the non-discriminatory application of authorized quantitative restrictions.

In addition, some general provisions may apply in certain situations, in particular Article V on freedom of transit, Article VIII on fees and formalities connected with importation and exportation, Article X on the publication and administration of trade regulations, Articles XXII and XXIII on dispute settlement, and Article XXV:1 on joint action by the Contracting Parties.

2) Intellectual property rights mentioned in the General Agreement

- Article XX(d) provides a general exception: it enables measures which would otherwise be inconsistent with the General Agreement to be taken to secure compliance with laws and regulations on intellectual property (protection of patents, trade-marks and copyrights) or "the prevention of deceptive practices". However, this exception is subject to several conditions:
  - the laws and regulations in question must not in themselves be inconsistent with the General Agreement;
  - the measures must be necessary and must not be applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade.

This provision has been invoked in several cases in GATT and these will be discussed in the next issues of FOCUS.

Paragraph 6 is essentially concerned with the protection of geographical indications. It provides that the Contracting Parties shall co-operate with each other, with a view to providing the use of trade names in such manner as to misrepresent the true origin of a product, to the detriment of such distinctive regional or geographical names of products as are protected by legislation.

- Article IX essentially seeks to ensure that marking requirements are not used in such a way as to hamper unnecessarily international trade or discriminate between contracting parties. It provides in particular for equality of treatment with regard to marking requirements for products of third countries. It recognizes that the difficulties and inconveniences which laws and regulations relating to marks of origin may cause to the commerce and industry of the exporting country, by providing the use of trade names in such manner as to misrepresent the true origin of a product, to the detriment of such distinctive regional or geographical names of products as are protected by legislation.

- Article XII essentially seeks to ensure that marking requirements are not used in such a way as to hamper unnecessarily international trade or discriminate between contracting parties. It provides in particular for equality of treatment with regard to marking requirements for products of third countries. It recognizes that the difficulties and inconveniences which laws and regulations relating to marks of origin may cause to the commerce and industry of the exporting country, by providing the use of trade names in such manner as to misrepresent the true origin of a product, to the detriment of such distinctive regional or geographical names of products as are protected by legislation.

In addition, several instruments negotiated under GATT auspices explicitly refer to intellectual property rights: the Agreement on Technical Barriers to Trade, the Agreement on Implementation of Article VII of the GATT (Customs valuation) and the 1986 version of the Multifibre Arrangement.

64th GATT trade policy course

Twenty-five officials from as many developing countries are taking part in the GATT Trade Policy Course which began on 17 August in Geneva and will end on 8 December 1987. The course, in English, emphasizes the issues under consideration in the Uruguay Round of trade negotiations.

Since the programme, conducted alternately in French, English and Spanish, began in 1955, the GATT trade policy courses have benefited 1,025 officials from 113 countries and 10 regional organizations.

The courses, aimed at officials from developing countries who already have some responsibilities with regard to their country's foreign trade policy, have a practical orientation and are designed to help them prepare themselves for the task awaiting them in their own administrations.

Meetings (mid-October)

12 Group of Negotiations on Goods
12–14 Committee on Technical Barriers to Trade
13–15 Textiles Surveillance Body
15 Committee of Participating Countries
16 Committee on Government Procurement
19–20+26 Committee on Trade and Development
19–21 Textiles Surveillance Body
21 + 23 BOP Committee
26 Ad Hoc Group on Anti-Dumping Measures
26–27 NG Agriculture
27–28+30 BOP Committee
27+30 Committee on Subsidies and Countervailing Measures
30 Committee on Anti-Dumping Practices
VALUE OF WORLD MERCHANDISE TRADE

A record, but sectoral results vary

With a 10 per cent increase over the previous year, and standing at a level of US$2,120 billions, the value of world merchandise trade set a new record in 1986. The increase is essentially the result of three factors, two of which pushed in an upward direction and one in a downward direction: first, the rise in the volume of trade; secondly, the depreciation of the US dollar against other major currencies and thirdly an estimated 8.5 per cent decline in national currency prices of internationally traded goods.

Value of world merchandise exports by major product group, 1985 and 1986 (Billions dollars and percentage change)

<table>
<thead>
<tr>
<th>Product Group</th>
<th>1985</th>
<th>1986</th>
<th>Percentage change over preceding year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Billion</td>
<td></td>
<td>1985</td>
</tr>
<tr>
<td>Agriculture</td>
<td>267</td>
<td>298</td>
<td>-4½</td>
</tr>
<tr>
<td>Fuels</td>
<td>359</td>
<td>272</td>
<td>-5</td>
</tr>
<tr>
<td>Mining, excl. fuels</td>
<td>70</td>
<td>73</td>
<td>-5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1,90</td>
<td>1,430</td>
<td>4½</td>
</tr>
<tr>
<td>All merchandise</td>
<td>1,925</td>
<td>2,120</td>
<td>1</td>
</tr>
</tbody>
</table>

*Includes products and merchandise transactions not elsewhere specified.

Among manufactured products, growth in value terms was highest in clothing, other consumer goods (including footwear, furniture and printed matter), road motor vehicles and machinery for specialized industries. Among manufactures, only trade in iron and steel had a rate of growth below that of world trade.

World merchandise trade by major areas

(Import and export values in billions of US dollars and percentage change)

<table>
<thead>
<tr>
<th>Area</th>
<th>Exports (f.o.b.)</th>
<th>Imports (f.o.b.)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed countries</td>
<td>1,275</td>
<td>1,475</td>
<td>1,310</td>
</tr>
<tr>
<td>Develop areas</td>
<td>440</td>
<td>415</td>
<td>410</td>
</tr>
<tr>
<td>(excl. fuels)</td>
<td>240</td>
<td>275</td>
<td>340</td>
</tr>
<tr>
<td>Eastern trading area</td>
<td>210</td>
<td>230</td>
<td>205</td>
</tr>
<tr>
<td>World</td>
<td>1,925</td>
<td>2,120</td>
<td>1,925</td>
</tr>
</tbody>
</table>

- Developing areas
  - Despite an 8 per cent rise in 1986 in export earnings of non-fuel primary commodities, the dollar value of such exports remained below the 1980 level.
  - Although the 17 per cent increase in the value of exports of manufactures was below the 20 per cent average for the world as a whole, it helped to raise the share of manufactures in total merchandise exports of developing areas to 40 per cent, as against 19 per cent in 1980. A part of the explanation is the relative decline in earnings from primary commodity exports; nevertheless, in 1986 the developing countries, for the first time, earned more foreign exchange from exports of manufactures than from exports of agricultural products or mining products. Although a relatively small number of exporters account for most of the exports of manufactures from developing areas, since 1980 a growing number of developing areas are becoming significant exporters of manufactured products.
- Trade of heavily indebted countries
  In 1986, the merchandise imports of fifteen heavily indebted countries, increased slightly in value (+2 per cent) - the first increase since 1981-reaching $85 billion. However, their combined export earnings declined by 15 per cent to $100 billion, resulting in a decline of more than one half in their merchandise trade surplus, from $34 billion in 1985 to $15 billion. In this rather gloomy picture, only Chile and Uruguay managed to increase their merchandise trade surplus in the course of export- and import-expanding adjustment.

Medium-term developments in trade flows

GATT’s economists have analysed the growth of trade during the 1980s by broad product groups. They estimate that a number of developing areas have proved capable of adapting to changing market conditions by increasing their share in trade in fast-growing products. At the same time, the pattern of merchandise trade between the developing areas and the developed countries has been changing; more and more of this trade has taken the form of exchanges within broad product groups.

In their analysis of short- and medium-term trade trends, the GATT economists note that:
- Even during periods of slow growth in world trade, world market demand for some products will be growing rapidly.
- The faster-growing products are likely to be manufactured goods.
- Within the category of manufactures, the fast-growing products span the full range of possible comparative advantage, from labour intensive to capital and technology intensive.

Dairy products

Certain minimum export prices raised

Members of the GATT International Dairy Arrangement have raised the minimum export prices for certain cheeses and milk powders. The new prices reflect more favourable market conditions for dairy products and the recent successful efforts by participants in the Arrangement to contain milk production and deliveries.
- The Committee of the Protocol Regarding Certain Milk Powders increased the minimum export prices for skimmed milk powder and buttermilk powder from US$765 to US$825 and for whole milk powder from US$990 to US$990 per metric ton.
- The Committee of the Protocol Regarding Certain Cheeses raised the minimum export prices for certain cheeses from US$1,030 to US$1,120 per metric ton.
The new prices took effect on 23 September 1987.

GATT FOCUS

Newsletter published 10 times a year in English, French and Spanish by the GATT Information Service

Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21 (tel. 31 02 31)
ISSN 0256-0119
CURRENT POLICY ISSUES

There is little doubt that the world economy is currently falling short of its productive potential.

According to the IMF, the annual growth of business investment in industrial countries fell in real terms from 6.5 per cent in 1985 to 0.4 per cent in 1986; the forecast for this year is for 1.6 per cent. The impact of this slowdown has compounded by the results of recent studies which suggest that the efficiency of investment has declined.

One of the causes of this weakness in investment appears to be the asymmetric response to changes in two keys "prices"; namely, the sharp decline in world market petroleum prices and the major realignment of exchange rates that began in March 1985. GATT's economists note that it is hard to know whether the negative effects of these two factors have already been absorbed by the world economy. If so, the economy could be at or near the point where the expansionary effects of these price changes will finally take over from the negative effects.

At the same time, it is apparent that there are continuing sources of concern that are affecting the prospects for improved economic growth – both directly, and through their impact on investment – inhibiting uncertainty.

Debt and international trade

In 1986, the dollar value of merchandise imports into the fifteen heavily indebted countries was more than 40 per cent below the 1981 level; their share of world imports has dropped from 6.5 to 4 per cent. This reduction has affected living standards and investment in the indebted countries, but there have also been repercussions on their trading partners.

For these countries to pull themselves out of the current situation, an increase in the amount of resources available to them for reviving both their economic growth and their import demand is essential. Certain improvements are being studied by official creditors. It is true, but this needs to be seen against the background of the sharp decline in international banking lending from $52 billion in 1981 to $5 billion in 1986. The slow economic growth in the industrial countries, plus interest rates that are creeping upwards again, mean that the immediate prospects are not encouraging for the heavily indebted countries. Thus, these countries may not be in a position to maintain current import levels of consumer and investment goods.

The debt strategies followed thus far have prevented a banking crisis, but that is not enough to judge them a success. The debt problem remains sufficiently severe to be a factor affecting not only the debtor countries and their creditors, but economic recovery world-wide.

The United States twin deficits

There is growing disappointment among the public and many policy-makers with the failure of the dollar's depreciation to deliver the promised reductions in the current account deficit. That growing frustration is proving to be an increasingly powerful source of protectionist rhetoric and protectionist demands in the United States. Economists are, however, virtually unanimous regarding the ineffectiveness of higher trade barriers in producing a lasting reduction in the current account deficit. Moreover, a major increase in protectionism could invite large-scale retaliation by other countries and a subsequent loss of export markets all round.

There is a very good chance that substantial progress in reducing the current account deficit can be achieved if large cuts in the budget deficit are realized; the reduction of nearly 30 per cent in the budget deficit for the current fiscal year ending 30 September is therefore encouraging.

There is also the question of how far policy changes in other countries could ease the transition to lower United States deficits, while maintaining non-inflationary growth in the world economy.

Exchange rates and trade

Longer-term deviations in exchange rates, as well as large short-term fluctuations, are particularly serious for investment decisions in export- and import-competing industries. They make it harder to interpret price signals emanating from the world market, which are the primary source of information about emerging surpluses and shortages in the world economy, as well as about changes in international competitiveness.

A perception that the exchange rate system is not functioning properly can also erode political support for relatively open and liberal trade policies, reflecting an attitude of "Why worry so much about trade policies when exchange rates are already distorting the situation badly?" This is just one of many examples of the interdependence of policies, and of the way problems in one area can have serious consequences for other policy areas.

The role of a strengthened trading system

In the present situation, protectionist pressures are being reinforced by the difficulties noted in other policy areas. By distorting the competitive environment, protectionist trade policies weaken world economic growth; directly and indirectly, through an increase in investment - inhibiting uncertainty, especially as regards trade-related investment.

These policy interactions have become more and more pronounced, and there is a more important role than ever for a framework of rules and disciplines that reduces the uncertainty surrounding trade policies and ensures that policy decisions taken at the national level take into account the repercussions on other countries. The Uruguay Round offers a unique opportunity to provide the international community with a trading system that can function effectively for the rest of this century and beyond, concludes GATT's economists.