WORLD TRADE IN 1988 OUTSHINES EXPECTATIONS—PROSPECTS FOR 1989 ARE ENCOURAGING

World merchandise trade volume grew by an estimated 8½ per cent in 1988, equalling the record 1984 performance for the 1980s and sharply higher than in 1987. For the sixth consecutive year, world merchandise trade growth exceeded the increase in world output, which also accelerated. Trade-related investment and production were important sources of recorded growth.

Prospects for 1989 are encouraging and will be enhanced if governments meet two immediate policy challenges—control of the recent pick-up in inflation and keeping world markets open. A wide range of countries experienced higher merchandise trade growth in volume terms, in particular, the developed countries and the leading developing economy traders.

World merchandise trade value reached an estimated $2,840 billion in 1988, a 14 per cent increase from the previous year. The trade performance of the fifteen heavily indebted countries improved, but must be seen in the context of a worsening of their overall economic situation.

GROWTH OF 8½ PER CENT IN VOLUME

The growth of world merchandise trade volume in 1988 is estimated to have reached 8½ per cent, far outstripping the 5½ per cent of the previous year and equalling the 1984 record for the 1980s. However, unlike 1984, the expansion was relatively broadly based across countries and products. These are some of the early estimates by the GATT secretariat in a recently published report on world trade in 1988.

The 1984 export boom was largely triggered by the import demand of the United States. In 1988, a relatively wide range of countries experienced trade growth, in particular, the industrial countries and leading developing economy traders. For developing economies as a group, the volumes of merchandise exports and imports are estimated to have increased by 9½ per cent and 10 per cent, respectively.

In 1988, as in 1984, the increase in the volume of world trade was led by rapidly growing exports of manufactures. In both years, export volumes of agricultural and mining products expanded more slowly than total trade, but above their averages for the 1980s.

However, the range in trade growth rates among agriculture, mining and manufacturing was less pronounced last year than in 1984 (see Table 1).

(continued on page 2)
OUTLOOK

Technological advances are multiplying opportunities for specialization, innovation and product diversification in world markets for manufactured goods and services. Enterprises in a broad cross-section of countries have responded to the new opportunities by increasing their foreign sourcing for equipment and other inputs, and by intensifying firm-to-firm co-operation, including agreements for joint production and marketing, technology sharing and mergers.

GATT economists note that positive developments in the policy area have also contributed to business optimism. The ability of and incentives for firms to take advantage of the expanding growth opportunities has been substantially enhanced by changes ranging from an improvement in the general political climate in the world to progress in dealing with specific economic policy problems. The latter includes continuing efforts to make individual economies more competitive, more flexible and more responsive to pressures for structural change.

Third world indebtedness, large trade imbalances, and high rates of unemployment in many countries, as well as the failure of many developing countries to share in the recent economic growth, are longstanding problems. Persistent efforts must be made to find solutions.

For the immediate future, two major policy challenges are evident. One is the control of the recent pick-up in inflation in major countries. The other is to ensure a trading environment in which individual economies can be kept open and business confidence about the future strengthened. If governments succeed in meeting these two policy challenges, there is little reason to believe that the current expansion in the world economy should come to an abrupt end any time soon. The volume of world merchandise trade could thus be expected to record another year of growth well above the average thus far in the 1980s.

TRADE VALUE REACHES $2,840 BILLION

An estimated 14 per cent increase over the preceding year brought the value of world merchandise exports to a new record high of $2,840 billion in 1988. The most important factor behind the increase was the estimated 8½ per cent growth in world merchandise trade volume noted above. Inflation also contributed to the value increase, as did the “automatic” increase in trade value due to the valuation effects of a further moderate depreciation of the dollar.

While all major country groups participated in the trade expansion in 1988, import demand in the developing economies was the strongest, expanding 16 per cent.

Last year marked the second consecutive year of export and import growth in fifteen heavily indebted developing countries as a group.1 Export growth was strong enough to raise the dollar value of exports above the 1981 peak for the first time since the onset of the third world debt service problem. However, for many of the heavily indebted developing countries these trade developments occurred at a time when per capita income growth slowed or was negative. The reduced income reflects, among other things, the pressures created by rising interest rates on the debt and the lack of fresh capital inflows.

1 See GATT press release 1453.
2 The fifteen countries are Argentina, Bolivia, Brazil, Chile, Colombia, Cote d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.

Table 1. Volume of World Exports and Output by Major Product Group, 1970–1988

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<td>3</td>
<td>6</td>
<td>4</td>
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<td>½</td>
<td>4</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
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<td>7</td>
<td>5</td>
<td>11</td>
<td>6½</td>
<td>10½</td>
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<tr>
<td>All merchandise</td>
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<td></td>
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<tr>
<td>Output</td>
<td></td>
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<tr>
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<td>5½</td>
<td>0</td>
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<td>8</td>
<td>4½</td>
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<td>All merchandise</td>
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DAIRY COUNCIL HOLDS 20TH SESSION

At its 20th session on 10 March, the International Dairy Products Council noted the continued strengthening of the world dairy market. Dairy products were in general selling well in all the major markets at the beginning of 1989. Prices for products covered by the Protocols of the International Dairy Arrangement remained well above the agreed minimum prices. During the meeting, the view was expressed that the 1979 Arrangement had functioned well and had contributed to the satisfactory situation.

RISING DEMAND BOOSTS WORLD TRADE IN BEEF

World trade in beef expanded by an estimated five to six per cent in volume in 1988, stimulated by rising import demand in many countries and a strong Brazilian export recovery. Higher beef prices are expected to sustain the favourable market conditions for the rest of 1989.

These are among the conclusions of The International Markets for Meat 1988/89 published by the GATT in February.

GATT FOCUS

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1 See GATT press release 1453.
2 The fifteen countries are Argentina, Bolivia, Brazil, Chile, Colombia, Cote d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.
DISCUSSION OF THE REPORT ON SECTION 337 OF THE UNITED STATES TARIFF ACT OF 1930

On 8 February, the Panel which was established to examine Section 337 of the United States Tariff Act of 1930, presented its report to the Council. An initial discussion was held.

The Community's original complaint referred to the GATT compatibility of the application of Section 337 both in general and in a specific case. The Community had later withdrawn the latter aspect of its complaint, following an amicable arrangement between the firms concerned. More specifically, the complaint concerned the difference between the treatment provided for imported goods under Section 337 procedures in patent infringement suits and the treatment of equivalent goods produced in the United States and challenged under United States patent law in Federal District Courts.

On six points, the Panel considered that the Section 337 procedures were less favourable than those accorded by the Federal Courts. For example, allowing the complainant the choice of forum in the case of imported products and not to offer a similar choice for products of domestic origin in itself constituted less favourable treatment; this is also true of the inadmissibility of counterclaims. The Panel concluded that these elements of Section 337 of the 1930 Tariff Act were inconsistent with Article III:4 of the General Agreement, in that it subjected imported products, which are allegedly violative of a United States patent, to treatment less favourable than that afforded to products originating in the United States that were similarly challenged.

The Panel then examined the question of whether these elements of treatment incompatible with Article III:4 could be justified under Article XX (d), in other words, whether they were necessary to secure compliance with laws and regulations themselves consistent with the General Agreement. For most Section 337 procedures, the Panel found that they were not "necessary" for the enforcement of United States patent rights. The Panel therefore considered that the inconsistency of Section 337 with Article III:4 could not be justified in all respects under Article XX (d).

The Panel recommended that the Contracting Parties should request the United States to bring its procedures applied in patent infringement suits bearing on imported products into conformity with its obligations under the General Agreement.

Although the Panel did not cover this point in its conclusions, the Report notes that Section 337 has been amended on certain points, under the Omnibus Trade and Competitiveness Act adopted in the summer of 1988. In particular, two requirements have been eliminated: the proof of injury caused to an industry, and that of the industry's being efficiently and economically operated, which were previously required by Section 337.

In the course of the discussion in the Council, the United States said that it needed more time to study the Panel's report, as the interpretation given of Articles III and XX (d) could have important implications beyond this specific case. The EEC and several other countries said that they were in favour of adoption of the report; other countries considered that they needed more time.

MEAT WITH HORMONES
The EEC reserves the possibility of requesting a panel

The European Community said that in December it had asked the Council to make a ruling on the legal issues raised by the retaliatory increase in United States customs duties on certain Community agricultural products, and to recommend appropriate action to redress this situation. The Community intended to continue on this course, in accordance with GATT procedures, and was requesting consultations under Article XXIII:1; it reserved the possibility to request the establishment of a panel, in accordance with the procedures for cases of urgency provided for in the 1979 Understanding. The Community said that because of the lack of a positive attitude on this issue by the United States, there was a danger that the conflict would degenerate into a spiralling escalation of measures and countermeasures.

The United States said that high-level discussions on this matter were to take place soon so as to try to resolve this conflict. Consequently any decision would be premature at the present stage and could only unnecessarily complicate the possibility of a settlement, said the US.

During the discussion, the EC and the US as well as several other countries, repeated the arguments they had advanced at the previous Council meeting.

CANADA-US, FREE-TRADE AGREEMENT
Working party established

Canada and the United States informed the Council that the Free-Trade Agreement they had signed in February 1988 had entered into force on 1 January 1989, following completion of the necessary domestic legal procedures. The Agreement would eliminate all duties on products traded by the two partners by 1 January 1998, and significantly reduce other trade barriers. It should lead to the expansion of the national economies of both countries and stimulate demand for products from sources both within and outside the free-trade area. It would therefore be trade-creating rather than trade-diverting. The Agreement also provides for rules to govern services, and mechanisms for the resolutions of bilateral disagreements and the determination of anti-dumping and countervailing duty cases. The parties believed that it was among the most comprehensive agreement notified to GATT. They also assured the Council that the establishment of a free-trade agreement between them did not in any way alter their desire to achieve increased liberalization of trade with their other trade partners through the Uruguay Round.

The Council agreed to establish a working party to examine the compatibility of the agreement with Article XXIV, in accordance with the usual procedures.

(continued on page 6)
TRADE IN SERVICES (II)

The first part of this article, which appeared in FOCUS No. 57, dealt with the definition of trade in services and statistics. This second part pursues the discussion of the issues which form the setting for the negotiations themselves. The drafting of principles and rules to govern trade in services will be dealt with in a third part, in the light of the decisions taken at the Montreal Ministerial Meeting.

GATT and services

The question of GATT's competence in the sphere of trade in services has been the subject of a wealth of commentary. However, it lost much of its immediate practical interest as a result of the separate negotiating structure adopted for services by Ministers in Punta del Este. It is discussed here as a matter of interest and not in relation to the work of the Group of Negotiations on Services.

The Havana Charter, negotiated at the end of the Second World War but never ratified, represented a first attempt at establishing rules to govern trade in services. Under its Article 53, certain services, such as transport, telecommunications, insurance and commercial banking services, were subject to the jurisdiction of the International Trade Organisation as far as restrictive business practices were concerned. Although the bulk of the powers of trade policy in the Havana Charter were incorporated into the General Agreement, this was not the case for services.

However, the General Agreement contains some specific articles dealing in a limited way with services: Article III: 10 and Article IV refer to exposed cinematograph films and Article V provides for the application of the MFN clause and national treatment to traffic in transit.

Some of the 1979 Tokyo Round Codes also mention services. For instance, the illustrative list of export subsidies in the Subsidies Agreement refers to four types of subsidies granted by governments relating to services; they cover transport and freight charges as well as export credit guarantee or insurance programmes, in particular against price rises or exchange risks. The Agreement on Government Procurement applies to the provision of services incidental to the supply of products if the value of such services does not exceed that of the products themselves; an extension of the coverage of this Agreement to services was recently negotiated under the procedures provided for in the Code. Finally, the Customs Valuation Agreement stipulated that certain services may be included in the valuation of the goods for the purpose of levying customs duties.

International arrangements and disciplines relating to services

The Punta del Este Declaration states that the multilateral framework to be elaborated to govern trade in services should take into account the work of relevant organizations.

Various arrangements, conventions and disciplines relating to services exist at the international level. Some of these disciplines cover particular service sectors: civil aviation (ICAO), international air transport (IATA), international maritime traffic (IMO), telecommunications (ITU) or satellite telecommunications (INTELSAT). Others refer to groups of activities such as invisibles and capital flows (OECD) or trade restrictions such as restrictive business practices (UN/UNCTAD and OECD). These arrangements are based on plurilateral agreements among governments, bilateral or multilateral governmental agreements, and nongovernmental agreements.

The primary objective of many of these sectoral arrangements and disciplines is not so much to liberalize trade as to elaborate technical standards, pool resources, distribute markets and so forth. While the multilaterally agreed principles and rules on business practices adopted by the United Nations and the OECD recommendations in this sphere are aimed at eliminating certain kinds of practices likely to restrict or distort international competition, their objective is not to establish a general set of rules to promote the liberalization of trade in services.

An essential element of several existing sectoral arrangements is the principle of reciprocity and mutual advantage. They do not deal with concepts such as transparency or non-discrimination as principles of general application. Some of them (ICAO, ITU, IATA, IMO, INTELSAT), also contain dispute-settlement provisions whose modalities vary widely.

During the discussions in the GNS; some countries have stated that the framework to be elaborated should be compatible with disciplines existing in other organizations. Other countries have taken the position that the new framework should take precedence over the existing disciplines, which do not really provide any machinery for the progressive liberalization of services or for the promotion of the developing countries' trade.

Specific nature of services

The differences between the nature of services trade and goods trade and the differing areas of national policies which affect them have been the basis of much of the discussion in the GNS:

● Protective instruments are not the same for services as for goods: there are no tariffs or restrictions applicable at the border. Protection most frequently takes the form of restrictions on the establishment of a foreign supplier or various forms of discriminations in regulations.

● Government intervention with regard to the production of services and their trade is usually greater. This is justified on a number of grounds:
  - protecting employment;
  - exchange-rate and balance-of-payments considerations;
  - protection of infant industries, especially but not exclusively those of developing countries;
  - protection of consumers, private individuals and legal entities (in particular in banking, insurance and the professional occupations);
  - national security;
  - socially and culturally sensitive issues (for example, advertising).

State intervention usually takes the form of the establishment of standards governing conditions of competition or modalities of market access.

● Services cannot be stored and usually require the simultaneous presence of the producer and the consumer. This results in greater supply vulnerability.

(continued on page 5)
Obstacles to international service transactions

The conditions limiting access to markets for service vary enormously both among countries and between the various service sectors. In every country there exists a host of national regulations that can directly or indirectly affect trade in services. Bilateral or plurilateral arrangements may be concluded in some sectors or for certain activities. The scope of international regulations is both limited and fragmented.

Evidently, the level of protection and the impact of liberalization measures may be harder to assess than in the case of trade in goods. Partly because of the more comprehensive nature of barriers to trade in services.

Before the launching of the Uruguay Round, the countries interested in studying the possibility of an international agreement governing trade in services prepared national studies on services and the problems encountered by their firms in their international service operations. Some of these studies classified restrictions according to their effects, others according to market and still others by service sector. Furthermore, only developed countries took part in this exchange of information.

While the reports and discussions based upon them revealed some degree of common ground concerning the nature and definition of the laws, policies and practices that could be perceived as trade barriers, they did not provide the basis for a single comprehensive inventory.

PROMOTION OF DEVELOPMENT

The role of services in development and the effects of the progressive liberalization of trade in services on developing countries are of great significance to the work of the GNS.

It is recognized that the service sector contributes to economic development; it satisfies certain basic needs of the population, creates jobs, provides inputs for agricultural and industrial production, and creates infrastructure. It also acts as a catalyst for trade, by providing many developing countries with a major source of foreign exchange. The development of a service infrastructure contributes to their ability to attract and absorb advanced technology and has important implications for the incapability to innovate and to increase competitiveness in the production of goods.

Developing countries consider that development is an objective whose modalities should be determined at the national level and goes well beyond limited considerations of economic growth.

In the GNS negotiations, the promotion of development has been treated as a dynamic concept, integral to an agreement on services and going further than the granting of exemptions or provisions providing special and more-favourable treatment for developing countries.

One major issue concerns the link between development and the liberalization of trade in services. Some developed countries consider that the liberalization of trade in services can in itself contribute to the development of developing countries. In particular they argue that the establishment of foreign firms is a means of ensuring transfers of technology and know-how on less costly terms; furthermore, it enables local firms to improve their capabilities and competitiveness not only on the domestic market but also on foreign markets. In their view no international trading system can guarantee the development of participating countries.

Certain developing countries, on the other hand, consider that the liberalization process does not necessarily encourage the development of domestic service industries; they need time to establish viable service industries before exposing those industries to international market forces.

Among the means of promoting development that have been mentioned by developing countries is the adoption of an unconditional most-favoured-nation clause meaning the automatic and unrestricted extension of advantages to all members of an agreement. They have also called for the adoption of relative reciprocity, whereby a link would be established between the level of concessions made by a country and its level of development. According to some developed countries, this lower level of undertakings to be entered into by developing countries should be accompanied by the possibility of raising their level of commitments progressively in line with their development. Developing countries believe the agreement should include provisions promoting their greater participation in international trade in services and encouraging the growth of their service exports, in particular by means of improved access to distribution and information networks.

The developing countries also consider that the service industries in which they are competitive (especially labour-intensive ones) should receive priority attention. Some of them also want an agreement on services to encourage the transfer of technology by developed countries, and consider that technical and financial assistance should be granted to developing countries to strengthen their service infrastructure and training.

A related question under discussion concerns the objective criteria for judging a country's level of development. These criteria could be used not only for deciding on the kind of treatment to be granted to developing countries in the negotiations, but also for judging whether the objective of promoting their development is being fulfilled.

GATT MEETINGS

Provisional programme of meetings in April

5-7 Trade Negotiations Committee (Uruguay Round) Council Procurement
12 Committee on Government Procurement
13-14 Working Party on Bolivia
18-20 Working Party on China
17 and 21 Balance of Payments Committee Textiles Surveillance Body
24 Ad-Hoc Group on Anti-Dumping Practices
25 Anti-Dumping Committee
26 Committee on Subsidies and Countervailing Measures

In May

10 Council Textiles Surveillance Body
18-19 Textiles Surveillance Body
25-26 Textiles Surveillance Body

TROPICAL PRODUCTS

Before the meeting of the Trade Negotiations Committee in April, and in addition to the countries referred to in the last issue of FOCUS, a number of countries had already implemented or were in the process of implementing in stages their offers on tropical products. These countries were: Japan, Australia, Brazil, Malaysia, Thailand, Czechoslovakia, Hungary and Poland. Details will be given in a later issue of FOCUS.
UNILATERAL UNITED STATES IMPORT RESTRICTIONS ON BRAZIL
Panel established at the Council meeting on 21 February

At the Council meeting on 8 and 9 February, Brazil said that it had repeatedly drawn the Council's attention to the fact that the United States had decided unilaterally to raise duties on certain products from Brazil. Council members had supported Brazil's request for the establishment of a panel in December. Brazil said that during the discussion which had preceded the adoption of the present Council agenda (see box), any type of unilateral action had been judged unjustifiable.

Once again, many countries supported Brazil's request and expressed concern at the adoption of retaliatory measures which had not previously been authorized by the Council. The United States said that it was not in a position at the present time to agree to the establishment of a panel on this issue.

TRADE IN SEMI-CONDUCTORS AND TAXES ON ALCOHOLIC BEVERAGES
Follow-up by Japan

Japan informed the Council, at its meeting on 6 March, of the measures it had taken to comply with the recommendations of the panels which had ruled on its monitoring system for imported alcoholic beverages, and that the Panel's recommendations had not been fully implemented. These countries said they would follow developments concerning the full implementation by Japan of the Panel's recommendations.

ACCESSION OF PARAGUAY
Resumption of negotiations

Paraguay informed the Council of its desire to resume negotiations with a view to its accession to the General Agreement. Paraguay has already submitted to GATT a memorandum on its foreign-trade regime, and it recently liberalized its trading system and its exchange-rate system. It stated that its decision bore witness to its faith in the multilateral system and in the advantages to be derived from participating in it. The Working Party to examine Paraguay's request, will resume its work in accordance with the usual procedures.

Unilateral and discriminatory measures cannot be justified under the General Agreement

At the European Community's request, the Council held a general discussion on unilateral measures, before adopting its agenda.

The Community wished to draw the Council's attention to the dangers for the GATT multilateral system arising from the increasingly frequent recourse to unilateral and discriminatory measures. The EC said such measures should clearly be disapproved.

Many countries expressed their concern about such measures, no matter on what grounds they were invoked or in which circumstances they were taken. The Director-General of GATT said that despite the unusual nature of the procedure followed during the Council meeting, the discussion came within the Council's multilateral surveillance function. He recalled that one of the drafters of the Havana Charter had said the following in regard to the GATT dispute settlement procedures: "We have asked the nations of the world to confer upon an international organization the right to limit their power to retaliate. We have sought to tame retaliation, to discipline it, to keep it within bounds. By subjecting it to the restraints of international control, we have endeavoured to check its spread and growth, to convert it from a weapon of economic warfare to an instrument of international order". It was not a question of "finger pointing", but of abiding by the General Agreement, Mr. Arthur Dunkel said. The General Agreement stipulated that discriminatory import duties were contrary to its Article I. There was no exception in the General Agreement which could justify discriminatory import tariffs imposed for the particular purpose of inducing another contracting party to bring its trade policies into conformity with the General Agreement. The Contracting Parties could, however, when it was found that a contracting party was maintaining measures contrary to the General Agreement, be requested to authorize, in accordance with Article XXIII.2, the suspension of obligations towards that contracting party which was failing to observe its obligations.