World trade growth slows down

World merchandise trade growth, in volume terms, fell from 7 per cent in 1989 to 5 per cent last year and a further modest slowdown is expected for 1991, according to GATT's economists in a report published in March.

However, because of the dollar's depreciation against major European currencies, the value of world merchandise trade increased by 13 per cent in 1990 to a new record of US$ 3 1/2 trillion. Services trade - covering sectors like transportation, tourism, telecommunications, insurance and banking - is estimated to have grown by 12 per cent last year to a value of US$ 770 billion.

The report, which is a preliminary review of world trade results and trends in 1990, also provides an assessment of the trade impact of the Gulf crisis. It concludes that, while the overall effects on world trade were relatively small, the loss of trade for individual countries like Jordan, Turkey, Romania, India and Yugoslavia would have been appreciable. Another important economic effect was the severe drop in worker remittances from Kuwait and Iraq to countries like India, Bangladesh, Pakistan, Sri Lanka and the Philippines. It is also likely that a decline in exports of commercial services - especially tourism and transportation - affected many countries in the region.

Figures for 1990 are preliminary. Trade developments and trends will be analyzed in greater detail in Volu-

(Continued on page 2)

Subsidies panel to examine US/EC Airbus dispute

The Committee on Subsidies and Countervailing Measures established, on 6 March, a dispute-settlement panel to examine a US complaint that a German exchange-rate insurance scheme for Deutsche Airbus had violated the GATT Subsidies Agreement. On 11 April, the Committee decided that the terms of reference for the panel would be the standard terms of reference of the Code.

In asking for a panel, the United States maintained that the German measure constituted a prohibited export subsidy in violation of Article 9 of the Subsidies Agreement with reference to three items in the Illustrative List, in particular item (j) - "the provision by governments ... of exchange risk programmes, at premium rates, which are manifestly inadequate to cover the long-term operating costs and losses of the programmes."

The United States said the exchange rate insurance scheme, approved by the European Commission in March 1989, (Continued on page 8)
**Recent developments in world trade**

Last year marked the eighth consecutive year of expansion for the world economy since the 1982 recession. It was also the second year in a row of decelerating growth in the volume of world output and the volume of world trade. Economic disruptions and uncertainties caused by the Gulf crisis contributed to the slower growth in 1990, but it is unlikely that they played an important role. Although there is no world recession in sight, the outlook for 1991 is clouded by a number of uncertainties, including those stemming from the aftermath of the war in the Gulf.

**Trade values**

Boosted in part by the “valuation effect” of the dollar’s depreciation against major European currencies, the value of world merchandise trade increased 13 per cent in 1990 to a new record level of $3 1/2 trillion. According to very preliminary estimates, trade in commercial services - the category of world trade which includes transportation, tourism, telecommunications, insurance, banking and other professional services - rose 12 per cent in 1990 to approximately $770 billion.

**Trade volumes**

In contrast to the accelerated growth in the value of trade last year, growth in the volume of world merchandise trade slowed noticeably, from 7 per cent in 1989 to an estimated 5 per cent. Although the slowdown in trade was broadly based across manufactured, agricultural and mining products, manufactures continued to be the fastest growing category. The growth rate for world output also slipped, from 4 to 3 per cent. Viewed in isolation, last year’s figures would be considered satisfactory - for example, output growth and trade growth were both close to the annual average for the eight-year expansion since 1982. The concern, rather, stems from two years of falling growth rates and the uncertain prospects for the current year.

There is no easy way of determining the contribution of the Gulf crisis to last year’s slower growth, but it is unlikely that it was a major factor in the overall global economic performance. It had been apparent for some time that business investment in the developed countries was being scaled back, and that in several of these countries the growth of consumer expenditure was slowing. Not only were forecasts of a further weakening of the economic expansion commonplace before the August invasion of Kuwait, but there is the practical point that the effects of the ensuing crisis were apparent only in the figures for the final five months.
The impact of the Gulf crisis on trade

The impact of the Gulf crisis on the overall level of world trade in 1990 was very different from its impact on the trade of individual countries. For world trade in goods and services as a whole it is likely that the effects were relatively small.

The year was more than half over when the crisis began and much of the trade in those months was already under contract on 2 August. Moreover, prior to the trade embargo Kuwait and Iraq together accounted for less than 1 per cent of world merchandise trade, and most (if not all) of their lost exports were replaced by increased exports from other petroleum producers. Higher fuel prices and risk-related increases in insurance rates pushed up transportation costs, but for the most part these increases in the "natural barriers" to trade were small relative to the part these increases in the "natural barriers" played in the overall level of world trade.

At the individual country level, it is clear that the Gulf crisis had important economic effects. The leading merchandise exporters to Kuwait and Iraq prior to the trade embargo are indicated in the accompanying table. As far as the economic impact of the embargo is concerned, the relevant figures are those in the second column which indicate the relative importance of the Kuwaiti and Iraqi markets for each of the exporting countries. Among the 20 countries in the table, Jordan clearly was the most adversely affected, followed by Turkey, Romania, India and Yugoslavia.

"Jordan was the most adversely affected, followed by Turkey, Romania, India and Yugoslavia." column which indicate the relative importance of the Kuwaiti and Iraqi markets for each of the exporting countries. Among the 20 countries in the table, Jordan clearly was the most adversely affected, followed by Turkey, and then by Romania, India and Yugoslavia. The fact that Jordan ranked only nineteenth among the 20 leading exporters to Kuwait and Iraq, but was by far the hardest hit among the countries in that group, suggests that there may be other countries which were small suppliers to Kuwait and Iraq, but for which those two countries were important markets.

Moreover, lost merchandise exports to Kuwait and Iraq is only one part of the economic impact on individual economies. It is likely that a decline in exports of commercial services - especially tourism and transportation - affected many countries in the region. A number of countries in the Middle East, North Africa and Asia for which worker remittances are an important source of foreign exchange suffered losses not only from the decline in remittances, but also from the costs of repatriating and rehabilitating their nationals (many of whom lost substantial personal assets). While there are no precise figures on the number of foreign workers affected by the Gulf crisis, nor on the amount of lost remittances, it is possible to piece together a very approximate picture. Prior to the crisis, somewhat more than one million Egyptians and close to half a million Pakistanis (in each case including family members) were living in Iraq and Kuwait. The largest non-Arab sources of foreign workers in the two countries were India (around 200,000), Bangladesh, Pakistan and Sri Lanka (each around 100,000) and the Philippines (around 60,000). According to figures supplied by these five countries, annual pre-crisis remittances from Iraq and Kuwait - expressed as a proportion of the country's total merchandise exports - ranged from 2 1/2 per cent (India and the Philippines), to 6 per cent (Sri Lanka and Pakistan), to 12 1/2 per cent (Bangladesh). Statistics on the repatriation of foreign workers from Iraq and Kuwait coordinated by the International Organization for Migration (IOM) are shown in the accompanying table. The eight countries in the table account for 95 per cent of the estimated 188,000 workers whose repatriation was coordinated by the IOM between early September and the end of February. It is evident that a majority of the foreign workers who were in Iraq and Kuwait at the beginning of the crisis are either in refugee camps in the region, were directly repatriated by their own governments, made their own way back to their home country, or are still in one of the two host countries. Although the rebuilding work presumably will require a substantial number of foreign workers, it is still not clear to what extent the flow of worker remittances will recover to the pre-crisis level.

In addition to the loss of exports of goods and services and of worker remittances, a number of countries in the region also felt the effect of declines in foreign aid and project finance that had been available from Kuwait, Iraq and regional development funds. Other countries were affected by the cessation of Iraqi debt servicing, especially those in Central and Eastern Europe who were being repaid in oil. And, of course, there was the negative impact on oil-importing countries around the world of the higher oil prices in the August-December period (the counterpart being an increase in the export earnings of the oil-exporting countries).

One of the more obvious economic effects of the Gulf crisis among the industrial countries was the jump in import expenditures for crude petroleum and derived products for the United States and Japan, the world's leading importers of fuels. Compared to the first half of 1990, the oil import bill rose by about one-quarter in both the United States and Japan. Countries in Central and Eastern Europe also faced higher import bills for fuels at a time of high vulnerability to external shocks due to the deep recessions resulting from the restructuring of the economies. In Western Europe, in contrast, the economic impact of the rise in the dollar price of oil in the second half of 1990 was partially offset by the depreciation of the dollar against most of the West European currencies.

Leading suppliers of merchandise exports to Iraq and Kuwait, 1989

(Percentage)

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<tr>
<th>Share in the</th>
<th>Share of merchandise exports to Iraq and Kuwait in total merchandise exports</th>
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<td>of Iraq and Kuwait</td>
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<td>India</td>
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<tr>
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Source: IMF, Direction of Trade.

Reparations from Kuwait and Iraq coordinated by the International Organization for Migration (3 September 1990 - 27 February 1991)

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<th>Country</th>
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<td>India</td>
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<td>Pakistan</td>
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</table>

Source: IMO
Slowdown
(Continued from page 2)

of the year. It is evident, in other words, that the economic effects of the Gulf crisis were superimposed on a period of economic slowdown in the world economy that had been underway for more than a year.

Trade of country groups, regions and individual countries

The accelerated growth in the value of world exports last year was particularly evident in the developed countries - the rate of growth of exports was more than double the corresponding figure for 1989 - boosted by the valuation effects of the dollar’s depreciation against major European currencies. Not surprisingly, Western Europe led the way with growth rates for exports and imports that were roughly three times those recorded in 1989.

Among the developing economies, most OPEC members reported sharply higher export earnings last year, largely due to the 25 per cent increase in oil prices. The leading Asian exporters of manufactures, in contrast, saw their export earnings grow more slowly in 1990, with the result that imports again grew more rapidly than exports.

Preliminary data for other developing countries (apart from OPEC and the leading exporters of manufactures in Asia), indicate higher export and import growth rates for 1990. Export growth was above the world average for developing Africa and other developing countries in Asia, but below the world average in Latin America, largely as a result of the contraction of Brazil’s exports. Trends in commodity prices contributed to these mixed performances as exporters of cocoa, cotton, jute, hides, lead, rubber and zinc benefited from higher prices of products on international markets, while prices were lower or unchanged for other major primary commodities.

The on-going transition of several countries in Central and Eastern Eu-

ropo to market-oriented economies, coupled with their efforts to redirect trade away from members of the Council for Mutual Economic Assistance (CMEA) and toward countries with convertible currencies, had a considerable impact on both the pattern and level of the trade of this region in 1990. In dollar terms, the imports and exports of Central and Eastern Europe - plus the USSR - grew less or fell more in 1990 than in 1989. There was a major decline in intra-regional trade, which was only partly offset by an expansion in the trade of Czechoslovakia, Hungary, and Poland with the rest of the world.

Preliminary indications are that Poland and Hungary were the only countries in the region reporting higher export values for 1990 as a whole. A strong expansion in the dollar value of exports to the European Community, up 40 per cent for Poland and 38 per cent for Hungary, more than offset a strong decline in intra-regional trade, resulting in a sharp rise in the share of extra-regional trade in their exports. Czechoslovakia also reported an important shift to extra-regional trade in exports and imports. Estimates for Romania and Bulgaria - where the course of economic reform is less clear - indicate that the trade of these two countries, both extra-and intra-regional, declined in value in 1990, leaving the overall geographic pattern of their trade largely unchanged. For the second consecutive year, the USSR reported a decline in merchandise export earnings and a higher import bill.

Most regions shared in the slower volume growth

The deceleration in trade last year on a volume basis can be attributed to lower growth in imports of North America, Japan, Western Europe, Central and Eastern Europe and the USSR. As the recession took hold in North America, import demand became sluggish and, in the final quarter of 1990, fell below the previous year’s level. Compared to North America, import demand in Western Europe was stronger throughout the year, buoyed by continuing economic expansion, while export growth was considerably weaker.

A key factor behind the relative strength of import demand in Western Europe was the strong growth of domestic demand in the newly united Germany. For the former FRG, export volume growth fell from 7 1/2 to 1 1/2 per cent, and import volume growth increased from 7 to 11 1/2 per cent, between 1989 and 1990. To the extent that its effects were already evident in 1990, the depreciation of the dollar against the West European currencies worked in the same direction as the trends in aggregate demand - that is, the weaker dollar tended to stimulate United States exports and West European extra-regional imports.

Developing economies as a group posted export volume growth above the world average, largely due to continuing strength in the leading Asian exporters of manufactures, which now account for 40 per cent of the group’s total trade. Hong Kong.
“Developing countries posted export volume growth above the world average.”

Singapore, Thailand and Malaysia recorded export and import volume growth rates well above the world average. Export volume growth rates remained below the world average in Taiwan and the Republic of Korea, in spite of the economic recovery in the latter country in 1990. Taking a longer-term perspective, export growth in the Republic of Korea and in Taiwan remains well below the rates attained during the early part of the 1980s, while the opposite is true for import expansion, confirming their emergence as dynamic importers.

From the volume figures, it is readily apparent that the accelerated growth in OPEC’s earnings last year was almost entirely due to price developments. As international demand for crude petroleum and related pro-

## Leading exporters and importers in world merchandise trade, 1990

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### Uruguay

| World | 3470 | 100.0 | 71 131 | Total | 3016 | 83.8 | 9 131 |

| World | 3600 | 100.0 | 81 131 | Total | 3016 | 83.8 | 9 131 |

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a The value figures for exports and imports combine the former Federal Republic of Germany with the former German Democratic Republic.

b Because of difficulties involved in converting data expressed in national currency into dollars, the figures are at best only rough approximations.

c Imports f.o.b.

d Includes re-exports. In 1990, they amounted to $53.0 billion compared to $44.3 billion in 1989.

e Includes re-exports. In 1990, they amounted to $18.0 billion compared to $16.4 billion in 1989.

f Includes substantial imports for re-export.

g Includes estimates of trade flows through processing zones.
ducts declined, and exports from Kuwait and Iraq ceased in the latter half of 1990, the growth in the volume of exports from the OPEC countries fell by more than half, from 12 per cent in 1989 to 5 per cent last year. In contrast, OPEC's import volume growth more than doubled in 1990 to 5 1/2 per cent (despite the embargo of Kuwait and Iraq), as imports of the Islamic Republic of Iran, Saudi Arabia and others expanded sharply.

Aside from OPEC and the leading Asian exporters of manufactures, preliminary data indicate that export and import volume growth of other developing countries was close to the world average last year, but below the corresponding rates for the preceding year. In (non-OPEC) Latin America, export volume growth shrank as Brazil's exports contracted, but in other regions growth rates remained above the world average.

**Germany becomes top merchandise exporter**

In 1990, Germany passed the United States to become the world's leading merchandise exporter. One factor, of course, was the unification which added $22 1/2 billion (if all of the 1990 merchandise exports of the former German Democratic Republic is counted) to the exports of the former Federal Republic of Germany. But even without unification, Germany would have moved into the top spot on the basis of the 16 1/2 per cent rise of the Deutsche mark vis-à-vis the dollar. This occurred in spite of the fact that, in volume terms, United States exports expanded 8 1/2 in volume terms, as against 1 1/2 for German exports in 1990.

The largest jump in the export rankings last year was recorded by Saudi Arabia, up 4 places, as merchandise export earnings rose by nearly 40 per cent on the basis of a sharply higher export volume and prices for crude petroleum. With the exception of Sweden, West European traders recorded rates of growth for their exports well above the world average of 13 per cent and represented a marked acceleration relative to 1989. In each case, currency appreciation vis-à-vis the dollar was a more important factor behind the growth in the value of exports than was the corresponding increase in export volume. Among the 25 leading exporters, Austria recorded the highest growth in 1990 - up 28 per cent over 1989 - helped by the highest volume growth in Western Europe as exports to Germany surged. Brazil and the USSR, in contrast, recorded absolute declines in the dollar value of their exports.

On the import side, Malaysia moved up three places on the basis of strong volume growth. For China, the value of imports declined 8 1/2 per cent while exports grew 18 per cent, resulting in a shift in the merchandise trade balance from a $6 1/2 billion deficit in 1989 to an $8 billion surplus last year. Last year's depreciation of the dollar against the French franc helped boost France into a tie with Japan for third place among the leading merchandise importers.

**Current account trends**

Measured in dollars, the current account imbalances of the United States and Japan have been declining steadily since their respective peaks in 1987. In the United States, the third consecutive year of export growth almost double the rate for import growth helped lower the current account deficit to $99 billion in 1990, a decline of more than one-third over the three-year period. When expressed as a share of GNP, the decline in the imbalance is even more pronounced, dropping from 3.6 per cent in 1987 to 1.8 per cent last year. Japan's $38 billion surplus last year was less than half the 1987 figure, and brought the surplus-to-GNP ratio to 1.2 per cent (versus the 4.4 per cent peak in 1986). Among the factors behind the continued adjustment in 1990 was the impact of the slowdown in economic activity in the United States on import demand, and the impact of higher oil prices in the latter part of the year on Japan's import bill (higher oil prices, in contrast, slowed the U.S. current account adjustment).

For both the German current account surplus and the United Kingdom's deficit, 1989 was the peak year. This is true regardless of whether the imbalances are measured in dollars or as shares of GNP. For 1990, the latter figures stood at 2.9 per cent for Germany (down from 4.6 per cent) and 2.4 per cent for the United Kingdom (down from 3.8 per cent). Unification was an important factor behind the reduced German surplus, as some potential exports were redirected to the domestic market and import demand was stimulated. In the United Kingdom, in contrast, weak domestic demand, combined with a pick-up in export growth, led to a reduction in the deficit.

**Highly indebted countries**

The value of merchandise exports from fifteen highly indebted countries rose an estimated 11 per cent in 1990, somewhat above the rate recorded in 1989. (The fifteen countries are Argentina, Bolivia, Brazil, Chile, Colombia, Cote-d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.) Import growth of about 16 per cent pushed imports of the group to a level just below the 1981 pre-debt crisis peak of $145 billion. Overall, the aggregate merchandise trade surplus (on a f.o.b. - c.i.f. basis) declined from $30 billion to $27 billion.

Within the group, the trade surpluses of those countries which export primarily crude petroleum (Venezuela, Nigeria and Ecuador) rose sharply, causing their combined surplus to rise from $11 billion to $18 billion. Although trade balance developments in the other twelve highly indebted countries were mixed, the combination of a sharp decline in Brazil's surplus and a very substantial increase in Yugoslavia's deficit, resulted in a decline from $19 billion to $9 billion in the combined surplus of the other twelve countries.

Venezuela and Nigeria recorded the top rates of merchandise export expansion among the highly indebted countries - 44 and 23 per cent respectively - as higher export volumes were sold at higher prices. For Venezuela, the export sector helped boost the rate of its GDP growth to the highest level in Latin America in 1990. Fuel exports from Mexico and Colombia rose by 20 and 30 per cent, but the lower share of fuels in their exports lessened the impact on overall export performances. Argentina reported the largest increase in merchandise export earnings (24 per cent) among the oil-importing countries in the group. As imports declined, in response to the weakness of the domestic economy, Argentina's trade surplus reached a record level of nearly $8 billion. Brazil and Peru, in contrast, recorded absolute declines in the value of exports, coupled with sizeable increases in imports.
With the exception of Brazil and Peru, the relation between exports of goods and services and required debt service payments continued to improve for the Latin American debtors in the group. Within the broader group of highly indebted countries, Mexico, the Philippines, and Venezuela reduced outstanding obligations under the Brady plan, and Nigeria obtained limited public debt relief from the United States. While per capita income remains below the level of the early 1980s in thirteen of the fifteen countries — Chile and Colombia are the exceptions — debt relief and sustained programmes of structural reform are pointing to continued (if gradual) improvements in the economic situation of the highly indebted countries.

**Current outlook**

Among the G-5 countries, declining economic activity was recorded in the fourth quarter of 1990 in France, the United States and (for the second consecutive quarter) the United Kingdom, while Japan and Germany continued to expand. Japan’s GDP growth of just over 4 1/2 per cent (at an annual rate) in the fourth quarter continued to be the highest in the group. Spillovers into international trade volumes were evident as weakening import demand among some of the major traders was translated into a further weakening of export sales in the fourth quarter.

Analysts agree that the negative impact of the Gulf crisis on consumer and investor confidence was a setback to the world economy in 1990, contributing to an economic slowdown already evident in a number of countries. The uncertainty created by the Gulf crisis has been greatly reduced by the recent ceasefire, and the outlook for world trade and output in 1991 has correspondingly improved. In addition, the reduction in the oil price from $35 a barrel in October to the current level of around $20 has removed what was widely viewed as a major threat to the world economy as a whole, namely a major oil price increase.

Even before the war ended, most forecasts for 1991 pointed to continued but slower growth in the world economy as a whole. That being said, the extent of trade and output expansion in 1991 remains more uncertain than usual, as does the timing of a resumption of higher rates of economic growth. Opinions differ about when the recessions in Australia, Canada, the United States and the United Kingdom are likely to reach their turning points. They also differ regarding the likely duration of the slowdown in Western Europe. Meanwhile, growth is expected to remain depressed in the countries in Central and Eastern Europe, in the USSR, and below the world average in Latin America and Africa. In contrast, the Middle East region is likely to experience a pick-up in economic activity as merchandise trade, travel and tourism recover and rebuilding gets underway. More generally, buoyed by the end of the Gulf war, low prices for oil and many other primary commodities, the easing of interest rates in recent months, the world’s major stock markets appear to be on the side of those who expect the economic slowdown in the industrial countries to be reversed fairly soon. Against this mixed background, it seems plausible at this point in the year to expect a further but modest slowdown in the growth of world trade and output in 1991.

When firms in the major trading nations find themselves faced with considerable uncertainty about the economic outlook, as well as with shifts in the pattern of consumer demand and changes in exchange rates, there is a risk of escalating demands for increased protection against imports. These economic conditions also increase the likelihood that protectionist actions by one country will trigger retaliatory increases in the import barriers of trading partners. Any such reductions in market access are bound to hinder economic recovery by discouraging increases in output, employment and investment in each economy’s more efficient industries. This is especially true now because of the impact which an increase in the use of protectionist measures would have on the prospects for a successful conclusion to the extended Uruguay Round negotiations. Thus any move by governments to give in to demands for increased protection would be self-defeating — certainly for the economy as a whole, and perhaps even for industries receiving the protection since their fortunes are also tied to the general level of economic prosperity.

Two further considerations suggest that avoiding increases in protection is not the only way in which trade policy can give a boost to the prospects for recovery from the current economic slowdown. First, mention has already been made of the important role of consumer and investor confidence in determining the course of economic activity. Second, it is evident from public reaction to the failure to conclude the Uruguay Round on schedule last December that the outcome of the current trade negotiations will have a very important impact on the private sector’s economic outlook for the remainder of the decade. It follows that efforts to bring the Uruguay Round to a successful conclusion sooner rather than later could yield tangible short-term benefits, in addition to the medium-term gains in economic growth that accompany expanding trading opportunities.
US-EC Airbus dispute
(Continued from page 1)

was part of a comprehensive plan by Germany to facilitate the merger of Messerschmitt-Boelkow-Blohm (MBB) into Daimler-Benz and the financial rescue of MBB and its subsidiary, Deutsche Airbus. Under the scheme, Germany would provide exchange rate risk insurance until the year 2000 whereby the government would cover most losses deemed attributable to lower actual market rates for the dollar than specified in the plan. The United States said Germany would neither charge premiums for the insurance nor impose interest on the funds advanced. It said that since the beginning of 1990, the German government had distributed in excess of DM390 million under the guarantee scheme, and that the German measure alone amounted to an average of about US$ 2.5 million subsidy on each plane delivered by Airbus last year.

The United States recalled that it held bilateral consultations with the Community in March 1989 under Article 12:1 of the Subsidies Agreement, and that the Committee had met in January 1990 to undertake conciliation of the dispute. It said further bilateral consultations with the EC had failed to produce a solution. It was therefore requesting the establishment of a panel to examine the case under the expedited dispute-settlement process of the Agreement (Articles 17:3 and 18).

EC says venue should be the Civil Aircraft Code

The European Community did not challenge the US request for a panel but maintained that the case should have been filed in the Committee on Trade in Civil Aircraft. It said the specificity of the civil aircraft sector had long been recognized in the GATT, as attested to by the establishment of the Civil Aircraft Agreement. This Agreement, according to the EC, provided for comprehensive rules on trade in civil aircraft, including the settlement of disputes. The EC was concerned that US recourse to the Subsidies Code would not allow for a full examination of the matter and would deprive the Community of its rights under the Civil Aircraft Agreement. It said the panel’s terms of reference should take account of these concerns.

The Subsidies Committee nevertheless established a panel to examine the US complaint. The Chairperson said she would be consulting with the parties concerned on the panel’s terms of reference and composition.

At a brief meeting on 11 April, the Chairperson announced that consultations to establish modified terms of reference for the panel had been unsuccessful. The panel would therefore have the following standard terms of reference:

"To review the facts of the matter referred to the Committee by the United States in SMC/108 and, in the light of such facts, present to the Committee its findings concerning the rights and obligations of the signatories party to the dispute under the relevant provisions of the General Agreement as interpreted and applied by the Agreement on the Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement."

The European Community, which had proposed adding "...as well as under the provisions of the Agreement on Trade in Civil Aircraft" to the above terms of reference, expressed deep concern over the Committee’s decision. It continued to believe the Civil Aircraft Agreement was also relevant to the dispute. The panel would therefore work on an inadequate and incomplete basis. The Community reserved its rights on the outcome of the panel proceedings.

At a meeting of the Committee on Trade in Civil Aircraft on 21 March, the European Community proposed negotiations to revise the Civil Aircraft Agreement "with a view to broadening and improving the Agreement on the basis of mutual reciprocity and to bring about a wider coverage of world trade in civil aircraft". It suggested, among other things, the clarification of certain provisions and the introduction of disciplines on government support to future civil aircraft programmes.

The Civil Aircraft Committee agreed that its Chairman would conduct consultations, open to all signatories, on how best to proceed with the EC proposal.

Import Licensing Committee grants observer status to USSR and Bolivia

The Committee on Import Licensing granted observer status to the Soviet Union on 26 March. This was the first time the USSR had been granted observer status by a Tokyo Round Committee since the country became an observer to the GATT Council in May 1990.

The Soviet Union said its request for observer status in the Committee was a "further step by the USSR Government to examine the prerequisites of a future accession to the GATT and its legal instruments, in particular the Agreement on Import Licensing Procedures".

In approving the USSR request, the Committee recalled that observers may participate in the discussions but decisions shall be taken only by signatories. It was emphasized that the decision would not prejudice action in the other Tokyo Round Code Committees. The Committee encouraged the Soviet Union to provide it with reports from time to time on its economic reform process relating to import licensing.

Regular feedback from the USSR

The Soviet Union said becoming an observer offered an opportunity to get acquainted with the Committee responsible for implementing an important legal instrument of the GATT. It said there would be due "feedback" while the import licensing system and respective legislation of the USSR were evolving in the general context of economic reforms. It would keep the Committee members periodically informed on USSR import licensing procedures.

The Agreement on Import Licensing Procedures is intended to ensure that licensing procedures do not in themselves act to restrict imports. The 27 signatories to the Code have committed themselves to using simple import licensing procedures and to administering them in a neutral and non-discriminatory way.

Bolivia also became an observer in the Committee at the same meeting, and noted in doing so that it was fulfilling a commitment undertaken in the context of its accession to the GATT.
March Council
Several countries urge quick start
to GATT environment work

The Council, on 12 March, resumed discussion on GATT work regarding environmental issues with many members supporting further informal consultations on the subject. Several delegations urged that procedural questions be settled by the next Council meeting so that work could start quickly. However, some representatives preferred to wait for the results of the 1992 UN Conference on Environment and Development.

Brazil accused the United States of violating the most-favoured-nation principle of the GATT by discriminating against Brazilian non-rubber footwear in the imposition of countervailing duties. It asked for a panel to examine the case. The United States objected, saying that a panel Subsidies Agreement had already found the US action to be in conformity with the Subsidies Agreement.

Two other new complaints were taken up. Peru drew the attention of the Council to recent restrictions imposed on its exports in the wake of an cholera epidemic. Brazil expressed concern about a recent European Community decision to impose a 13 per cent surcharge on imports of Brazilian sisal products.

Canada again pressed the United States to agree to the adoption of the panel report on US countervailing duties on fresh, chilled and frozen pork from Canada. The implementation of three panel reports came under question.

Trade-environment debate continues

Heartened by the start of informal consultations on their initiative for the GATT to study interlinkages between trade and the environment, the EFTA countries, nonetheless, urged that work start quickly and not be further delayed by procedural questions. (At the February Council meeting, the EFTA countries announced that they had asked the GATT Director-General to convene the 1971 Working Party on Environmental Measures and International Trade).

The EFTA (European Free Trade Association) members are Switzerland, Austria, Sweden, Finland, Iceland and Norway.

They noted that the turnout in the informal consultations - some 50 delegations - probably had set a record in the GATT. This "voting by feet" had buttressed the EFTA members' determination to continue working energetically towards the inclusion of environmental issues in the regular work of the GATT.

The EFTA members said they wanted a rule-based analytical discussion on the interrelationship between trade and the environment without any "precooked" results. Their aim was to ensure that the GATT system was well equipped to meet the challenge of environmental issues and to prevent disputes through a thorough discussion that might clarify, interpret, amend or change certain provisions of the General Agreement. They saw no need for the start of GATT work to await the results of the 1992 UN Conference on Environment and Development.

The European Community supported the EFTA initiative but stressed that the mandate of the Working Party should be up to the challenge of the issue. In the absence of agreement on procedures, it intended to initiate a substantive debate in the Council on the trade-environment issue. The Community then said conflicts between GATT principles and environmental protection measures occurred at three levels: means, objectives and standards.

With respect to means, the EC cited a European Court of Justice ruling regarding a Danish measure on bottle packaging which established a principle that should an EC member state face a choice of measures, it should opt for the measure that would least affect the free exchange of goods. As this principle had been recognized in the interpretation of GATT Article XX by recent dispute-settlement panels (on US Section 337 and Thai cigarette restrictions), could it also apply to environmental measures? On objectives, the EC said that GATT permitted trade restrictions for health and national security reasons. Thus, those necessary to satisfy environmental conservation requirements might also be recognized and accepted in the same way. However, could each GATT member have complete discretion in setting the conditions of such exemptions - for example killing a fly (a negligible environmental risk) with a cannon (trade prohibition)? Here, the principle of proportionality should apply. On international standards such as those contained in international conventions or instruments, the Community said that coherence in the international community as well as among those various bodies could not be ensured if GATT was deliberately prevented from discussing these issues.

The United States strongly supported the EFTA proposal but stressed the importance of updating the 1971 Working Party's terms of reference. It maintained that each GATT member, should it so ask, was entitled to a working party. In this regard, it noted its pending request for a working party on the relationship between international labour standards and trade.

Malaysia, speaking on behalf of the ASEAN countries, supported the continuation of informal consultations on the issue. However, it underlined that full consideration by the Council should precede the reactivation of the 1971 Working Party. It said the Council should not be rushed into any form of commitment regarding the relationship between trade and environment, and that GATT should not prejudice the results of the 1992 UN Conference.

India said there was no need to start substantive Council debate on the issue as the informal consultations were going well. It would not block the reconvening of the 1971 Working Party but would consider such a move premature in the light of current efforts by other international agencies.

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Several countries urge quick start to GATT environment work
(Continued from page 9)

Chile expressed interest in clarifying aspects of GATT Article XX, which, as an exception it believed should be interpreted restrictively. It also wanted to see a wider membership in the Working Group. Mexico said its main concern was that environment would not be used as a cover to obtain access to natural resources. Peru and Jamaica said GATT should await the results of the 1992 UN Conference.
The Council agreed to revert to the matter at the next meeting. In the meantime, the Chairman of the Contracting Parties, Ambassador Rubens Ricupero (Brazil), would continue informal consultations on the subject.

Brazil lodges complaint against US countervailing duty on footwear

The Council considered a dispute between Brazil and the United States regarding US countervailing duties on Brazilian non-rubber footwear. (Note: countervailing duties are additional duties which countries can, under appropriate circumstances, impose on imports to neutralize any advantage the exporter may enjoy through a domestic or export subsidy.)

Brazil asked for a dispute settlement panel to examine what it called a clear case of trade discrimination. It contended that the United States had violated the most-favoured-nation principle of the GATT (Article I) because it did not lift countervailing duties on certain imports upon the entry into force of the GATT Subsidies Code (formally known as the Agreement on the Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement).

On imports from certain countries (fasteners from India, wire rod from Trinidad and Tobago, lime and certain textile products from Mexico), Brazil said the United States had lifted countervailing duties on 1 January 1981, which was the date of the Brazilian request for an injury determination. (Note: Before the entry into force of the Subsidies Agreement, the United States had been exempted from the Article VI requirement to provide an "injury test" of damage to a domestic industry before levying countervailing duties.)

The United States considered Brazil’s request for a panel not warranted because the case had already been adjudicated by a dispute-settlement panel. It noted that the adoption of a panel report on this case in the Subsidies Committee had been blocked three times by Brazil. Furthermore, the Brazilian complaint concerned a measure imposed ten years ago which, in the meantime, had been removed. It added that its market for non-rubber footwear was open: imports constituted about 80 per cent of the US consumption and Brazil was the second largest supplier.

Brazil stressed that it was not appealing the panel report pending in the Subsidies Committee - it was raising an issue not examined by the panel. It said that the basis of its complaint before the Council was GATT Articles I and VI, and maintained that no Tokyo Round Code could be higher than the General Agreement. Some 20 delegations supported the Brazilian request for a panel to examine the dispute.

The Council agreed to revert to this dispute at the next meeting.

Follow-up of panel reports

Canada again urged the adoption of a panel report which ruled against US countervailing duties on imports of fresh, chilled and frozen pork from Canada. This report was first considered by the Council in October 1990 (see Focus No. 75).

The United States said a final decision on the US countervailing duty was imminent in dispute settlement proceedings under the Canada-US Free Trade Agreement. It said the removal of the measure in question would implement the recommendations of the GATT panel.

Canada said the issues dealt with by the GATT panel and the Canadian-US panels were different. Thus, regardless of the outcome in the bilateral avenues, the Council should adopt the panel report.

The Council agreed to revert to this matter at the next meeting. Several delegations also followed up implementation of three panel reports:

- US customs user fees. Adopted by the Council in February 1988, the panel report concluded that the US system should comply with the requirement of GATT Articles II and VIII that customs fees should approximate the actual processing cost of individual imports.
- The European Community expressed concern that an implementing US legislation might not meet the requirements of the panel report and reserved its GATT rights on this matter. The United States maintained that the new legislation, by instituting minimum and maximum fees, had directly addressed the issues raised by the panel.
- Japan - Restrictions on imports of certain agricultural products. The conclusion in the panel report, adopted in February 1988, was that Japan’s restrictions on 12 agricultural products had not met the conditions for exceptions set out in Article XI:2 (General Elimination of Quantitative Restrictions). The United States said it continued to be concerned that Japan had not implemented the panel’s recommendations on dairy products and starch. Noting that other Council members had shared these concerns at the previous meeting (see Focus No. 78), it proposed that consul-
Peru reported that a number of countries had imposed restrictions on its exports following a cholera epidemic in its territory. It maintained that these trade restrictions, which had resulted in $400 million of lost exports, were not based on scientific evidence. The WHO had stated that there was no proof of that cholera could spread through the importation of Peruvian products. Furthermore, a Peruvian state agency was in place to inspect sanitary conditions of all export products. Peru recalled that Council members, in October 1989, had reached an understanding on the guidelines to be followed for reconciling the interests of GATT members in the event of trade-damaging acts (see Focus No. 66). In keeping with these guidelines, Peru urged the countries concerned to immediately notify the GATT Director General of any restrictions imposed on Peruvian products.

On another matter, Brazil complained that the European Community had recently modified its schedule of tariff concessions by imposing a 13 per cent surcharge on imports of sisal processed products. It said the Community made the decision consulting the principal supplier, Brazil, in disregard of GATT Articles II and XXVIII. Furthermore, the EC surcharge constituted a new trade barrier inconsistent with the standstill commitment of the Uruguay Round. Brazil noted its sisal exports came from one of the poorest areas of the country. The EC took note of the Brazilian complaint and stressed that the European Commission make it a point to consult with other parties on decisions affecting them.

At the meeting, the Council also:

- Took note of a report by the United States on the operation of the US-Caribbean Basin Economic Recovery Act (CBERA). The United States said that the CBERA, in August 1990, had become a permanent programme and that this had been the only major change since the Contracting Parties granted, in 1985, a waiver to preferential US tariffs for Caribbean countries.
- Approved a draft decision to extend, until the end of the year, a waiver granted to Uruguay and submitted it to a vote by the contracting parties. The waiver concerned certain import surcharges imposed in excess of bound duties.
- Extended for a final three-month period the deadline for the completion of work of the Working Group on Domestically-Prohibited Goods and Hazardous Substances (from 31 March 1991 to 30 June 1991).
Guatemala signs Protocol of Accession to GATT

Guatemala's Protocol of Accession to GATT was signed 16 April at GATT headquarters in Geneva by the country's Minister for Economy and Trade Dr. Juan Luis Miron Aguilar. Accession will take effect 30 days after ratification by Guatemala's Congress.

GATT membership, said Minister Miron, would reinforce Guatemala's new external economic policy, which provided for trade reforms, the diversification of its export base, and the strengthening of the Central American Common Market. "The imminent achievement of complete national reconciliation should lead to a redeployment of Guatemala's efforts and resources towards sustained development," he said. He expressed the hope that upon accession, Guatemala would benefit from the whole range of opportunities that GATT presented to developing countries. He reaffirmed the importance Guatemala attached to the successful conclusion of the Uruguay Round.

Most tariffs to be bound

The terms of the Protocol were negotiated in a working party whose report was adopted by the GATT Council on 6 February 1991. Following regular procedures, the decision to invite Guatemala to accede was put to a vote and the necessary two-thirds majority of GATT member states for its approval - 67 affirmative votes - was attained shortly thereafter.

Guatemala had pledged to bind most of its tariffs at ceiling rates of 45 and 50 per cent upon accession. It would continue removing import prohibitions, restrictive import licensing requirements and other quantitative measures with the goal of their complete elimination by 31 July 1994. It intended to adhere to the Tokyo Round Agreements on Customs Valuation, Anti-Dumping Practices and Import Licensing Procedures.

On becoming a contracting party to the General Agreement, Guatemala will be able to participate fully in all GATT’s work. It will benefit from all tariff concessions negotiated by the GATT contracting parties since the inception of the General Agreement in 1948 and will enjoy other benefits of GATT membership, including the possibility of recourse to dispute settlement procedures. Guatemala has been participating, since 1987, in the Uruguay Round multilateral trade negotiations.

Guatemala has a population of 9.3 million (1990 estimate). The main industrial products are agro-industrial goods and textiles. The chief crops are coffee (one third of exports), sugar, bananas, cotton, corn and cut flowers. It has an estimated crude oil reserves of 500 million barrels and substantial deposits of nickel. Total exports amounted to US$1.2 billion (United States, 50% and Central American countries, 20%) and import reached $1.5 billion (US, 40% and CA countries, 8%) in 1988.

Two other Central American Common Market members are in the process of acceding to the GATT. El Salvador signed its Protocol of Accession to the GATT in December 1990 and will become a GATT member 30 days after the legislative body ratifies the Protocol. Honduras is in the initial stages of the accession negotiations. Nicaragua (1950) and Costa Rica (1990) are already GATT members.