Uruguay Round

Negotiations losing momentum, TNC Chairman warns

Mr. Arthur Dunkel, at an informal meeting of the Trade Negotiations Committee on 13 April, drew the attention of senior negotiators to a widespread perception that the Uruguay Round was losing momentum after a promising start early this year. A major factor behind this situation was the failure of key participants "to concretize their bilateral market-access negotiations." At the same time, the TNC Chairman at officials level noted a general desire to stop the drift and to tackle the problems confronting a successful and speedy conclusion of the Round.

Participants agreed that Mr. Dunkel would conduct intensive consultations after the Easter recess to set the scene for the last leg of the Uruguay Round negotiating process.

The Chairman said his consultations would be based on the status reports by the chairmen of the three Uruguay Round groups set up in January by the TNC to conduct work on the first three tracks under the negotiating plan (market access, services and legal drafting, respectively). He said these reports identified the main obstacles to an early conclusion of work in the Round.

For the final leg of the negotiations, Mr. Dunkel urged governments to use the reports "to clearly identify the steps they must take in order to bridge the gap between their general policy statements calling for the successful conclusion of the negotiations and their national positions on specific points which continue to defeat this objective." He stressed that success in the negotiations on market access and on initial predictability and security surrounding the rules of the game in international trade is interfering with economic decision making, the course of the Uruguay Round negotiations is playing a role in determining the timing and strength of the recovery from the current slowdown in world economic growth. Success in the current trade negotiations would, from this viewpoint, make a tangible contribution to an improved economic outlook for the world economy."

The report shows that in 1991, the United States again overtook Germany as the world's leading merchandise exporter. In so doing the US boosted the value of its exports by 7 1/2 per cent, five times the world average. In dollar terms, Germany's exports fell by 3 1/2 per cent while its imports rose by 9 1/2 per cent. US imports dropped 1 1/2 per cent.

The strongest overall trade growth - exports and imports - in 1991 was recorded in (Continued on page 2)
Slowdown

(Continued from page 1)

Asia, with the six leading non-OECD traders in that region reporting growth rates of 10 to 20 per cent for exports and 8 to 30 per cent for imports. At the other end of the scale, rough estimates suggest that the countries of Eastern and Central Europe and the former USSR registered a 20 per cent fall in the value of their collective exports and a 25 per cent drop in imports. The former USSR experienced a 42 per cent fall in imports.

The Director-General’s report looks at broad trends in trade policies and work in the GATT. It notes:

• a near-doubling from 96 to 175 of anti-dumping investigations with the United States notifying 52 cases, Australia 46, Poland 24, and the European Community 15;

• the increased enactment and operation of anti-dumping laws in developing countries and in Eastern and Central Europe;

• sixteen new countries which have announced autonomous trade liberalization measures; the report lists 63 countries taking such action since the launch of the Uruguay Round;

• the removal of textile and clothing quota restrictions by Sweden, Peru, Brazil and Yugoslavia;

• the increased use of GATT dispute settlement procedures, but a widening concern at inadequate implementation of adopted panel reports;

• enhanced participation by Eastern and Central European nations in the GATT;

• three new countries joined the GATT in 1991, working parties were dealing with eight other applications and informal soundings on possible membership had been made by several other nations and territories including the Baltic states and some members of the Commonwealth of Independent States.

The following are excerpts from the first section of Director-General’s annual report entitled World Production and Trade:

Volume of trade

Growth in the volume of world output and trade slowed in 1991 for the third year in a row. Despite the slowdown, trade continued to expand faster than output. Preliminary figures for the second half of 1991 suggest that a modest recovery of world trade may be underway.

Last year marked the third consecutive year of decelerating growth in the volume of world output and trade. The recession in North America and the slowdown of the economic expansion in Western Europe, together with the sharp contraction of output in Central/Eastern Europe and the former USSR, were the main factors behind the slower growth of world trade. Exports from the Middle East were also affected by the repercussions of the Gulf War (imports into the region, on the other hand, remained relatively buoyant). In contrast, the expansion of trade and output remained very strong in Asia, although signs of slower growth began to appear in the second half. Import growth appears to have been accelerating in Latin America as production growth recovered strongly.

The value of world trade is estimated to have increased about 3 per cent in 1991, the smallest gain since 1983 (see Chart). Despite the slowdown, trade growth continued to exceed output growth by a sizeable margin. According to preliminary estimates, each of the broad product groups—agriculture, mining and manufactures—shared in the slower growth.

Incomplete data for the second half of 1991 suggest that the deceleration of world trade may have bottomed-out, and that a modest recovery of trade may be underway. Export and import volume growth picked up, for example, in the United States, Canada and the United Kingdom.

Value of trade

Growth in the value of world merchandise trade declined sharply last year, recording the smallest gain since 1985. Estimates suggest that while growth in the value of exports of commercial services also weakened in 1991, it was more buoyant than that of merchandise trade.

Following an increase of 13½ per cent in 1990, the value of world merchandise trade grew by only 1½ per cent in 1991, to $3.5 trillion, the smallest gain since 1985. Three factors explain the sharply lower growth in the value of world merchandise trade: weaker volume growth, the “valuation effect” of the appreciation of the dollar against the ECU, and lower prices for a number of primary commodities. The latter two effects were sufficiently strong to cause a modest decline (that is, a modest deflation) last year in world market prices and export unit values expressed in dollars. Petroleum prices fell sharply from Gulf War-related highs, and prices of a number of industrial raw materials and metals were lower as economic growth slowed. Prices of many agricultural commodities were also down in 1991, as is evident from the aggregate decline of roughly 2 per cent in the International Monetary Fund’s indices for food, beverages and agricultural raw materials. Very preliminary estimates for world trade in commercial services—which includes transportation, tourism, telecommunications, insurance, banking and other professional services—indicate that the deceleration in value growth in 1991, while sharp, was less pronounced than the decline in merchandise trade. Such a performance would be consistent with the fact that within the domestic economy of most countries, output of the services sector traditionally has been less affected by economic slowdowns than that of the industrial sector.

Trade by geographic regions

In four of five geographic regions—Asia being the exception—export growth on a volume basis slowed in 1991. On a value basis, the trend was similar, as all regions except Asia experienced sharply lower export growth.

On a volume basis, export growth slowed in four of the five geographic regions for which volume estimates are available. The

Unloading American goods in Hamburg: The United States has regained from Germany the position of leading merchandise exporter with a 7-1/2% increase in the value of merchandise exports in 1991 - five times the world average.
Volume growth nearly doubled last year for exports from six of the leading exporters of manufactures in Asia. With exports growing more than four times the world average, and imports growing more than five times the world average, the trade performance of this group of countries was by far the most dynamic element in world trade last year.

Latin America's trade growth also expanded last year, with export volume up an estimated 2 per cent and import volume up 10½ per cent.

The sharply lower growth in the value of world exports in 1991 is evident primarily in the pronounced slowdown in the export performance of Western Europe, the pronounced decline in the trade of the region comprising Central and Eastern Europe and the former USSR, as well as lower export values for Latin America, the Middle East and Africa (export earnings of the latter three regions were affected by the sharp decline in petroleum prices).

Leading traders

In 1991 the United States regained the position of leading merchandise exporter. The dynamism of a number of Asian traders led to several changes in both the export and import rankings.

Since 1986, the United States and Germany have alternately held the number one and number two places on the list of leading merchandise exporters, depending on each country's export volume growth and movements in the dollar Deutschmark exchange rate (plus the boost to Germany's exports from the inclusion, as from 1990, of the trade of the former German Democratic Republic). In 1991 the United States moved back into the top spot on the strength of a 7½ per cent increase in the value of merchandise exports in 1991 (five times the world average), together with a 4½ per cent decline in Germany's exports. For the six non-OECD Asian exporters among the top 25, the increases last year ranged from 12 per cent for Singapore to 18½ per cent for Malaysia (which joined the ranks of the top 25 for the first time) and 19½ per cent for Hong Kong.

Developments in the value of imports of the industrial countries varied from a decline of 9 per cent for Sweden, to a gain of 9 per cent for Germany. Imports into the former USSR are estimated to have declined by about 40-50 per cent (equivalent to the total imports of China or Austria in 1990). Saudi Arabia's imports rose by an estimated 25 per cent in 1991, reflecting among other things a lagged response to an increase of 56½ per cent in export earnings in 1990, causing it to replace Finland as the 25th largest merchandise importer. Mexican imports continued their exceptionally fast growth for the third consecutive year, moving Mexico into essentially a three-way tie with Austria and Sweden. The strength of import growth in many Asian countries moved them ahead of a number of West European countries; among the top 25 importers, Hong Kong passed Spain, China moved ahead of Sweden, and Malaysia (whose imports have increased 30 per cent in each of the past two years) moved ahead of Denmark.

Changes in both the export and import rankings in 1991 confirm the earlier references to the dynamism in world trade of a number of non-OECD economies in Asia and Latin America. They also demonstrate a point which bears repeating, namely that dynamic exporters are dynamic importers. The result is that a growing number of countries are integrating their economies into the world economy, and therefore are taking a more direct and active role in the shaping of the multilateral trading system.

Current account balances

The three largest traders reported major changes in last year's current account balances: in dollar terms, the United States' deficit nearly disappeared, Germany moved into deficit for the first time since 1981, and Japan's surplus doubled. As a percentage of

sharp decline was recorded in the region composed of Central and Eastern Europe and the former USSR. Although it is difficult to provide accurate estimates, a steep decline in the volume of imports into the former USSR perhaps in excess of 40 per cent together with the fall in imports into Bulgaria and Romania, may have produced a decline of about 20 per cent in imports into this region.

West European exports slowed sharply as several countries reported shrinking (Germany, Sweden, Switzerland, Finland and Yugoslavia) or stagnating (Italy) export volumes. North America's export volume growth also slowed (but remained twice the world average), while the level of imports stagnated in volume terms. Import volume growth also slowed in Western Europe, in part due to a decline in EFTA's imports.

Asia's export volume growth increased slightly, as the slowdown in Japan's export growth was more than offset by increased exports from other traders in the region.

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A modest pick-up in trade growth is expected this year.

GDP, Japan's surplus was less than half the 1986 peak level.

Major changes occurred in the current account balances of the three largest traders in 1991. The United States current account deficit shrank from $92 billion in 1990 to about $5 billion in 1991. Although the merchandise trade deficit declined by about $35 billion, most of the reduction of the current account deficit occurred as a result of Gulf War-related transfers and developments in the services account (without the transfers in question, the deficit would have been about $45 billion). The German current account surplus of $48 billion in 1990 turned into a deficit of $21 billion mostly due to the contraction of its trade surplus, a development which in turn can be traced primarily to the unification process.

Following three years of decline, Japan's current account surplus increased again in 1991 to $73 billion, from $36 billion in 1990. The rise in the current account surplus is the result of a 60 per cent increase in the trade balance surplus, which reached a new record level (in dollar terms) of $103 billion in 1991. The increase in the trade balance can be traced in large part to the fall in energy prices and to the strong demand in other parts of East and South Asia for Japan's exports.

A different perspective on these developments is obtained by relating the current account imbalances to the countries' respective GDPs in order to compensate for the effects of inflation on the absolute values of the imbalances. Thus, in relation to GDP, the current account deficit of the United States decreased from 1.7 per cent in 1990 to close to zero in 1991, while the German surplus in 1990, equivalent to about 3 per cent of GDP, turned into a deficit on the order of 1½ per cent in 1991. After four years of decline, Japan's current account surplus rose from 1.2 per cent of GDP in 1990 to 2.1 per cent in 1991 - a figure less than half its previous peak of 4.3 per cent in 1986.

Highly indebted countries

Merchandise exports from the group of 15 highly indebted countries decreased in 1991 for the first time in five years, while import growth remained well above the world average. The trade performances of the individual countries varied considerably.

After increasing by nearly 13 per cent in 1990, the value of merchandise exports from the fifteen highly indebted countries decreased last year for the first time since 1986. Import growth also slowed somewhat last year, but the figure of about 10 per cent remained well above the world average. For the first time in a decade, the value of imports into the 15 countries surpassed its 1981 peak. For the group as a whole, the trade surplus declined by nearly two-thirds, from $29 billion in 1990 to about $10 billion in 1991 (fob cif).

Outlook uncertain

The failure of the predicted pick-up in economic growth to occur last year has increased uncertainty and dampened growth prospects for 1992. It seems reasonable to expect at best a modestly faster growth of world trade this year.

In the first part of 1991, a pick-up in world economic activity was widely predicted, with a recovery from recession in the United States in the second half of the year expected to lead the way. As 1991 progressed, however, it appeared not only that the anticipated recovery in the United States was not taking place, but that the economic slowdowns in Western Europe and Japan were sharper than had been anticipated. It also became apparent that the disruption of production and trade in the region of Central and Eastern Europe and the former USSR, associated with the transformation to market-oriented economies, was turning out to be more serious than had been expected.

The result was a series of downward revisions throughout the second half of the year in forecasts for economic growth in 1991 and 1992. More recent reports have raised the prospect that economic growth in Germany and Japan may turn out to be weaker in 1992 than was forecast just a few months ago. Against this background, and keeping in mind the uncertainty created by the extent of the recent revisions in the forecasts, it seems reasonable to expect at best a modest pick-up in trade growth this year, to around four per cent in volume terms.

March Council

Mexico and the United States close to resolving tuna dispute

At the Council meeting on 18 March, Mexico and the United States outlined a possible agreement for resolving their dispute on a US import ban, taken to limit the killing of dolphins, of yellowfin tuna from Mexico. A number of delegations welcomed the announcement but, nonetheless, urged the adoption of a panel report that had ruled against the US measure.

The European Community, which had asked for the tuna panel report to be placed on the Council's agenda, said that the debate at the previous meeting on the report was useful but inconclusive (see previous Focus). It emphasized that it continued to be affected by the United States' secondary import ban on tuna, and urged the Council to adopt the panel report. In requesting Mexico and the United States to give details of their bilateral consultations regarding the report, the Community informed the Council that it had itself asked the United States for consultations on the US measure.

Mexico said that while it had been consulting with the United States on a solution to the dispute at a bilateral level, the results would have a multilateral aspect. This solution included a dolphin protection scheme which would, as from 1994, establish a five-year moratorium on purse seine net fishing of yellowfin tuna. In conjunction, legislative changes would be undertaken on US laws used as the basis for the tuna import ban.

The United States noted that this was the first time a GATT member not party to a dispute had called for the adoption of a panel report by placing it on the Council's agenda. It said that a panel report served only to define the GATT obligations of the parties to the dispute, and that the overall purpose of the GATT dispute-settlement mechanism was to resolve differences through mutual agreement. The US Administration, in seeking new legislation to resolve the dispute, had told the US Congress that its approach was based on international cooperation rather than coercive trade measures. "That would be good for dolphins, good for the United States' foreign relations and obviously would reduce trade tensions," it concluded.

A number of delegations supported the adoption of the tuna panel report, advancing two arguments in favour of this action: first, the importance of the panel's conclusions with respect to the current GATT examination of the linkage between trade and environmental measures; and second, the need to address the interests of other GATT members affected by the US measures on tuna imports.

The Council agreed to revert to this matter at the next meeting on 30 April.

Panel report on m.f.n. treatment of footwear

The Council considered for the second time a panel report that found United States' countervailing-duty treatment of Brazilian non-rubber footwear inconsistent with GATT m.f.n. provisions. Brazil urged the adoption of report, stressing that its exporters were losing $1 million a month because of the US measure. It invited the United States to consultations on the action to be taken in the light of the panel's findings.

The United States assured Brazil that it
would work to find a mutually acceptable solution to the dispute. However, it said the issues involved were complicated, and furthermore, the case was under litigation in US courts. It requested deferring consideration of the report to the next Council meeting, adding that the countervailing duty in question no longer applied to prospective Brazilian imports.

Panel established on EC sanctions on Yugoslavia

Reporting that recent consultations with the European Community had not resolved the matter, Yugoslavia requested establishment of a panel to examine its complaint against EC trade sanctions imposed in late 1991 (see previous Focus). It maintained that the lifting of the EC sanctions could only help the peace process now underway in Yugoslavia.

The EC emphasized that the measures in question were aimed at encouraging a peaceful solution to problems in Yugoslavia. At the same time, it recognized the importance of the GATT dispute-settlement system and would not block the establishment of a panel. However, it stressed that the establishment of a panel did not imply that it should begin work immediately. It also needed time to reflect on the terms of reference for the panel, as the case involved trade measures taken for non-economic reasons.

The Council Chairman, Ambassador B.K. Zutshi (India), noted that on the basis of the streamlined dispute-settlement mechanism established in 1989, a panel should be established by the Council on the second consideration of the panel request unless it decided otherwise. The Council then agreed to establish a panel to examine Yugoslavia’s complaint, and authorized the Chairman to designate the chairman and members of the panel in consultations with the parties concerned.

Free-trade agreements

The Council decided that the Chairman would hold consultations on how GATT could efficiently examine a number of recent free trade agreements. It agreed to resume consideration of two such agreements at the next meeting:

- Turkey and the EFTA contracting parties (Finland, Iceland, Norway, Sweden and Switzerland) announced they have signed a free trade agreement which would enter into force on 1 April 1992.
- The European Community reported (under “Other Business”) that interim agreements with the Czech and Slovak Federal Republic, Hungary and Poland - aimed at gradually establishing free trade areas - came into force on 1 March 1992. These trade agreements were part of the so-called “European Agreements” signed in Brussels in December 1991, which established an association between the EC and its member states and each of the three countries.

US agricultural waiver

The United States presented its 33rd and 34th annual reports, covering the periods October 1989-September 1990 and October 1990-November 1991, respectively, on restrictions on agricultural products covered by a GATT waiver granted in 1955. It reported that most import restrictions covered by the waiver continued in effect without change.

Unlike on previous occasions, the Council did not establish a working party to examine the US reports because of the ongoing Uruguay Round negotiations. A number of delegations emphasized that they expected the Round results to include the lifting of the US waiver.

Arrangement on auto parts

Under “Other Business”, Australia expressed concern over official statements by Japan and the United States endorsing arrangements to greatly increase Japan’s purchase of US auto parts by 1995. It said these arrangements had the potential to discriminate against other automotive parts suppliers.

Japan replied that on auto parts, there was no inter-governmental arrangement but undertakings “made voluntarily by Japanese automobile manufacturers.” It added that government measures on automobiles such as tax incentives to promote imports were being applied on an m.f.n. basis.

Trade Policy Review Mechanism

The Council completed an intensive round of reviews under the Trade Policy Review Mechanism (TPRM) last month with a comprehensive examination of the trade regimes of Finland (2-3 March), Argentina (4-5 March), Ghana (9-10 March), the United States (11-12 March), Austria (23-24 March) and Singapore (25-26 March).

Under the TPRM, the Council examines, at periodic special meetings, the impact of each GATT member’s trade policies and practices on the multilateral trading system. The four largest trading entities (the European Community counting as one), in terms of market share, are subject to review every two years, the next sixteen countries every four years, and other GATT members every six years with some flexibility in the case of the least-developed countries.

At the next round of TPRM reviews in June and July, the Council will examine the trade policies of Bangladesh, Canada, Uruguay, Egypt and Korea.

The following are excerpts from the Chairman’s summaries of the Council discussions on the trade policies of Finland and Argentina. Reports on the other countries will appear in the next Focus. The full TPRM reports for each of these countries will be published later by the Secretariat.

FINLAND

Council members appreciated that Finland, in face of a severe recession and the collapse of trade with a major trading partner (the Commonwealth of Independent States), had not resorted to trade-restrictive measures in addressing these difficulties.

They commended Finland for its commitment to the fundamental principles of the multilateral trading system. The fact that GATT was part of Finland’s domestic law, together with its adherence to all but one of the MTN Agreements and its active participation in the Uruguay Round, provided evidence of this commitment.
Attention was called to Finland's high share of preferential trade. While 90% of Finland's overall imports entered duty-free, only 30% entered duty-free on an m.f.n. basis. The recent conclusion of negotiations on the EEA brought an acknowledgement of its intention to seek EC membership and its bilateral trade arrangements with central and eastern European economies were likely to increase this share. While some members saw closer regional integration as a contribution to solving Finland's economic difficulties, others emphasised that participation in regional agreements should contribute to furthering the aims of the multilateral trading system.

Some members noted that Finland's participation in regional agreements had led to a diversion of trade from other sources. This seemed particularly apparent in products of interest to developing countries, such as textiles, clothing, footwear and some agricultural products, which entered duty-free from regional partners while subject to tariff peaks and escalation in the m.f.n. schedule. Moreover, Finland's GSP scheme provided limited coverage for these products and extended only partial duty reductions.

Low industrial tariffs

Participants recognized that Finland's trade policy in relation to industrial products was generally liberal and that its trade regime in this area was broadly transparent, stable and predictable. The average m.f.n. tariff was low and few industrial products were subject to import licensing. Finland had not resorted to countervailing measures, and had used other temporary measures such as anti-dumping and safeguards sparingly. The proposed elimination of the import equalization tax was welcomed as a further step in the lowering of trade barriers.

From being mainly an exporter of primary products, Finland had developed a strong comparative advantage in sophisticated resource-based and engineering goods. As a small, open economy, highly dependent on trade, Finland pursued an export-led growth strategy. However, over the last few years, Finland's international competitiveness had been adversely affected by factors such as the structure of the labour force, the cost of agricultural policies and the increasingly competitive structure of the Finnish economy. Questions were asked regarding the macroeconomic and trade policy measures that Finland would use to improve its competitive position. In this connection, some members wondered whether a fixed nominal link to the European Currency Unit was appropriate, while others saw this as an important element of macroeconomic management.

Finland's policy regarding agricultural trade was fundamentally different from that towards industry. The farm sector was highly protected by a variety of tariff, non-tariff, and State-trading measures designed to ensure food security. As a result, Finland had the highest food prices in Europe, and the food processing industry was protected by domestic price mechanisms. Subsidized exports of several products contributed to the disruption of world markets. Information was sought on the budgetary burden of farm support. Members queried the strong emphasis on food security considerations, given Finland's present-day situation, and asked what policy recommendations had emerged from the "Agriculture 2000" Committee. It was noted, in this connection, that environmental objectives could also be served by a rationalization of agricultural policy. A successful conclusion to the Uruguay Round would encourage this.

Finland's response

In response, the representative of Finland said that many of the concerns of participants, including those not covered by the existing review process, would be addressed in the context of the Uruguay Round. He did not believe that regional free-trade agreements lowered Finland's commitment to the Multilateral Trading System. Regional agreements also furthered the expansion of trade and Article XXIV was an integral part of the GATT. As a small country, Finland was very much dependent on the multilateral framework for trade.

The effect of the EEA on Finnish trade remained to be seen. Rules of competition would be harmonized, eliminating anti-dumping measures. Furthermore, Finland was planning to adopt more restrictive legislation on competition, compatible with EC rules.

The m.f.n. principle would be applied to Finland's new bilateral agreement with the CIS. Article XXIV of GATT would apply to agreements with other central and eastern European countries, including the Baltic States. Barter trade at the enterprise level took place, although neither pursued nor promoted by the Government.

Finland's agricultural policy would be affected both by the Uruguay Round and its EC membership. The level of market price support would fall and production levels could also be expected to decline. However, supply controls would still play an important role. Finland was increasingly of the view that tariff protection should be the principal supporting measure at the border. Environmental considerations, including the maintenance of population in rural areas, were also of significance to Finland.

Tariff peaks and tariff escalation were being addressed in Finland's Uruguay Round offers. Anti-dumping procedures would be eliminated within the EEA to the extent that common rules of competition would apply. Finland had always applied safeguards in conformity with Article XIX.

In principle, protection on textiles through tariffs was still necessary. Quantitative restrictions were used sparingly, and only on the highly sensitive products. Finland had already announced that it would extend its GSP scheme to the year 2002 and had notified this to GATT. The coverage of GSP had also been extended. He also indicated that trade with developing countries had recently increased, in part because of the need to find new export opportunities.

Conclusions

The Council welcomed the frank exposition of Finland's trade policy. It recognized the considerable economic difficulties currently faced by Finland, and welcomed Finland's commitment not to use trade measures in addressing the present recession. Noting the major share of Finland's trade conducted under preferential agreements, the Council stressed the need for Finland's participation in the European Economic Area and its future membership of the European Communities to contribute positively to the development of the multilateral trading system.

Concern was expressed about the conditions of trade available to third countries, in particular developing countries, in sensitive areas. In this context, the reduction of tariff peaks and escalation was necessary. It was recognized that Finland's offer in the Uruguay Round should contribute to this process and that significant improvements were being made in Finland's GSP scheme. Finland's trade policies in the industrial field were recognized as generally liberal. Regarding agriculture, the Council called attention to the high costs and economic distortions caused by Finland's policies in the area, and urged Finland to utilize the opportunities presented by the Uruguay Round and its planned accession to the EC to rationalize its protective structure.

ARGENTINA

All participants complimented Argentina on the extensive and rapid reform programme underway. Under this programme, Argentina was being transformed from a highly protected and regulated economy into one of the most open in the world. In the last few years, quantitative restrictions had been virtually eliminated, a series of tariff reductions made and export taxes removed. Argentina's extensive privatization programme and the deregulation of the internal market were also central to the reform process. A number of participants felt that other countries could benefit from Argentina's experience.

Under the Government's current economic programme, inflation had been brought to very low levels, growth in output and employment resumed and there was increasing confidence in the economy by consumers and investors. A number of participants expressed interest in Argentina's views on the linkage between and sequencing of macroeconomic and trade reforms. Some participants raised questions about progress in formulating Argentina's new proposed Trade Law; in particular, about procedures under consideration for the handling of anti-dumping or countervailing matters.

A number of participants emphasized that
the opening of Argentina’s market required the support of an open international environment. They noted that Argentina’s efforts had not been matched by some of its trading partners, whose agricultural support policies in particular were creating barriers to Argentina’s exports and contributing to the decline in commodity prices. They stressed the responsibility of the international trading community to support Argentina’s reforms and help Argentina realise the benefits of its restructuring.

Participants commended Argentina for its strong commitment to the fundamental principles of the multilateral trading system. Its active participation in the Uruguay Round, particularly in the areas of agriculture, TRIPS, TRIMS, services and dispute settlement, provided evidence of this commitment. Its offer to bind its entire tariff was well received, although it was noted that the proposed binding level of 35% was well above the average applied level. Argentina had adhered to a number of the MTN Agreements; some participants encouraged Argentina to join remaining Agreements.

Attention was called to the increasing intra-regional orientation of Argentina’s trade. In this context, questions were raised about the relationship of the Latin American Integration Association (LAIA) to MERCOSUR, the new common market formed by Argentina, Brazil, Paraguay and Uruguay. Some delegations encouraged the participants in MERCOSUR to notify it under GATT Article XXIV. The hope was expressed that MERCOSUR would be an outward-oriented arrangement which would complement Argentina’s own liberalization.

A number of participants raised questions concerning Argentina’s exchange rate policy. While it was recognized that this policy had contributed to stabilizing the economy, some members questioned whether a fixed nominal link to the United States’ dollar was sustainable in relation to Argentina’s longer-run international competitiveness.

Participants recognized that Argentina’s trade policy in relation to agricultural products was generally open. Argentina being a major agricultural exporter. Few items were still covered by export restrictions, which had been an area of concern in the past. A successful conclusion to the Uruguay Round would assist the re-structuring of Argentine agriculture and help the sector to make a greater contribution to the solution of Argentina’s macro-economic and debt problems.

By contrast, Argentina’s manufacturing sector had, in the past, been developed largely on an import substitution model behind a variety of tariff and non-tariff barriers. Industrial and regional support measures had been used extensively in support of this policy. Most of these measures had now been eliminated and others suspended pending review, as the new outward-oriented strategy was being implemented. Some sectors, such as automobiles, appeared still to benefit from special measures, including local content and export performance requirements, but it was understood that these programmes were being re-examined in the light of MERCOSUR.

Argentina’s response

In response, the representative of Argentina said that the objectives of its economic and monetary policies were to reduce inflation and interest rates, maintain stable exchange rates, minimize the public deficit and debt. The reforms undertaken in 1991 sought to achieve these objectives. Competitiveness would need to be achieved by increasing productivity. Public credibility, which was necessary for the continuation of the reform process, had been demonstrated by the results of the recent elections.

In connection with questions raised concerning the fixing of the exchange rate to the US dollar, reserves were growing and there were no pressures on the exchange rate. The dollar basis reflected the orientation of Argentina’s foreign trade. A fixed rate was seen as one measure to control inflation.

A permanent consultation mechanism with the private sector formed part of the follow-up plans formulated by the Ministry of Economy. Sectoral and regional support had been eliminated with the exception of the special tax and tariff régime for Tierra del Fuego, which was also under review. Automobiles were not excluded from the general liberalization programme. Automobile protection would shift to a tariff only system by 1 January 2000, allowing time for adjustment in the sector. This commitment had been included in Argentina’s Uruguay Round offer.

MERCOSUR had been notified to GATT under the Enabling Clause. It was considered to be an Economic Complementarity Agreement under the provisions of LAIA. Regional free-trade agreements did not lower Argentina’s commitment to the multilateral trading system. Regional agreements also furthered the expansion of trade and Article XXIV was an integral part of the GATT. As a small country, Argentina was very much dependent on the multilateral framework for trade. The effect of MERCOSUR on Argentine trade remained to be seen.

Argentina’s privatization programme was continuing with the aim of transferring to efficient operators in the private sector all those areas which were not required to fulfill specific objectives of the public sector. With regard to hydrocarbons, the process of privatization was accompanied by deregulation of prices.

The outcome of the Uruguay Round was critical for Argentina particularly in the fields of agriculture, tropical products and textiles. Without the opening of international markets, Argentina’s programme would lose much of its effect. Between 1970 and 1989, Argentina had lost, in agricultural exports, the equivalent of virtually all its foreign debt as a result of protectionist policies by its trading partners.

Conclusions

The Council strongly commended Argentina for the considerable progress it had made in the transformation of its economy and the deregulation of its market, in the face of considerable economic difficulties. Argentina had been transformed from a highly protected régime to one of the most open economies. Its trading partners had a major responsibility to support this process by trade liberalization in areas of interest to Argentina.

The Council expressed the hope that regional arrangements to which Argentina was a party would be sufficiently open to contribute positively to the development of the multilateral trading system. Argentina’s positive rôle in the Uruguay Round and the importance of the Round in supporting Argentina’s trade reforms was widely recognised.
Uruguay Round (Continued from page 1)

commitments in services were as important for the successful conclusion of the Round as the Draft Final Act itself.

One of the obstacles confronting the Round, the Chairman said, was the way some participants were finding it difficult to provide agricultural offers based on tariffication across the board, as called for in the Draft Final Act. “For these participants, it means that they will either have to modify their offers to bring them into conformity with the approach contained in the Draft Final Act or to convince their trading partners to revisit the relevant concepts in the Draft Final Act itself,” he said.

Regarding the services negotiations, he observed that the major hurdle was apparently the trade-off being sought between m.f.n. exemptions - in particular the scope and nature of one major participant’s intended exemptions - and initial commitment offers being made.

Mr. Dunkel concluded that given the current situation, there was “no evidence that work under track four (reopening the Draft Final Act) would be meaningful in carrying the work under tracks one, two and three to fruition - to the contrary, opening track four would bring us back to where we were before December.”

The following are summaries of the reports of the chairman of the three Groups:

Market Access

It was envisaged under the negotiating process on market access that each participant would submit, by 31 March 1992, final line-by-line schedules of concessions and commitments for all products, together with supporting data required by the Draft Final Act in respect of agriculture.

Mr. Germain Denis, Chairman of the Negotiating Group on Market Access, reported that the GATT Secretariat had received 37 submissions and 14 participants intended to table submissions shortly. However, some major participants had only provided qualitative assessments, not line-by-line Schedules on industrial goods, pending the completion of their bilateral negotiations.

On agricultural products, 23 participants had tabled draft Schedules - however, “there have been a number of deviations from the Draft Final Act on certain specific issues, and also some departures of a more fundamental nature.”

Nevertheless, “there remain good prospects for a substantial and broad-based package of trade liberalization results.” For instance, many participants had confirmed their expectation of being able to meet, and in some instances to significantly exceed, an overall one-third reduction of tariffs. Many developing countries were negotiating important liberalization commitments, including tariff bindings at meaningful rates and the reduction and elimination of non-tariff measures. Also a number of developing countries had offered to bind their whole tariff across the board at ceiling rates.

According to the report, a number of developments would need to take place soon for the successful conclusion of the market-access negotiations. These included a political breakthrough in the major bilateral negotiations on both agricultural and non-agricultural products, such as to allow commensurate multilateral progress.

Trade in Services

The Group’s work programme had provided for three rounds of bilateral negotiations on initial commitments for liberalizing trade in services, and that the final schedules and lists of m.f.n. exemptions were to be agreed among participants and submitted to the Secretariat by 31 March.

The Chairman of the Group, Ambassador Felipe Jaramillo, reported that offers on initial commitments had now been tabled by 47 participants. In 24 cases, participants had revised offers. In addition, 32 draft lists of intentions with respect to m.f.n. exemptions had been presented to the Secretariat.

In the stocktaking carried out in March, while many participants considered that level of commitment contained in the offers had improved considerably, they also indicated that the scope and nature of the intended m.f.n. exemptions proposed by one major participant had called into question the structure of the General Agreement on Trade in Services (GATS) and risked undermining the overall level of commitments.

On the other hand, the participant had made clear that reducing m.f.n. exemptions would require others to improve their offers.

“It is clear that this situation has contributed to the lack of impetus and the standstill currently experienced,” according to Ambassador Jaramillo. “It is also clear that the lack of progress elsewhere in the Uruguay