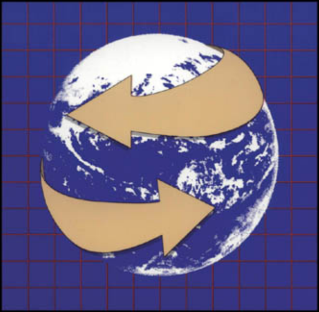
WORLD ECONOMIC AND FINANCIAL SURVEYS

Issues and Developments in International Trade Policy



Prepared by a Staff Team led by
Margaret Kelly and Anne Kenny McGuirk

INTERNATIONAL MONETARY FUND

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Contents

The following symbols have been used throughout this paper:

. . . to indicate that data are not available;

— to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;

– between years or months (e.g., 1990–91 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years (e.g., 1990/91) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The term "country" used in this study does not in all cases refer to a territorial entity that is a state as understood by international law and practice. The term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

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Preface

This study was prepared in the Trade and Payments Division of the Exchange and Trade Relations Department of the International Monetary Fund. Its authors are Margaret Kelly, Division Chief; Anne McGuirk, Deputy Division Chief; Peter Winglee, Senior Economist; Clemens Boonekamp, Senior Economist (Geneva Office); Yoon Je Cho and Bernhard Fritz-Krockow, Economists; and Peter Uimonen, Research Assistant.

To obtain information and collect views for this paper, staff teams held discussions with trade and economics officials in Bonn, Brussels (the Commission of the European Communities), Canberra, London, Ottawa, Paris, Seoul, Tokyo, Washington, and Wellington. In addition, a staff team visited Geneva and Paris for discussions with GATT and OECD officials. Staff members of the Western Hemisphere Department participated in the discussions held in Ottawa and Washington. Staff members of the European Department participated in the discussions in Brussels, Canberra, Paris, and Wellington, and staff members of the Asian Department participated in the discussions in Seoul and Tokyo. While in Europe, the staff team was assisted by the Fund Office in Europe and the Fund Office in Geneva.

The study reviews major issues and developments in the trade area and outlines the challenges governments face as they seek to liberalize trade in the Uruguay Round of trade negotiations and address "new" trade issues. The coverage of the study is through October 1991 and, as a result, does not reflect subsequent developments, most notably in Eastern Europe and the former Soviet Union. It follows the pattern of the Fund staff surveys prepared in 1978, 1981, 1982, 1985, and 1988.[1]

The authors are indebted to a number of colleagues, both in the Fund and in other national and international agencies, for their willingness to exchange views and provide information. The authors are grateful to Joslin Landell-Mills for her assistance in preparing the study from a longer manuscript; to the editor Juanita Roushdy of the External Relations Department; to Christine Hörbinger for research assistance, and to Marcela Toso and Elizabeth Mack for keyboarding. The authors alone are responsible for the study; any opinions expressed are theirs and do not necessarily reflect the views of the Fund.

[1] International Monetary Fund, *The Rise in Protectionism*, IMF Pamphlet Series, No. 24 (Washington, 1978); *Trade Policy Developments in Industrial Countries*, IMF Occasional Paper, No. 5 (Washington, July 1981); *Developments in International Trade Policy*, IMF Occasional Paper, No. 16 (Washington, second printing, 1983); *Trade Policy Issues and Developments*, IMF Occasional Paper, No. 38 (Washington, July 1985). See also Selected References at the end of the paper; and *Issues and Developments in International Trade Policy*, IMF Occasional Paper, No. 63 (Washington, December 1988).

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I

Overview

This paper reviews recent developments and issues in trade and trade-related policies of the industrial, Eastern European, and developing countries, focusing primarily on the period since the most recent occasional paper prepared in 1988.[1] The paper is organized as follows. Section I reviews the international economic environment and describes briefly the recent developments in trade policy. Section II describes recent trade trends in industrial and developing countries against which developments in trade policies are analyzed. Sections III, IV, and V review developments and issues in trade policy for the industrial, Eastern European, and developing countries, respectively. Section VI provides more detailed coverage of trade-related policies in the agricultural sector and surveys the empirical evidence on the costs of protection and the possible effects of trade liberalization in this sector. Section VII provides an overview of the issues that will be central to the trade policy discussions of the 1990s. Appendix I reviews activities of the General Agreement on Tariffs and Trade (GATT). Appendix II surveys the relationship between trade and competition policies. Appendix III discusses some of the methodological issues involved in measuring the incidence and effects of nontariff barriers, looks at estimates of the costs of protection in selected industrial sectors affected by nontariff barriers, and compares the results of researchers' efforts to estimate the possible gains from multilateral trade liberalization.

Major Developments in Trade and Trade-Related Policies

Background to Developments

Following the 1981–82 recession, the 1980s witnessed a sustained expansion of output and trade and a further integration of the world economy. The decade was marked by a renewed focus on market principles as the means of achieving greater efficiency in resource use and higher economic growth. In industrial countries, the reorientation of policies was most apparent in steps taken to liberalize financial markets and foreign direct investment, privatize public enterprises, and deregulate services, particularly in the transportation and communication sectors. Among developing countries, a growing number recognized the merits of outward, market-oriented policies and took steps to liberalize their trade regimes and open their economies to international competition. There was also a renewed interest in regional integration as a spur to efficiency and an assurance of market access in a more competitive and uncertain world trading environment. These developments and the globalization of business strategies were reflected in a rapid expansion of foreign direct investment and a growing importance of services in international commerce.

By and large, the increased focus on market principles in industrial countries did not carry over to trade and industrial policies nor, most notable, to the agricultural sector. Despite strong growth performance in 1983–89, little progress was made in rolling back the protective barriers that had risen during the preceding recessionary period; protection persists in agriculture and declining sectors and has spread to newer "high-tech" areas (aerospace, electronics, biotechnology). In general, the western industrial countries have been slow to adjust to the fundamental changes in the structure of world production and trade, including the shift in comparative advantage toward developing countries in mature industries.

Against this background, developments in the multilateral trade system are a cause for concern. The Uruguay Round of trade negotiations was not concluded on schedule, owing in significant part to differences over the liberalization of agriculture. The extension of the Round, though essential to its successful conclusion, continues to postpone important reforms that would strengthen the multilateral trade system. In this uncertain trade environment, countries are tending increasingly to address their concerns in the context of bilateral and regional trade arrangements.

[1]See M. Kelly and others (1988). In this report, the definition of industrial countries, major industrial countries, and Eastern European countries conforms to that used in International Monetary Fund (1991a).

Industrial Countries

Since the Uruguay Round began in 1986, protectionist pressure has persisted despite the expansion of output and trade in the industrial countries. While restraint has been exercised during the trade negotiations, liberalizing measures have been limited, and the evidence suggests that little, if any, overall reduction in protection in industrial countries has occurred since the beginning of the Round, particularly with respect to exports from developing countries. A few countries have liberalized unilaterally on a most-favored-nation (MFN) basis, mainly in conjunction with a reorientation of domestic policies, but most other trade liberalization has been undertaken on a preferential basis in the context of regional, bilateral, or sectoral initiatives. Progress in addressing long-standing problems in agriculture and declining industries, such as textiles, clothing, steel, and shipbuilding, is linked to negotiations under way in multilateral forums; most countries have delayed liberalizing action pending the outcome of these negotiations.

Trade tensions remain high. Major sources of friction are the competitive subsidization of agriculture and industry, including through export credits. In agriculture, this has increased agricultural surpluses, depressed commodity prices on world markets, and weakened export prospects for efficient producers, some of whom are heavily indebted developing countries. In the second half of the 1980s, there was an unprecedented number of GATT disputes, many of which dealt with trade in agriculture (Appendix I). Other areas frequently contested relate to the use of subsidies (the Airbus controversy), where GATT rules are vague; antidumping practices (anticircumvention legislation); and rules of origin (European Community (EC) and U.S.-Canada Free Trade Agreement). A number of GATT panel decisions have not been implemented, and trade disputes are frequently settled bilaterally (the U.S.-Japan semiconductor agreement, EC-Japan automobile agreement, U.S.-Japan Structural Impediments Initiative) or unilaterally (the U.S. Export Enhancement Program, Section 301 of the 1974 U.S. Trade Act, as amended).

Industry

During the 1980s, industrial countries resorted increasingly to nontariff measures to protect trade-sensitive industries from foreign competition. The percentage of manufactured products affected by nontariff measures is estimated to have risen from 14 percent in 1981 to nearly 19 percent in 1990 and reflects primarily the increased reliance on voluntary export restraints (VERs) and antidumping and countervailing actions.[2] The EC and the United States made the most frequent use of VERs to protect steel, textiles, automobiles, machine tools, and electronics. In addition to these, the coverage of the Multifiber Arrangement (MFA) has been progressively broadened since it replaced earlier arrangements in 1974 and, in July 1991, the MFA was extended without change through 1992 because of the delay in concluding the Uruguay Round.[3] A substantial proportion of nontariff measures have been directed against Japan and the dynamic Asian economies.[4]

On the positive side, protectionist measures are being recognized as inefficient and costly. Apart from the Uruguay Round, multilateral efforts are progressing toward making steel and shipbuilding subject to stricter international rules on subsidies and gray-area measures.[5] Domestic policies have been reoriented during the 1980s to strengthen market mechanisms and to achieve greater flexibility in output and factor markets.[6] Trends toward rising subsidies have been contained and cut back in some countries (most notably in the United Kingdom and New Zealand), in part owing to budget constraints and, in the EC, to the closer scrutiny of state aids under EC competition policy, and government assistance is becoming less sector-specific. There is little evidence, however, that overall assistance to industry has declined with the shift in government support to more broadly based programs, such as research and development funding, support for small and medium-sized enterprises, and regional assistance. Moreover, increased reliance on nontariff measures suggests that these measures are being used to "assist" industries.

Since the mid-1980s, Australia, New Zealand, and, to a lesser extent, Japan, Canada, and Sweden have liberalized unilaterally, thereby reducing the need to resort to quantitative restrictions and other

[2]United Nations Conference on Trade and Development (UNCTAD) (1991), and UNCTAD Data Base on Trade Control Measures.

[3]Sweden unilaterally removed import restrictions on textiles at the end of July, making it the only participating country that did not adhere to the extension of the MFA.

[4]This group comprises Hong Kong, Korea, Malaysia, Singapore, Taiwan Province of China, and Thailand.

[5]The liberalization of steel is proceeding in multilateral negotiations under the U.S. Steel Liberalization Program, which aims to eliminate tariff and nontariff barriers and prohibit most subsidies; an agreement that would phase out subsidies to shipbuilding and repair is being negotiated in the OECD Council Working Party on Shipbuilding. "Gray-area" measures, such as voluntary export restraints, are those taken outside GATT surveillance and whose consistency with GATT rules has not been tested.

[6]For a comprehensive review of structural policies in industrial countries see International Monetary Fund (1989).

nontariff measures and lowering tariffs. In regional arrangements, trade barriers have been eliminated or progressively reduced between Australia and New Zealand, the United States and Canada, the United States and Israel, and within the EC. There has been some improvement in the access of developing countries to industrial country markets through preferential trade arrangements under the Generalized System of Preferences (GSP), the Caribbean Basin Initiative, and Lomé IV. Eastern European countries have benefitted from the dismantling of selected import restrictions against their exports, the extension of MFN treatment and GSP privileges in some cases, and the relaxation of export restrictions imposed by the Coordinating Committee on Multilateral Export Controls (COCOM), but their potential exports of manufactures still face important barriers in textiles, clothing, steel, and coal.

Agriculture

The major industrial countries have made little progress in reforming their costly, trade-distorting agricultural support policies. The level of agricultural support increased sharply in 1986, when the Uruguay Round was launched and has remained high since then. During 1988–89, the total value of agricultural support declined owing mainly to rising world prices. In 1990, however, world market prices fell, reflecting good harvests, and total transfers to farmers rose to about $300 billion, equivalent to 2 percent of the gross domestic product (GDP) of the countries of the Organization for Economic Cooperation and Development (OECD), compared with 1.8 percent of GDP in 1989.[7] In 1991, lower world prices are expected to continue, keeping support levels high, especially export subsidies. It is estimated that about 40 percent of support comes from government budgets; the remainder is paid by consumers through higher domestic prices maintained by trade barriers.[8]

Among the major industrial countries, the United States has been a strong proponent of agricultural reform in the context of the Uruguay Round and has taken an aggressive stance on domestic farm policy to pursue its objectives. Its 1990 Farm Bill reduced some of the production distortions resulting from farm programs, but it also removed the limit on the funding of the Export Enhancement Program (EEP) and included a "GATT trigger" that will further increase export subsidies if an agreement in the Uruguay Round is not reached by July 1992.[9] Export support policies have helped raise the U.S. share in world agricultural exports and to lower world market prices, putting pressure on the EC farm budget, but the gain in U.S. market share has been largely at the expense of unsubsidized third-country exporters.

In response to budget constraints and economic changes in Europe, the EC is crafting a program to reform the Common Agricultural Policy (CAP). Substantive negotiations on reform of the CAP will need to address the level and form of agricultural supports, the implications of the European Economic Area (EEA), market access, and environmental effects. The negative response by some EC member countries to the EC Commission's proposed reform plan, which would cut support prices significantly and introduce income supports with new set-aside rules favoring small farmers, suggests that negotiations could be protracted, with implications for the Uruguay Round. The EC views CAP reform as separate from the negotiations in the Round, but other countries believe that a fundamental change in the CAP, with the prospect of ongoing reforms, is essential to break the impasse in agriculture.

Japan has opened its market to imported beef, citrus products, and some minor agricultural products, but its agricultural sector remains highly protected. The level of agricultural support, though declining, is the highest among the major OECD countries. Unlike the case in other major trading countries, no discussion of fundamental agricultural reforms is under way in Japan, although some suggestions have been made that import access to a small share of the domestic rice market could be permitted.

Canada, Australia, and New Zealand are members of the Cairns Group, which has pressed for a substantial reduction in the most trade-distorting measures (import restrictions, domestic supports, and export subsidies).[10] Recently, Canada introduced major changes to its agricultural policies that will replace the ad hoc measures used to shelter Canadian producers from world price fluctuations

[7]OECD (1991).
[8]Ibid.

[9]U.S. agricultural policy is established in major farm bills, which are usually legislated every five years.
[10]The Cairns Group is a coalition of industrial and developing country agricultural exporters. It comprises Australia, Argentina, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay. In contrast to other members of the Cairns Group, Canada is also a major importer of agricultural products and has sought to strengthen the GATT provision (Article XI.2.c.) covering supply management programs, which Canada maintains for dairy and poultry products.

with a unified program of income protection. Australia and New Zealand now have the lowest support levels for agriculture of any of the OECD countries; however, their reforms have been undermined by low world prices stemming from other countries' agricultural support policies and by restrictions on market access.

Among the countries of the European Free Trade Association (EFTA), Sweden initiated, in July 1991, a three-year agricultural reform program to phase out agricultural price supports and export subsidies; these will be replaced by direct income supports during a transition period. A general reduction of border protection has been deferred, pending the outcome of the Uruguay Round.

Developing Countries

At the start of the 1980s, the trade regimes of many developing countries were highly restrictive following decades of import-substitution policies with a strong anti-export bias. Exceptions were the export-oriented Asian economies, whose largely price-based trade regimes promoted exports while restricting imports of "nonessential" consumer goods, and a few Latin American countries that had eliminated quantitative restrictions in the 1970s. During the 1980s, developing countries increasingly turned away from inward-looking trade and industrial policies and sought to participate more fully in world markets. This process accelerated toward the end of the decade when many countries in Latin America and Eastern Europe took major steps to open up their economies. The redirection of policies reflected the emerging consensus that countries following an outward-oriented, market-based development strategy had achieved relatively higher rates of growth and living standards, while countries with heavily regulated economies that were closed to foreign competition had fallen further behind.

While countries have implemented reforms in different ways depending on their circumstances, there are some observable regional patterns. The dynamic Asian economies, which did not have heavily restricted regimes in the early 1980s, further liberalized by gradually opening up import-competing sectors when domestic producers became more competitive internationally; some countries with sustained external surpluses also faced international pressure to liberalize. The outward-oriented growth strategy followed by these countries helped to ensure that external competitiveness was maintained and, in general, this was supported by fiscal discipline. Government intervention in the economy has varied among countries in this group. Most countries have supported indirectly productive capital, such as education and infrastructure. Some have also actively supported export industries (through subsidies, credit policies, duty exemptions schemes, informal guidance, and other means) with mixed results.[11]

In contrast to the dynamic Asian economies, many countries in Latin America and Eastern Europe that had followed import-substitution policies and inward-looking regional development strategies have liberalized their trade regimes more quickly and extensively in order to expose inefficient domestic industries to international competition. The opening of their economies is playing an important role in both stabilization and the reallocation of resources to more efficient uses. Most often, reforms have been implemented in the face of large external and domestic imbalances and in environments where the forces of competition had been suppressed through government intervention in the enterprise sector (Latin America) or through centrally planned economic systems (Eastern Europe).

During 1990–91, many Latin American countries simplified their tariff structures and lifted virtually all quantitative restrictions on trade; in recent accessions to GATT many of these countries locked in these reforms by binding their entire tariff schedules in the GATT. In Eastern Europe, all countries are now moving to transform their economies to market-based systems, and the liberalization of their trade and payments systems forms an integral part of this process. While some countries have advanced further in reforming their economies than others, in the area of trade policy all have abolished the state monopoly of foreign trade, lifted most quantitative restrictions, and now rely mainly on low import tariffs for protection.

Moves to liberalize trade have been less extensive in Africa and South Asia, where many countries continue to maintain high levels of protection that impede their export growth and development. Nevertheless, dramatic changes have occurred in a number of African countries during the past five years. Important liberalizations (Côte d'Ivoire, The Gambia, Ghana, Kenya, Zaïre) have virtually eliminated quantitative restrictions including the allocation of foreign exchange. In South Asia, Sri Lanka has maintained an open trade regime since the late 1970s and has continued to liberalize during the 1980s. Pakistan has taken steps to decontrol its trade regime, and India is beginning to liberalize its restrictive trade and business practices.

[11]See Australian Industry Commission (1990) for an assessment of pro-active industrial policies in Japan, Korea, Taiwan Province of China, Hong Kong, and Singapore.

Regional Developments and Initiatives

A striking feature of the 1980s was the renewed interest in regional integration and free trade areas among the major industrial countries.[12] The launching in 1985 of the Single European Market Program (EC 1992) and the difficulty of starting and concluding the Uruguay Round have frequently been mentioned as important factors behind the recent trend toward regionalism. The initiation of EC 1992 was followed by the negotiation of the U.S.-Canada Free Trade Agreement, which went into effect January 1, 1989. More recently, in June 1990, formal negotiations started between the EC and EFTA toward the creation of a European Economic Area (EEA) by 1993. Three EFTA members, Austria, Finland, and Sweden, have applied for EC membership, and the former German Democratic Republic became part of the EC as a consequence of German unification. The EC has also negotiated Association Agreements with several Eastern European countries (Czechoslovakia, Hungary, and Poland) that would involve preferential access to the EC market.

In the Western Hemisphere, U.S. President Bush announced the Enterprise for the Americas Initiative (EAI) in June 1990. In the area of trade, the aims for EAI are to complete the Uruguay Round and reduce barriers to trade and investment in the Western Hemisphere; ultimately, the EAI envisions a hemispheric free trade area. In April 1991, the governments of the United States, Canada, and Mexico launched tripartite negotiations for a North American Free Trade Area (NAFTA).

While formal regional arrangements have figured less prominently in Asia, during the 1980s intraregional trade grew at a faster pace in Asia than in the EC and North America. This reflected the rapid development of the dynamic Asian economies, as well as the increasing division of labor and capital in the region as Japan and, more recently, Korea and Taiwan Province of China have moved production facilities to lower-wage countries unaffected by VERs. Although the size of Japan's economy, its extensive network of foreign direct investment in Asia, and its prominent role as a provider of foreign aid have increased its economic interrelations in the region, Japan has avoided membership in any formal regional trade arrangement.

In response to these developments, there is renewed interest in reviving regional arrangements in Africa, the Asia-Pacific region, and Latin America, in part, for defensive reasons. The EEA and the NAFTA would create markets of nearly equivalent size; together they accounted for 65 percent of world imports and 47 percent of developing country exports in 1990; clearly, the stance of trade policies in these two regions is of vital interest to all nations.

The completion of EC 1992, the prospective enlargement of the EC, and the possible extension of trade preferences to Eastern European countries have all raised concerns among the EC's trade partners. The EC 1992 program calls for removal of internal barriers to trade. The net impact of this on nonmember countries is an empirical question that depends on whether the trade diversion owing to the reduction in costs and prices arising from the removal of trade barriers within the EC would be outweighed by the positive dynamic effects on economic activity and import growth. For example, UNCTAD estimates that the overall net effect of EC 1992 on exports from developing countries could be positive if the dynamic effects increase EC income by at least 5 percent, an estimate that is in line with the income effects estimated by the EC Commission.[13]

In the area of trade policy, EC 1992 calls for the elimination of national trade restrictions maintained under Article 115 of the Treaty of Rome, which mainly affect trade-sensitive nonagricultural imports (Japanese automobiles, motorbikes and mopeds, consumer electronics, footwear, textiles, and clothing). It is uncertain whether or not the implementation of the EC 1992 program will increase protection in these and other areas, for example, by converting national restrictions to EC-wide restrictions.[14] Another concern is that the enlargement of the EC will extend distortionary EC policies, particularly the CAP, to a wider group of countries and intensify distortions in world agricultural markets. These fears may be mitigated to some extent by the budgetary costs arising from the agricultural surpluses that would be involved in any expansion of CAP in its present form, and are a factor underlying the search for reforms of the CAP. Access to the EC market by third countries would also be impaired if trade preferences were extended to Eastern European countries in heavily protected areas, such as agriculture, steel, textiles, and clothing.

[12]See de la Torre and Kelly (1992).

[13]See UNCTAD (1990a), Chapter III.

[14]The recent agreement reached between the EC and Japan to convert national VERs on Japan's automobile exports to EC countries to an EC-wide monitoring arrangement, which will limit Japan's exports of automobiles to their current EC-wide level through the year 1999 and which includes projected increases in sales by "transplants," is a market-sharing arrangement of dubious legality under EC competition laws. While Japan and the EC have agreed to defend this arrangement in GATT, it is similar to other gray-area measures whose consistency with the GATT principle of nondiscrimination is questionable. The Community has announced that it will not request any such cooperative measures after the end of 1999.

The NAFTA and the prospects of a free trade area in the Western Hemisphere have raised questions concerning the greater scope for trade diversion in regional arrangements involving developed and developing countries, which generally have higher levels of protection. Asian countries, in particular, are concerned that the proximity of Mexico to the U.S. market, together with its lower wages and preferential access, could divert U.S. imports toward Mexico. The eventual reduction in barriers to trade in the heavily protected industries, such as footwear, textiles, and garments, would give Mexico significant advantages over third-country suppliers.

Apart from issues of access and trade diversion, another major concern is the potential distortionary effects of large regional blocs on investment. One of Mexico's primary aims in pursuing a free trade area with the United States is to attract foreign direct investment and the associated technology needed to foster development. Similarly, Canada's full participation in the NAFTA reflects in large part the concern that the hub-and-spoke model of regional integration with the United States at the center would seriously undermine Canada's ability to attract foreign investment.[15] At a more general level, uncertainty of access to outsiders conveys clear advantages to being inside a regional bloc, either as a member or through foreign investment that is a substitute for trade. This is apparent from the number of countries seeking entry into the EC and closer ties with the United States.

Developments in the Multilateral Trade System

The GATT provides the multilateral framework that governs international trade and the principal forum for multilateral trade negotiations (MTNs). Two key principles, nondiscrimination and transparency, underlying the GATT system have been severely challenged by the widespread use of selective nontariff measures; the exemption of important sectors (agriculture, textiles, and clothing) from GATT rules; the de facto management of major portions of trade in other sectors (steel, automobiles, electronics) through the use of gray-area measures and procedural protection; extended delays in adopting and implementing dispute panel findings; and the drift toward unilateral, bilateral, and regional initiatives to solve trade problems. These developments stem from weaknesses inherent in the GATT system (vague rules, multiple dispute settlement forums, weak enforcement mechanisms, cumbersome trade negotiations), the inadequate adjustment to changed economic conditions in both industrial and developing countries, and new issues arising from the evolution of the world trading environment (globalization of investment and production and the growing importance of trade in services).

The Uruguay Round, under way since 1986, is trying to address the erosion of GATT disciplines, the need to modernize the GATT, and ways to improve market access and the functioning of the GATT system. Countries differ little in their views on the importance of the Uruguay Round. At the London economic summit in July 1991, the heads of state and government of the seven major industrial countries and the representatives of the European Community concluded in their Economic Declaration that "[n]o issue has more far-reaching implications for the future prospects of the world economy than the successful conclusion of the Uruguay Round." They considered a successful Round "essential to encourage the integration of developing countries and Central and Eastern European nations into the multilateral trading system," and they committed themselves to "an ambitious, global and balanced package of results from the Round, with the widest possible participation by both developed and developing countries." To this end, progress was urgently needed in the areas of market access, agriculture, services, and intellectual property, "taken together."[16]

The evolution of the world trade system depends importantly on whether the commitments made in the Economic Declaration can be translated into concrete steps to conclude the Uruguay Round and preserve an open multilateral trade system based on clear, enforceable rules. Extending the Round postpones important reforms that would facilitate adjustment and increase market access and delays the full integration of Eastern Europe into the global trading system. Perhaps more important is that extension erodes confidence in the GATT system and encourages the trend toward regional trade arrangements, which holds risks for the multilateral system and could harm many developing countries excluded from trading blocs.

Beyond the Uruguay Round, the world trade system faces new challenges in the 1990s. The globalization of trade and investment, while a positive development, has increased the scope for conflicts between trade and domestic competition policies and raised questions concerning the appropriateness of traditional trade policy instruments and GATT rules. Conflicts are also increasing in "strategic" sectors as countries seek to maintain a competitive

[15] Wonnacott (1990).

[16] "Economic Declaration of the London Summit" (1991), p. 1128.

edge through "innovation" policies, which aim to assist firms in developing and adapting new technologies to commercial uses. These developments are confronting governments with the need to harmonize domestic competition, investment, and innovation policies.[17] Another growing concern is the use of trade policies to pursue nontrade objectives in areas such as the environment and workers' rights. Agreed guidelines would help to differentiate between legitimate social objectives and protectionist motives. These issues are under discussion in various forums, including the OECD and the United Nations Conference on Environment and Development, and they are likely to be on the agenda of future GATT rounds.

[17]Ostry (1990).

Overall Trends

Output, Trade, and Foreign Investment

The sustained recovery in economic growth following the 1981–82 recession was accompanied by a rapid expansion of trade (Chart 1) and a further integration of the world economy; for the 1980s as a whole, the growth of world trade exceeded output by 50 percent. Economic performance varied among the major groups of countries: Asia experienced the most rapid growth of output and exports since 1983, followed by North America, and Western Europe; the other developing countries fared less well. The Asian region also experienced the most rapid growth of intraregional trade in recent years (Table 1). The growth of output and trade slowed in 1990–91, in part reflecting the recession in North America and the United Kingdom; however, in contrast to 1981–82, demand pressures remained strong in Germany and Japan. Among the major industrial countries, a notable development was the rapid growth of U.S. export volumes after 1985 and the slower growth in Japan's export volumes, owing to exchange rate movements and shifts in relative cyclical positions (Table A1).

The postrecession period also witnessed a rapid expansion of foreign direct investment (FDI). Between 1983 and 1989, it is estimated that FDI flows expanded at an annual rate of nearly 30 percent, or three times faster than merchandise trade flows. FDI, which is highly cyclical, was boosted by the sustained economic expansion during this period as well as institutional and structural factors, including the deregulation and liberalization of financial markets, shifts in comparative advantage, technological advances in international communication and transportation, and efforts to circumvent protection in major world markets. The share of services in the outward stock of FDI increased significantly during the 1980s, reflecting the growing importance of trade in services, particularly financial, retail, and professional services, which often require the establishment of overseas facilities to conduct business.[18] Overall, the developing countries received a declining share of FDI flows, although investment in developing Asia, China, and Mexico grew substantially.

Table 1. Developments in Regional Trade Flows, 1980–89
(Average annual percentage change in value)

	1980–89	1989
North America with Asia	11.0	9.5
Western Europe with Asia	10.5	9.0
Central and Eastern Europe and the former U.S.S.R. with Asia	7.0	3.5
North America with Western Europe	6.5	7.0
Intra-Asia	10.0	10.5
Intra-North America	8.0	7.0
Intra-Western Europe	6.5	7.0

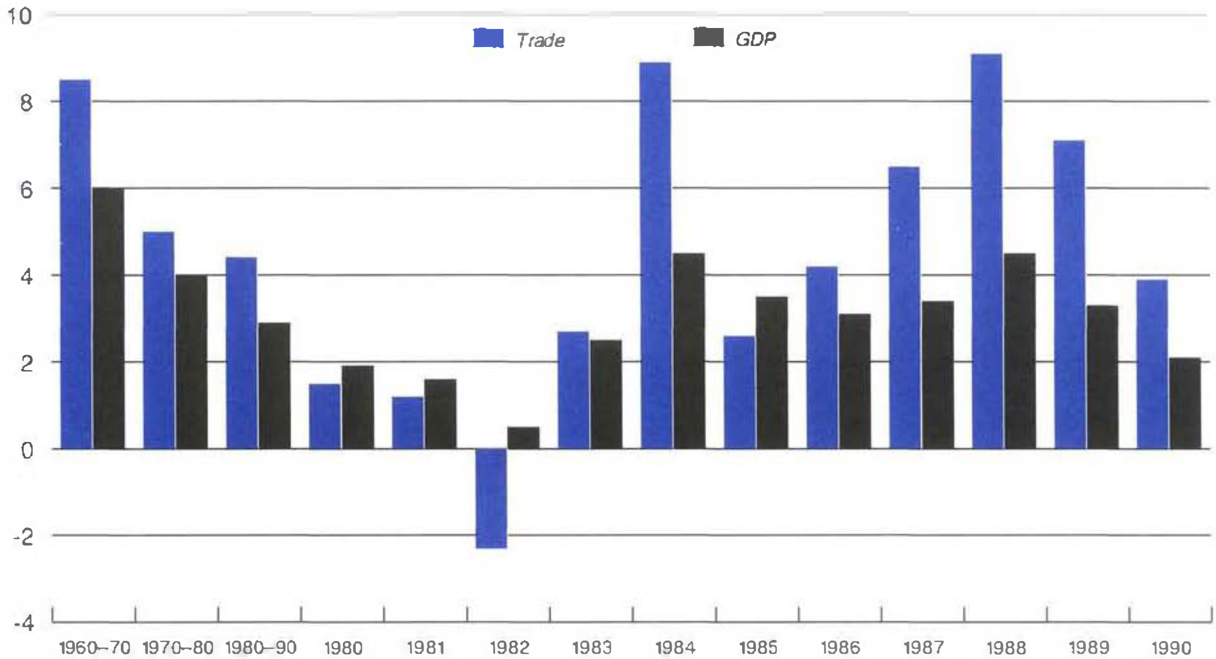
Source: General Agreement on Tariffs and Trade, *International Trade, 1989–90.*

Adjustment pressures in the industrial countries continued during the 1980s as the fast-growing Asian and other developing countries gained market shares in exports of manufactures (Table A2). The share of industrial countries in world trade in manufactures has declined steadily during the past two decades, reflecting longer-term shifts in comparative advantage. In traditional industries with standardized technologies, such as textiles and clothing, footwear, steel, auto parts, and consumer electronics, comparative advantage has shifted to lower-wage countries. The globalization of investment and production has facilitated the transfer of technology and industry to developing countries, a process that increases the trade and welfare gains from specialization provided that countries adapt to the ongoing structural changes in the world economy.

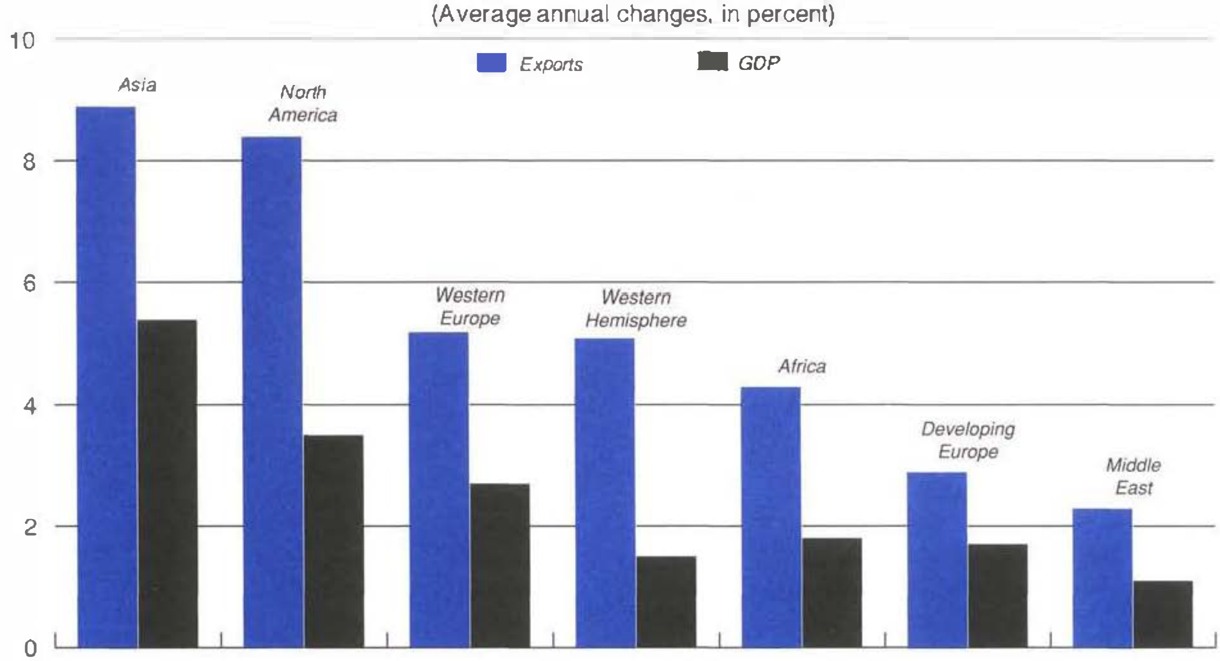
During the 1980s, these longer-term adjustment pressures were intensified by the global recession in 1981–82 and the large swings in exchange rates and external imbalances resulting in part from the stance of macroeconomic policies in major industrial countries. Progress in addressing macroeconomic imbalances has helped to alleviate pressures for protection, but trade friction remains high

[18]GATT (1990a), Vol. I, pp. 40–42 and 55.

Chart 1. Real Trade and GDP Growth, 1960–90
(Annual changes, in percent)



Real Export and GDP Growth in Selected Regions, 1983–90
(Average annual changes, in percent)



Sources: General Agreement on Tariffs and Trade; and International Monetary Fund, *World Economic Outlook*, various issues.

Table 2. Merchandise Trade
(In percent of GDP)

	1973	1988
Canada	39.6	47.5
United States	10.8	16.2
Japan	16.6	15.9
France	28.3	36.5
West Germany	33.3	47.7
Italy	31.0	32.1
United Kingdom	35.9	40.7

Source: General Agreement on Tariffs and Trade, *International Trade*, various issues.

among the industrial countries and, with slower growth in some of the major countries, pressures for protection have recently re-emerged in sectors with excess capacity, for example, the automobile sector.

To some extent trade friction is a natural outcome of the growing importance of the external sector in industrial country economies (Table 2) and the closer integration of their economies through trade and investment flows. The industrial countries remain both the largest source and destination of foreign direct investment. While greater economic interdependence conveys many benefits, the "spider's web" of cross-investments has intensified competition in domestic and third markets, created disputes in areas where GATT rules are nonexistent or unclear, and raised questions concerning the relevance of existing trade rules.[19] It has also increased awareness of the effects of domestic policies on trade, investment, and international competition. A notable example is the U.S.-Japan Structural Impediments Initiative, which seeks to address domestic policies that are considered impediments to external adjustment, market access, and competition.

Trade Trends in Developing Countries

For developing countries as a group the volume of trade increased significantly in the latter part of the 1980s. The growth of export volumes increased to an annual average of 6 percent in 1987–90, compared with 5 percent in 1983–86 and stagnant levels in the 1970s (Table 3). Excluding the developing countries in Europe, which include countries of Eastern Europe and the Commonwealth of Independent States, export volumes grew by over 8 percent in 1987–90, up from about 4 percent in 1983–86. The impact of liberalization measures and adjustment policies is likely to have made an important contribution to this turnaround. The rebound in import volumes was even more marked, changing from a decline in 1983–86 to an annual average growth rate of more than 6 percent in 1987–90. This compares with the real GDP growth of the developing countries of about 3 percent in 1987–90.

Regional developments in the growth of export volumes have varied significantly. Export volumes of African countries increased by an average of about 3 percent a year in the 1980s, compared with declines of about 2 percent annually in 1973–82, but the turnaround in export volume growth was much weaker for sub-Saharan Africa. In Western Hemisphere countries, export volumes have increased substantially since 1987, growing at an average rate of 7 percent as their far-reaching reforms have taken hold. The growth of exports from Asia since the start of the 1970s has been dramatic; up to 1988, the newly industrializing economies (NIEs)[20] have had very high growth rates of exports, but subsequently this growth has slowed and has been outpaced by the growth of exports from other open Southeast Asian countries. The only group that experienced an appreciable slowdown in export growth in the recent period was the developing countries of Europe, where trade has been disrupted by developments in the former U.S.S.R. and the transition away from regional trading arrangements.[21]

With respect to imports, Asian countries had the highest growth in imports in real terms among the developing regions, at 13 percent a year in 1987–90, reflecting their reliance on imported raw materials and components, the strong growth of domestic demand, and import liberalization measures. The growth rate of import volumes in Western Hemisphere countries has also increased, to 5 percent, as their economies have opened up and access to financial markets has improved. Continued economic problems in sub-Saharan Africa have resulted in little respite from the declining volume of imports. Imports of the developing countries in Europe grew steadily from the 1970s up to the end of the 1980s at 3–4 percent a year, but have fallen sharply in 1990–91.

[19]Bhagwati (1991) refers to the "spider's web" phenomenon. Appendix II examines the implications of the globalization of investment and production for existing trade rules. Appendix I on the GATT system discusses recent disputes concerning FDI and local content rules.

[20]Hong Kong, Korea, Singapore, and Taiwan Province of China.

[21]International Monetary Fund (1991b), Annex I.

Table 3. Developing Countries: Export Volumes, 1973–90
(In annual average percent changes)

	1973–82	1983–86	1987–90
Export volumes			
Total Developing Countries	0.2	4.7	5.7
Africa	−2.4	4.4	2.3
Asia	9.2	10.5	11.8
Europe[1]	4.3	5.1	−4.2
Middle East	−5.1	−1.1	5.4
Western Hemisphere	1.9	2.6	7.2
Subregions			
Sub-Saharan Africa	−1.0	1.7	1.0
Four Asian NIEs[2]	13.3	13.4	11.4
Import volumes			
Total Developing Countries	7.3	−0.5	6.5
Africa	4.7	−6.5	1.2
Asia	8.8	6.7	12.9
Europe[1]	3.1	2.6	2.4
Middle East	13.9	−10.4	−0.4
Western Hemisphere	3.6	−4.8	4.7
Subregions			
Sub-Saharan Africa	0.7	−3.0	0.1
Four Asian NIEs[2]	10.1	8.1	15.7

Source: International Monetary Fund (1991b).
[1]Includes Eastern European countries and the former Soviet Union.
[2]The four newly industrializing economies (NIEs) are Hong Kong, Korea, Singapore, and Taiwan Province of China.

Developing country exports of manufactured goods, which increased by 14 percent a year during the eight years to 1988, grew much more rapidly than exports of primary products (Table A3) and, by 1988, manufactures accounted for more than half of total exports. Machinery and transport equipment displayed the fastest growth at 18 percent a year; this product group is now the largest product group and about the same magnitude as consumer goods exports, the main product group in 1980. Between 1973 and 1988, the developing countries' share of world exports of manufactured goods doubled and this was reflected across most manufactured products (Table A4); an exception is textiles and clothing where trade is controlled under the Multifiber Arrangement. Over the same period, the importance of developing countries as a market for traded goods increased substantially from 18 percent of total non-oil imports in 1973 to 30 percent in 1988. The growing importance of developing countries in world trade has been reflected in their greater role in the Uruguay Round trade negotiations. For the first time they have been asked to make concessions in the "new" areas of interest to industrial countries (services, investment, and intellectual property) in exchange for improved market access in areas where they have a comparative advantage (agriculture, textiles, and clothing).

III

Industrial Countries' Trade and Trade-Related Policies

Since the mid-1980s, there has been little, if any, decline in the overall level of trade protection in industrial countries despite the expansion of output and trade, the reduction in current account imbalances among the major industrial countries, and the ongoing Uruguay Round of multilateral trade negotiations. Protection persists in agriculture and in declining industries, and new pressures have emerged for government intervention in sectors considered "strategic." The limited progress in addressing the long-standing problems in agriculture and declining industrial sectors will intensify adjustment pressures in the industrial countries as the European single-market program progresses, the developing countries continue to expand and diversify exports, and the Eastern European countries seek to reintegrate their economies into the multilateral trade system.

Many of the issues that need to be resolved to expedite adjustment in agriculture and in mature industries, such as textiles and steel, are under negotiation in the Uruguay Round trade negotiations and in other multilateral forums. The Uruguay Round, which was extended following the failure to conclude the Round on schedule, aims to substantially reduce tariff and nontariff barriers to trade, strengthen existing rules and dispute-settlement procedures, bring sectors such as agriculture and textiles and clothing under normal GATT disciplines, create disciplines in new areas (services, foreign investment, and intellectual property), and improve GATT surveillance over trade policies and the coherence of trade and financial policies. The liberalization of steel is proceeding in multilateral negotiations under the U.S. Steel Liberalization Program, and an agreement that would phase out subsidies to shipbuilding and repairs is being negotiated in the OECD Council Working Party on Shipbuilding.

Despite these negotiations, the salient feature of trade policy developments among the major industrial countries is the threat of reduced reliance on the multilateral approach in relations with trade partners. Issues of "fair" trade and market access are often dealt with bilaterally, outside the scrutiny of the GATT Contracting Parties and in ways that are at variance with GATT rules or the principles of nondiscrimination and transparency that underlie the GATT. Areas not covered by the GATT have become a growing source of trade friction: services, foreign investment, and intellectual property rights. With the limited progress in the Uruguay Round, countries are addressing these issues in bilateral and regional trade arrangements where it is easier to reach a consensus. Liberalization among the industrial countries is proceeding largely in the context of regional trade arrangements. While such arrangements can expand the scope for free trade, they hold risks for the multilateral trade system and are a source of concern for countries that fall outside regional groupings.

In 1990 and 1991, the industrial countries began to dismantle selected import restrictions affecting Eastern European countries and to establish normal trading relationships with these countries. These developments are discussed separately in Section IV. Similarly, industrial country policies on agriculture are described in Section VI.

The rest of this section reviews recent developments in industrial countries' trade policies and trade-related industrial policies. The first part covers the main instruments of trade policy. The second reviews government support policies and efforts under way to curb trade-distorting subsidies. The third discusses trade policies in selected individual countries.

Recent Trends in Trade Policies

Tariffs

The GATT system has sought to establish nondiscriminatory tariffs as the principal means of protection. During the past forty years, industrial countries have dismantled most import quotas on nonagricultural products and, through seven rounds of multilateral trade negotiations, have reduced the average level of MFN tariff rates from around 40 percent at the end of World War II to around 5 percent at the end of the Tokyo Round in 1979. Further reduction in average tariff levels by one third is a major objective of the Uruguay Round. The progressive decline in tariff rates has lessened their importance as an instrument of trade policy,

although the levels of protection they provide differ considerably across countries and products (Table A5).[22] The tariff rates applied after the Tokyo Round are relatively high (tariff peaks) in a number of countries for agricultural products and for clothing, textiles, and footwear. Progressively higher tariffs along the processing chain (tariff escalation) are also a feature of most industrial countries' schedules, particularly for certain foodstuffs, leather, fabrics, and some petrochemical products. In contrast, tariffs on capital and intermediate goods and durable consumer goods are relatively low.

Applied tariff rates may differ from the Tokyo Round MFN rates because of subsequent tariff cuts or preferential trade arrangements among countries, including customs unions, free trade areas, and tariff preference schemes such as the GSP. Nearly 40 percent of world trade is conducted within preferential trade arrangements among industrial countries.[23] Because of this, average applied tariff rates can be lower for some products than average rates applicable to GSP beneficiaries. This is a major concern of developing countries, which complain that free trade areas can undermine their preferential access to industrial country markets. At the midterm review of the Uruguay Round, industrial countries agreed to a moderate reduction in tariffs on tropical products that are of particular interest to developing countries.

Nontariff Measures

With the decline in industrial country tariff rates and the high level of bound tariffs, particularly for industrial products (Table A6), countries have increasingly relied on nontariff measures in response to adjustment pressures in trade-sensitive sectors. Such measures include VERs, similar restraints under the MFA, other orderly market arrangements, tariff quotas, surcharges, variable levies, prohibitions, licensing, import monitoring, antidumping and countervailing actions, and price control measures. The incidence and restrictiveness of nontariff measures are difficult to judge (Appendix III), but trade coverage ratios estimated by UNCTAD using its Data Base on Trade Control Measures indicate that nontariff measures affected almost 19 percent of nonfuel imports of 22 industrial countries in 1990 (Table 4).[24] Coverage varies significantly among product groups with the highest incidence on food items (36 percent) and the mature industries: iron and steel (53 percent), textiles (39 percent), clothing (63 percent), footwear (20 percent), and motor vehicles (55 percent). Imports of textiles and clothing, footwear, steel, and motor vehicles are mainly affected by VERs and the MFA, while imports of agricultural products are controlled by other quantitative restrictions.

Overall, nontariff measures affect exports from developing countries to a greater extent than do exports from industrial countries, particularly for manufactured products (Table A7). This primarily reflects the high proportion of imports of textiles, clothing, and footwear subject to nontariff measures.[25] For imports of food items, iron and steel, and motor vehicles, the proportion of trade affected is greater for exports originating in industrial countries. For most categories of goods, exports from the former U.S.S.R. and Eastern Europe have had the highest trade coverage ratios; some of these were dismantled in 1990, but the indicators reported here will not reflect these developments until 1991.

In order to assess the longer-term trend in the use of nontariff measures, Laird and Vossenaar (1991) combined the most recent UNCTAD estimates for the period 1988–90 with earlier estimates for the period 1981–88 (Table A8). Their calculations suggest that the incidence of the "core" nontariff measures,[26] which are considered the most restrictive, increased by about 5 percent between 1981 and 1987–88, but had declined somewhat by 1990. The experience varies across countries during the 1980s. The coverage ratios rose most for both the United States and the EC, which made increased use of VERs (many directed against Japan and the newly industrializing economies in Asia) on motor vehicles, steel, machine tools, textiles, and, in the case of the EC, consumer electronic products; in the EC, some national VERs were phased out after 1983 (Tables 5 and A9). Japan's trade coverage ratio declined in the second half of the 1980s owing

[22]During the 1980s, New Zealand and Australia initiated tariff reform programs that have reduced tariff rates below those indicated in Table 3. Several other countries have reduced tariffs on selected items, including, Canada, Japan, and the United States.

[23]These comprise the EC, EFTA, the U.S.-Canada Free Trade Agreement, and the Australia-New Zealand Closer Economic Relations Trade Agreement.

[24]A trade coverage ratio measures the percent of trade in an item subject to nontariff measures in the total trade in that item. It has important limitations as an indicator of restrictiveness because it is not known what the levels of trade would be in the absence of restrictions. Also, the trade coverage ratio does not capture the effects of a tightening or loosening of restrictions; it only reflects changes in product coverage. Only border measures are covered in the UNCTAD data base.

[25]Restrictive measures affect not only products currently exported, but may also deter investment in areas where developing countries have export potential.

[26]"Core" nontariff measures exclude antidumping and countervailing actions, automatic licensing, import surveillance measures, and para-tariff measures.

Table 4. Import Coverage Ratios of Selected Nontariff Measures, by Type of Measure, Applied by Selected Developed Market-Economy Countries[1]
(In percent)

	NTM Coverage by Type of NTM							
	All NTMs[2]		Subgroup of NTMs[3]		Quantitative restrictions		Of which: VERs and OMAs[4]	
Product Group	1988	1990	1988	1990	1988	1990	1988	1990
All food items	35.4	35.9	32.9	31.8	26.5	25.3	2.8	1.5
Food and live animals	38.8	39.3	35.8	34.5	29.8	28.4	3.4	1.7
Oilseeds and nuts	7.4	7.4	6.9	6.9	5.8	5.8	—	—
Animal vegetable oils	10.1	10.0	9.6	9.6	4.3	4.2	—	—
Agricultural raw materials	4.3	4.3	2.9	2.9	2.4	2.4	—	—
Ores and metals	19.0	17.9	12.7	11.6	12.7	11.5	10.4	10.3
Iron and steel	56.2	52.9	38.9	35.3	38.9	35.3	32.5	32.5
Nonferrous metals	0.8	0.8	0.2	0.2	0.2	0.2	—	—
Fuels	17.9	17.9	13.5	13.5	12.7	12.7	—	—
Chemicals	10.7	10.8	6.7	6.6	5.5	5.4	—	—
Manufactures, excluding chemicals	16.0	17.8	11.0	11.0	10.4	10.3	8.7	8.8
Leather	9.3	13.2	1.3	1.3	1.3	1.3	0.2	0.2
Textiles, yarn and fabrics	38.6	38.7	34.2	34.3	34.1	34.1	24.6	24.6
Clothing	63.7	63.1	57.1	56.6	57.1	56.6	53.6	53.0
Footwear	19.7	19.7	1.9	8.0	1.9	8.0	0.9	7.6
Vehicles[5]	...	54.9	...	29.6	...	28.4	...	28.0
All items, excluding fuels	17.3	18.5	12.7	12.5	11.5	11.3	7.2	7.1
All items	17.4	18.4	12.8	12.6	11.6	11.4	6.3	6.2

Source: United Nations Conference on Trade and Development (1991b).
Note: NTMs = nontariff measures; OMAs = orderly marketing arrangements; VERs = voluntary export restraints.
[1]Ratios have been computed using as far as possible 1988 trade weights; otherwise trade statistics for 1986 (or 1989 in the calculations regarding the United States) were used. The countries are Australia, Austria, Canada, EC-12, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, and the United States.
[2]Include certain para-tariff measures, surcharges, variable levies, antidumping and countervailing actions, quantitative restrictions (including prohibitions, quotas, nonautomatic licensing, state monopolies, voluntary export restraints and restraints under the Multifiber Arrangement (MFA) and similar textile arrangements), import surveillance, automatic licensing, and price control measures.
[3]All selected trade measures, excluding para-tariff measures, surcharges, antidumping and countervailing actions, automatic licensing, and import surveillance.
[4]Including restraint agreements under the MFA.
[5]From Laird and Vossenaar (1991).

to the lifting of restrictions on some agricultural products. Several other countries, namely, Canada, New Zealand, and Norway, have recorded notable declines in their import coverage ratios since the mid-1980s. Canada terminated a VER agreement with Japan covering exports of automobiles and phased out restrictions on imports of footwear (1985–88); New Zealand substantially reduced quantitative restrictions as part of a comprehensive reform program to deregulate and open up its economy; and Norway lifted quotas on imports from Japan and some other Asian countries.[27]

The increased use of nontariff measures by the EC and the United States, particularly VERs and orderly market arrangements, which fall outside the GATT framework, and frequent recourse to "unfair" trade remedies (antidumping and countervailing actions) have been linked to the difficulties of applying safeguard provisions under Article XIX of the GATT, as evidenced by the decline in their use (Appendix I). A country must prove serious injury to meet the GATT criteria to apply safeguards, normally take any action in a nondiscriminatory manner (MFN basis), and compensate affected exporting countries or risk retaliation. In contrast, VERs and "unfair" trade remedies can be applied selectively, by product and country, and, in the case of VERs or price undertakings, they automatically compensate the exporter through higher prices and thereby foster cartel-like behavior (Appendix II). The attractive features of VERs to domestic industries seeking protection from imports and to export industries abroad explain their rapid

[27]Laird and Vossenaar (1991), pp. 8–9.

Table 5. Summary of Export Restraint Arrangements by Product and Exporting Region, End of March 1989[1]

Industry	EFTA	Canada	EC	Japan	South Korea	China	Taiwan Province of China	United States	Eastern Europe	Other	Total
Steel	7	2	5	3	5	1	2	—	12	13	50
Machine tools	2	—	—	5	1	—	1	—	—	5	14
Electronics	—	—	—	13	8	—	4	—	—	3	28
Footwear	—	—	—	4	7	1	3	—	3	—	18
Textiles	—	—	1	2	4	1	2	—	19	37	66
Agriculture	6	1	3	2	4	1	—	3	6	25	51
Automobiles	—	—	—	18	—	—	—	—	—	2	20
Other	3	2	—	23	9	1	—	—	1	3	42
Total	18	5	9	70	38	5	12	3	41	88	289

Summary of Export Restraint Arrangements by Product and Importing Country

Industry	EFTA	Canada	EC	Japan	Austria	Australia	Switzerland	U.S.S.R.	United States	Total
Steel	1	—	14	—	—	—	—	—	35	50
Machine tools	—	—	4	—	—	—	—	—	10	14
Electronics	—	—	25	—	—	—	—	—	3	28
Footwear	—	2	15	—	—	—	—	—	1	18
Textiles	12	8	27	6	2	—	7	—	13	66
Agriculture	4	1	36	5	—	2	3	1	2	51
Automobiles	1	1	17	—	—	—	—	—	1	20
Other	1	—	35	2	—	—	—	—	4	42
Total	19	12	173	13	2	2	10	1	69	289

Source: General Agreement on Tariffs and Trade (GATT), *Review of Developments in the Trading System*, various issues.
Note: EC = European Community; EFTA = European Free Trade Association.
[1]The GATT Secretariat has not published comprehensive information on these arrangements since March 1989.

growth and their application for extended periods to large portions of sectors such as textiles and clothing, steel, motor vehicles, and, more recently, machine tools. The negotiations on GATT safeguard provisions in the Uruguay Round are considered essential to bring these sectors under GATT discipline; the key issue is whether or not and under what circumstances to permit the selective application of safeguard actions.

The economic effects of nontariff measures are inherently difficult to quantify (Appendix II) because they can be circumvented in various ways. In part, this explains why exports of restricted items, such as textiles and clothing, have continued to expand, requiring more extensive agreements with each renegotiation of the MFA (Table A10).[28] Aggregate trade flows are largely determined by macroeconomic conditions, such as growth in the domestic and foreign markets and external price competitiveness; to the extent that productive resources are flexible, nontariff measures primarily affect the composition of trade. However, nontariff measures are a cause for concern because they distort the allocation of resources, including the pattern of domestic and foreign investment. By locking resources into inefficient uses, nontariff measures reduce potential output in both restricting and restricted countries. Their prolonged use has delayed adjustment in declining sectors in the major industrial country markets, and their selectivity and lack of transparency have weakened the multilateral trade system.

Antidumping and Countervailing Duties

Under GATT rules, antidumping and countervailing duties can be imposed by countries to protect their domestic producers from injury owing to the "dumping" of goods by foreign suppliers or to trade-distorting subsidies. As discussed above, the use of such measures has been cited as another form of selective protection; it has been argued that countries find it easier to use antidumping and coun-

[28]In July 1991, the MFA was extended without change through 1992 because of the delay in concluding the Uruguay Round (Appendix I).

tervailing measures, which involve a weaker injury test (or no test in some cases), when a safeguard action would be more appropriate, that is, when the nature of the problem is injury from trade, not "unfair" trade. Questionable practices and vague rules and definitions for determining injury, dumping margins, and subsidies provide considerable scope for variations in domestic legislation and the application of "unfair" trade laws.[29] In examining the use of unfair trade remedies in the EC and the United States, Messerlin found that they often led to the introduction of more secure nontariff barriers, such as VERs or quantitative restrictions (steel, electronic products, and textiles and clothing), or they became the main tool of protection (chemicals, abrasives); he also found evidence of collusive behavior among the domestic and foreign firms affected by such measures.

The pattern and volume of antidumping and countervailing actions lend support to the view that these measures respond to pressures for protection by import-competing firms. In the early 1980s, in the wake of a second round of oil price increases and a severe world-wide recession, the demand for relief from import competition through antidumping and countervailing measures increased (Tables A11 and A12). Since the mid-1980s, the number of investigations initiated has declined significantly; although, the trade coverage ratios in Table 4 suggest that the proportion of trade affected by antidumping and countervailing actions has increased somewhat since 1988. The sectors most affected by these measures are motor vehicles, steel, textiles and clothing, and leather products, the same sectors that are protected by other nontariff measures.

The United States, the EC, Canada, and Australia account for nearly all antidumping investigations initiated by industrial countries.[30] In the United States, the sharp rise in antidumping cases in the first half of the 1980s has been attributed to the real appreciation of the dollar and structural problems in the international steel industry.[31] While the number of antidumping investigations initiated declined during the second half of the 1980s, the stock of outstanding cases continued to rise until 1989/90, when it declined slightly. At the end of 1990, Japan, China, Korea, and Taiwan Province of China accounted for 83 of the 195 outstanding cases; developing countries accounted for most of the rest (Table A13). The iron and steel sector accounted for most (54 percent) of the antidumping cases initiated in 1980–87, followed by chemicals (11 percent).

The EC has been a frequent user of antidumping procedures; its stock of outstanding cases rose from 124 in 1983/84 to 170 in 1988/89, but declined to 152 in 1989/90, partly because of a reduction in cases involving Central and Eastern Europe. Measures against these countries have accounted for more than half of the total cases.[32] EFTA countries, Japan, China, Hong Kong, and Korea have also been frequently investigated. The principal sectors initiating cases in 1980–87 were chemicals (42 percent), iron and steel (11 percent), nonelectrical and electrical machinery (15 percent).

Both the EC and the United States have widened the provisions of their antidumping legislation to address the circumvention of antidumping duties, although the EC has been the main user of anticircumvention measures (all directed against Japan).[33] The EC legislation was challenged in the GATT and found inconsistent with GATT rules (Appendix I). As a result, the EC has suspended the use of its anticircumvention legislation, but it does not intend to change its laws until an acceptable solution to the problem of circumvention is agreed in the Uruguay Round. The ongoing globalization of investment and production and the increase in regional arrangements is likely to increase trade friction related to rules of origin.

In contrast to the United States and the EC, recent changes in antidumping legislation have worked to reduce outstanding dumping cases in Canada and Australia. In Canada, the number of outstanding antidumping cases began to decline in 1989 as a result of the five-year sunset provision in the Special Import Measures Act, which went into effect in 1984. Outstanding cases fell to 103 in 1990 compared with 159 in 1988. Australia's antidumping legislation was modified in 1988 and 1989 to clarify what constitutes material injury and normal values and to tighten the review process. As a result of these changes, outstanding antidumping cases fell from 109 in 1987 to 11 in 1990. In March 1991, when further tariff reform measures were announced, a number of changes were made to Australia's antidumping procedures to widen

[29] See Finger and Nogues (1987), Messerlin (1989), and Nicolaides (1991) for reviews of antidumping and countervailing practices in the United States and the EC. In particular, Messerlin argues that features of the codes governing antidumping and countervailing actions and their application in practice make these two instruments substitutable to the import-competing firm. He finds that cases initiated by the EC and the United States target a narrow range of industries and have a strong sector-specific impact.

[30] According to GATT (1991a, p. 8), these four countries initiated over 1,000 investigations since 1980, 500 of which resulted in protective measures.

[31] Office of the United States Trade Representative (1991).

[32] GATT (1991c), p. 7.

[33] Circumvention may occur when the location of certain production processes, such as final assembly, changes as a result of antidumping or countervailing duties that have been threatened or applied on a final product.

their applicability and expedite the handling of investigations.[34]

The United States has made the greatest use of countervailing duties in part because of the relatively limited role of subsidies in the United States and U.S. efforts to limit the subsidies of other countries. Also, under U.S. law, countervailing duties may be imposed without an injury test for those countries that have not signed the GATT Subsidies Code or negotiated a bilateral agreement with the United States.[35] Outstanding countervailing actions rose steadily from 53 in 1982/83 to 86 in 1984/85 and remained at about this level before declining to 73 in 1989/90 (Table A12); most of the outstanding cases at the end of 1990 affected developing countries (Table A13). Over half of the countervailing cases initiated in 1980–87 were lodged by the iron and steel industry; the other industries initiating a significant number of cases were textiles, chemicals, and food products, each accounting for about 7–8 percent of cases.

Trends in Government Support

Governments use a wide range of domestic policies to promote industrial adjustment and development and to pursue "noneconomic" objectives, such as environmental quality, education and health, and regional equity. Various forms of intervention include direct subsidy payments, tax concessions, subsidized loans and loan guarantees, government procurement, regulations and standards, and administrative guidance. This section focuses on the nature and extent of direct and indirect subsidies to the industrial sector because of their possible trade-distorting effects and the lack of comparable information on other forms of government assistance. Countries disagree on which subsidies distort trade, but generally, sector-specific subsidies fall into this category, while broadly based subsidies, such as support for education and health or basic research, that do not confer differential advantage on specific industries are considered less trade distorting. While governments have made some progress in reducing support to declining industries, the evidence suggests that support to high technology industries is rising.

Industrial Subsidies

In recent years, governments have scrutinized subsidies more carefully because of budgetary constraints, the failure of sector-specific assistance to facilitate adjustment, the possibility of countervailing actions, and the desire to establish a more neutral incentive framework. In the EC, in particular, the Single Market Program has entailed stricter discipline on and monitoring of state aids to ensure a "level playing field" within the Community. Despite the widespread use of subsidies, comprehensive and comparable data are not readily available, although work is under way at the OECD, the EC, and EFTA to improve information in this area. In a recent OECD study, Ford and Suyker (1990) draw on data from the OECD national accounts, the EC surveys of state aids, and the EFTA Secretariat reports to compile cross country data on subsidies. The three data sources differ regarding the sectors covered and the definitions of subsidies used and are therefore not comparable, but they do provide a basis for the analysis of developments within each data set.

The broad trends in industrial country subsidies based on OECD national accounts data compiled by Ford and Suyker are shown in Table A14. These data cover current transfers to the productive sectors as a whole and exclude indirect subsidies, such as tax concessions and expenditures by state and local governments, which vary in importance across countries.[36] The data indicate that in most countries total government subsidies (Panel I) increased during the 1970s and the first half of the 1980s when governments intervened to assist industries that had lost price competitiveness but have leveled off or declined since then. Data excluding subsidies to agriculture and food processing show a similar pattern (Panel II). The overall subsidy rate in OECD countries and in the major seven countries has stabilized at about 1½ percent of GDP; for OECD Europe, the subsidy rate is nearly 3 percent of GDP. Subsidy rates differ significantly across countries. Industrial subsidization is highest in Sweden and Norway and lowest in the United States and Japan. Canada and the European countries record industrial subsidy rates in the range of 2 to 4 percent of GDP. In terms of claims on budgetary expenditures (Panel III), current transfers to industry are about 1 percent of outlays in the United States, but 3 to 5 percent of outlays in the other major industrial countries.

New Zealand and the United Kingdom showed the most dramatic reversal in subsidies to industry during the 1980s, as a result of policies to reduce government intervention in their economies through deregulation and privatization. Norway also

[34]Banks (1990).

[35]Office of the United States Trade Representative (1991).

[36]The OECD's national accounts data define subsidies as all grants on current account by government to private industries and public corporations, plus grants to government enterprises for operating losses owing to government policies to maintain prices below the costs of production.

Box 1

Trade-Related Work Program of the OECD

The Organization for Economic Cooperation and Development (OECD) has an extensive work program on trade-related issues involving a number of its Committees. Below is an outline of the ongoing work related to the functioning of the trade system and the OECD's future work program as set out in the communiqué of the OECD ministerial meeting of June 1991. The Trade Committee of the OECD played an important role in developing the agendas for the past two GATT rounds of trade negotiations (Tokyo Round and Uruguay Round), and it is expected that many of the issues included in the future work program will be on the agenda for the next round of trade negotiations.

Subsidies

The *Agriculture Committee* has contributed significantly to the process of agricultural reform by monitoring developments and policies in agriculture, developing standardized measures of agricultural support, and analyzing the economic, social, and environmental effects of changes in agricultural support and protection policies. The June ministerial meeting called for a continuation of this work.

During the past two years the *Industry Committee* has intensified its work on standardizing and quantifying industrial subsidies. The development of measures of industrial subsidization that are comparable across countries is the first step toward strengthening disciplines on subsidies that distort trade. The *Economic Policy Committee* has also initiated a small pilot project to develop measures of effective rates of assistance (ERAs). At the June ministerial meeting, the OECD Ministers invited the Organization to systematically monitor industrial subsidies and committed their governments to provide the necessary information.

The *Export Credit Group of the Trade Committee* is the forum for negotiations on the Export Credit Consensus, which the OECD Secretariat will administer. The Consensus would establish guidelines for the terms and conditions of export credits and limit the use of tied aid credits to commercially unviable projects. The June ministerial meeting called for the conclusion of these negotiations as soon as possible but not later than the end of 1991, and it welcomed a proposed in depth study of export premium systems and structures.

In the *OECD Council Working Party on Shipbuilding*, negotiations launched in 1989 aim for an agreement that would phase out subsidies to shipbuilding and repair over a short transition period.

Technology and Investment Policies

Ministers acknowledged that government support to corporate research and to "strategic technologies" may create friction at the international level and may affect international access to science and technology. In this regard, Ministers called on the OECD to deepen its analysis of government support to private sector research and development and to "strategic technologies" in order better to understand the policy implications and possible trade and investment distortions. On the basis of this analysis the possible need for guidelines on government support to research and development will be examined. Ministers also requested the OECD to analyze further the issue of equal access for domestic and foreign-controlled firms to publicly funded research, including the desirability of granting access to government-sponsored consortia and programs.

Ministers called on the OECD, taking into account the ongoing negotiations in the General Agreement on Tariffs and Trade (GATT) and in other international forums, to deepen its analysis of policies related to countries' competitive positions, inter alia, in the fields of innovation, public procurement, public ownership of companies, taxation, and competition, as well as of financial and foreign direct investment and the interconnections between these policies, with a view to limiting the scope for international friction through greater transparency. Ministers asked the OECD, where appropriate, to explore the need for improving existing multilateral instruments and whether there is a need to develop additional "rules of the game."

The OECD Codes and National Treatment Instrument

The *Committee on Capital Movements and Invisible Transactions* oversees the implementation of the Codes of Liberalization, which are legal instruments through which the Members commit themselves to the progressive liberalization of capital movements and current invisible transactions. Work is continuously under way to strengthen and extend these codes, which require nondiscrimination on a "best effort" basis.

The *Committee on International Investment and Multinational Enterprises* oversees the application of the National Treatment Instrument, which forms part of the Declaration and Decisions on International Investment and Multinational Enterprises. The Instrument, which is voluntary, commits OECD countries to nondiscrimination between domestic and foreign-owned firms once they have been established. At the June Ministerial Meeting, it was agreed to reinforce the procedures for implementing existing substantive commitments through notification, examination, and a multilateral framework for dealing with conflicts.

The Future Agenda

The Communiqué of the OECD Ministerial Meeting of June 1991 also called for a new work agenda that would involve enhanced cooperation between the Trade Committee and other committees on emerging issues in the following areas.

Competition Policy

The *Committee on Competition Law and Policy* is the focus of the analysis and discussion of competition policy. In their communiqué, Ministers asked the OECD to continue its work on the international dimensions of competition policies and on their interaction with policies in other areas, such as trade and industry. They noted that recent work in the OECD on competition law and policy provided the foundation for greater policy convergence and progress toward updating and strengthening the existing rules and arrangements for international cooperation. They invited the relevant committees to pursue actively these matters, including the effectiveness of trade rules in facilitating international competition.

Box 1 (*concluded*)

Environmental Policy

Ministers called for improved integration of environmental considerations into all economic sectors and for the OECD to continue its work on analyzing the policy interconnections. They agreed that effective policy integration will require a greater degree of dialogue with and participation from all sectors of society and the economy if environmental goals are to be met effectively and efficiently and to prevent policy conflicts arising in such areas as agriculture, coastal zone management, energy, transport, and, more generally, trade and investment. Ministers endorsed the preliminary views developed by the Trade and Environment Committees on a work program that will underpin further analysis and could lead, in a subsequent stage, to the drawing up of guidelines on ways to protect the environment and preserve the open multilateral system.

Regional Cooperation

Ministers noted that regional integration is another significant area of development in trade relations. It can stimulate the multilateral liberalization process and should be in conformity with international obligations and with the objective of maintaining and strengthening the multilateral trading system. Ministers invited the OECD to continue to monitor developments in the field of regional integration.

reduced direct subsidies to producers from the early 1980s, although support remains high and sector specific. After 1984, subsidy rates declined in Canada and Australia where policies have been reoriented to expedite adjustment in declining industries; in other countries, subsidies to industry were relatively stable or increased. Data on the sectoral composition of subsidies (Table A15) show that in most countries the agricultural sector is more heavily subsidized than the industrial sector and that, within industry, transport, communications, and housing tend to attract higher subsidies than other industries.

The surveys of state aids in the European Community cover more forms of subsidization than the national accounts data. They aim to capture subsidies that potentially distort trade and competition within the EC and include grants, tax concessions (with incomplete coverage), equity participation, soft loans, and loan guarantees.[37] Data from the first two surveys show that subsidies have been concentrated in agriculture and declining sectors such as steel, shipbuilding, railways, and coal (in Germany and Spain) (Table A16). The average subsidy rate to manufacturing in the EC declined by 1 percentage point of GDP from the period 1981–86 to 1986–88, owing largely to curbs on subsidies to steel and shipbuilding. In the steel sector, state aids are permitted only for restructuring to reduce capacity; operating subsidies are banned. As a result of these policies, state aids to the steel industry were virtually eliminated among the EC(10) countries in 1986–88.[38] State aids to shipbuilding had risen from 5 percent to 28 percent of operating costs between 1980 and 1987. A Community directive adopted in early 1987 now limits operating subsidies to a proportion of contract value, which is reviewed annually. Under the directive, state aid fell to 20 percent of operating costs in 1990 and will be reduced to 13 percent of such costs in 1991.

Excluding steel and shipbuilding, there was little overall decline in subsidies to manufacturing, but notable reductions in the most recent period were recorded for Italy, the United Kingdom, Denmark, Ireland, and the Netherlands, with offsetting increases in other countries. Differences between these results and those based on the national accounts data are possibly explained by the relative importance of different subsidy instruments (Table A17). Budgetary grants account for the bulk of subsidies in most of the EC and EFTA countries. Exceptions are Germany and Portugal, where tax concessions account for about 60 percent of subsidies, and Austria, which relies mainly on equity participation. Tax concessions are also quite important for Italy, Ireland, and the Netherlands.

Government-financed expenditure on research and development in the industrial sector varies widely across OECD countries (Table A18). It has

[37]The surveys exclude important sectors, most notably, energy (except coal), transport (except railways and inland waterways), and housing. Aid granted by the European Community is not covered; about 80 percent of this goes to the agricultural sector.

[38]The EC(10) countries are Belgium, Denmark, Germany, Greece, France, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.

traditionally been highest in the United States, in part owing to defense-related research contracts, and lowest in Japan. While the share of government-financed research and development has been relatively stable in most countries, total expenditures on research and development have been rising and government support for it has accounted for an increasing share of government assistance to industry, reflecting the shift away from support to declining industries. The major part of government-financed research and development goes to the aerospace industry, where externalities and security issues are considered important. Aerospace has the first or second highest share of government-financed research and development in most countries for which data are available.[39]

The picture emerging from these data is that the growth of subsidies concentrated in declining sectors that characterized the 1970s and early 1980s has subsided. Countries that have completely reoriented their policies, notably the United Kingdom and New Zealand, have substantially reduced assistance to industry. In some countries, progress has also been made in reducing subsidies to steel and shipbuilding. In other areas, overall assistance to industry was broadly unchanged from the mid-1980s through 1988, and its claim on domestic resources remained relatively large, on the order of 2 to 3 percent of GDP for Canada and European countries and 1/2 to 1 percent of GDP for the United States and Japan.

Work is under way at the OECD Secretariat to develop internationally comparable data on subsidy rates that could provide a basis for increased multilateral surveillance of public support policies (Box 1). Over the past two years, the ministerial meetings of the OECD have stressed the importance of greater transparency in policies to support industry and work in this area has intensified. The Industry Committee of the OECD is conducting a project to develop more comprehensive and comparable information on subsidies to industry across OECD countries. With the cooperation of member countries, a data base is being assembled for the years 1986 to 1991 covering 800 central government programs in 22 OECD countries; the coverage of local and provincial authorities is thus far incomplete. Preliminary analysis of these data suggests that traditional production subsidies have declined, while subsidies to investment (especially to research and development, high-tech equipment, and technology-related intangibles) seem to be rising. In terms of instruments, the increased support for research and development was mainly in the form of grants and tax concessions; the use of loan guarantee schemes, including those not covered by the OECD Consensus on Export Credits, had also risen. The overall direction of support to industry for OECD countries as a group was less certain because of different developments across countries. A pilot project for the Economic Policy Committee has also been initiated to develop measures of effective rates of assistance.

[39]OECD (1990a), p. 111. These figures measure only government-funded research and development in the industrial sector. Research and development spending by governments ranges from about 20 percent of total research and development spending in Japan to about 50 percent in the other major industrial countries.

Multilateral Efforts to Curb Subsidies

Multilateral discipline on subsidies is considered essential to the success of negotiations in multilateral forums to dismantle trade barriers in declining industries. In the Uruguay Round, efforts to strengthen the international rules on subsidies established in the Tokyo Round (the Subsidies Code), which prohibit export subsidies on manufactures, aim to control the trade-distorting effects of subsidies. Key issues in the negotiations concern the definition of subsidies, the circumstances under which subsidies would be permitted, and the rules that would govern countervailing actions. Clear rules and strengthened dispute settlement procedures would go some way toward reducing trade friction arising from government assistance to industry. The U.S.-EC Airbus dispute is a good example of the difficulties encountered under current GATT rules in determining what constitutes an actionable subsidy and in what forum disputes should be settled (Appendix I).

Outside the Uruguay Round, multilateral efforts have been an important factor in fostering adjustment and phasing out assistance to steel and shipbuilding, as well as curbing subsidized export credits. In 1989, President Bush announced the U.S. Steel Liberalization Program, which ultimately aims to establish free-market conditions for international trade in steel. The program involves an extension of the VERs with 19 individual countries and the EC negotiated in 1984 (which would have expired in 1989) through March 1992. In the interim, the United States has concluded bilateral consensus agreements with its major steel trading partners that discipline subsidies and work to reduce or eliminate tariff and nontariff barriers. Negotiations are under way to incorporate these agreements into a multilateral consensus to prohibit most subsidies, eliminate tariffs, and establish a dispute settlement mechanism. The aim is to reach agreement before the end of March 1992 when the existing VERs on steel exports to the United States expire; however, one of the difficulties that has

emerged in the talks is that participants are reluctant to commit themselves on issues that might prejudice their positions in the Uruguay Round negotiations on antidumping and subsidies.

In late 1989, negotiations were launched on a new agreement[40] to phase out subsidies to the shipbuilding and repair industry. Negotiations are taking place in the OECD Council Working Party on Shipbuilding with the aim of concluding an agreement by the end of 1991. Outstanding issues include, inter alia, the treatment of export credits, domestic credit schemes, and the timetable for phasing out government assistance.

In the OECD's Export Credit Group, which has 22 industrial country members, negotiations are proceeding on a new Arrangement on Export Credits (Consensus) that would strengthen the most recent agreement concluded in 1987. The Consensus is designed to prevent "destructive competition" for export credit among member countries, whose export credit agencies are in most cases financed by national governments. Under discussion are measures that would reduce trade distortions resulting from tied aid credits and interest subsidies. Since around 1982, export credit agreements have virtually eliminated the average subsidy element on medium-term credits to middle-income countries. As a result, member countries have been using mixed credits and aid to promote exports. A proposed agreement presented at the June 1991 OECD ministerial meeting proved unacceptable and ministers agreed to an end of 1991 deadline for concluding an agreement; this commitment was reiterated at the London economic summit in July.

Trade Policy Developments in Individual Countries

United States

In recent years, the principal objectives of U.S. trade policy have been to strengthen the multilateral trade system by completing the Uruguay Round; to open foreign markets to U.S. goods, services, and investment; and to promote free and "fair" trade.[41] These objectives have been pursued through multilateral negotiations, bilateral and regional initiatives, and the unilateral implementation of U.S. trade law. The United States played a major role in launching the Uruguay Round and continues to place highest priority on its successful conclusion as the best means of strengthening the multilateral trade system. It has strongly supported agricultural reform and the extension of GATT disciplines to the new areas: services, trade-related investment, intellectual property; its agricultural offer indicated a readiness to eliminate the 1955 waiver under which it maintains restrictions on certain agricultural products.

In May 1991, the U.S. Congress extended the President's fast-track negotiating authority through June 1993, removing one obstacle to the resumption of serious negotiations. The fast-track extension also paved the way for negotiation of a North American Free Trade Agreement including the United States, Canada, and Mexico. The United States has supported regional integration in Europe and elsewhere and believes that it can be a force for liberalization when pursued in a GATT-consistent framework. Domestically, the Government has been fairly successful in containing protectionist pressures in the U.S. Congress; however, its unilateral use of U.S. trade law to pry open foreign markets and protect U.S. interests has heightened tensions with trade partners. The United States is a party to two free trade agreements—one with Israel, established in 1985, and one with Canada, effective January 1, 1989—under which it is phasing out tariffs and other trade barriers according to agreed ten-year timetables. Under the U.S.-Canada Free Trade Agreement (FTA), two rounds of accelerated tariff cuts, together covering $8 billion of two-way trade, were completed by mid-1991. While it is too early to assess the economic impact of the partially implemented FTA, reviews of performance during the first two years indicate that both countries consider that implementation has gone smoothly and that the dispute settlement process has worked effectively;[42] the number of countervailing and dumping cases declined from 12 in 1989 to 4 in 1990. However, recent disagreements have surfaced over automobile rules of origin (involving imports of Honda Civics by Honda Motor Co. Ltd.'s U.S. subsidiary from its Canadian plant) and the domestic content rule for autos under the U.S.-Canada Auto Pact. The United States wants to increase the latter from 50 percent to 60 percent.

In February of 1991, the governments of the United States, Canada, and Mexico announced their intention to pursue a North American Free Trade Agreement (NAFTA), and negotiations began in June. The aim is to eliminate barriers to

[40]The previous agreement was concluded in 1973 and revised in 1983.

[41]In the GATT, trade liberalization proceeds by the reciprocal exchange of reductions in trade barriers based on a rough balance of concessions. By contrast, "fair" trade increasingly demands "strict" reciprocity, or equal market access product by product.

[42]See United States, Office of the President (1991), and Strategico, Inc. (1990).

the flow of goods, services, and investment and to protect intellectual property rights. A number of developing countries have raised concerns about the potential for a NAFTA to divert trade and investment flows and to erode their trade preferences, and various domestic constituencies in the United States and Canada have raised a number of "nontrade" concerns stemming from Mexico's lower level of income and standard of living. These include differences in environmental and labor standards, health and safety standards, and regulatory and distribution systems that may affect cost competitiveness indirectly and lower environmental and other standards under a free trade agreement.

In June of 1990, President Bush announced the Enterprise for the Americas Initiative (EAI), which seeks to address the interrelated problems of debt, investment, trade, and the environment. In trade, the aims are to successfully conclude the Uruguay Round and reduce barriers to trade and investment in the Western Hemisphere; ultimately, the EAI envisages a hemisphere-wide free trade area. Since the announcement of the EAI, the United States has concluded trade and investment framework agreements with most countries in Central and South America and the Caribbean. Other initiatives in the Western Hemisphere included the permanent extension of the Caribbean Basin Initiative, which provides tariff preferences to Caribbean countries, and the extension of trade preference to the Andean countries (Bolivia, Colombia, Ecuador, and Peru) additional to those available under the GSP.

The implementation of U.S. trade law to open foreign markets was intensified after 1988. Section 301 of the 1974 Trade Act gives the President the right to take action against trade practices deemed unreasonable, unjustifiable, or discriminatory and that burden or restrict U.S. commerce. It covers practices related to trade in goods and services, to U.S. foreign investment, and to the protection of U.S. intellectual property rights. The 1988 Omnibus Trade and Competitiveness Act strengthens Section 301 in several ways: inter alia, it transfers authority to initiate unfair cases from the President to the U.S. Trade Representative (USTR); it requires the USTR, under the "Super" 301 provision, which expired in 1990, to identify priority countries and practices and establish a timetable for the investigation and resolution of identified practices; and it requires the USTR, under "Special" 301, to identify countries that violate U.S. intellectual property rights. The 1988 act also requires identification of countries and practices that restrict U.S. exports of telecommunication equipment and services and U.S. access to foreign government procurement.

Actions taken under the Super and Special 301 provisions of the 1988 Act are summarized in Table A19. In 1989, three countries—Brazil, Japan, and India—were identified as priority countries under Super 301; issues were resolved with Brazil and Japan, but India was identified again in 1990. After consultations with India, USTR decided not to take action since the practices under investigation, which relate to investment measures and access to the insurance market, were being addressed in the Uruguay Round. No priority countries were identified under Special 301 in either 1989 or 1990 because of progress made in ongoing negotiations; however, in 1991, three priority countries were identified for violating U.S. intellectual property rights: China, India, and Thailand. Under the telecommunications provision of the 1988 Act, the EC and Korea were designated as "priority foreign countries" in 1989 and agreements on market access were reached in subsequent negotiations. No countries have been identified as discriminating in government procurement and, thus far, no retaliatory measures have been taken under the Super and Special 301 provisions of the 1988 Trade Act.

Another important development in trade relations was the inauguration in 1989 of the U.S.-Japan Structural Impediments Initiative (SII), which aimed to address fundamental impediments to trade and balance of payments adjustment. Each side identified structural impediments to adjustment in the other country and agreements were reached in June 1990 to deal with them.[43] Follow-up procedures call for ongoing discussions and annual progress reports; the first annual report was issued in May 1991. The novel feature of the SII talks is their focus on domestic policies, particularly competition policies and corporate behavior. Five of the six impediments identified by the United States were related to domestic competition policies. Japan identified the shortsighted behavior of U.S. corporations and inadequate investment in research and development and human resources as factors impeding U.S. competitiveness. These developments point to the increased awareness that differences in competition policies and conflicts between competition and trade policies can distort international trade and investment flows. These issues are explored in Appendix II, which examines the interface between trade and competition policies and the

[43]Japan agreed to increase public investment in infrastructure, reform land use policies and the distribution system, eliminate exclusionary business practices and make *keiretsu* relations more transparent, and liberalize the foreign investment regime. The United States agreed to reduce the federal budget deficit and the Government's exposure to risks from federal credit programs, promote private saving, improve U.S. competitiveness through greater investment in research and development and workforce education and training, and lower the cost of capital.

efforts under way to harmonize competition policies.

The 1988 Trade Act also authorizes the President to restrict foreign investment that threatens national security (the Exon-Florio amendment). As of May 1991, the Committee on Foreign Investment in the United States had received 560 notices. Of these, 12 transactions were subject to investigation; the President acted in only one case, ordering the divestment of a U.S. aircraft parts manufacturer by the China National Aero-Technology Import and Export Company. On August 17, 1991, President Bush signed a bill providing for permanent reauthorization of the Exon-Florio provision.

Japan

Japan has implemented a series of market-opening measures over the past five years and has eliminated virtually all formal trade barriers to the imports of manufactured goods. Despite this, some of its major trading partners consider that informal practices impede imports, foreign investment, and competition in the domestic market, and this has led to ongoing discussions of market access issues. Largely under pressure from trading partners, Japan has gradually liberalized the imports of beef, citrus fruits, and some other agricultural products, but its agricultural sector remains heavily protected, imposing substantial costs on its economy and causing trade friction with agricultural exporting countries (Section VI). On the export side, Japan has continued to resort frequently to voluntary export restraints and other forms of managed trade to handle disputes with its trading partners, rather than seeking multilateral solutions. In a significant departure from past practice, Japan, in 1988, challenged the GATT legality of the EC's anticircumvention laws and was supported by the GATT panel ruling reached in 1990.

Japan has been an active participant in the Uruguay Round and is particularly interested in strengthening trade rules in the areas of antidumping, rules of origin, safeguards, and dispute settlement. In the new areas, it seeks to establish disciplines on trade-related investment measures and intellectual property rights. In agriculture, Japan has stressed the importance of food security and its need to maintain self-sufficiency, particularly in rice; in its view, agricultural reforms should first aim to reduce export subsidies.

During the past several years, market-opening measures have been implemented in the context of various initiatives. Under the Action Program for Improved Market Access, in force for three years beginning in July 1985, Japan eliminated or reduced tariffs on over 2,000 items, improved GSP benefits, and simplified standards, certification, and import procedures. In response to a 1988 GATT panel ruling, 10 agricultural items were liberalized. Separate bilateral discussions with the United States and Australia led to progressively larger import quotas for beef and citrus fruit and their eventual replacement with tariffs in April 1991.

The Market-Oriented, Sector-Specific (MOSS) Talks initiated in 1985 with the United States have sought to improve market access on an MFN basis in electronics, telecommunications, pharmaceuticals and medical equipment, forestry products, and auto parts. As part of this ongoing process, in September 1991 Japan and the United States agreed to undertake a joint study of the originating source of auto parts used in U.S. and Japanese cars and to study the problems facing U.S. vehicle and parts makers trying to export to Japan. In 1990, Japan introduced a new program of comprehensive import expansion measures, including tax incentives to import, financial assistance to importers, the elimination or reduction of tariffs on 1,008 industrial products (valued at $13 billion in 1988), and promotional programs to encourage imports.

In response to the relatively rapid growth of domestic demand and the large real appreciation of the yen in 1985–87, Japan's trade surplus fell sharply during 1988–90 from its 1987 peak. This alleviated protectionist pressures in other countries to some extent, but the recent and prospective widening of Japan's trade surplus has contributed to a resurgence of protectionist sentiment in the EC, the United States, and in some Asian countries as well. Recent years have also seen a change in the structure of Japan's imports and exports.[44] The rapid growth of manufactured imports has exceeded predictions based on historical relationships, suggesting that market-opening measures may have played a role. While the share of manufactured imports in Japan's total imports has risen significantly since 1985, the view that the level of Japan's imports is unusually low by industrial country standards continues to be debated by trade specialists.[45]

On the export side, total real export growth slowed sharply following the appreciation of the yen, reflecting mainly weak demand for consumer exports, while capital goods exports continued to expand. Corker (1990) suggests that this pattern is consistent with the nearly sixfold increase in Japa-

[44] See Corker (1990).

[45] Recent reviews of the evidence are provided in Ostrom (1991), Bhagwati (1991), and Balassa and Noland (1988). A number of researchers (Bergsten and Cline (1987), Saxonhouse (1983) (1985)) have found that the level and composition of Japan's imports can be explained by its factor endowments. Others (Balassa (1986), Lawrence (1987), and Lincoln (1990)) find evidence that Japan's imports are "too low" based on its characteristics or that nontrade barriers have affected the level of imports.

nese foreign direct investment (FDI) since 1985. The growth of outward investment has been attributed to the appreciation of the yen, which has led to the establishment of overseas production facilities in lower cost Asian countries, and to the circumvention of trade barriers, particularly VERs and antidumping duties, in the United States and the EC. As reviewed above, a high proportion of EC and U.S. antidumping actions are directed against exports from Japan, and Japan maintains the largest number of known voluntary export restraint arrangements (Table A9). The Ministry of International Trade and Industry (MITI) estimated that in 1989, exports covered by restraint agreements accounted for 12½ percent of Japan's exports (about 29 percent of exports to the United States).[46]

Japan is also party to "voluntary import expansion" agreements with the United States, which have raised concerns about discriminatory market access. As a result of negotiations under Super 301, Japan and the United States, in March 1990, reached agreements on Japanese Government procurement procedures for satellites and supercomputers. In June 1991, Japan and the United States signed a new agreement replacing the 1986 semiconductor agreement. Inter alia, the new agreement aims to increase Japan's imports of semiconductors to more than 20 percent of the domestic market by the end of 1992; it also eliminates price monitoring and re-establishes normal antidumping procedures. As part of the agreement, the United States agreed to lift the $165 million in penalty tariffs imposed in 1987 because of Japan's noncompliance with some provisions of the 1986 agreement.

Japan and the United States also reached agreement in June 1991 on amendments to the 1988 Major Projects Agreement that will add another 17 Japanese construction projects to the original 17 projects included in the agreement and improve the transparency of notification and bidding procedures, as well as dispute settlement procedures. The total value of projects covered by the agreement will increase by $6 billion to nearly $30 billion, compared with public sector construction valued at $165 billion. Only a small portion of this has been bid on to date.

European Community

In the EC, trade policies have been strongly influenced by the objectives of EC 1992, developments in Eastern Europe and the former U.S.S.R., and negotiations in the Uruguay Round. EC 1992 aims to establish a unified internal market by the end of 1992. This is being achieved by the dismantling of remaining intra-EC barriers to the free flow of goods, services, and factors of production and by the mutual recognition of national laws and regulations, subject to agreement on certain essential minimum requirements.

Unification has important implications for trade policies at both the national and EC-wide levels. Under Article 115 of the Treaty of Rome, the EC Commission may authorize import restrictions (VERs, quotas, etc.) against third countries at the national level and permit intra-EC restrictions to prevent indirect imports through other EC countries. Intra-EC barriers will need to be eliminated and trade restrictions at the national level will either be eliminated or replaced by EC-wide measures. Reflecting a tightening of the criteria used by the Commission in assessing member countries' requests for intra-EC restrictions, total authorizations for such measures declined to 128 in 1988, just over one half of their 1980 level, and to 79 in 1990.

Proposals regarding the phasing out of national restrictions and the EC's common external regime after 1992 are still under discussion. National restrictions could be replaced by EC-wide measures that are either more or less restrictive on balance than existing national restrictions. Most of these restrictions are in the form of voluntary export restraints or other forms of monitoring. In March 1989, the last date for which detailed data are available, the EC was party to an estimated 173 export restraint arrangements, 96 of which were imposed at the national level. Sixty-three of these agreements involved Japan, and informal consultations between Japan and the EC are progressing toward elimination of VERs by the end of 1992. One outcome of these discussions was the July agreement to convert national VERs on Japan's automobile exports to EC countries to an EC-wide monitoring arrangement that will limit through 1999 Japan's exports of automobiles to their current EC-wide level (about 1.25 million units) and permit scheduled growth in sales by "transplants," Japanese affiliates producing inside the EC. This market-sharing arrangement has elicited calls for a similar arrangement between Japan and the United States in the U.S. Congress.

The Single Market Program and developments in Eastern Europe and the former republics of the U.S.S.R. have led to the prospects of an enlarged EC and other regional preferential trade arrangements. The former German Democratic Republic became part of the EC as a consequence of German unification, and five other countries have formally applied to enter the EC: Austria, Cyprus, Finland, Sweden, and Turkey; their applications will be con-

[46]GATT (1990d), p. 200. MITI's figures do not include exports to the EC of passenger cars, video-cassette recorders (VCRs), and color televisions, which are subject to monitoring measures.

sidered after completion of EC 1992. In June 1990, formal negotiations started between the EC and EFTA toward the creation of a European Economic Area (EEA) by 1993.

Developments in Eastern Europe and the former U.S.S.R. have added to pressures to reform the EC's Common Agricultural Policy (CAP), which is a major source of friction with the EC's trading partners. A fundamental reform of the CAP that would substantially reduce its adverse effects on world markets and efficient agricultural producers is considered essential to bring the Uruguay Round to a successful conclusion. The EC is working toward this end, but progress has been slow.

Canada

Since 1984, Canada has reoriented policies to strengthen the role of market forces in its economy through tax reform, deregulation and privatization, and greater openness to foreign trade and investment. In the area of trade policy, liberalization is taking place primarily in the context of regional arrangements. Canada has sought to secure market access and gain the benefits of economies of scale and greater competition through the establishment of the free trade area with the United States, its largest trade partner, and it is now a full and equal partner in the trilateral negotiations between Canada, Mexico, and the United States to establish a NAFTA. Regarding the latter, Canada is interested in securing its interests in the areas of services, intellectual property rights, and dispute settlement procedures and in preserving Canada's attractiveness as a host for foreign direct investment.

The economic impact of NAFTA on the Canadian economy is not expected to be substantial. Trade with Mexico is relatively small; almost 80 percent of imports from Mexico enter Canada duty free, with auto components making up the largest component. The NAFTA might exclude certain sensitive areas from freer trade: Mexico is interested in excluding the energy sector; the United States wants to restrict labor mobility; and Canada would like to exclude cultural goods.

The Canadian authorities consider that the future complementarity of regional integration with multilateral liberalization will depend on the outcome of the Uruguay Round and the effectiveness of the dispute settlement process; accordingly, it continues to place highest priority on a successful conclusion to the Round. Having opened up to its largest trade partner, Canada has strongly supported the multilateral liberalization of trade and services and strengthened trade rules. In agriculture, Canada is concerned about the escalation of the subsidies war between the United States and the EC, which has become more acute with the increase in the U.S. Export Enhancement Program to $1.5 billion. As a member of the Cairns Group, Canada has worked for a substantial reduction in trade-distorting agricultural policies, although it wishes to retain its supply management programs covering milk, eggs, and poultry.

With the establishment of Investment Canada in 1985 under the Investment Canada Act, restrictive policies governing foreign investment were reoriented toward a regime that actively promotes foreign investment. Certain restrictions remain in sectors considered "strategic" (oil and gas, uranium, fisheries) and in cultural industries, and Investment Canada continues to review investments above specified thresholds.

Other Industrial Countries

Among the smaller industrial countries, Australia and New Zealand have undertaken the most far-reaching liberalization of trade in the context of comprehensive structural reform programs aimed to deregulate and open their economies to international competition. Traditionally, their levels of protection have been substantially higher than other industrial countries and the proportion of tariff lines that are bound is relatively low by industrial country standards (Tables A5 and A6). As part of the Australia-New Zealand Closer Economic Relations Trade Agreement, these countries achieved free bilateral trade in goods on July 1, 1990, five years ahead of schedule. Free trade has also been achieved in most services.

Australia initiated a five-year trade reform program in 1988. Under the program, tariffs above 15 percent are to be reduced to 15 percent by July 1992; those between 10 and 15 percent are to be reduced to 10 percent. Excepted from these tariff reduction schedules are textiles, clothing, and footwear and passenger motor vehicles, which are to be liberalized more gradually; import quotas on passenger motor vehicles were eliminated in 1988. In March 1991, a second phase of tariff reform was announced that will lower tariffs on passenger motor vehicles from 35 percent in 1992 to 15 percent in 2000; will lift quotas on textiles, clothing, and footwear by March 1, 1992 and reduce the maximum tariff on these items from 55 percent in 1992 to 25 percent by the year 2000; and will reduce assistance to agriculture in line with reforms in manufacturing. It is estimated that completion of the announced reforms will reduce the effective rate of assistance to 5 percent by the end of this decade.

New Zealand initiated comprehensive economic reforms in 1984. On the external side, these included the elimination of most export subsidies and incentive schemes, the phasing out of import licensing (except for some sensitive sectors such as

textiles, clothing, and footwear, which are being liberalized in the context of industry plans), a phased 50 percent reduction in tariffs between 1986 and 1992, the lifting of exchange controls, and the liberalization of the foreign investment regime. In 1988, import licensing was abolished for half of the items previously affected and will be entirely eliminated by July 1992. In September 1991, the government announced a further reduction in tariffs by one third between 1992 and 1996, a somewhat slower pace of reform than that proposed by the previous government.

IV

Trade Liberalization in Eastern European Countries

In the past few years, Eastern European countries have initiated and in some cases accelerated comprehensive reform programs designed to transform their economic systems rapidly into market-based economies.[47] Liberalization of the trade and exchange system is an important component of these reforms. All six countries have eliminated the state monopoly of foreign trade, substantially reduced quantitative restrictions, and moved toward a trade regime in which price-based measures (tariffs and exchange rates) are the main trade policy instruments. Export subsidies, except those on some agricultural products, have been removed, and export licensing has been reduced significantly. In parallel with the removal of trade restrictions, all six countries have established the essential elements of convertibility for current international transactions although some restrictions remain in place.

Notwithstanding these reforms, the Eastern European countries are not yet fully integrated into the multilateral trade system. Further progress in this area will depend, inter alia, on (i) further progress in their own systemic reforms; and (ii) increased and more secure access to foreign markets, particularly those of industrial countries. The latter is of particular importance given the collapse of trade among former members of the CMEA, the adverse impact of the Middle East conflict on some of these countries, and the rapid deterioration in economic conditions in most of Eastern Europe.

At the London economic summit in July 1991 the heads of state and government of the Group of Seven and the representatives of the European Community recognized that opening their markets was the most effective way to assist Eastern European and other developing countries. They undertook to bring the Uruguay Round to an "ambitious" conclusion and to improve access to industrial country markets, including in sectors such as agriculture, steel, and textiles and clothing. As major industrial countries are reluctant to reduce barriers in these sectors unilaterally, the outcome of the Uruguay Round is critical to the success of reforms in Eastern Europe. Greater security of access to foreign markets for Eastern Europe is also linked to negotiations to revise the conditions of their membership within GATT to reflect the greater market orientation of their economies.

Historical Setting: Trade Policy in the Context of Central Planning

After World War II, the Eastern European countries were reorganized under the influence of the U.S.S.R. system of central planning. This process was largely completed by 1950 and involved large-scale nationalization of the means of production and distribution, and the introduction of a central planning system to set output targets, prices and wages, and to allocate resources among enterprises.

The coordination of imports and exports was an integral part of the central planning process. The composition and level of trade were influenced by a number of control mechanisms including central allocation of foreign exchange, and licensing. Foreign trade organizations were established and had a state monopoly on foreign trade. Firms did not trade directly with their foreign counterparts or face world prices; they exported and imported products through foreign trade organizations at ruling domestic prices, with the difference between international and domestic prices being absorbed (in the case of losses) or taxed (in the case of profits) by the government budget. Thus, although tariffs were generally low, central-plan tools and exchange controls provided a high level of protection for domestic production.

Trade with other centrally planned economies and market economies involved different arrangements. The former was largely undertaken in nonconvertible currencies within the arrangements of

[47]The countries covered in this section include Bulgaria, the Czech and Slovak Federal Republic (Czechoslovakia), Hungary, Poland, Romania, and Yugoslavia. Yugoslavia differs from the other Eastern European countries in several important respects: in the 1950s, it abandoned central economic management; its firms were self-managed by workers; its trade and price regimes were largely liberalized; and it never joined the Council for Mutual Economic Assistance (CMEA). Its trade policies are covered in this section because it shared with other Eastern European countries some of the essential features of the socialist economic system, including public ownership of the means of production, and it has recently accelerated its economic reforms.

the CMEA.[48] This trade was based on five-year bilateral agreements with annual negotiations to agree on prices and other details.[49] A bilateral surplus with one country could not be used to finance a bilateral deficit with another country. Trade with market economies was undertaken mainly in convertible currencies and was subject to state control.

The CMEA arrangements resulted in a considerable increase in trade among member countries but also created strong structural dependencies among member countries and added to distortions in resource allocation.[50] Although some Eastern European countries were quite open, in terms of the ratio of trade to GDP, their trade was highly concentrated in transactions with other centrally planned economies, in particular the former U.S.S.R.[51]

The commodity composition of CMEA trade with socialist countries (mostly in the CMEA area) differed significantly from that with the market economies (Tables A20 and A21).[52] Machinery and transport equipment were the most important exports to socialist countries; while food, crude materials, and manufactured articles generally were the most important exports to industrial countries. The Eastern European countries exported mainly machinery equipment and other manufactures to the former U.S.S.R. in exchange for fuels and raw materials. Although the arbitrariness of cross exchange rates used between transferable rubles and local currencies complicates the analysis, it is generally agreed that until recently the prices of Eastern European exports to the former U.S.S.R., relative to the world market prices, were set more favorably than were the prices of Eastern European imports from the former U.S.S.R., relative to world market prices. Given the importance of the former U.S.S.R. in their total trade (and provided trade patterns were unchanged), this implied that the overall terms of trade of Eastern European countries were quite favorable compared with what they would have been without the CMEA arrangements; it has been estimated that moving to world market prices would involve a terms of trade deterioration in the range of 20 to 30 percent for Eastern Europe.[53]

Some Eastern European countries had undertaken partial economic reforms prior to the political revolution that swept Eastern Europe in 1989. For the most part, these reforms were undertaken within the context of the socialist system, and they attempted economic decentralization and partial decontrol of prices while retaining social ownership of the means of production.[54] But market freedom remained circumscribed by state orders and remaining price controls. Although planners no longer exerted total control over trade, central planning tools and administrative control measures continued to dictate trade flows and patterns. The absence of private property rights limited the role of profit incentives and discouraged entrepreneurship.

Recent Reforms and Design Issues

Recent Reforms

While the extent of reform and the initial conditions have varied considerably across Eastern Europe, the process of systemic change has accelerated during the past two years.[55] After decades of partial reforms, Hungary, Poland, and Yugoslavia accelerated their reform efforts in 1989, and in 1990 Poland implemented more far-reaching reform measures. Although their systems remained more centralized up to 1990, in early 1991, Czechoslovakia, Bulgaria, and Romania began to implement comprehensive reforms. In all countries, reforms are being supported by financial resources and technical assistance provided by the Fund and the World Bank.

A move toward currency convertibility and more open trade regimes are important components of reform in all Eastern European countries.[56] As of

[48]The CMEA was founded by Bulgaria, Romania, Czechoslovakia, Poland, Hungary, and the former U.S.S.R. in 1949. The former German Democratic Republic joined in 1950. Mongolia, Cuba, and Viet Nam joined in later years. Albania was a temporary member; Yugoslavia, excluded from membership in 1949, became an associate member in 1965.

[49]Prices were denominated in "transferable rubles" (TR). The Bucharest formula for pricing goods traded among CMEA members was, in principle, a five-year moving average of comparable world market prices. This formula was easily applied to trade in primary products, such as crude oil and natural gas. However, it was more difficult to use for trade in manufactures, since the quality of the goods made in the CMEA region was generally inferior to that of the Western goods used as the basis for the price comparisons. As a result, the five-year average prices served as a basis for negotiations.

[50]International Monetary Fund and others (1990), p. 50.

[51]For example, in 1989 exports to the former U.S.S.R. as a share of total exports were 65.8 percent for Bulgaria, 30.5 percent for Czechoslovakia, 25.1 percent for Hungary, 20.5 percent for Poland, 21.4 percent for Romania, and 20.9 percent for Yugoslavia (International Monetary Fund (1991a), p. 29, Table 7). Also International Monetary Fund (1990b), p. 65, Table 18.

[52]Socialist countries consisted of CMEA countries, Albania, China, Cambodia, the Democratic People's Republic of Korea, the Lao People's Democratic Republic, and Yugoslavia.

[53]Kenen (1991).

[54]Earlier reform efforts are discussed in International Monetary Fund (1991a), Williamson (1991), Gelb and Gray (1991), and, for the Hungarian case, Boote and Somogyi (1987).

[55]See International Monetary Fund (1991a) and Starrels (1991) for a discussion of the main features of economic reforms implemented during the past two years.

[56]The concept of currency convertibility as defined by the International Monetary Fund refers to the unrestricted and non-

June 1991, most of these countries had substantially liberalized their trade and payments systems (Table 6). In parallel with the removal of trade restrictions, all countries have established a degree of convertibility, although some restrictions remain in place. In Hungary and Poland, convertibility is largely limited to the enterprise sector, and most countries have maintained limits on travel allowances.[57] Most countries have a unified official exchange rate for commercial transactions; in the 1980s Hungary, Poland, and Yugoslavia unified official exchange rates for trade with the convertible currency area, and Poland and Yugoslavia gradually eliminated various exchange subsidies, the level of which was dependent (except in the case of Hungary) on the end-user of foreign exchange. Bulgaria and Czechoslovakia unified exchange rates for commercial transactions between December 1990 and February 1991. In Czechoslovakia, Hungary, Poland, and Romania residents are authorized to hold foreign currency accounts and use them freely. In Yugoslavia, convertibility was largely established in January 1990, but various restrictions, including limitations on withdrawals from foreign currency accounts, were reintroduced toward the end of the year when foreign exchange reserves dwindled. All countries permit inward foreign investment and repatriation of dividends and profits.

In the trade area, all six countries have eliminated the state monopoly on foreign trade and drastically reduced quantitative import restrictions.[58] In Yugoslavia, the share of liberalized imports increased from 15 percent in 1986 to 88 percent by the end of 1990. In Hungary, 90 percent of imports are being liberalized over a three-year period starting 1989, with most having been liberalized by 1990. In Romania, all quantitative restrictions have been eliminated. In Poland, most nontariff restrictions were removed in January 1990, Czechoslovakia virtually eliminated import licensing in January 1991, and Bulgaria eliminated import licensing except for a small negative list of imports, in February 1991.[59]

The elimination of most implicit and explicit nontariff barriers and the liberalization of exchange controls means that tariffs and exchange rates have become the principal trade policy instruments in these countries. Traditionally, the level of tariffs in Eastern Europe was relatively low and domestic industry was effectively protected by central planning tools. While some modifications in tariff rates and structures have been made, average tariff rates in these countries remain relatively low.[60]

Modifications in tariffs include the following: Poland unified its three commercial and noncommercial customs tariffs schedules (January 1990) and suspended customs duties (June 1990) on 4,500 import items until July 31, 1991. Poland recently restructured its tariff schedule to provide an average rate of about 14 percent, including a virtual across-the-board temporary surcharge of 5 percent; this is significantly above the rate that prevailed prior to suspension of some tariffs in June 1990. Yugoslavia reduced tariff rates and the number of items exempted from tariffs, which left the average effective tariff rate largely unchanged (March 1990). Romania eliminated various discriminatory features in its tariff system, such as the application of different tariff rates depending on the end use of imports and reduced its highest rates (January 1991); a further reduction in the average tariff level and a more simplified tariff structure are expected to be introduced in the second half of 1991. Czechoslovakia introduced a temporary surcharge of 20 percent on consumer goods imports (end of 1990) to mitigate the impact of rapid import liberalization on the balance of payments;[61] the rate was reduced to 15 percent in June 1991 and is to be eliminated by the end of 1991. Bulgaria introduced a temporary surtax of 15 percent on imports of consumer and some other goods (early 1991) to provide protection to industries as they restructure and to safeguard the balance of payments. Major reviews of the tariff and protective structure have been initiated by Bulgaria and Czechoslovakia in consultation with the World Bank. Further adjustments are contemplated in tariffs in some countries in the context of multilateral and bilateral negotiations.

Measures have also been taken to liberalize exports. Most export subsidies have been removed and export licensing has been significantly reduced in most countries. However, some restrictions remain in place in all Eastern European countries, in particular, to comply with VERs and quotas

discriminatory availability and use of domestic currency to effect payments and transfers for current international transactions.

[57]In Poland, however, households are allowed to acquire foreign exchange in the parallel market at the prevailing rate for transactions for which foreign exchange is not available through the official market.

[58]In Yugoslavia, the state monopoly on foreign trade was removed in 1950.

[59]Licensing was reintroduced in June 1991 for cattle, beef, and butter.

[60]Average tariff rates were about 5 percent in Czechoslovakia (1990), 16 percent in Hungary (1991), about 14 percent in Poland (1991), and about 7 percent in Yugoslavia (1990). In Bulgaria, average MFN tariff rates are 5.9 percent on intermediate goods, 7.4 percent on capital goods, 13.3 percent on consumer goods, and 7.9 percent on agricultural products.

[61]This was applied to all imports except those from countries with which Czechoslovakia has free trade agreements (e.g., Finland). Czechoslovakia notified this surtax to the GATT Balance of Payments Committee because it increased some tariffs above their "bound" levels.

Table 6. Trade and Payments Systems of Eastern European Countries as of June 1991[1]

	State Monopoly on Trade	State Plan	Imports: Quantitative restrictions	Imports: Tariffs	Exports: Quantitative restrictions	Exports: Subsidies	Foreign Exchange System	Selected Complementary Measures: Price control	Selected Complementary Measures: Foreign investment
Bulgaria	Abolished	Abolished	All removed in February 1991. Licenses are required for goods covered by trade agreements with the former U.S.S.R. for monitoring purposes, etc.	A new customs tariff based on the harmonized system was implemented June 1, 1991. A temporary import tax of 15 percent introduced mostly on consumer goods.	Most restrictions removed except for export ban on six items and licensing requirements for exports covered by bilateral agreements.	No subsidies.	Unified, floating exchange rate. Convertibility for most current transactions except travel. Retention scheme abolished.	Most price controls eliminated. Prices under control are less than 10 percent of retail and wholesale turnover.	Up to 100 percent ownership permitted. No restriction on profit repatriation.
Czechoslovakia	Abolished	Abolished	No general import license is required except for crude oil, natural gas, narcotics, and military equipment, and (since June 1991) cattle, beef, and butter.	Tariff rates unchanged since January 1989. A temporary import surcharge on consumer goods of 20 percent introduced at end of 1990, which was reduced to 15 percent in June 1991.	Most restrictions removed except for licensing requirements for energy, certain raw materials, and those subject to voluntary export restraints by other countries.	Abolished in January 1991. Some subsidies remain on agricultural products.	Unified, fixed exchange rate. Convertible for most current transactions. Retention scheme abolished.	Most price controls eliminated. Some 5 percent of total turnover subject to price controls.	Up to 100 percent ownership permitted. No restrictions on profits and dividends repatriation. Capital repatraition allowed in the case of liquidation.
Hungary	Abolished	Abolished	Over 90 percent of imports have been liberalized from license requirements. Global quota on consumer goods remains in place.	Tariff rates remain largely unchanged since 1989. About 80 percent of individual rates are bound in the General Agreement on Tariffs and Trade (GATT).	About 30 percent of exports subject to licensing, mainly includes goods subject to voluntary export restraint arrangements.	Subsidies remain on agricultural products and processed food.	Unified, fixed exchange rate. Convertibility for most current transactions. Transactions channelled through commercial banks.	About 90 percent of prices are liberalized.	Up to 100 percent ownership permitted. No restrictions on repatriation of profit and invested capital.
Poland	Abolished	Abolished	No restrictions except for license	A unified tariff introduced. In July 1990, cus-	Export quotas reduced to 5 items in April	Most subsidies abolished in	Multiple rates in place. Official exchange	Over 80 percent of consumer prices	Up to 100 percent ownership permitted. No

			requirements for trade under bilateral agreements.	toms duties on 4,500 items reduced or suspended until July 1991. Subsequently Poland restructured its tariff schedule, yielding an average tariff rate of 14 percent, including a temporary surcharge of 5 percent.	1990 from approximately 100 items in late 1989. Licenses required for 20 items for convertible currency trade.	January 1990.	rate unified and fixed for convertible currency trade. Convertibility for most current transactions by enterprises. Individuals may acquire foreign exchange in the parallel market. Retention scheme abolished.	and about 90 percent of producer prices liberalized.	restrictions on transfer of profits and dividends.
Romania	Abolished	Abolished	Import licensing maintained for statistical purposes only.	Various discriminatory features of tariff code were eliminated and highest tariff rates were cut. Price equalization scheme eliminated.	Export licensing maintained for statistical purposes. Quotas and export bans imposed on about 120 items that are subject to price controls or imported through the official exchange market. But the level of quotas substantially increased for nonfood items.	Exporters exempted from turnover tax.	Dual rates with a commitment to unify. Convertibility for most current transactions except profit remittance. Retention scheme is maintained. Auction scheme introduced in February 1991.	More than 80 percent (weighted production) of prices are free. 113 products remain subject to control.[2]	100 percent ownership permitted. Some restrictions on profit transfer.
Yugoslavia	Abolished	Abolished	About 10 percent of imports subject to quota.	Reduction in tariff rates in March 1990: but simultaneous reduction in the number of exemptions to customs duties.	Few restrictions. Licenses required for certain raw materials to ensure adequate domestic supply.	Abolished in December 1990.	Unified, fixed exchange rate. Convertibility for current transactions established in January 1990. But some restrictions imposed in 1990.	At end of 1990, 90 percent of producer prices were free of control.	Up to 100 percent ownership permitted. No restrictions on profit transfer.

Source: Various IMF documents.
[1]For Yugoslavia, as of December 1990, and for Czechoslovakia, as of October 1, 1991.
[2]In July 1991, further price liberalization resulted in only 14 items that are subject to price control.

Table 7. Bilateral Trade Arrangements Between Eastern European Countries and the Former U.S.S.R.[1]

Bulgaria
Negotiated an agreement with the former U.S.S.R. in January 1991, which contains an indicative list of tradable goods. Trade under the agreement is effected at world market prices in U.S. dollars on a clearing basis in convertible currencies. A trade agreement was signed with Belarus and the Russian Federation, and discussions are under way with Ukraine.

Czechoslovakia
"Indicative lists" of products in which trade between Czechoslovakia and the former U.S.S.R. would be of mutual benefit have been drawn up, and a temporary clearing arrangement denominated in U.S. dollars is in operation for these goods. In addition, clearing accounts in national currencies are to be established for goods outside indicative lists with prices to be negotiated between trading parties involved and without guarantees by authorities. Efforts are being made to establish barter trade between Russia and Czechoslovakia and to set up a foreign trade bank to help develop trade between the republics.

Hungary
The authorities are seeking to boost trade, particularly exports, with the former U.S.S.R. by bilateral contracts involving barter deals.

Poland
Negotiated an agreement with the former U.S.S.R. in early 1991, which contains a selective indicative list of tradable goods. The mode of trade and payments (cash, countertrade, barter, etc.) has been left at the discretion of the traders themselves. In addition, Poland recently signed an agreement with the former U.S.S.R. (July 1991) to supply (i) medicine in exchange for oil and natural gas, under a barter deal; (ii) food in exchange for metals; (iii) textiles in exchange for petroleum products; and (iv) railway wagons in exchange for natural gas.

In September 1991, Poland signed agreements with the former U.S.S.R. to supply (i) medicine and electric engineering products in exchange for iron ore, natural gas, cellulose, and other raw materials; and (ii) fruit and agricultural products in exchange for natural gas.

Romania
The authorities are discussing with the former U.S.S.R. a "mini-clearing" arrangement whereby the two countries would agree on a list of products that would comprise their mutual trade; any imbalances would be settled in U.S. dollars. In addition, other arrangements including barter, countertrade, and special clearing for military goods are being sought.

Yugoslavia
The bilateral clearing arrangement with the former U.S.S.R. was terminated in January 1991.

Source: Based on information provided by national authorities.
[1]Following the dissolution of the Council for Mutual Economic Assistance (CMEA), and the breakdown of trade among former members, the former U.S.S.R. announced its intention to return to clearing arrangements in national currencies with former CMEA countries. The former U.S.S.R. has allowed its banks to establish correspondent accounts in national currencies with banks in Czechoslovakia and Poland, which would serve for settlement in national currencies of certain trade in goods and services, including tourism expenditure.

applied by trading partners in sectors such as textiles and clothing, agriculture, steel, and coal. In addition, temporary export bans were introduced (Bulgaria in 1990) and licensing retained (Czechoslovakia) to ensure adequate domestic supplies of products such as foodstuffs and raw materials during the adjustment process[62] and to prevent the export (or re-export) of products that are subject to domestic price controls or imported at the official exchange rate (Romania).

At its 1990 meeting in Sofia, the CMEA announced that it intended to conduct all trade in convertible currencies and at world market prices beginning January 1, 1991. However, with the collapse of CMEA trade, countries have made or are making arrangements aimed at maintaining some minimum level of trade with former CMEA countries, especially the Commonwealth of Independent States (Table 7). Poland, Bulgaria, and Czechoslovakia negotiated agreements with the former U.S.S.R. that contain a selective "indicative list" of tradable goods and barter trade. Hungary and Romania are also seeking to boost trade with the former U.S.S.R. through the use of bilateral trade arrangements that may involve barter trade. In June 1991, the former U.S.S.R. lifted the ban on barter trade that applied during the first several months of 1991.

By and large, the Eastern European countries now have relatively open trade and payments systems. However, with the collapse of CMEA trade and the deterioration in their domestic economies and external accounts, some of these countries are facing pressure to provide protection for domestic

[62]In June 1991, Bulgaria reduced the number of export bans to six items and eliminated all export taxes.

producers.[63] In addition, partly in response to access difficulties in industrial country markets and EC export subsidies, some of the Eastern European countries have introduced measures to protect their agricultural sectors. In Czechoslovakia (pending amendments to customs tariffs and other forms of protection), export subsidies and import quotas were introduced on agricultural products in June 1991 to deal with mounting surplus production. Poland has reintroduced tariffs on some agricultural products, under pressure from its farm lobby.

Issues in the Design of Trade Reform

A broad consensus has emerged both on the need for a rapid and comprehensive reform in Eastern Europe and on the main elements of such a reform package.[64] The latter include macroeconomic stabilization and control; liberalization of trade and establishment of convertibility for current account transactions; price liberalization and the development of a competitive private enterprise sector; the creation of efficient financial institutions and the liberalization of financial markets; deregulation of labor markets, and the establishment of a social safety net. Reform programs must be credible and specify the long-term objectives and transition path at the outset of the reform.[65]

Within this context, there is a broad consensus that trade liberalization should be implemented early in the reform process[66] An accelerated pace of trade liberalization in reforming socialist economies is considered essential because, compared with market economies, relative prices are highly distorted, factor markets function poorly, domestic production is more highly concentrated, the extent of state ownership is much greater, and trade has been distorted by arrangements among former CMEA members.[67] In these circumstances, liberalization of the trade and payments system helps to establish a rational set of relative prices for traded goods and to prevent distortions due to monopolistic pricing and the loss of productive efficiency. In addition, access to imports and foreign investment facilitates the acquisition of foreign technology.

Notwithstanding the above considerations, it has been suggested that temporary tariff protection might be provided in the short run to avoid the move to world prices being disruptive. McKinnon (1991a), for example, notes that enterprises in Eastern Europe have long faced distorted relative prices and argues that the tariff structure should initially continue to provide some protection to those industries that were heavily protected under the old system; this would involve differential tariff increases—not across-the-board surcharges—for industries that would be viable if provided a temporary adjustment period.[68] Tariffs would subsequently be unified and phased down according to a preannounced schedule. In this connection, it has been noted that devaluation is not an option because it increases the price of all goods, including inputs for production, which would still result in negative value added in certain industries under the new world price structure.[69]

Others point out that consideration of the above approach also needs to take into account its potential costs and risks, as well as any GATT implications.[70] In particular, this approach has risks if the preannounced schedule of tariff reductions lacks credibility; a perception that the weakened links between domestic and world relative prices could be extended for longer periods would reduce pressure for adjustment in precisely those enterprises facing the largest adjustment tasks and delay their integration into the world economy; in this context, even if a schedule is preannounced, a phased approach would allow time for political opposition to further liberalization to be mobilized. Apart from these considerations, experience elsewhere suggests that governments are not well placed to determine which industries are likely to be viable over the medium term. In addition, high average tariff rates, whatever the degree of dispersion, act as a tax on exports. A final point of particular importance to reforming socialist economies is that this approach would partly negate the positive contribution trade liberalization can make toward eliminating distortions due to monopolistic market structures.

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[63] This point was made, for example, by the Hungarian representative to the GATT Council at the time of the review of Hungary's trade policies under GATT's Trade Policy Review Mechanism (GATT Newsletter, May/June 1991).

[64] International Monetary Fund (1991a) and Gelb and Gray (1991).

[65] Calvo and Frenkel (1991a) and Genberg (1991).

[66] International Monetary Fund and others (1990), Lipton and Sachs (1990), Fischer (1990), and Havrylyshyn and Tarr (1991).

[67] Havrylyshyn and Tarr (1991).

[68] In particular, before the reforms, the prices of energy and raw materials were held artificially low, while quantitative restrictions kept out foreign produced manufactured goods. This resulted in high rates of effective protection for finished manufactured goods and negative rates of protection for energy and raw materials.

[69] McKinnon (1991a). However, sufficient restraint on wages, a significant input for production, would probably address the negative value-added problem.

[70] Increases that would raise tariffs above "bound" levels in GATT would need to be negotiated with other Contracting Parties. Although there is no explicit legal precedent for accepting higher tariffs in exchange for a reduction in quantitative restrictions, Article XXVIII of GATT provides the legal framework for renegotiating tariff bindings.

Tariffs have been increased in some cases to protect the balance of payments, to reduce budget deficits (Bulgaria and Poland), and to discourage imports of consumer goods. Those who argue against the use of tariffs for these purposes note that devaluation supported by appropriate fiscal and monetary policies is normally a better option to protect the balance of payments and contain inflation, in that it provides a neutral incentive structure,[71] and that domestic taxes are a less distortionary instrument to increase fiscal revenue and discourage consumption.

To the extent that the domestic tax instruments and other indirect policy instruments necessary for macroeconomic control are not in place, however, and that the administrative capacity to put such systems in place quickly is lacking, some temporary increases in tariffs may be unavoidable.[72] In this connection, as a mechanism to control the balance of payments, price-based measures, such as tariffs, are preferable to quotas and other quantitative restrictions, in that they are more transparent and, provided tariffs are not prohibitive, they maintain the link between domestic and international prices.

As indicated above, Eastern European countries have negotiated or are seeking new bilateral trade and barter agreements with the former U.S.S.R. or the Commonwealth of Independent States (and in some cases with other former CMEA countries) as a way of cushioning the impact of the collapse of CMEA trade. In the current circumstances, with the collapse of trade due to the shortage of foreign exchange and disorganization in the Commonwealth of Independent States, these arrangements are considered necessary to maintain a certain level of trade and avoid unnecessary enterprise closure. In most cases, barter trade appears to involve interenterprise arrangements. These agreements tend to sustain the distorted production structures and trade flows and to delay the process of adjustment. To limit the possible adverse effects of such arrangements, it has been suggested that where they involve government agreements, they should ensure that they do not limit the autonomy of individual enterprises to negotiate with the foreign enterprises and that trade is conducted at world market prices and imbalances settled in convertible currencies within a relatively short period.[73]

With the collapse of CMEA, interest has reemerged in regional clearing and payment arrangements covering Eastern Europe alone or together with the Commonwealth of Independent States. Two basic alternatives have been suggested: (i) a simple clearing arrangement with a relatively short interval between settlement dates (one to three months); and (ii) payments arrangements, where clearing is supplemented by a facility that provides short (one year) or even medium-term credit to the participants—similar to the European Payment Union (EPU) after World War II.[74] It is widely recognized, however, that there are large differences between the postwar situation in Western Europe and the present situation in Eastern Europe. In particular, the combined market size of Eastern Europe is relatively small; the combined trade of Eastern Europe (in both convertible and nonconvertible currencies) was estimated at less than 4 percent of total world trade in 1988, while members of the EPU accounted for about 35 percent of world exports in 1950.[75] Even if the former U.S.S.R. is included, the combined market size covered is relatively small;[76] moreover, to the extent that trade with the former U.S.S.R. has been interrupted by administrative problems, there is great uncertainty regarding new clearing schemes that rely on better administration and communications. Thus, while such schemes may be somewhat less distortionary than bilateral ones, they are unlikely to resolve the underlying problems and could slow the process of integration of former CMEA countries into the international trade system.

Integration into the Multilateral Trading System

The full integration of the Eastern European countries into the multilateral trade system will depend on (i) further progress in their own systemic reforms; and (ii) increased and more secure access to Western markets. While the trade reforms already implemented will take time to have their full impact, further domestic reforms to make markets more competitive are required to enable East-

[71]Some suggest that tariffs are a better option in the short run because (i) tariffs raise revenue and thus improve the country's fiscal position, whereas devaluation has that effect only if the government owns the export industries; (ii) devaluation pushes up the prices of all goods, including intermediate goods and necessities, whereas tariffs can be concentrated on less essential goods; and (iii) the prospect of future declines in the prices of durable consumer goods as the tariffs are removed will create an intertemporal substitution effect in favor of delaying consumption (see Williamson (1991)).

[72]This issue is discussed in Lane and Dinopoulos (1991), who conclude that some combination of debt reduction and tax reform may facilitate market-oriented reforms in socialist economies.

[73]Michalopoulos and Tarr (1991).

[74]See Michalopoulos and Tarr (1991) and Kenen (1991) for detailed discussions.

[75]Tarr (1991).

[76]The combined trade of Eastern Europe and the former U.S.S.R. is estimated at less than 10 percent of total world trade (see Collins and Rodrik (1991)).

ern Europe to realize the full benefits of the exchange and trade reforms recently implemented. In this connection, privatization, the development of competitive factor markets, and the establishment of the legal framework necessary to secure a competitive market environment are of particular importance.

As the Eastern European countries reform their economies, their trade expansion and changing trade pattern will need to be accommodated mainly by western industrial markets. Several recent studies estimate that, with the disappearance of the CMEA arrangements and the transition to market economies, the pattern of trade of Eastern Europe would be substantially changed, shifting from centrally planned economies to industrial markets, especially to Western European countries.[77]

The recent collapse of CMEA trade, especially with the dissolution of the U.S.S.R. and East Germany, and the disruption of trade with Iraq (a significant trade partner for Czechoslovakia, Bulgaria, and Romania) makes access to western markets of even greater importance. The volume of exports to former CMEA trading partners in 1991 is expected to decline by 35–65 percent in Bulgaria, Czechoslovakia, Hungary, and Romania, and by about 75 percent in Poland.[78] This was mainly due to dislocation and foreign exchange shortage in the former U.S.S.R. (as well as in other CMEA countries, notably Romania and Bulgaria); the unification of Germany, which partly diverted east Germany's trade from Eastern Europe; the inexperience of traders in managing trade under the new trade rules; and the expected adjustment of trade flows to the removal of controls and distortions that previously characterized the CMEA regime. This situation has been aggravated by the extension of tied aid and export credits by industrial countries to the former U.S.S.R., which may have diverted trade from Eastern Europe to industrial countries.

Access to Industrial Country Markets

During the past three years industrial countries have taken a number of steps to improve the access of Eastern Europe to their markets (Table 3). Previously, the lack of MFN tariff status was the major obstacle to the United States market. In 1989, only Hungary, Poland, and Yugoslavia had MFN status; imports from Romania, Bulgaria, and Czechoslovakia were subject to substantially higher-than-MFN rates of duty.[79] The United States extended MFN status to Czechoslovakia in November 1990 and to Bulgaria in April 1991 and is expected to extend it to Romania soon. (It extended permanent MFN status to Hungary and Czechoslovakia in October 1991.) It also extended GSP treatment to Hungary (November 1989), Poland (January 1990), and Czechoslovakia (May 1991).[80] In addition, the United States has increased the quantities of steel products subject to VERs that may be imported from Hungary and Poland. It plans to further relax quotas on textiles and steel imports from Czechoslovakia, Poland, and Hungary, and to expand the list of imports under GSP from these countries.[81]

Major changes in EC relations with Eastern Europe have occurred in the past three years. Prior to the Luxembourg Declaration between the EC and CMEA in June 1988, trade with CMEA countries was subject to extensive quantitative restrictions of both a selective (discriminatory) and nonselective nature. Between 1988 and 1991, the EC entered into separate Cooperation Agreements with Bulgaria, Czechoslovakia, Hungary, Poland, and Romania (Table 8).[82] These agreements contained

[77]Center for Economic Policy Research (CEPR) (1990), Collins and Rodrik (1991), and Havrylyshyn and Pritchett (1991). For example, Havrylyshyn and Pritchett show, using a gravity model, that the bilateral trade pattern in Eastern Europe is markedly different from that expected for countries with their income level, location, and size because it was determined less by market forces and more by political and economic relationships binding Eastern Europe and the former U.S.S.R. together in the CMEA. They find that a natural pattern of trade would be almost exactly the reverse of the current pattern where actual flows of trade for Eastern Europe are about 60–80 percent within the East Bloc; and 20–30 percent with Northern Europe. Collins and Rodrik also conclude that the natural trade partners of Eastern Europe are the advanced industrial countries of Europe, rather than each other. Some scope for trade expansion may also exist between Eastern Europe and the dynamic Asian economies. Trade between the two regions has expanded rapidly during the last several years. For example, the value of the Republic of Korea's exports to Eastern Europe has increased by about five times and imports have increased by about 3.5 times during 1988–90. Major export items by the dynamic Asian economies to Eastern Europe include electronics and other consumer goods, while major export items by Eastern Europe to those economies include machinery, chemical, and steel products. Total amounts of Eastern European trade with dynamic Asian economies, however, remain small relative to trade with industrial markets.

[78]The decline of non-CMEA exports was also significant for these countries, except for Hungary and Poland where non-CMEA exports increased significantly.

[79]In the case of Romania, after the Ceausescu Government renounced MFN privileges in February 1988, the United States suspended the MFN provision under the 1974 Trade Agreement.

[80]Yugoslavia has received GSP treatment from the United States since 1976.

[81]The United States plans to renegotiate bilateral agreements on textile quotas with Hungary, Poland, and Czechoslovakia by the end of 1991. It also plans to increase cheese quotas in the context of the Uruguay Round negotiations (White House, July 12, 1991).

[82]The EC has had a cooperation trade agreement with Yugoslavia since 1980; it provides for financial and technical aid and includes trade preferences for Yugoslavia's exports.

Table 8. Market-Opening Measures Taken by Industrial Countries for Eastern European Exports

Country	MFN Treatment	GSP Treatment	Bilateral Agreements for Market Opening
Bulgaria	All OECD countries (United States in April 1991)	Australia, Austria, Canada, EC (January 1991), Finland, Japan, New Zealand, Norway, Sweden, Switzerland	EC (April 1990),[1] United States (October 1990)[2]
Czechoslovakia	All OECD countries (United States in November 1990)	EC (January 1991), United States (May 1991)	EC (December 1988),[1] United States (April 1990),[2] EFTA (June 1990)[3]
Hungary	All OECD countries (United States in 1978)	Australia, Austria (July 1988), Canada, EC (January 1990), Japan, New Zealand, United States (November 1989)	EC (September 1988),[1] EFTA (June 1990)[3]
Poland	All OECD countries (United States in 1987)	Australia, Austria, Canada, EC (January 1990), Japan, New Zealand, United States (January 1990)	EC (September 1989),[1] EFTA (June 1990)[3]
Romania	All OECD countries except United States[4]	Australia, Austria, Canada, EC, Finland, Japan, New Zealand, Norway, Sweden, Switzerland	EC (May 1991)[1]
Yugoslavia	All OECD countries (United States in 1948)	United States (1976)	

Sources: United Nations Conference on Trade and Development (1990b); and national authorities.

Note: EC = European Community; EFTA = European Free Trade Association; GSP = Generalized System of Preferences; MFN = most favored nation; OECD = Organization for Economic Cooperation and Development.

[1]Cooperation agreements with the EC that contained an MFN clause and provided for the phasing out over a ten-year period of all selective quantitative restrictions.

[2]The agreements provide for the mutual extension of MFN treatment and will generally improve the capacity of American businesses to operate in the corresponding countries.

[3]Cooperation agreements that cover trade promotion and economic, industrial, technological, and scientific cooperation.

[4]MFN status suspended by United States on July 3, 1988 by mutual agreement. It is expected that the United States will resume MFN status soon.

an MFN clause and provided for the phasing-out over a ten-year period of all selective quantitative restrictions. The implementation of these agreements was overtaken by the dramatic developments since 1989. In 1990, the EC abolished the application of selective quantitative restrictions, except in sensitive sectors, such as agriculture, textiles and clothing, steel, and coal, and suspended the application of nonselective quantitative restrictions to Czechoslovakia, Hungary, and Poland. It also granted GSP treatment to all Eastern European countries.

In addition, the EC has concluded Association Agreements with Czechoslovakia, Hungary, and Poland.[83] In the trade area, these agreements will provide for a move to free trade between the EC and each of the three countries in most industrial products, but separate protocols are likely for agriculture, textiles and clothing, steel, and coal; the extent to which these sectors will be covered in the agreements is still under discussion. They are also expected to contain provisions on safeguards, rules of origin, antidumping rules, subsidies, intellectual property, the legal protection of nationals from the three Eastern European countries in the EC, and competition policy. The agreements are expected to be implemented over a maximum period of ten years, but the EC will likely reduce tariff and nontariff barriers faster than its partners.

The likely provision of separate protocols for agriculture, steel, coal, and textiles and clothing, reflects the "sensitivity" of these sectors in EC member states. For agriculture, the coverage of products, particularly those covered by the CAP, has been subject to intensive discussion. A limited coverage of agriculture may raise doubts about the conformity of these agreements with GATT, in that Article XXIV of GATT requires, inter alia, that free trade agreements cover substantially all trade. The extension of these agreements to cover all agricultural products would, however, in the absence of a fundamental reform of EC agricultural policies, add to the surplus EC production, increase the budgetary costs of the CAP, and further depress world

[83]Bulgaria and Romania have also requested the EC to undertake preliminary discussions on an Association Agreement.

market prices.[84] A significant increase in access to the EC market for Eastern European agricultural products would thus seem to be linked to the reform of the CAP and the outcome of the Uruguay Round negotiations.[85]

The inclusion of a separate protocol on coal and steel partly reflects institutional factors.[86] In addition, in the case of coal, the move to free trade creates difficulties for EC member states (Germany and Spain) that have heavily subsidized coal sectors and limit imports of coal from Poland through bilateral agreements. Although steel will likely be covered by a separate protocol, the EC council decided (April 15, 1991) that this product would be treated as any other industrial product, provided the three Eastern European countries abide by EC rules on prices and subsidies. A question yet to be decided is whether the three Eastern European countries will be required to commit themselves to capacity reductions in steel.[87] In the case of textiles and clothing, the EC and other industrial country markets are currently protected by the MFA and VERs. The main issue to be decided in the negotiations between the EC and the Eastern European countries involves the length of the transitional period to free trade.

Czechoslovakia, Hungary, and Poland also signed cooperation agreements with the EFTA in June 1990 and agreed to jointly examine the conditions for gradually establishing a free trade area. For a transition period of ten years, tariff reductions by the EFTA members are envisaged to proceed more rapidly than in the partner countries.

In spite of measures taken so far, Eastern Europe still faces substantial barriers to industrial country markets, particularly in agriculture, textiles and clothing, and steel products, which are important export items of Eastern Europe to industrial countries.[88] These barriers take the form of quotas, VERs, and other restrictions, as well as tariff peaks and escalation and also affect other developing countries (Table 9). In this connection, the EC quota on beef from Eastern Europe was cut in April 1991 to avoid a further growth in stockpiles in the EC.

Without substantial improvement in the access of Eastern Europe to industrial country markets, the economic reforms of these countries could be jeopardized. The major remaining barriers to industrial country markets are concentrated in sensitive areas, such as agriculture, steel, and textiles and clothing. Given the reluctance of major industrial countries to remove restrictions in these sectors on a unilateral basis, increased access to these sectors is dependent, in part, on the outcome of the Uruguay Round.

As indicated above, bilateral credits and easy financing terms offered by industrial countries that are tied to imports from industrial countries may have diverted trade from Eastern Europe. In this connection, the United States recently provided farm aid credit to the former U.S.S.R. that is tied to purchases of U.S. farm goods. The German authorities have put in place special export insurance facilities to support east German exports to the former U.S.S.R.; these facilities, which were granted a waiver from normal rules followed by OECD members until the end of 1991, permit zero cash down payments, a grace period on long-term credits, and extended repayment periods. In addition, budget subsidies granted by the German federal government for exports to the former U.S.S.R. by east Germany increased east German exports to the former U.S.S.R. in 1990, possibly displacing Eastern European exports.

Full Integration into GATT

All Eastern European countries, except Bulgaria, are Contracting Parties to the GATT. Bulgaria has been an observer to GATT since 1967 and applied for membership in 1986; a Working Party on its accession was established in 1986. With the exception of Czechoslovakia and Yugoslavia, special provisions were applied to these countries when they acceded to GATT to ensure that reciprocal

[84]According to one estimate (Center for Economic Policy Research (1990)) a world market price reduction of at least 10 percent for wheat and 9 percent for coarse grains would be necessary to absorb a 20 percent increase in the production of these commodities in Eastern Europe and the former U.S.S.R. from their 1988 levels.

[85]A September 30, 1991 proposal by EC foreign ministers would allow a 10 percent annual increase in beef and mutton imports from the three Eastern European countries for five years. (Current shipments from the three countries are around 28,000 metric tons a year.) Under a "triangular trade" arrangement, the EC would help finance food exports from the three Eastern European countries to the former U.S.S.R.; such exports would be deduced from the increased EC quota (International Trade Reporter (1991), p. 1425).

[86]Steel and coal are covered by the European Coal and Steel Community (ECSC) treaty signed in 1951. The EC has executive authority for the ECSC, but its powers under the ECSC treaty are greater than under the EEC treaty; these powers have been used to control production and prices of steel within the EC.

[87]Steel industry experts in the EC and independent studies suggest that production in the whole of Eastern Europe, including the former U.S.S.R., needs to be cut by 50 percent to achieve the aim of a competitive subsidy-free industry (European Report (1991)).

[88]For example, during 1985–89 these three sectors represented 28 percent of Czechoslovakia's exports to the EC and 36 percent of its exports to the United States; for Hungary, the corresponding figures were 39 percent and 27 percent; and for Poland, 30 percent and 65 percent.

Table 9. Industrial Countries' Nontariff Barriers to Exports by Eastern Europe[1]

Country	Voluntary Export Restraint/Quota[2]	Antidumping[3]			
		Investigations initiated	Provisional measures	Definitive duties	Price undertakings
Bulgaria	EC (meat, textiles and clothing, steel) Austria (textiles) Canada (clothing) Sweden (textiles and clothing) Switzerland (textiles and clothing) United States (woolen coats)	EC (3)	EC (4)	EC (2)	EC (1)
Czechoslovakia	EC (meat, textiles and clothing, steel) Canada (clothing) Norway (textiles) Sweden (textiles and clothing) Switzerland (textiles and clothing) United Kingdom (footwear, leather) United States (steel, steel products, textiles)	EC (4) Australia (2) Sweden (2)	EC (2) Australia (1)	EC (2) Australia (1)	EC (1)
Hungary	EC (meat, steel) Sweden (textiles and clothing) Switzerland (textiles and clothing) United Kingdom (footwear, leather) United States (steel, steel products)	EC (3) Australia (1) Sweden (2)	EC (1) Australia (1)		
Poland	EC (meat, steel) Denmark (table porcelain) Sweden (textiles and clothing) Switzerland (textiles and clothing) United Kingdom (footwear, leather) United States (steel, steel products)	EC (3) Australia (1) Canada (2) Finland (1) Sweden (2)	EC (1) Australia (1) Canada (1) Finland (1) Sweden (1)	EC (1) Canada (1) Finland (1)	EC (1)
Romania	EC (meat, steel) Australia (canned ham) Sweden (textiles and clothing) Switzerland (textiles and clothing) United Kingdom (footwear, leather) United States (steel, steel products)	EC (5) Canada (2) Finland (1) Sweden (1) United States (1)	EC (3) Finland (1) United States (1)	EC (4) Finland (1) United States (1)	EC (1)
Yugoslavia	EC (meat, textiles and clothing) United States (steel)	EC (13) Australia (1) Canada (1) United States (1)	EC (4) United States (1)	EC (10) Canada (1) United States (1)	EC (2)

Sources: Bureau of National Affairs, *International Trade Reporter*, various issues; General Agreement on Tariffs and Trade, *Review of Developments in the Trading System*, various issues; European Community (EC), *Bulletin of the European Communities*, various issues; and *European Report*, various issues.

[1]Excluding bilateral quota agreements under the Multifiber Arrangement (MFA).

[2]Measures effective during 1988–91.

[3]Measures taken during the period of 1988–90. Figures in parentheses indicate the number of cases under each category.

Table 10. Current Situation of Eastern European Countries in GATT

Country	Accession	Customs Tariff As Trade Concession[1]	Conditions Applied to Eastern European Countries Under Protocol of Accession: Review process	Import commit-ments	Discriminating safeguards[2]	Suspension[3]	Concession from Contracting Parties: Elimination of quantitative restrictions[4]
Czechoslovakia	1948				No Protocol		
Yugoslavia	1966	Yes	No	No	No	No	No
Poland[5]	1967	No	Annual	Yes[6]	Yes	Yes	No deadline
Romania	1971	No	Biannual	Yes[7]	Yes	Yes	End of 1975
Hungary	1974	Yes	Biannual	No	Yes	Yes	Early 1975
Nonmember							
Bulgaria	Observer status granted in 1967. It requested accession in 1986. Working Party on its accession established in April 1990.						

Source: General Agreement on Tariffs and Trade (GATT).

[1]In the case of Hungary and Yugoslavia, the customs tariff was considered by Contracting Parties as their main concession when they acceded.

[2]A discriminatory safeguard provision allowing Contracting Parties to restrict exports from the corresponding country which cause or threaten serious injury to domestic producers.

[3]The suspension of concessions or other obligations under the protocol in case of disputes not settled in consultation.

[4]A concession from Contracting Parties applying prohibition or quantitative restrictions against the corresponding country's exports, which are inconsistent with GATT Article XIII, that these restrictions would be progressively eliminated within a certain time period.

[5]Poland is currently renegotiating its protocol of accession.

[6]Under its present protocol, Poland is required to increase its imports from Contracting Parties at an annual average compound rate of 7 percent in every three year period from 1973–75. Annual increase of imports value should be not less than 7 percent.

[7]Romania committed to increase its imports to an amount that is not smaller than the expected total imports provided for in the Five-Year Plans.

trade concessions would not be impaired by non-market mechanisms (state-trading, artificial prices, bilateral trade arrangements, allocation of exports and imports). The five Eastern European countries joined GATT at different times and the conditions of membership differed, as did the concessions made to them by the Contracting Parties (Table 10). Czechoslovakia was an original contracting party and the terms of its accession were not renegotiated even though it substantially modified its foreign trade system after 1948.[89] Yugoslavia acceded to GATT, in effect, as a market economy.

As the Eastern European countries transform their economies into western-style market-based economies these special provisions in GATT will become unnecessary. For example, in the case of Poland the requirement to guarantee that imports increase by a certain percentage in value terms conflicts with the principles of a free market economy. Poland and Hungary are in the process of renegotiating their Protocols of Accession to reflect changes toward the greater market orientation of their economies (Appendix I).

Membership in GATT on normal terms is essential to provide Eastern Europe with greater security of access to markets of other Contracting Parties. At the same time, acceptance of the full obligations of GATT membership may enable Eastern European governments to lock in trade reforms and to resist protectionist pressures that may arise to backtrack on reforms.

[89]The United States, however, suspended the application of the General Agreement to Czechoslovakia in 1951. In November 1990, it waived the suspension of MFN treatment (see above).

V

Trade Policies of Developing Countries

Since the mid-1980s, there has been a marked shift in the orientation of the trade and industrial policies of most developing countries[90] away from a heavy reliance on direct intervention and inward-looking industrial policies toward less controlled and more export-oriented trade regimes. In a selected group of 36 regionally important developing countries that have embarked on trade reform programs since around 1985, 17 have virtually eliminated quantitative restrictions from their restrictive trade systems. Another 8 countries have maintained or further liberalized their open or somewhat open trade systems (Tables 11–13).

While most developing countries have made substantial progress in liberalizing their trade and trade-related exchange systems, progress across regions has been uneven. The shift in the orientation of trade policies is most striking in Latin America where almost all of the largest countries have, or are now committed to, open or relatively open trade systems. This contrasts starkly with the strong inward orientation that prevailed as late as 1984. The liberalization policies in these countries have been marked by a rapid elimination of quantitative restrictions and a clear plan for subsequent reductions in tariffs to quite low and uniform levels.[91] In contrast, reforms in East and Southeast Asia, where most countries have had relatively open systems since the early 1980s, have tended to be gradual. Their reforms have progressively increased the range of sectors subject to import competition. While some low-income countries have made substantial progress in liberalizing their trade systems, many countries in Africa and South Asia have not yet opened their economies to significant foreign competition; much of the reform has focused on inputs for production, and now they face the more difficult task of liberalizing quantitative restrictions on competing products and reducing very high tariffs. Reforms are continuing and more countries are likely to adopt open trade systems in the near future. A key feature of the latest round of reforms is that they are part of an integrated package of macroeconomic and structural reforms (often supported by multilateral institutions). Trade reforms that are accompanied by appropriate supporting policies are more likely to contribute to improved economic performance and to be sustained over time.

The increased participation of developing countries in the multilateral trade system is an important development linked to recent reforms. Many Latin American countries, for example, have bound 100 percent of their tariff schedules in GATT, in part to secure the trade reforms made so far. To consolidate these achievements, reciprocal liberalization within the framework of the Uruguay Round will be important. Secure access to foreign markets in the areas where developing countries have a comparative advantage is the most beneficial way of fostering genuine trade reforms and ensuring effective use of foreign aid and financing.

Trade Policies Prior to the Mid-1980s

Two important reasons explain the predominance of restrictive regimes prior to the mid-1980s. First, the desire to protect domestic industry to foster import substitution, which was seen as essential for development. Export pessimism, in terms of market access and unfavorable terms of trade, had played an important part in providing the justification for import substitution. Under the infant industry argument, import substitution required the protection of the industrial sector, to enable it to expand and to reduce its costs through economies of scale and learning by doing. Protected manufacturing industries were expected to provide externalities, such as urban employment, a "modern" industry, and diversification of the economy away from traditional exports of primary products. Corden (1987) reviews some of the arguments for protection and Bhagwati (1988) provides a historical perspective on the various reasons for this *dirigiste* approach.

Second, in the context of inappropriate macroeconomic policies and real exchange rate appreciation, discretionary import licensing and foreign

[90]See Section IV for a separate discussion of Eastern European countries.

[91]Quantitative restrictions are defined to include both trade and trade-related exchange restrictions and tariffs to include all import charges.

exchange restrictions were used to limit the demand for, and allocate the supply of, foreign exchange to cope with chronic balance of payments pressures.[92] In some cases this was done on an ad hoc basis; in others it was done in the context of annual import plans (e.g., India, Pakistan, and Bangladesh).[93] Whalley (1989) has argued that external sector controls in many developing countries were imposed cyclically to absorb some of the fluctuations in export receipts and capital flows. For example, the external regimes of many developing countries became more restrictive in response to the first oil crisis and the collapse of commodity prices in 1973, and the subsequent 1974–75 recession, after having been liberal in the 1960s and the early 1970s. Similarly, many developing countries responded to the debt crisis and recession starting in the early 1980s by initially tightening trade and exchange restrictions.

In this connection, some 80 percent of quantitative restrictions notified to the GATT by developing countries were justified for balance of payments reasons under Article XVIII:B. In addition, a number of countries employed foreign exchange restrictions on current account transactions, particularly those with tightly controlled regimes. In many of these countries, the restrictive measures used to shelter the import-competing sector had the important indirect effect of biasing the incentive structure against agriculture as well as exports.[94]

A number of developing countries nevertheless undertook trade reforms before the mid-1980s, with varying intensities and with mixed results. An extensive review of some of the main cases of trade liberalization prior to the mid-1980s is contained in Michaely, Papageorgiou, and Choksi (1991). An important conclusion of this study is that the strong reforms were likely to be sustained and the weak reforms were likely to be reversed. The single most important reason for the reversal of reforms was inadequate macroeconomic policies, which led to the reimposition of licensing or exchange controls to protect the balance of payments. In many cases where first attempts at reform were weak and failed, subsequent reforms were likely to succeed if they were strong. Some of the strong reforms that succeeded were those in Chile (1974–81), Indonesia (1966–72), Sri Lanka (1977–79), and Turkey (1980–84). Korea (with reforms in 1965–67 and 1978–79) is the only developing country with reforms classified as weak that succeeded. Two important and contrasting cases in the 1970s and 1980s are Chile and Korea. Their goals of high export growth were achieved through different strategies of trade liberalization. Chile adopted a strong and rapid liberalization program and became an open economy in the late 1970s. Korea adopted gradual, sustained reforms and became a partially open economy only in the mid-1980s. In both countries, generally prudent macroeconomic policies that stressed low inflation and a realistic exchange rate were, despite some slippages, the foundation of their success.

In the sample of 36 developing countries referred to earlier, most of the countries with nonrestrictive trade systems during the early to mid-1980s performed well in the 1980s in terms of real growth of exports and output. Five of the eight countries in this category had better export growth and six had better output growth than the average for developing countries in 1983–90. Two of the countries with weak performance, Costa Rica and Uruguay, had very high tariffs to foster import substitution, yet still performed close to the Western Hemisphere average. Senegal experienced export growth well below the average for sub-Saharan Africa. It is a member of the franc zone and is relatively free of quantitative restrictions, but it had a complex system of taxes on imports that resulted in very high tax rates, and used high reference prices for a large range of imports.

Trade Policies Since the Mid-1980s

Extent of Reforms

In recent years, many developing countries pursuing structural reforms have included some trade liberalization measures. In order to assess the extent and quality of trade reforms in these countries, a review was made of trade policies in 36 countries that have implemented trade reform programs since the mid-1980s (Box 2). In all but five of the programs reviewed, trade liberalization was supported by arrangements with the Fund and in

[92]Krueger (1984) stresses the relationship between inappropriate macroeconomic policies and the extensive use of restrictions and controls in developing countries in the period up to the early 1980s. Corden (1987) analyzes the Cambridge argument of real wage rigidity to justify the use of controls rather than a devaluation to correct an external imbalance. He notes, however, that there is no particular reason to make this assumption.

[93]During this period, India was one of the few developing countries to maintain relatively restrained macroeconomic policies while using extensive controls to undeipin its strongly inward-oriented development strategy. However, the pervasiveness of controls was also reflected in a more appreciated exchange rate than would have otherwise been the case.

[94]See Section VI for a review of agricultural trade policies. In studies reported therein, it is estimated that in the first half of the 1980s direct and indirect government intervention in the agricultural and industrial sectors resulted in substantially negative effective rates of assistance to agricultural export crops and domestic food crops.

Box 2

Methodology Used in Trade Review

Coverage

A review of the major countries in each geographic region based on the size of trade or gross domestic product (GDP) was undertaken to assess the extent and quality of trade reforms undertaken since the mid-1980s. All but five of the countries (Brazil, India, Indonesia, Malaysia, Peru)—had Fund-supported trade reform programs after the mid-1980s. Brazil, India, and Peru have recently concluded agreements with the IMF. Indonesia's trade reforms have been supported by World Bank loans and technical assistance from the Fund to introduce a value-added tax. The Eastern European countries are not included in this sample, but their trade reform programs are reviewed in Section IV. Comprehensive reform of their trade and payments systems is a key element of their reform programs.

Measurement of Trade and Trade-Related Measures

Tariffs and other import charges are measured in this study by the predominant maximum and minimum rates. The range of tariff rates provides information on the dispersion compared with average or effective tariff rates. Effective rates of protection would have been a preferable measurement, but are not available for most countries or for recent years. High tariff rates that applied only to a few items have been excluded and if exemptions are widespread, a zero minimum tariff rate has been used, even if there was no statutory zero rate.

Nontariff barriers are measured in terms of their coverage of import values. The import values generally relate to the pattern of imports in the measured year. It would be preferable to measure the coverage in terms of import patterns that would exist in the absence of restrictions, as otherwise the items subject to the most severe restrictions would receive the least weight. In the limit, items which are prohibited or for which no licenses are issued have a zero weight. Where this problem is quite extensive the proportion of tariff code items subjected to quantitative restrictions is provided as an alternative measure.

There are other shortcomings with the use of the coverage of quantitative restrictions in terms of import values or tariff code items as an indicator of the restrictiveness of quantitative trade measures. First, although this indicator is a measure of the existence of controls, it is not a good measure of the protective impact of quantitative restrictions, given the difference in size and diversification of the domestic industries of countries. In a small country, quantitative restrictions applied to a relatively small range of import values can protect a large proportion of domestic production. Tunisia, for example, had liberalized quantitative restrictions on 70 percent of import values by early 1991; however, 70 percent of domestic production remains sheltered by quantitative restrictions. In smaller, lower-income countries, the same proportion of domestic production is likely to be protected by an even smaller import coverage of quantitative restrictions. This problem can be overcome by weighing the coverage in terms of the shares of domestic production protected by them, but this measure is not available in most countries. Second, the coverage of quantitative restrictions indicates only the existence of one or more restrictions but not the scarcity value they imply.

Trade Liberalization

Trade liberalization covers *decontrol*—the elimination of nontariff measures—as well as policies that shift the trade regime toward *neutrality*—a reduction in the bias toward a particular activity, especially the production of import substitutes.

Neutrality is defined as a situation in which the effective exchange rate for a country's exports—nominal exchange rate adjusted for export taxes and export subsidies and tax credits—is equal to the effective exchange rate for imports—nominal exchange rate adjusted for duties and premiums resulting from quantitative restrictions (Bhagwati (1988)). An incentive system that is approximately neutral is preferable in that it fosters an efficient use of resources. Export rebates or duty-drawbacks may improve neutrality because they offset the bias against exports created by the protective system. However, export subsidies could imply a shift away from neutrality and lead to an inefficient use of resources.

Decontrol does not necessarily imply a shift toward neutrality. An example of decontrol without a move toward neutrality is the replacement of quantitative restrictions with equivalent tariffs. However, the elimination of quantitative restrictions makes trade regimes more transparent, helps to reduce rent-seeking activities, increases the price sensitivity of the trade system, and serves as the basis for subsequent tariff reductions. Another example of decontrol without a more neutral incentive structure is the removal of quantitative restrictions on inputs to import-substituting sectors without the decontrol of the final goods. This encourages the expansion of protected production and may increase the effective rate of protection for final import-competing goods.

Criteria Used to Classify Trade Regimes

For the purposes of the review of trade reforms, the following criteria were used to classify countries' trade regimes. In regimes with *tight* and *significant* control, quantitative restrictions (QRs) cover more than 50 percent or between 15 percent and 50 percent of imports, respectively. *Relatively open* regimes have QRs covering 5–15 percent of imports or QRs covering less than 5 percent of imports and maximum tariffs and charges that exceed 50 percent. An *open regime* has tariffs and other import taxes not greater than 50 percent and QRs covering less than 5 percent of imports. No allowance has been made for differences in the administration of QRs or the structure of tariffs that may also affect the degree of restrictiveness of the trade system.

many cases by World Bank adjustment loans. Of the 36 developing countries reviewed, 28 had either a tightly controlled (21) or a significantly controlled (7) trade regime, while only 8 had either a relatively open (7) or an open (1) regime (Table 11).

Of the 28 countries with restrictive trade systems, 17 undertook comprehensive trade reforms that resulted in relatively open or open trade regimes, while 11 implemented only partial reforms that left their domestic sectors substantially protected by quantitative restrictions (Table 12).[95] The 17 countries that introduced comprehensive reforms virtually eliminated trade and payments restrictions, usually within a two-year period, leaving tariffs and surcharges as the principal means of protection; 12 countries narrowed the range of tariffs, but 5 raised tariffs or surcharges when quantitative restrictions were lifted. In the partially open countries, tariffs remained high and widely dispersed, but the initial reforms greatly improved the transparency and price sensitivity of the trade regime. Thus by the end of the period under review, 60 percent of the countries with initially restrictive trade regimes had succeeded in removing the most distorting trade barriers (Table 13). In the 11 countries that implemented minor reforms, the quality of reforms varied, but in most cases the removal of quantitative restrictions was gradual and partial, with inputs for production or noncompeting imports decontrolled first, leaving quantitative restrictions on many final products and potentially raising their effective levels of protection. Such partial reforms may increase the level of effective protection on final import-competing products, rather than reduce it.

The main instruments used to promote export growth and diversification in the programs reviewed have been adjustments to exchange rates and producer prices and tariff reforms to reduce the anti-export bias in the structure of import protection. In countries with extensive foreign exchange controls, foreign exchange retention schemes for exporters were sometimes introduced; and in some cases, special licenses were provided to exporters to import inputs or duty drawback systems were used. In general, such schemes have not effectively addressed the anti-export bias facing export industries in restrictive systems and have proved difficult to administer. In more neutral regimes, however, duty exemption schemes can play an important role.

Overall, while most countries reviewed made considerable progress in substantially eliminating quantitative restrictions on trade and payments, tariff protection still remains high in most of them. Only nine have achieved an open trade regime with few quantitative restrictions and low tariff rates. Most others continue to maintain high and widely dispersed tariff structures that hinder the efficiency of resource use and growth prospects. A high tariff level results in inefficient import substitution and raises the cost structure of the economy; the resulting higher equilibrium value of the currency acts as a general tax on the export sector. A wide dispersion in the structure of tariff rates provides greater protection for those industries with the higher tariffs, attracting scarce resources from more efficient sectors.

Issues in the Design and Implementation of Trade Reforms

Compared with trade reform programs undertaken in earlier periods,[96] the programs reviewed were more frequently designed and implemented in the context of comprehensive macroeconomic and structural adjustment programs that introduced complementary measures to deregulate domestic product and factor markets and improve the efficiency of the public sector. In addition to appropriate financial and exchange rate policies, structural measures that accompanied trade liberalization commonly included measures to improve public expenditure and tax programs, reform public enterprises and marketing boards, decontrol domestic prices and financial markets, attract foreign direct investment, and reduce labor market rigidities. These measures aimed to improve the responsiveness of economic agents to relative price changes and the climate for private sector investment and thereby reduce the costs of adjustment. In turn, the liberalization of trade and payments has supported macroeconomic adjustment by fostering greater competition in the domestic market and alleviating the foreign exchange constraint; it also eliminates distortions facing many developing countries and thereby stimulates production based on comparative advantage.

There is broad agreement, which is confirmed by experience under the programs reviewed, that credible and balanced macroeconomic policies are essential to reap the benefits from trade liberalization. Where macroeconomic policies lack credibility, the need for frequent changes in policies and nominal exchange rates have led to inflationary expectations, speculative imports, and the reimposition of import restrictions (the Philippines, Zambia). In some other cases, inadequate fiscal adjustment has placed too great a burden on monetary policy, putting upward pressure on real interest

[95]Comprehensive trade reform programs are those classified as either major or moderate reform programs.

[96]See also Michaely (1991) for a review of trade reform programs from the 1950s up to 1984.

Table 11. Developing Country Trade Regimes Before Liberalization

Country	Year[1]	Tariffs and Surcharges[2]: Statutory tariff (In percent)	Tariffs and Surcharges[2]: Charges (In percent)	Quantitative Restrictions[3]: Main measure	Quantitative Restrictions[3]: Coverage[4] (In percent)
Tight control					
Argentina	1986	0–100	0–14	Nonautomatic licensing	60
Bangladesh	1984	0–300	15–100+	Prohibitions	51
Bolivia	1984	0–60	0–2	Nonautomatic licensing	90
Cameroon	1988	0–100	5–10	Nonautomatic licensing	>90
Colombia	1984	61[2]	0–18	Prohibitions	93[5]
Gambia, The	1985	0–60	0–6	Nonautomatic licensing	>50
Ghana	1988	0–100	10–40	Nonautomatic licensing	100
India	1987	0–295	0–50	Nonautomatic licensing	>90
Jamaica	1984	0–75	0–28	FX allocation	50
Kenya	1987	0–125	—	FX allocation	58
Malawi	1987	0–40	0–35	FX allocation	85
Morocco	1982	0–45	10–45	Nonautomatic licensing	>90
Nepal	1985	5–100	0–105	Nonautomatic licensing	>90
Nigeria	1985	5–100	0–5	FX allocation	92[5]
Pakistan	1988	10–225	6–11	Nonautomatic licensing	80[5]
Peru	1989	0–117	3–147	Prohibitions	100
Tanzania	1987	6–100	—	FX allocation	70
Tunisia	1986	5–236	0–50	Nonautomatic licensing	76
Venezuela	1988	0–80	2–5	FX allocation	65
Zaïre	1982	0–50	—	FX allocation	>90
Zambia	1984	0–100	—	FX allocation	>90
Significant control					
Brazil	1985	81[2]	—	Nonautomatic licensing	34[5]
Côte d'Ivoire	1983	2–30	—	Nonautomatic licensing	15–50
Ecuador	1984	0–290	1–30	Nonautomatic licensing	38[5]
Indonesia	1984	0–60	0–40	Nonautomatic licensing	32
Mexico	1984	0–100	3–19	Nonautomatic licensing	38
Philippines	1984	0–50	0–25	Nonautomatic licensing	36
Trinidad and Tobago	1988	5–35	10–100	FX allocation	15–50
Relatively open					
Costa Rica	1985	0–220	13–100		1
Korea	1984	26[2]	—		15[5]
Malaysia	1985	14[2]	0–60		5
Senegal	1985	15–45	7–50		15[5]
Sri Lanka	1986	0–100	0–45		13
Thailand	1981	0–100	—		6
Uruguay	1982	0–75	0–74		0
Open					
Chile	1984	0–35	5–15		0

Sources: International Monetary Fund, *Annual Report on Exchange Arrangements and Exchange Restrictions*; United Nations Conference on Trade and Development; General Agreement on Tariffs and Trade.

Note: FX = foreign exchange. Countries are classified based on the following criteria. In regimes with tight and significant control, quantitative restrictions (QRs) cover more than 50 percent or between 15 percent and 50 percent of imports, respectively. Relatively open regimes have QRs covering 5–15 percent of imports or QRs covering less than 5 percent of imports and maximum tariffs and charges that exceed 50 percent. An open regime has tariffs and other import taxes not greater than 50 percent and QRs covering less than 5 percent of imports. No allowance has been made for differences in the administration of QRs or the structure of tariffs that may also affect the degree of restrictiveness of the trade system.

[1]Year immediately before trade reform. Information in the other columns refers to this year.

[2]When available, a range of tariffs was used. If not available, the unweighted average of statutory rates or an average effective rate was used. Very high rates applied to only one or two items were disregarded. Charges were disregarded if they were applied equally to domestic and imported goods.

[3]Quantitative restrictions include value limitations on imports through foreign exchange allocation or by the requirement that importers provide their own foreign exchange.

[4]Percent of total imports covered by all quantitative restrictions unless otherwise specified.

[5]In percent of total tariff code items.

Table 12. Trade Reform Programs in Developing Countries

	Year Began	IMF Program[1]	Reform Measures[2]: Quantitative restrictions	Reform Measures[2]: Tariff
Reforms in initially restrictive regimes				
Major reforms				
Argentina	1987	SBA	Gradual virtual elimination.	Sharp reduction.
Bolivia	1985	ESAF	Virtual elimination up front.	Low tariffs in two-tier range.
Colombia	1985	SBA	Gradual reduction, replacement with tariffs.	Very gradual reduction of tariffs.
Gambia, The	1986	ESAF	Complete OGL; some state trading elimination.	No measures.
Ghana	1986	ESAF	Virtual elimination through FX auction access.	Reduction of maximum and rationalization.
Jamaica	1985	SBA	Major reduction in import licensing.	Large offsetting increases.
Kenya	1988	ESAF	Gradual replacement with tariffs.	Offsetting increases.
Mexico	1985	EFF	Gradual virtual elimination.	Sharp reduction in rates and dispersion.
Peru	1990	None	Virtual elimination up front.	Low tariffs in two-tier range.
Venezuela	1989	EFF	Virtual elimination up front, rest by 1992.	Reduction of maximum and rationalization.
Zaïre	1983	SAF	Virtual elimination up front.	Reduction of maximum and range.
Moderate reforms				
Brazil	1986	None	Gradual virtual elimination.	Gradual reduction over 4 years from 1990.
Côte d'Ivoire	1984	SBA	Some replacement with surcharges.	Tariff increase instead of gradual reduction.
Ecuador	1985	SBA	Phased elimination of QRs.	Tariff maximum reduced to 35 percent.
Indonesia	1985	None	Reduction in QRs, also on competing goods.	Reduction of maximum.
Philippines	1985	SBA	Gradual replacement with tariffs.	Reduction of tariff bands.
Trinidad and Tobago	1989	SBA	Gradual replacement with surcharges by 1991.	Gradual surcharge reduction by 1993.
Minor reforms				
Bangladesh	1985	SAF	Some reduction for intermediate goods.	Reduction of maximum tariff.
Cameroon	1989	SBA	Gradual replacement with tariffs.	Rationalization of tariff structure.
India	1988	None	Some net additions to OGL list.	Some increases.
Malawi	1988	ESAF	Limitation of FX allocation to a small negative list.	Transfer QRs to surtaxes.
Morocco	1983	SBA	Reduction in QRs on noncompeting goods.	Sharp reduction of maximum; new surcharge.
Nepal	1986	SAF	Expansion of import license auction.	Harmonization of tariffs.
Nigeria	1986	SBA	Gradual replacement with tariffs.	Large offsetting increases in tariffs.
Pakistan	1989	SAF	Gradual replacement with tariffs.	Reduction of maximum tariff.
Tanzania	1988	SAF	Gradual widening of OGL.	Reduction of maximum and simplification.
Tunisia	1987	EFF	Gradual replacement with surcharges.	Tariff reduction; increases in surcharges.
Zambia	1990	RAP[3]	Gradual increase of OGL and exchange rate unification.	Reduction of maximum and range.
Reforms in initially nonrestrictive regimes				
Chile	1985	EFF	Constitutional prohibition of QRs.	Reduction of uniform rate.
Costa Rica	1985	SBA	Elimination of remaining QRs by 1994.	Maximum tariffs and charges, 55 percent by 1994.
Korea	1984	SBA	Removal of nonagricultural QRs.	Reduction of unweighted average tariff.
Malaysia	1986	None	Gradual replacement with tariffs.	Harmonization of tariffs.
Senegal	1986	ESAF	Gradual virtual elimination.	Gradual reduction over 3 years.
Sri Lanka	1987	SAF	Gradual elimination of most remaining QRs.	Reduction of maximum and dispersion.
Thailand	1982	SBA	Removal of nonagricultural QRs.	Restructuring later reversed.
Uruguay	1983	SBA	No measures.	Sharp reduction in maximum.

Sources: International Monetary Fund (IMF), *Annual Report on Exchange Arrangements and Exchange Restrictions*; United Nations Conference on Trade and Development; and General Agreement on Tariffs and Trade.

Note: EFF = Extended Fund facility; ESAF = enhanced structural adjustment facility; FX = foreign exchange; OGL = open general license; QRs = quantitative restrictions; SAF = structural adjustment facility; SBA = stand-by arrangement.

[1]Main IMF program associated with the trade reform.

[2]Included are measures implemented before May 1991. All measures have been carried out unless otherwise stated.

[3]Rights accumulation program of the IMF.

Table 13. Current Structure of Developing Country Trade Regimes

Country	Most Recent Year of Reform	Tariffs and Surcharges[1]: Statutory tariff (in percent)	Tariffs and Surcharges[1]: Charges (in percent)	Quantitative Restrictions[2]: Main measure	Quantitative Restrictions[2]: Coverage[3] (in percent)
Tight control					
India	1990	0–295	0–78	Nonautomatic licensing	70
Nepal	1989	5–100	0–105	Nonautomatic licensing	>50
Tanzania	1990	0–60	0–50	FX allocation	>50
Significant control					
Bangladesh	1990	0–>100	—	Prohibitions	24[4,5]
Cameroon	1991	0–100	5–10	Nonautomatic licensing	15–50
Malawi	1991	0–45	0–85	Nonautomatic licensing	17[6]
Morocco	1989	0–45	0–13	Nonautomatic licensing	22[4]
Nigeria	1989	0–200	7	Prohibitions	21[4]
Pakistan	1991	0–95	0–15	Prohibitions	21[4,7]
Tunisia	1990	0–43	15–30	Nonautomatic licensing	30
Zambia	1990	15–50	0–20	FX allocation	15–50
Relatively open					
Brazil	1991	0–65	—		1[4]
Colombia	1991	0–63	0–16		14[4]
Côte d'Ivoire	1987	5–30	0–12		7[4]
Ecuador	1991	5–35	—		15[4]
Indonesia	1990	0–40	0–40		15[4]
Jamaica	1988	0–60	—		7
Kenya	1991	0–100	—		6
Malaysia	1989	. . .	—		5
Peru	1991	15–25	—		5
Philippines	1989	10–50	0–25		8[4]
Senegal	1991	15–45	10–50		6[4]
Sri Lanka	1990	5–50	—		9[4]
Thailand	1990	0–100	—		8[4,8]
Trinidad and Tobago	1991	5–45	0–60		0[9]
Venezuela	1991	0–20	—		10
Zaïre	1986	0–50	0–23		8
Open					
Argentina	1991	0–22	0–4		4[4]
Bolivia	1988	5–10	1–2		2
Chile	1988	15[10]	5–20		0
Costa Rica	1990	1–40	0–18		1
Gambia, The	1991	0–23	—		1
Ghana	1988	0–25	0–23		0
Korea	1990	1–50	—		4
Mexico	1988	0–20	—		2
Uruguay	1985	0–45	0–5		0

Sources: International Monetary Fund, *Annual Report on Exchange Arrangements and Exchange Restrictions*; United Nations Conference on Trade and Development; General Agreement on Tariffs and Trade.

Note: FX = foreign exchange. Countries are classified based on the following criteria. In regimes with tight and significant control, quantitative restrictions (QRs) cover more than 50 percent or between 15 percent and 50 percent of imports, respectively. Relatively open regimes have QRs covering 5–15 percent of imports or QRs covering less than 5 percent of imports and maximum tariffs and charges that exceed 50 percent. An open regime has tariffs and other import taxes not greater than 50 percent and QRs covering less than 5 percent of imports. No allowance has been made for differences in the administration of QRs or the structure of tariffs that may also affect the degree of restrictiveness of the trade system.

[1]When available a range of tariffs is used. If not available the unweighted average of statutory rates or an average effective rate was used. Very high rates applied to only one or two items have been excluded. Charges that were applied equally to domestic and imported goods have also been excluded.

[2]Quantitative restrictions include value limitations on imports through foreign exchange allocation or through the requirement that importers provide their own foreign exchange.

[3]Percent of total imports covered by all quantitative restrictions unless otherwise specified.

[4]In percent of total tariff code items.

[5]Includes rights-of-refusal items.

[6]Includes foreign exchange licensing and prior approval lists.

[7]The restricted list covers 283 tariff lines and the banned list covers 818 items out of a total of 5,355. Reductions were undertaken in both categories after April 1991.

[8]Refers to 1989.

[9]Target, end of 1991.

[10]Uniform tariff.

Table 14. Trade Liberalization, Stabilization, or Both

A. **Liberalize Trade First**

1. If foreign funds are available, tariffs can be reduced without an accompanying real depreciation, helping the stabilization effort by providing an anchor for (many) domestic prices, Krueger (1978).

B. **Implement Both Policies Simultaneously**

2. Trade reforms complement fiscal adjustment, Papageorgiou, Choksi, and Michaely (1990).
3. In theory there is very little connection between the determinants of inflation and the orientation of the trade regime. It is possible to attack both problems at the same time as long as we avoid overvaluation, Krueger (1981).
4. Postponement of liberalization implies prolonging inefficiency costs. Do it simultaneously following crawling peg and assuming that government will not resort to controls to curb inflation, Krueger (1984).
5. Liberalization will only succeed with depreciated real exchange rate. This requires solving fiscal deficit pressures simultaneously, Michaely (1987).
6. As long as overvaluation is avoided, it is possible to carry on both policies at the same time, Corden (1987).
7. A variety of trade reforms complement fiscal adjustment, such as the conversion of quantitative restrictions to tariffs and reduction of tariff dispersion, Thomas, Matin, and Nash (1990).

C. **Stabilize the Economy First**

8. Liberalizations will have a better chance of succeeding if undertaken with a fiscal surplus. In this way we can assure that we will maintain a depreciated real exchange rate, McKinnon and Mathieson (1981).
9. Main problem with aborted liberalizations is that they have been accompanied with massive capital inflows resulting in real appreciation. Need for foreign funds can be avoided by achieving fiscal surplus before liberalizing, McKinnon (1984).
10. Since inflation generates serious distortions, liberalization will take place under inappropriate signals. Thus, inflation should be brought down first, Fischer (1986, 1987).
11. Both policies result in a "competition for instruments," where what is required to succeed on one front is the opposite of what is needed to succeed on the other. Historical evidence from successful Asian exporters suggests that stabilization should be consolidated before attempting trade reforms. In countries with high inflation where stabilization requires the use of exchange rate as a nominal anchor, it is preferable to postpone trade reform until the economy is stabilized, Sachs (1987, 1988).
12. Reduction in tariffs to low levels has a direct revenue impact and an indirect budgetary impact because of lower activity and employment and the payment of safety net benefits. Thus fiscal consolidation and reform need to come before complete liberalization, Blejer and Cheasty (1990).
13. Despite their complementary nature, trade reforms may have to be delayed in high inflation situations, Thomas, Matin, and Nash (1990).

Source: Based on Table 4.1 in Operations Evaluation Departments, *World Bank Support for Trade Policy Reform*, Report No. 9527 (Washington: World Bank, 1991).

rates and exchange rates and penalizing the productive sector (Argentina and other Southern Cone countries in the 1970s; and Argentina, Brazil, Jamaica, and Peru in the 1980s and early 1990s).[97]

In the context of comprehensive programs, an important issue is the proper sequencing of trade reforms in relation to other policies. Views differ about whether macroeconomic stabilization needs to precede trade liberalization or whether the two go hand in hand. The review of experience indicates that trade liberalization has succeeded both after (Ghana, Korea) and during macroeconomic stabilization programs (Chile, Mexico, Venezuela).[98] While the choice in sequencing depends on the initial conditions in the country concerned, the international economic environment, and the overall program design, there is a growing consensus that high priority should be given to trade reform at an early stage in the adjustment effort (Table 14). Financial, exchange rate, and wage policies are essential to the adjustment process, but when these policies are complemented by the liberalization of the trade and payments regime, a more efficient framework for restoring a viable external position can be achieved.

The interaction between the government budget and the various stages of trade reform needs to be considered when a trade liberalization program is designed. This includes both the direct fiscal impact of changes in trade-related taxes and the indirect effects of changes in budgetary receipts and payments owing to a possible initial contraction in economic activity and employment and the provision of safety net benefits.[99] The initial stages of trade

[97]Among the industrial countries, trade reforms in Australia and New Zealand were also hampered by an inappropriate fiscal-monetary policy mix.

[98]Korea liberalized its trade regime progressively during the 1970s and early 1980s, but its major long-term import liberalization programs began in 1984. By 1984, Korea had largely adjusted to the major oil price shocks of the late 1970s and early 1980s.

[99]The complex linkages between trade liberalization and fiscal policy are discussed in more depth in other papers (see, for example, Farhadian-Lorie and Katz (1989) and Blejer (1990)).

reform, when quantitative restrictions are replaced by tariffs and tariff exemptions are eliminated, can complement fiscal adjustment. However, in countries that depend heavily on import taxes, a reform of the domestic tax system is required before tariffs can be brought down to a sustainable basis. Of the countries reviewed, a number that have successfully liberalized have introduced value-added tax systems to broaden the domestic tax base (Indonesia, Mexico). Some others have delayed tariff reductions (Bolivia, Pakistan, Sri Lanka, Thailand) or introduced surcharges (Chile and Morocco) for revenue reasons.

Appropriate exchange rate policies are also essential to ensure that trade reforms are consistent with balance of payments objectives. Because the equilibrium exchange rate is partly determined by the degree of import restrictiveness, major reform programs often involve an exchange rate adjustment; ultimately, the choice of exchange rate policy will depend on initial conditions and the other elements of the macroeconomic program. In the sample reviewed, all but two of the programs that resulted in relatively neutral trade regimes with low tariffs were associated with a substantial devaluation of the nominal exchange rate at about the time trade reforms were initiated, which resulted in a real effective depreciation that was sustained by policies thereafter. Korea's trade reform program, which was gradual and preannounced, was not associated with a major exchange rate adjustment.

As discussed above, the scope and pace of liberalization programs has varied significantly across geographic regions. Recent trade reform programs in Latin America and Eastern Europe have been comprehensive and relatively quick, while those in Southeast Asia have been gradual and most reforms in Africa and South Asia are not yet complete. It is difficult to assess at this stage whether the "big bang" or the gradual approach will be more enduring; however, an important measure of success has been achieved by countries that have substantially completed the liberalization process using either approach. Bolivia, Chile, and Venezuela in Latin America, and the dynamic Asian economies have all had considerable success in sustaining their earlier reforms.

There are strong indications that the completeness and the credibility of a reform program are the most important factors for success. Elements of trade reform programs that have contributed to sustained liberalization include the preannouncement of the timing and scope of reforms, the early removal of quantitative restrictions, the reduction of tariff levels and dispersion, and complementary domestic price, tax, and public enterprise reforms. Locking in reforms in various ways also enhances credibility. Many countries in Latin America have bound their entire tariff schedules in the GATT; Chile introduced an amendment to its constitution forbidding the use of quantitative import restrictions; and countries that adopt a relatively uniform tariff schedule may find it easier to resist pressures for protection from special interest groups.

The economic effects of trade liberalization are difficult to disentangle from the effects of other policies, but the evidence from a number of comprehensive studies indicates that the long-run effects of trade liberalization on output and employment growth, trade expansion, and the balance of payments were beneficial.[100] A recent comparison by the IMF of the trade orientation and growth performance of 41 developing countries showed that during 1975–89, the outward-oriented countries achieved, on average, significantly higher growth rates of potential GDP and of total factor productivity than the inward-oriented countries.[101] The review of countries' trade reform programs also indicates that most of the countries that had open or relatively open trade regimes in the early 1980s have performed well in terms of the growth of output and exports and have avoided serious balance of payments problems.

Although trade liberalization has been shown to be beneficial in the longer run, shorter-run adjustment costs are likely to be incurred when formerly protected sectors are exposed to import competition. The elimination of price controls and rationing, which frequently accompanies trade reforms, can also put basic necessities out of reach of the poorest segments of the population. In these circumstances, public support for reforms can be enhanced and transition costs reduced by policies that improve external competitiveness, facilitate adjustment in labor markets, and target safety net benefits to the most needy.

Trade Liberalization Versus Export Promotion and Selective Intervention

Trade liberalization is now considered a more efficient instrument for promoting export diversification than some of the earlier schemes used for this purpose. These included export subsidies for nontraditional exports, including cash subsidies and income rebates, which were common in Latin America before the recent reforms, or duty relief schemes, which have assisted a large range of exports in Korea and relatively open countries, such as Indonesia and Malaysia. In the absence of a rela-

[100]See, for example, Michaely (1991), Krueger (1978), and Cline (1981).

[101]See International Monetary Fund (1990c), pp. 68–69, and Table 16.

tively open trade system, these schemes have not generally been successful in that by and large such countries did not reduce their reliance on traditional exports during the 1960s and 1970s. Export processing zones have been set up in a large range of countries to enable certain export production to avoid domestic taxes and restrictions altogether; however, their contribution to exports has been significant in only a few cases.

Competition provided by the liberalization of imports of final products can serve as part of an anti-inflation policy and can promote the adjustment of real wages needed to strengthen export competitiveness. In a protected industry, enterprises often give wage increases to workers to compensate for devaluation-induced price increases, rather than face industrial unrest. Competition from imports can induce greater restraint on the part of firms and workers. This objective has been an important part of the trade liberalization programs in Latin America as well as in Eastern Europe.

Despite the widespread shift to more market-oriented policies some development economists and governments advocate selective intervention in the economy through trade and industrial policies. The economic reform programs supported by the Fund and the World Bank envisage a strong and active role for governments in creating an environment for efficient economic activities, rather than the government intervening in the economy to "pick winners."[102] Proponents of selective intervention justify it on the basis of market failures or strategic needs. They envisage protection of a few sectors via planning, directed credit, or import allocation to create internationally competitive industries.[103] Many of the arguments in favor of intervention are simply variations of the infant industry argument. Counterarguments stress that the choice of which industry to support requires a great deal of information as well as impartial and nonpolitical decision making. Since market prospects can change rapidly, such decisions have to be taken quickly while avoiding the temptation to prolong support to industries that are unprofitable. The possible gains from the few industries that may succeed have to be weighed against the large potential looses from incorrect decisions.

[102]See World Bank (1991b).

[103]See Wade (1990) and Singer and Alizadeh (1988).

Agricultural Trade Policies: Recent Developments and Issues in Reform

During the 1980s, awareness of the need for substantial reforms in agricultural support policies has increased. Such reforms are essential for an open multilateral trading system and for the integration of Eastern European and developing countries into that system. Reform would also ease budgetary pressures and price distortions in industrial countries and reduce trade frictions. Many countries, especially those undertaking major economic reforms, have a strong interest in ending the export of surplus production and in achieving greater market access for their products. Another prominent issue is the growing concern about the environmental damage caused by excessive incentives for intensive agricultural production; the perceived advantages of more ecologically sound land use, particularly in the densely populated industrial countries, are encouraging needed reforms. Despite these developments, the fundamental changes that would reduce support and make agriculture more market oriented have not generally been implemented. This trend is reflected in the total value of transfers from taxpayers and consumers to support agriculture in 1990, which rose significantly to $300 billion.

Relatively few major liberalizations in agricultural support policies have occurred since the start of the Uruguay Round in September 1986. Some changes introduced in the United States in the 1990 Farm Bill have made the operation of support policies for cereals less distorting, but expenditures, especially export subsidies, are likely to increase and import barriers to remain. The EC discussions are continuing on the reform of the CAP to reduce the need for import barriers and export subsidies, but negotiations are likely to be protracted. In Japan, despite liberalization of some products and reductions in the overall level of support in 1990, there is no discussion of a fundamental reform of its policies, although the possibility of a limited opening of the rice market has been raised. Canada has introduced changes to rationalize its support policies, but its support levels remain high. Australia, New Zealand, and Sweden have made reforms to their agricultural policies that entail reductions in support.

Eastern European and most developing countries could gain substantially from a worldwide reform of agricultural protection policies if they continue with the structural reforms they are implementing. Reduced export taxes, more appropriate exchange rates, reduced industrial protection, and other market-oriented reforms will make the exports of these countries more competitive. Improved market access and the elimination of export subsidies are important to sustain the economic reform in Eastern Europe and developing countries. Reforms in food-importing developing countries and the likely phasing of industrial country liberalization would reduce the amount of adjustment food importers would need to make.

Recent Policy Developments

General Setting

Despite the attention given to agriculture in the 1980s and in the Uruguay Round, support levels for agriculture remain high. Total transfers associated with support policies in OECD countries peaked at $300 billion in 1990 (Table A22). About 40 percent of such transfers came from government budgets; the remainder was paid by consumers through higher domestic prices resulting from trade barriers. These transfers from taxpayers and consumers were about 2 percent of GDP in 1990; in the Scandinavian countries, total transfers amounted to more than 4 percent of GDP, while in Japan and the EC they were slightly more than 2 percent of GDP (Table 15). This amount is substantial in comparison with the value added of agriculture, about 3 percent of GDP in OECD countries (Table A23). Support, measured by producer subsidy equivalents as a percentage of the value of production, increased sharply in the mid-1980s to an average level of 50 percent for OECD countries (Table 16).[104] In 1988 and 1989, support declined mainly because of increases in world prices (in terms of U.S. dollars) owing to poor weather-

[104]The producer subsidy equivalent of a support policy is the estimated transfer needed to replace a support policy and leave the producer no worse off. It can be expressed as a total value of the transfer or as a percentage of the value of production at internal prices.

Table 15. Total Transfers Associated with Agricultural Policies

(In percent of GDP)

	1979–81 Average	1983–85 Average	1986	1987	1988	1989	1990 Estimate
Australia	0.4	0.5	0.5	0.3	0.2	0.2	0.2
Austria	1.7	2.6	2.8	3.2	2.7	2.2	2.4
Canada	0.9	1.7	2.2	2.2	1.9	1.4	1.4
EC-12[1]	1.6	2.5	2.9	2.8	2.5	2.1	2.2
Finland	...	...	6.8	4.9	4.8	4.3	4.3
Japan	1.7	2.8	2.8	2.8	2.4	2.3	2.1
New Zealand	0.8	2.0	3.8	0.3	0.5	0.3	0.2
Norway	...	...	3.9	4.0	3.9	3.6	4.1
Sweden	...	...	2.6	1.9	1.6	1.6	1.5
Switzerland	...	...	3.2	3.2	3.1	2.9	2.8
United States	0.8	1.9	2.1	1.8	1.4	1.4	1.3
Average OECD[2]	1.3	2.2	2.5	2.4	2.1	1.8	1.9

Sources: Organization for Economic Cooperation and Development (OECD), *Agricultural Policies, Markets and Trade, Monitoring and Outlook* (Paris), various issues; and International Monetary Fund, *International Financial Statistics*, various issues.

[1]EC-10 prior to 1986. Total transfers of EC-10 in 1986 were $97.7 billion and 3 percent of their GDP.

[2]Total transfers of OECD countries divided by OECD GDP.

Table 16. Net Producer Subsidy Equivalents[1]

(In percent of total value of production)[2]

	1979–81 Average	1983–85 Average	1986	1987	1988	1989	1990 Estimate
Australia	9	14	16	11	9	10	11
Austria	36	37	49	48	47	39	46
Canada	24	33	49	49	42	37	41
EC-12[3]	37	35	50	49	46	41	48
Finland	...	...	68	72	73	70	72
Japan	57	65	75	76	74	71	68
New Zealand	18	24	33	14	75	5	5
Norway	...	...	76	76	76	75	77
Sweden	...	...	60	57	52	52	59
Switzerland	...	...	80	80	78	73	78
United States	16	25	42	41	34	29	30
Total	29	34	51	50	46	41	44

Source: Organization for Economic Cooperation and Development, *Agricultural Policies, Markets and Trade, Monitoring and Outlook* (Paris), various issues.

[1]Producer subsidy equivalents of support policies are the transfer needed to replace these policies and leave the producer no worse off. They are net for some products, for example, beef, as the costs of their inputs are inflated because of other support policies and this effect is netted out.

[2]Total value of production valued at internal prices.

[3]EC-10 prior to 1986. The net producer subsidy equivalent for EC-10 in 1986 was 52 percent.

affected harvests (Table A24). Lower prices associated with a return to normal crop seasons were the main source of increased producer subsidy equivalents in 1990.

Some major shifts in the pattern of agricultural trade occurred in the 1980s. The United States is the largest agricultural exporter; the value of its exports declined for much of the 1980s but rose sharply in 1988 (Table A25). The EC is the second largest exporter, and the largest agricultural importer. It was the largest net importer of agricultural products in 1980, but the size of its net imports has declined steadily. Japan became the largest net importer by 1983 and has experienced strong growth in agricultural imports since 1987.

Cereals are the main food commodity traded

internationally; the largest exporters are the industrial countries; the largest importers are developing countries (Tables A26 and A27). The United States, the largest exporter, lost some market share in the mid-1980s but has subsequently regained most of it. The share of the EC in world cereal exports has continually expanded and the market shares of Australia and Argentina have declined since 1987. The volume of Japanese cereal imports has grown slightly since the late 1970s, but EC cereal import volumes have fallen dramatically. Cereal imports of North Africa have stabilized at around the levels of the mid-1980s, but those of sub-Saharan Africa have declined sharply.

United States

The system of agricultural support in the United States is very complex; some basic features are outlined in Table A28. The operation of these policies has generally remained the same since 1985, although in 1990 limited progress toward an increased market orientation for export crops was made.[105] While it was expected that the changes to farm policies would reduce agricultural spending, lower world prices have increased budgetary costs (Table A29).

Support for cereals, the main export crop of the United States, is now mainly based on income support through the system of deficiency payments. The major change introduced in the 1985 Farm Bill was the substantial reduction in support prices (loan rates) for cereals while farmers' incomes were sheltered by target prices, on which deficiency payments are based and which were only reduced slightly (Table A30). In the 1990 Farm Bill, target prices were kept at their 1990 level. This system of deficiency payments entails high levels of budgetary expenditures when world prices are low, as in 1985/86–1986/87 and probably in 1990/91 (Table A31). Expenditures are partly limited by the operation of the set-aside, which reduces the acreage on which deficiency payments are based and restrains production to prevent further declines in world market prices.

The 1990 Farm Bill only addressed a limited range of distortions created by the support system for cereals. First, because payments are related to farm size there is an incentive to expand the size of the farm, often using new land that is only marginally productive and environmentally fragile. Second, deficiency payments are based on participation in a program crop and producing another crop reduces the entitlement to such payments. The 1990 Farm Bill partly addressed these problems by tightening some environmental provisions and by introducing some options to increase planting flexibility. Nevertheless, deficiency payments continue to contribute to increased production by supporting production at levels of average costs that are above world prices.

The export subsidies under the Export Enhancement Program (EEP), mainly on cereals, were continued in the 1990 Farm Bill. The limit on EEP spending was replaced by a minimum funding requirement of $500 million annually. It is expected that $900 million and $1,200 million will be spent in the 1991 and 1992 fiscal years, respectively; the latter is above the high levels of the mid-1980s when export competition drove grain prices to very low levels (Table A31). Thus, while the EC budget is put under stress, unsubsidized exporters bear the brunt of the adjustment to low world prices as shown in Table A26. Recently, U.S. wheat has been exported to Brazil with EEP bonuses, under protest from Argentina and Uruguay. Australia has also protested strongly at the use of the EEP in markets where it has been traditionally strong, for example, in the Middle East and China.

Restrictions on imports competing with domestic agricultural production remain tight (Table A32). In 1990, a GATT panel found that quotas imposed on raw sugar under a headnote to the U.S. Tariff Schedule were not consistent with the GATT. To bring them into compliance with the GATT, the quotas were converted to tariff quotas with a prohibitive tariff for imports in excess of the quotas. The quota on peanuts, one of the products protected by quotas under the 1955 waiver from the GATT, restricts imports to very low levels. Domestic supply problems resulted in a decision to increase the quota in 1991, but a very short time frame for bringing in imports resulted in a low level of actual imports. Imports of dairy products also remain restricted, and reductions in the support price for milk from its 1990 level were ruled out until 1995. The continued tendency for excess supply has resulted in renewed Commodity Credit Corporation (CCC) accumulation of dairy stocks.

The 1990 Farm Bill included a "GATT trigger" under which, if there is no agreement in the Uruguay Round by mid-1992, export competition from the United States will be intensified. The measures provide for increased funding of the EEP by $1 billion, marketing loan programs for wheat and feedgrains (which effectively are also export subsidies) (see Table A28), and a waiver of the set-asides. These measures, if implemented, would

[105]Agricultural support policies in the United States are set every five years in the "Farm Bills." The full title of the 1985 Farm Bill was the Food Security Act of 1985, and the term 1990 Farm Bill covers the Food, Agriculture, Conservation, and Trade Act of 1990, enacted on November 28, 1990, and the Omnibus Budget Reconciliation Act of 1990, enacted on November 5, 1990.

both push down world prices significantly and greatly increase budgetary costs.

A recent study by the U.S. Department of Agriculture (USDA) suggests that relatively little would have to be modified in the 1990 Farm Bill if the proposals made by the United States in October 1990 in the Uruguay Round group on agriculture were accepted.[106] Increases in world prices for grains would be expected to reduce support levels sufficiently to enable the commitment on internal supports and export subsidies to be met. There would have to be some reduction in support prices for dairy products and sugar, which could reduce incomes of those producers by up to 10 percent. With the anticipated world price increases, the income of the U.S. farm sector could rise by $1–2 billion in 1996.

European Community

The need to reform the CAP has been a recurrent issue for many years. High levels of support for agriculture in the EC, which had a producer subsidy equivalent ratio of 48 percent in 1990, have significantly reduced the EC's net food imports since the 1970s, and substantially increased self-sufficiency ratios (Table A33). The CAP has been under great pressure to reduce the drain on the EC budget, to recognize the export interests of other countries, especially those undergoing economic reforms, and to unlock the Uruguay Round.

In Kelly and others (1988), it was noted that the range of measures agreed to in February 1988, while a first step at reform, focused mainly on reducing the budgetary cost of the CAP but did not increase market access for imports or reduce directly the extent of subsidized exports. The February 1988 measures completed the system of "stabilizers" for each of the main products and set an overall limit on the increase in EC spending on agriculture to not more than 74 percent of the rate of increase in the GNP of the EC.

Although EC agricultural spending was limited by higher world prices for food products in 1988–89, subsequent world price declines, a large accumulation of beef stocks, and the additional cost of support in eastern Germany placed pressure on spending in 1991. Estimates in early 1991 indicated that CAP spending would increase in 1991 by a record 32 percent, to ECU 36.6 billion, or about ECU 1.1 billion over the budget guideline (Table A34), although ECU 1.5 billion was attributed to the cost of German unification.[107] The 1991 price package agreed on at the end of May 1991 held spending close to the budgetary guideline although it did not address the major reform issues. The price package included a slight reduction in the support price of cereals (Table A35) with an increase in the co-responsibility levy to 5 percent, but producers who set aside 15 percent of their acreage would receive an exemption from that levy, a 2 percent reduction in the quotas for milk, and a slight reduction in the intervention price for beef.

Pressure for the reform of the CAP has been mounting in Europe. There remains the continuing disparity of price supports benefitting the more affluent farmers in northern countries more than the smaller and poorer farmers in the southern countries. Also, there is a growing awareness of the environmental consequences of the intensive agriculture encouraged by high price supports. In addition, an expansion of the EC to include some EFTA countries[108] would magnify current problems under an unreformed CAP. The reforming Eastern European countries need a destination for their exports. The EC is an attractive market for farm products from Eastern Europe but these are limited by restrictions; the export of beef to the EC has been blocked by EC activation of its quotas to avoid further growth in stockpiles.

The proposals of the EC Commission for the reform of the CAP issued in mid-June 1991 called for substantial reductions in support prices with offsetting direct income support. The main reforms proposed were for cereals where support prices would be reduced by about 35 percent to ECU 100 a ton over three years. Under a scheme similar to the U.S. system of deficiency payments for cereals, compensatory payments would be made to compensate for the reduction in support price. Comparable arrangements would be introduced for oilseeds and protein crops (which are alternate crops for cereal farmers). The compensatory payments would be based on a regional yield and a farm area adjusted for the proposed set-aside, initially set at 15 percent for the combined area of cereals, oilseeds, and protein crops. Farms of 20 hectares or less would be exempt from the set-aside; compensation for the set-aside would be subject to a ceiling of 7.5 hectares so that farms of over 50 hectares would not

[106] See United States, Department of Agriculture (1991). One reason for this result is the assumed price effects of the Uruguay Round agreement. Even with only partial liberalization it is expected that, for example, wheat prices would rise by 22–28 percent compared with the 1986–88 baseline, with increases of 6–8 percent and 50–55 percent for corn and rice, respectively. These price increases are similar in magnitude to the price increases from complete liberalization discussed below and thus appear to be rather high.

[107] Table A34 shows the preliminary draft budget only, which had predicted a smaller increase.

[108] Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.

receive an additional payment on the set-aside. Once EC market prices are aligned with world prices, export refunds would no longer be required. Beef support prices would be reduced by 15 percent because of lower feed costs. Milk quotas would be cut by 4 percent. An early retirement scheme would be introduced for farmers aged 55–65 (about half the EC farmers), and there would be increased incentives for using farmland for forestry. Budgetary spending would initially rise as the costs now borne by consumers would be transferred to the budget. However, the Commission estimates that if the plan becomes operational by 1993, by 1997 the cost of the reformed system would be below the cost of the current policies extrapolated to that date.

Initial reactions by EC member agriculture ministers were mixed. Ministers from the northern countries criticized the proposals; the French, German, and U.K. ministers would prefer direct controls on supply, which have a lower budgetary cost. The U.K. minister also criticized the reduced payments to larger farms on the grounds that such payments would encourage inefficient small farms. Ministers from the southern countries broadly supported the plan with its full compensation to small farmers. While the Commission's proposal was not entirely acceptable to all EC members, it could provide a basis for completing negotiations on the reform of the CAP. For a discussion of some of the issues related to agricultural reform see the section below titled "Approaches to the Reform of Support Policies."

Japan

Although there has been liberalization in some agricultural products and progressive declines in the producer subsidy equivalency ratios, basic food commodities remain highly protected in Japan.[109] Japan is the largest net importer of food and its overall self-sufficiency ratios remain very low, at about 30 percent for all grains but 100 percent for rice (Table A36). Support prices have been reduced progressively for almost all products since 1985 (Table A37) but for rice the support price is still about six times the world price. While budgetary spending on agriculture has fallen since 1980 (Table A38), most support is paid by consumers as a result of substantial import barriers (Table A22); the level of Japanese support, as measured by the producer subsidy equivalency ratio of 68 percent in 1990, is the highest of all the OECD countries, except some of the EFTA countries. Unlike the other major trading countries, there is no discussion of fundamental reforms for the major commodities (e.g., rice) through explicit steps to make the Japanese agricultural sector more responsive to world market prices. Some suggestions have been made to provide import access to a relatively small share of the domestic rice market. In the Uruguay Round, Japan has stressed the need to eliminate export subsidies as well as the need for provisions to ensure food security in basic foodstuffs.

Liberalization has occurred in a number of food items over the past few years. In line with agreements with the United States, Australia, and New Zealand, as of April 1991, the quotas on beef were eliminated and replaced with tariffs that will be progressively reduced.[110] Imports of apple juice, oranges, and processed dairy products have been liberalized and nontariff barriers on imports of other minor products have been eased.

The main food products, especially rice, remain highly protected. The producer price of rice was reduced from ¥311 in 1986 to ¥275 per kilogram. This, together with increases in the world price for rice, has reduced the ratio of the support price of rice to world prices from about nine times in 1986, to six times in 1990 (Table A39).[111] The current very high support prices tend to generate excess production, even with the current cost structure of farms, but relatively tight supply control systems are used to prevent the emergence of excess supply. Some limited steps have to be taken to improve the market orientation of rice production by excluding less efficient growers from the formula used to set support prices and to partly liberalize distribution of rice.

Although food security through self-sufficiency is an important goal of Japan's rice policy, current policies do not achieve this objective efficiently. Food security requires efficient or potentially efficient production, but support policies and other regulations have resulted in highly inefficient rice farms. In 1985, the average size of rice farms was about 0.6 hectares, about 29 percent of farmers were over 65 years old, and only 20 percent of farm households were considered to have farming as their primary means of support.[112]

[109]Except as noted, there have not been any recent significant changes in the operation of Japanese agricultural policies; the description of the system in Citrin (1990) remains applicable. The main features are summarized in Table A38.

[110]The tariff rate will be 70 percent for the Japanese fiscal year (JFY) 1991/92 (April 1991–March 1992), 60 percent for JFY 1992/93, and 50 percent for JFY 1993/94. It will subsequently be subject to agreements in the Uruguay Round. There is also a safeguard mechanism utilizing an emergency tariff of 25 percent (Harris (1990)).

[111]Different results for the nominal protection coefficient (NPC) can result from using different measures of world prices and the inclusion of freight. Nevertheless, alternative measures show similar changes. In OECD (1991) the NPC is estimated to have declined from 7.7 in 1987 to 5.2 in 1990.

[112]Japan (1987).

EFTA Countries

The EFTA countries have high levels of protection for their agriculture. In 1990, Norway, Finland, and Switzerland had producer subsidy equivalency ratios of more than 70 percent, although Austria and Sweden had lower levels of 46 percent and 59 percent, respectively (Table 16). In Finland and Norway, producer prices generally increased in 1990, and in Finland an additional flat subsidy was introduced to avoid an increase in cereal prices. The high producer prices in all EFTA countries are maintained mainly by import restrictions and deficiency payments related to production. Export subsidies are also used to dispose of excess production. In Finland, there are some additional income supports that are modulated in terms of farm size or region and are not linked to production.

Support for agriculture in Sweden is now in the process of being reduced. In the period up to 1986, support levels increased significantly, but as this did not provide reasonable food costs and an efficient use of resources, a program of reform was initiated in July 1990. The first round related to the deregulation of the domestic distribution arrangements. The second round—the phasing out over a three-year period of administered prices and export subsidies—started in July 1991. Supplementary income supports will be given to grain producers during the transitional period only. The government has undertaken to reduce border protection in the context of an agreement in the Uruguay Round.

Canada, Australia, and New Zealand

Canada, Australia, and New Zealand are all export-oriented agricultural producers with a strong interest in reform, as reflected by their membership in the Cairns Group.[113] Despite this interest, Canada had a producer subsidy equivalency ratio of 41 percent in 1990 with an extensive income support system and a heavily protected, domestically oriented agricultural sector. Australia and New Zealand, after their reforms, have the lowest levels of agricultural support of the OECD countries.

Canada has introduced a major change to a substantial part of the country's support programs by rationalizing them under a standard framework. This has been done by the introduction of the Gross Revenue Insurance Plan (GRIP) and the Net Income Stabilization Account (NISA), which for 1991/92 have been implemented for grains and oilseeds. The two programs are designed to replace the temporary measures provided in the recent past. The new schemes shelter the income of Canadian producers from variations in yields and price fluctuations. The protection for Canada's import-competing products remains high. In 1990, a GATT panel found that Canada's import restrictions for ice cream and yogurt were inconsistent with GATT Article XI.2(c). Canada has undertaken to bring these restrictions into conformity with GATT in light of an agreement in the Uruguay Round.

Australia has liberalized most of its agricultural sector. Controls on wheat marketing and sugar imports have been lifted. Under the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), free trade was established on goods with New Zealand in July 1990, including dairy products, thus subjecting Australian processed dairy products to world prices. The operation of the wool reserve price system of the Australian Wool Corporation (AWC) created severe problems for this sector by supporting a wool price in 1990 that was no longer viable. In February 1991, the Government suspended the wool reserve price system by which time the AWC had accumulated stocks equivalent to about one year's supply and a government guaranteed debt of $2.4 billion. During this time other wool-growing countries benefitted from the high prices, although it is now expected that prices will remain relatively depressed until the surplus stocks are eliminated.

New Zealand is the industrial country that has most completely liberalized its agriculture, but the full gains from the liberalization have not yet emerged. The reforms in New Zealand since 1984 were part of a general liberalization of all sectors of the economy. It was expected that the liberalization program would benefit the farm sector as resources shifted there on the basis of comparative advantage. However, while some important adjustments have taken place in the farm sector, including the diversification into a range of horticultural products and nontraditional livestock, it has remained weak. Macroeconomic developments, including an appreciation of the real exchange rate and high real interest rates; the much slower liberalization of the manufacturing sector, resulting in negative effective rates of assistance to the agricultural sector; and continued low world prices of farm products partly caused by policies of other industrial countries, have worked against the agricultural sector in New Zealand.[114]

Eastern Europe

Since the early 1970s, Eastern Europe and the former U.S.S.R. had been a major source of increased demand for agricultural products, mainly cereals, but the reforms in these countries are likely to change this situation dramatically. Despite hav-

[113] For a description of the Cairns Group, see footnote 10.

[114] For further details see Sandrey and Reynolds (1990).

ing more arable land per person than Western Europe, Eastern Europe and the former U.S.S.R. as a group had become major net importers of agricultural products because of both lower productivity and much higher losses in the food distribution system.

As reforms in Eastern European economies take hold, agricultural exports are likely to increase. The initial exportable surplus has come from reduced demand as food subsidies have been cut back, but after a short lag, there should also be a significant supply response.[115] While initial conditions vary across countries, the experience of China and Viet Nam suggests the agricultural sector can have a strong and relatively quick supply response to market-based reforms. Hungary, for example, which has been a grain exporter to other Eastern bloc countries in the recent past and to much of Europe in the prewar period, could again return to world markets. The implications of this for world markets depends on the responses of other countries; if barriers to agricultural products remain, increased exports from Eastern European countries will place further downward pressure on world prices for food products, thereby weakening the reform efforts of a broad range of countries. Mounting surpluses in Czechoslovakia have resulted in a plan to subsidize farm exports. The move toward trade in convertible currencies between the former members of the CMEA has also reduced regional exports as the United States and EC are able to offer the Commonwealth of Independent States generous credit terms for their agricultural exports.

Developing Countries

As with the industrial countries, the trade and trade-related aspects of the agricultural policies of the developing countries are complex. In general, however, the policies of many developing countries have resulted in a net bias against agriculture, although this has been reduced in the context of recent structural adjustment programs. Continued progress in this direction is necessary to enable developing countries to take advantage of market opportunities. Developing country exporters would gain from the liberalization of agricultural trade by industrial countries, mainly from the liberalization of temperate products but also from liberalization in tropical products. Reductions in direct and indirect export subsidies by industrial countries and domestic reforms in developing countries would enable food importers to improve their self-sufficiency in food. The liberalization of developing countries' direct support for agriculture should be coordinated with the rest of their structural adjustment programs to avoid increasing the negative effective rates of protection on agriculture.

The biases against agriculture resulting from exchange rate and industrial protection policies in developing countries up to the mid-1980s have been significant. In a recent study, Krueger, Schiff, and Valdés (1988) examined the net effects of direct and indirect policy interventions on export crops and food crops. In the case of export crops, the net effect of policies was highly negative at minus 40 percent. For food products, the positive direct support did not offset the negative indirect effects of other policies; the net effect was minus 6 percent. However, upper-income developing countries, especially Malaysia and Korea, have tended to give their import-competing agricultural sectors more positive support. If these countries are excluded, the average net impact of policies on food crops in the remaining countries was strongly negative, minus 22 percent.

The net effect of policies was derived from direct and indirect support. Direct support was taken as the difference between domestic producer prices, net of explicit taxes, and world prices at the official exchange rate; in 1980–84 for export crops and food crops this averaged minus 11 percent and plus 21 percent, respectively (Table A40). For export crops, the negative support was due to export taxes and excessive margins retained by state trading entities; for food crops, high domestic producer prices and input subsidies for materials and credit contributed to the positive support. Indirect support was calculated as the divergence between the official exchange rate and the exchange rate that would have prevailed under well-functioning markets with free trade, plus the effects of protection for the industrial sector, and was estimated to average minus 29 percent in 1980–84.

Since the mid-1980s, most developing countries have undertaken important structural adjustment programs that have addressed many of these problems. There have been significant reductions in the taxation of exports, and steps have been taken to correct misaligned exchange rates, and to improve the targeting of food subsidies. Progress has also been made, although of a more limited character, in reducing the protection for the manufacturing sector in many of the low-income developing countries.[116] A reduction in the biases against agriculture is important to enable developing countries to take advantage of liberalization by industrial countries, as domestic economic problems have at times con-

[115]A significant exportable surplus has been predicted by a number of authors, for example, Center for Economic Policy Research (1990).

[116]Trade reforms by developing countries are discussed in Section V.

strained the supply response by developing countries. For example, Brazil, a large sugar producer, has recently had to import sugar and has been unable to meet its quota allocations for sugar exports to the United States. In this connection, however, the reduction of the direct support for the agricultural sector should be coordinated with the reform of industrial policy. As shown in the case of New Zealand, welfare gains are likely to be reduced if agriculture is liberalized ahead of a more highly protected industrial sector.

A strong domestic food industry has often been recommended as an important element for diversifying the productive structure of developing countries, but it is important that this be achieved efficiently. The volatile nature of earnings from their export crops results in problems for developing countries with the management of their economies and foreign exchange flows. Since export price stabilization schemes have not generally proved successful, an alternative is a more diversified agricultural sector.[117] The programs supported by the Fund and the World Bank have sought to aid the agricultural sector by reducing the biases against it, both direct and indirect, while Bank projects have contributed to improved infrastructure and information services. Some reports on this problem have stressed the importance of fostering increased domestic food production capacity with the aim of self-sufficiency.[118] While direct positive support through import restrictions on agricultural products may produce a quick supply response in the protected products, the efficiency of such production is often low. Also, strong net positive support for import-competing agriculture, in the presence of net support for industry, is likely to increase the bias against export-oriented agriculture.

The Reform of Agriculture

Rationale for Agricultural Support

The rationale for agricultural support is made along three main lines: (1) agriculture provides some important externalities or noneconomic benefits that need to be supported; (2) support can influence other countries' policies directly or can be a bargaining chip in trade negotiations; and (3) as discussed immediately above, mainly in the case of developing countries, direct support is needed to preserve the sector that is adversely affected by indirect biases against it from industrial and exchange rate policies.

Noneconomic justifications for agricultural support are based on the view that free markets would not achieve some goals that are considered to be socially desirable. These goals include food security, the preservation of small family farms, a certain type of landscape, and a certain regional pattern of development—especially to avoid the centralization of populations.

The need for food security in the basic crops has been strongly argued by Japan, Korea, Switzerland, and the Nordic countries. While it is clear that food is a necessity, it is important to distinguish between food security and self-sufficiency. Food security could be achieved through stockpiles and diversified supply contracts with other countries rather than by self-sufficiency. Japan, for example, is highly dependent on many imported commodities in addition to food, such as energy and inputs for agriculture, and has secured relatively stable sources of supply for these commodities. Compared with other essential commodities, the sources of food exports are very diverse so that alternative supplies are generally available in case of an embargo. Hostilities need to reach the stage of a blockade before there may be an appreciable effect.[119] Also, the best strategy for self-sufficiency during an embargo may not be self-sufficiency during normal times since intensive farming can degrade the quality of farmland.[120]

Other noneconomic reasons, such as support of the family farm, regional development, and the natural environment and traditional landscapes, should also be scrutinized to find the most efficient means of achieving these goals.[121] The experience of the EC and the United States has shown that market price supports mainly benefit large farmers and those in the highly productive regions. To the extent that farm size and regional goals are strongly desired, carefully targeted income supports not related to production, but directly to the goal, should be used. Indeed, the preference for small farms may reflect the more fundamental desire of retaining a certain population pattern in some regions. Regional objectives may be better supported by providing infrastructure and leaving the market to decide whether agriculture, industry, or services should develop in that region. Intensive farming resulting from high support prices has a very damaging effect on the natural environment

[117]The example of the Australian wool reserve price scheme discussed above is but the latest example of failure.

[118]UN-PAAERD (1990).

[119]Hufbauer, Schott, and Elliott (1990), conclude that, in general, embargoes have not been very successful.

[120]See Winters (1990).

[121]An additional justification for intervention in agriculture is to stabilize farm incomes, but a pure income stabilization scheme would result in a zero level of support over time. This is not the case with support policies in most industrial countries.

owing to high levels of pesticide and fertilizer use.[122] Payments for farming, including those decoupled from production levels, create an incentive for farming compared with alternative land uses, including grazing, forestry, and recreational uses. Many of the marginal farmlands in remote areas are ill-suited to farming, which has degraded the quality of the land. Direct incentives for conservation uses as in the United States and the proposed reforms of the CAP are second-best policies; a reduction in direct incentives for farming would be more efficient.

The tactical rationale for support is relevant for both large and small countries. A large country may choose to intensify its subsidies to influence the offending policies of another country; for example, the United States has attempted to direct the EEP against the EC's export subsidies. While this strategy may have increased the market share of the United States and increased the pressure for the reform of the CAP, the effects on smaller third countries need to be considered. Evidence suggests the increase in the market share of the United States has been at the expense of smaller nonsubsidizing exporters (Table A26). Some smaller countries have high levels of support, despite an internationally competitive agricultural sector, for example, Canada. In some of these cases, support has been justified as a "defensive" strategy against price swings amplified by protection and export subsidies in other countries.

Studies of the Gains from Liberalization

Liberalization in Industrial Countries

Recent estimates in studies confirm that the economic costs of agricultural support policies are high. Aside from the actual value of the transfers, the burden to taxpayers and consumers of support policies is reflected both in terms of static welfare losses, measured by partial equilibrium (or single sector) models, and the loss of competitiveness of the more efficient sectors from the support of the less efficient sectors and the resultant higher real wages (in terms of world prices), as analyzed by general equilibrium models. In all these models the costs of agricultural support policies are generally measured by complete liberalization; this is distinct from the impact of a possible Uruguay Round agreement that may involve only a partial liberalization.

The models that focus on the response of the agricultural sectors across countries to liberalization are useful in analyzing the effects of support policies on prices for agricultural products and trade flows. Table A41 shows the latest estimates of the price effects from various models. Overall there would be a significant rise in the world prices of most agricultural products, especially those that now have high rates of domestic support, such as dairy products, sugar, and meats. The results are less clear-cut for cereals. One group of models (the Tyers and Anderson (1) and the Krissoff, Sullivan, and Wainio (USDA) models) shows that there would also be a significant increase in the price of cereals, while another group (the Moreddu and Huff (OECD-MTM), Tyers and Anderson (2), and Zeitz and Valdés models) suggests that there would be price falls.[123] In general, the studies have also assumed that policies of Eastern Europe and the former U.S.S.R. will remain unchanged from the base period, that is, this group will remain a net importer. Policy reforms by these countries, as noted above, should eventually reduce their net import demands, with the effect of reducing prices compared with those prevailing in the 1980s.

These models of agricultural markets show substantial gains to consumers and taxpayers, as a result of liberalization, that are significantly greater than the costs to producers. One study shows, based on support levels in 1986/87, that complete liberalization would result in a net welfare increase of $35 billion (Table A42).[124] Producers would lose $66 billion but consumers and taxpayers would gain $104 billion from complete liberalization. Since an agreement in the Uruguay Round would not rule out nondistorting supports, some of the producer losses could be offset by transfers that would leave the net benefits roughly unchanged.

The impact of agricultural liberalization is also important for the rest of the economy. One model, the OECD's WALRAS model, estimates that OECD income could rise by about 1 percent, $72 billion in 1988 prices and exchange rates, which is significant in comparison to agriculture's 3 percent share of GDP. It suggests that agricultural output would decline by about 14 percent for the OECD and by 19 percent and 24 percent for the EC and Japan, respectively. Output in the nonagricultural

[122]Anderson (1991) cites evidence on the correlation between chemical fertilizer use and support levels. In 1985, Japan, Korea, and Switzerland used 375–440 kilograms of chemical fertilizers per hectare of arable land under permanent crops. Austria, the EC, and Norway, used 200–300 kilograms; the United States, 94 kilograms; Canada, 50 kilograms; New Zealand, 30 kilograms; and Australia, 24 kilograms.

[123]Studies are reported in Table A41. To a large extent these differences reflect different views about the impact of production controls, especially the U.S. set-aside.

[124]This base period is useful because it is the most recent used by such studies and it is close to the base period being discussed in the Uruguay Round. However, it was a period when support levels were very high.

manufacturing sectors would increase, especially in the EC and Japan, with increases of 2–4 percent. In terms of cost per job "saved" in agriculture the WALRAS model suggests that this would vary from about $13,000 in Japan, to $20,000 in the EC and the United States, and $100,000 in Canada.[125]

Liberalization in Developing Countries

The effect of liberalization on agriculture in developing countries depends greatly on their individual economic policies. Many agricultural exporters would gain substantially, with the amount increasing with the degree of structural reform in their economies. Food-importing developing countries would roughly break even in terms of their agricultural trade balance if they passed through the full value of the price increases. Further liberalization of developing countries' agricultural and industrial policies would produce very significant gains.

The importance of a reduction in support levels in industrial countries for most developing countries is highlighted by the results of some multicountry models (Table A41). Their baseline scenarios show that the agricultural trade balance of all developing countries combined would increase substantially.[126] Latin America and Asia, where there are major food exporters, gain very substantially. The results are less clear for North Africa and the Middle East where the gains are smaller but are only negative in one of the four studies presented. The loss in sub-Saharan Africa comes from the model using a 1981–83 base period. Models using more recent base periods show this region gaining.

Two models designed to analyze the effects of industrial and developing country liberalization are Tyers and Anderson (1992) and Krissoff, Sullivan, and Wainio (1990).[127] Their alternative scenarios assume developing countries liberalize their own economies by completely removing distortions affecting their agricultural and industrial sectors and realign their exchange rates to market clearing levels. These assumptions result in an improvement in the agricultural trade balance for all developing countries of about twice that in the baseline scenarios and is positive for all regional groups. The sustained implementation of structural adjustment programs that have been undertaken by most developing countries is likely to mean that the impact of industrial country liberalization is closer to that shown in the alternative scenarios.

These results underscore the importance of industrial country liberalization for supporting the reform efforts of developing and Eastern European countries. The liberalization of the agricultural policies of the industrial countries, especially improved market access, is important to current and potential food exporters, to enable them to support their liberalization programs and to restore their growth on an efficient and sustainable basis. Major increases in net supply from Eastern European countries and the Commonwealth of Independent States, without improved market access in industrial countries for all countries, will only add to the intense trade conflicts in this sector. Liberalization should not only be in the temperate food products but also in tropical products and should seek to reduce the escalation of tariffs and nontariff barriers on such products. Such products are important for a broad range of developing countries, including those that import significant amounts of food.

Approaches to the Reform of Support Policies

Three broad approaches to the reform of agricultural policies are widely discussed. The first is based on nonmarket intervention to restrict domestic supply while retaining import restrictions to maintain high support prices. The second would allow production to be sold at roughly world market prices, thus obviating the need for import restrictions and export subsidies, but provide general direct income support to compensate farmers for lower prices. The third alternative is similar to the second but income support would be targeted to achieve specific objectives after it has been determined that the optimal method to attain the noneconomic goals is indeed a subsidy.

Nonmarket Intervention

Proponents of this approach to reform note the problem of excess supply in agricultural markets and advocate overcoming it by restricting supply by means of direct controls. In conjunction with import restrictions this approach can maintain a high domestic support price, which is effectively paid for by consumers rather than by the budget; this enables farmers to claim that they are earning their living from the market rather than from "government handouts." The volume of subsidized exports would be determined by the severity of the supply controls. Proponents point to GATT Article XI:2(c), which permits the use of import restric-

[125]Burniaux and others (1990).

[126]The baseline scenarios assume that increases in world prices are passed on to consumers and producers, an appropriate response to a permanent change in the price of traded goods.

[127]The model results are shown in Table A41 as A-T (1) and (2) and USDA (1) and (2). The baseline scenarios are designated (1) and the alternative scenarios are designated (2).

tions to enable the operation to supply controls on a like product. Recent GATT panel reports have restricted the applicability of this provision, but many countries want the applicability of Article XI:2(c) to be broadened.[128] Market access would be negotiated and set in terms of quotas at levels that could be above the current ones. Proponents of specific provisions for food security also advocate some modification to the GATT to permit import restrictions for this purpose.

The main problem with this approach is that it maintains current inefficiencies and thus can inhibit further reform.[129] The high support prices under this approach are paid by consumers, while large producers are able to obtain most of the benefits from this system. In addition, the high marginal return on production induces excessively intensive production that results in high levels of pesticide and fertilizer use that has damaging environmental consequences. While quotas could be set at levels that are attractive to some exporters, especially because these may also benefit from the rents, they do not fully address the rights of all potential exporters, especially those currently reforming their economies and that have yet to realize their full supply potential.

Generalized Income Supports

Generalized income supports also create market distortions, although they are less severe than those created by market price supports. In the above survey of recent developments in support systems, it was observed that some form of direct income support had been adopted by countries seeking to improve the efficiency of their agriculture while maintaining the income levels of farmers. This includes the United States, Canada, Sweden, and the EC Commission's proposal for the reform of the cereal sector of the CAP. In all of the above cases, except Sweden, the income supports are generalized; typically, the subsidy is calculated per unit as the difference between a "target price" and the market price. Thus, they may be considered production or farming subsidies as they are either related to past, present, or future production or a factor of production (often land) and require the recipient to be engaged in the production of crops or a particular crop.[130]

[128]For example, the EC, Canada, the Nordic countries, Japan, and Korea. The restricted applicability of this provision arises because the import restrictions have to be on the product subject to the supply controls, or a like product. The problem in Article XI for the protection of the dairy sector is that the supply controls are on milk production but the import restrictions are on processed dairy products.

[129]For a fuller discussion see OECD (1990b).

[130]OECD (1990b).

Since this form of support does not require border protection, the cost to consumers is eliminated and the support is funded entirely from the budget. Budgetary spending will increase substantially, as was the case in the United States and is expected in the proposed reform of the CAP. This increase can be limited by land set-asides and from second-round increases in world prices as export subsidies and production are reduced. Explicit export subsidies would not be required, but income supports under the current schemes would be paid on exported production.[131] However, as noted in the case of the United States, generalized income supports can have a significant production-enhancing effect compared with no supports, because they enable farmers to operate at higher levels of average costs, are based on farm area, and are linked to the production of specific crops.

Targeted and "Pure" Income Supports

The problems of the production-enhancing effect and high budgetary cost of generalized income support should be addressed efficiently through better targeting of the support to desirable noneconomic factors rather than the use of supply controls. Compared with market price supports, income supports can be targeted to achieve certain objectives and to foster desirable noneconomic benefits. Reducing the relationship of these supports to production, factors of production, and farming activities, as well as the duration of the supports mitigates the impact on production. One role of income supports is to compensate farmers for their loss of the distorting market price supports, but there is no reason to do this in perpetuity. The cost and the production-distorting effect could be reduced if payments are made only to current farmers on the basis of current farm size and possibly only for a transitional period; Sweden has adopted this form. Attractive early retirement schemes are also useful in restructuring farms that would not be viable at world prices when a large proportion of the farm population is close to retirement age, as in the cases of Japan and the EC. While targeted income supports may not be the most efficient means, they can also be used to promote regional development.

Concluding Comments

A decision on the reform of the CAP has acquired a highly visible position, and it is important that such a decision reflect the role of the EC in the

[131]In the Uruguay Round, whether income supports paid on exported production will be classified as export subsidies is an issue.

international trading system. Initial reactions by some EC agriculture ministers have focused on the high budgetary costs and the inefficiencies that may result from higher support levels per unit of output directed to small farms. Solutions to reduce budgetary costs proposed by some EC members entail continued market price supports bolstered by supply restrictions. These would, however, give rise to the problems noted above. Lower rates of support for large farms through the operation of the set-aside scheme that reduce the budgetary cost have been criticized as promoting inefficient production methods. However, it is unlikely that the roughly 15 percent margin in unit levels of support for small farmers will create an incentive for inefficient farms, as the cost advantages of large farms typically exceed this margin. Further improvements in the targeting of income supports or reduced unit levels of support are the most efficient ways of reducing the budgetary costs.

The proposed system of generalized income supports for growers of cereals and oilseeds, while an improvement on the current CAP, would have production distortions comparable to support systems in the United States and Canada. As noted earlier, all these direct income support systems entail significant production distortions. Thus, it is essential that support levels are reduced substantially and market orientation in agriculture is increased in all industrial countries.

Issues for the 1990s

In some respects the issues for the 1990s remain those of the past two and even three decades—agriculture, steel, textiles and clothing, subsidies, nontariff barriers, etc. Progress in these areas depends on the outcome of the Uruguay Round, which is expected to have an important bearing on the full integration into the multilateral trade system of the developing and Eastern European countries. Meanwhile, new problems have emerged in response to changes in the world trading environment, which relate to the increased integration of the world economy through the globalization of investment and production and the effects of this on the relative importance of trade in the economy, the geographic organization of production, and the way countries compete in world markets. These forces were behind the inclusion of new issues (services, investment, and intellectual property) in the Uruguay Round and, to some extent, they explain the increased resort to regional arrangements, in the absence of relevant multilateral rules in the new areas.[132]

The complex interrelations among transnational firms, which invest and produce globally, have broadened the scope of policies that affect trade, foreign investment, and international competition and raised issues concerning the relevance of traditional trade policies and the appropriateness of GATT rules. The use of trade policies to pursue environmental objectives has also created new challenges for GATT and the global economy. These issues are on the trade policy agenda for the 1990s.

Integration of Developing and Eastern European Countries into the Multilateral Trade System

The experience of the past decade has amply demonstrated the linkages between openness, technological advance, and economic growth, and this has encouraged many developing and the Eastern European countries to deregulate their economies, liberalize their exchange and trade systems, and promote foreign investment. To bear fruit, these efforts will depend on two interrelated elements: the ability of the countries themselves to persist with their reform efforts and greater access to foreign markets, particularly those of the industrial countries. Security of access to foreign markets for developing and Eastern European countries is also linked to their fuller participation in the GATT system. For the Eastern European countries this involves renegotiating the conditions of their membership to reflect the greater market orientation of their economies.[133]

The review of trade reforms programs indicated that many developing countries need to move beyond the initial stages of trade reform toward completing trade regimes that rely mainly on price-based measures and that yield a basically neutral incentive structure. For them and for Eastern European countries, the effectiveness of the substantial exchange and trade reforms already in place will depend on further domestic reforms to develop product and factor markets that foster competition and the allocation of resources based on a realistic relative price structure. In this process greater openness to foreign investment would facilitate privatization, the transfer of technology and know-how, and the development of competitive industrial and agricultural sectors.

Improved access to world markets is essential for the success of policies aimed at increasing efficient resource allocation. This will depend importantly on a comprehensive agreement in the Uruguay Round, where the major impediments to the exports of developing and Eastern European countries are under negotiation. Liberalization in these areas is likely to be slow, however, considering the long transition periods contemplated in any agreements on sensitive sectors.[134] Industrial countries, from

[132]Feketekuty (1991a).

[133]The Czech and Slovak Federal Republic and Yugoslavia acceded to GATT as market economies; Poland, Hungary, and Romania acceded to GATT under special provisions; Bulgaria, an observer to GATT since 1967, applied to accede to GATT in 1986. Poland and Hungary have taken steps to renegotiate their Protocols of Accession.

[134]While the immediate benefits of a Uruguay Round agreement could be small, the longer-term beneficial effects are expected to be substantial. Some estimates of the potential gains from a successful Round were reviewed in International Monetary Fund (1990c), pp. 74–76.

their side, look for concessions by developing countries in specific areas of interest to them, namely, services, trade-related investment measures, and intellectual property rights. In contrast to previous GATT rounds, they also seek more secure access to developing country markets, particularly those of the dynamic Asian economies. Although the immediate tangible benefits of a Uruguay Round agreement to developing and Eastern European countries may be small, the strengthening of the multilateral trade rules and their enforcement would be crucial for the outward-oriented adjustment strategy these countries are pursuing.

For Eastern European countries, access to industrial country markets has become more critical because of the collapse of trade among former CMEA countries. As discussed in Section VI, industrial countries have accommodated this to some extent by dismantling restrictions on Eastern European exports and extending MFN treatment and GSP privileges in most cases. The EC is also negotiating Association Agreements with the Czech and Slovak Federal Republic, Hungary, and Poland that would provide for free trade in most industrial products and somewhat more limited access in sensitive areas: agriculture, textiles, clothing, steel, and coal. At the same time, the collapse of Eastern European exports to the former U.S.S.R. has been aggravated by the extension of tied aid and export credits by industrial countries to the former U.S.S.R., including to finance agricultural exports from the former German Democratic Republic.

The longer-term challenge of integrating the Eastern European countries into the world trade system is expected to involve substantial structural adjustment for Western Europe in particular, given its close geographic and cultural ties to Eastern Europe. This could have adverse consequences for other countries depending on the policy responses of Western European countries, especially those of the EC.[135] Adjustment pressures will increase in those sectors that are already heavily protected, but offsetting this is the opportunity to expand exports of goods (particularly capital goods) and services to Eastern Europe. Resisting these structural changes through protectionist policies would reduce the potential benefits the world economy could derive from the opening up of Eastern Europe. Even more, it would jeopardize the effectiveness of financial resources channelled to these countries and their own efforts to create competitive market economies. Such resistance could take the form of preferential access to Western European markets for Eastern European countries at the expense of competing suppliers (both developing and industrial countries), or access could continue to be denied in trade-sensitive areas. While Western Europe may be most directly affected by the opening of Eastern Europe, the same considerations apply to other industrial countries, which need to accompany financial aid to Eastern European and developing countries with improved access to their markets. In this connection, it has been estimated that if industrial countries eliminated all their tariff and nontariff barriers the level of real national income of the developing countries would rise by 3 percent of GDP, equivalent to approximately twice the amount of official development aid extended annually by the industrial countries.[136]

Regional Arrangements and the Multilateral Trade System

The increased resort to regional trade arrangements is viewed by many as a cause for concern; others view it as a natural consequence of the regional integration that has already taken place both formally and informally. In any event, it is widely believed that regional trade groups—de facto or de jure—are here to stay. These developments raise the question of whether regional trade arrangements are likely to hinder or support the open, multilateral trade system.

The GATT permits preferential trading arrangements provided that substantially all trade between members is liberalized within a reasonable length of time and that barriers to trade with nonmembers are not raised. These provisions aim to avoid the proliferation of discriminatory arrangements, but in practice they have been weakly enforced and have not prevented the formation of numerous regional trade arrangements during the past forty years that do not fully conform to Article XXIV. A review of the experience with regional arrangements among industrial countries suggests that up until now they have not hindered the process of multilateral liberalization. The compatibility of regional trade arrangements among industrial countries with the multilateral trade system can be attributed to their outward orientation. These arrangements have generally been characterized by high levels of integration and relatively low levels of protection against third countries in most areas of trade. Under such

[135]These issues are discussed in Collins and Rodrik (1991), Havrylyshyn, and Pritchett (1991), and Junz (1991). The first two studies provide empirical estimates of the potential impact of the restructuring of Eastern European economies and their patterns of trade.

[136]Finger (1989), pp. 17–18. This estimate measures the static gains from the more efficient use of existing resources and changes in the terms of trade, but excludes possible improvements in efficiency stimulated by a more open trading system.

conditions, countries gained from greater competition within the region as well as exposure to foreign competition.[137] The obvious exception is the EC's adoption of the CAP, which has sheltered the agricultural sector and built up resistance to multilateral liberalization. In other sensitive areas, the need for consensus within the EC may also slow the speed at which nontariff measures can be phased out.

The more recent regional initiatives have been defended by those involved on the grounds that they permit greater liberalization among like-minded countries than would be possible in a multilateral forum, and that they address the need for stronger or new disciplines in areas of interest to participants. Nevertheless, countries are well aware of the limitations and risks in this approach, especially the potential for trade diversion to outweigh trade creation; the loss of bargaining power and the security provided by the multilateral trade system for countries outside free trade areas; trade warfare among regional blocs; and the diversion of effort away from multilateral trade negotiations. The greatest risk seen in the trend toward regional blocs is the potential for fragmentation and interregional conflicts if the Uruguay Round failed, again underlining the importance of the Round for the stability of the world trade system.

Regionalism is not a substitute for the multilateral trade system. In particular, there are limits to the regional approach to liberalization in the most difficult, heavily protected sectors: agriculture, textiles and clothing, and steel. It is widely believed that the problems in these areas can only be adequately addressed within a multilateral framework, in part because of the greater scope for a reciprocal exchange of concessions but also because disciplines on subsidies and other practices that distort trade and investment would be less effective if implemented only at the regional level.

Whether regional trade arrangements hinder or support the multilateral trade system will depend on how closely they conform to Article XXIV and whether remaining trade barriers to exports of nonmember countries can be kept low. To minimize the adverse effects on third countries, it has been suggested that members of regional trade arrangements (free trade areas or customs unions) go beyond the requirements of Article XXIV by reducing their trade barriers. In this context, one advantage of a free trade arrangement over a customs union is that members of the former can liberalize trade without reaching a consensus among member countries. Australia, New Zealand, and Sweden provide recent examples of countries in free trade arrangements that have continued to lower tariff and nontariff barriers against third countries, thereby reducing the potential for trade diversion.

[137]Regional arrangements among developing countries have been less successful in fostering development objectives and economic integration owing, in part, to incomplete internal liberalization and the failure to reduce high levels of protection.

Globalization of Investment and Production

Growing economic interdependence among countries and the globalization of business strategies has increasingly blurred the distinction between national and foreign firms and shifted the focus of trade policy away from traditional trade policy instruments toward domestic policies that affect competition, investment, and innovation. With mobile factors of production, it is now more difficult for countries to maintain restrictive business practices without impairing their ability to compete in world markets. At the same time, there is increased concern that countries' domestic laws and regulations may unduly limit the ability of foreign firms to compete on the same basis as national firms. Thus, the globalization process is increasingly confronting governments with the need to harmonize trade and trade-related competition, investment, and innovation policies.

Interrelation Between Trade and Competition Policies

Recognition of the interaction between trade and competition policies is not new. Indeed, these issues were covered in the Havana Charter for the International Trade Organization, and attempts have been made subsequently, in the OECD and elsewhere, to achieve greater harmonization of competition laws among countries and to reduce inconsistencies between trade laws and the principles of competition policy. The current focus on these issues, which is reflected in the communiqué of the OECD ministerial meeting of June 1991 and in extensive work programs under way in the OECD and elsewhere, stems primarily from the increased globalization of investment and production, which has raised questions about the relevance of traditional trade policy instruments that assume "nonnational" firms supply domestic markets primarily through trade. From the perspective of competition policy, it raises fundamental issues concerning the appropriateness of competition laws, which have been developed with domestic transactions primarily in mind, and on the role of governments in fostering competition.

Competition policy defines the rules that regulate competition among domestic firms. Trade policy, in a broad sense, regulates competition among firms

across national boundaries. These policies have similar objectives, in that they aim to promote competition and provide remedies for dealing with anticompetitive behavior. Conflicts between these policies and among nations arise for two main reasons. First, not all countries have well-developed competition laws and, where they do exist, there are differences in approach (jurisdiction, investigatory powers, and procedural rules and remedies) and enforcement. The effect of these differences may limit access of foreign firms to domestic markets directly or indirectly via their effects on inward direct investment, or may enable domestic firms to unfairly target foreign markets. Second, both GATT and national trade laws permit trade-limiting actions in certain circumstances, which tend to weaken competition in both international and domestic markets. In addition, the trade-promoting policies of one country may be in conflict with the competition laws of other countries.

Many of the issues discussed under the U.S.-Japan Structural Impediments Initiative (SII) fall in the area of competition policy. These include issues related to enforcement of antimonopoly laws that could have allowed restrictive business practices, and restrictions on foreign direct investment. Problems associated with the use of antidumping duties (ADDs) and VERs are examples of issues that fall in the area of trade policy. These trade policy instruments tend to foster noncompetitive behavior by encouraging the formation of cartels and oligopolistic market structures, and the use of restrictive business practices.[138]

Inconsistencies between trade and competition policies, together with the increased potential for these inconsistencies to cause conflict in an interdependent world, call for (1) a re-examination of GATT and national trade rules in terms of the principles of competition policy; and (2) an examination of how competition laws affect international trade.

Trade rules in particular need of review include remedies to deal with anticompetitive trade practices (e.g., antidumping and countervailing laws, and laws to protect intellectual property rights), remedies to deal with injury to domestic industries from imports traded competitively (e.g., Article XIX of GATT, VERs, and other gray-area measures), export promotion policies (subsidies), instruments used to pry open foreign markets (e.g., Section 301 of the U.S. 1974 Trade Law), rules of origin, and local content rules. The extent to which deficiencies in trade rules are remedied as a result of the Uruguay Round will need to be assessed at the end of the Round.

In the area of *competition policy*, issues that need to be re-examined from a trade angle include the appropriate economic and geographic definition of the "market"; the criteria applied in assessing the impact on market structures of mergers and acquisitions (both nationally and across borders); and the impact on international trade of restrictive business practices including intrafirm agreements (e.g., transfer pricing) of multinational enterprises. In addition, the exemption from most competition laws of import and "pure" export cartels needs to be re-examined.[139]

One approach to achieve greater harmonization of competition laws, which is being used in EC 1992, involves the *prior* harmonization of a minimum number of essential regulations; *mutual recognition* by member countries of regulations that are not harmonized; and *factor mobility*.[140] As factors of production will likely move to locations with preferred regulatory systems, this will put pressure on national authorities to adopt preferred systems and thus result in a convergence of such policies among EC member states. Despite its appeal, this approach is not considered feasible at a global level or even among all OECD countries at this stage because the necessary conditions, including, in particular, free labor mobility, are not in place.

Competition and trade authorities in a number of countries suggest that the first order of business should be the establishment of competition laws in all countries based on agreed principles, and greater uniformity in enforcement of competition laws across countries. This would provide a better basis than currently exists for a greater convergence of these laws. In their view, the stepped up efforts in this area in the OECD could facilitate this process.

Issues Related to Trade and Investment Policies

In an open world economy, the trade and investment decisions of firms are closely integrated. The decisions of firms to invest overseas are either factor-driven (access to materials, technology, lower-cost labor) or policy-driven (investments

[138]VERs might be classified as restrictive business practices, particularly when they involve industry-to-industry agreements. Their classification above as a trade policy instrument reflects their frequent use as surrogate "safeguard" measures (instead of Article XIX of GATT) and as substitutes for antidumping duties.

[139]To a degree, the implementation of competition laws has been modified in some countries to accommodate the realities of the global marketplace, but the analysis and remodeling of competition laws from the perspective of trade policy remains to be done.

[140]This approach is considered more feasible than a "global competition policy," which would require prior harmonization of all competition laws and a supranational competition authority.

directly influenced by national policies). For firms, investments that are policy-driven rather than factor-driven represent a second-best response to impediments or incentives that lead to an inefficient allocation of resources.[141] This was recognized by the inclusion of trade-related investment measures and investment incentives (under the Subsidies Code) in the Uruguay Round. It is also evident in the efforts of countries to establish more neutral and transparent investment rules through bilateral trade and investment treaties and bilateral and regional trade and investment agreements.

The growing importance of foreign direct investment (FDI) in achieving and maintaining international competitiveness in world markets and in the diffusion of technology has brought into sharper focus a wider range of policies that can distort trade and investment flows and inhibit competition. Such measures affect access to foreign markets, for either goods or investment, and the conditions under which foreign-owned firms compete with national firms. For example, concerns and disputes have grown over trade measures that distort the form and extent of investment and trade flows. These include VERs, antidumping and countervailing measures, local content rules, rules of origin, and regional trade arrangements. Investment to circumvent actual or potential instruments of protection or to ensure future market access distorts the allocation of resources and decreases the share of output that is traded compared with what would be traded in the absence of protection;[142] such investment has become a major source of trade friction (anticircumvention laws and transplants). Ideally, protection should be reduced; meanwhile fewer restrictions on factor mobility can reduce the welfare losses owing to the immobility of goods.

Domestic policies affecting investment flows and the way firms compete have also taken on greater importance. These include policies that inhibit foreign investment and competition indirectly through structural impediments, such as cross-corporate ownership relations or differences among countries in merger and acquisition laws and their implementation; prohibitions on investments in sensitive sectors; restrictions on the right of establishment that effectively limit investments in service sectors; and "strategic" policies that raise barriers to entry in research consortia, or otherwise limit the transfer of technology. All these measures are perceived to tilt the playing field and have become a growing source of friction among trade partners. This is increasing pressure on governments to seek regulatory convergence in areas affecting trade and investment decisions.

The ongoing work in the OECD to strengthen the provisions and enforcement mechanisms of the National Treatment Instrument and the Liberalization Codes for capital flows and invisibles could form the basis for multilateral negotiations on an investment accord in a wider forum that would aim to establish clear rules governing the right of establishment (market access) and national treatment and include effective mechanisms for dispute settlement and enforcement. The aim would be to develop more neutral and transparent trade and investment rules to ensure that investment and trade decisions are unaffected by the existence of national borders, thereby maximizing the efficiency gains from an open trade and investment regime.

Issues Related to Innovation and "Strategic" Trade Policies

Innovation (or technology) policies cover a range of government interventions that aim to assist firms in developing and adapting new technologies for commercial uses. These policies are based on the view that the ability to develop and adapt new technology, that is, to innovate, is a key determinant of national competitiveness in manufacturing. The "new" trade theories have provided the intellectual justification for pro-active innovation policies. In contrast to traditional trade theories, which explain the pattern of trade based on countries' relative factor endowments (comparative advantage), the new theories rely on imperfect competition and economies of scale to explain the fact that most trade occurs among countries with similar factor endowments and is dominated by intra-industry trade; in this kind of world, it is argued that countries can create "competitive advantage" through innovation policies. For example, in industries where there are dynamic returns to scale (learning-by-doing), being there first and having access to foreign markets matter. Table 17 compares some of the familiar concepts from traditional trade theories with those associated with the new trade theories.

Two basic justifications for government intervention are derived from these theories. One is that in oligopolistic industries that enjoy monopoly profits, government support can deter production by foreign competitors and shift excess profits to national firms.[143] The other is based on the existence of mar-

[141]McCulloch (1991). McCulloch also identifies a third motivation for investment: border-driven investments designed to capture the benefits of being multinational rather than being in a specific location. It should be noted that policies that effectively correct for market failures or externalities would improve resource allocation.

[142]GATT (1990a), p. 41.

[143]This is the "profit-shifting" model of Brander (1985), pp. 83–100. Its policy conclusions have been shown to be quite sensitive to the assumptions (no retaliation) and parameters, casting doubt on its practical application.

Table 17. Old Arguments in New Cloth?

Old	New
Comparative advantage: countries gain by specializing in the production and export of goods in which they have a comparative advantage based on their relative factor endowments or relative costs. Trade is mostly inter-industry.	**Competitive advantage:** with rapid technical change, economies of scale and scope, and learning-by-doing, countries can gain by producing and exporting goods in which they have a competitive advantage that is created not endowed. Trade is mostly intra-industry.
Optimal tariff: a large country can improve its terms of trade by imposing a tariff, which induces foreign suppliers to lower their prices.	**Profit-shifting:** in highly concentrated oligopolistic industries, a subsidy to entry can deter production by foreign competitors and shift excess profits to the home country.
Perfect competition: entry unlimited because start-up costs are low. Constant returns to scale.	**Imperfect competition:** entry limited by large fixed start-up costs and scale economies that limit the number of firms that can profitably be active in an industry. Dynamic scale economies arise from learning-by-doing, which reduces unit costs within the firm as output accumulates over time.
Infant industry: market failures prevent development along lines of potential comparative advantage. Imperfect capital markets lack the foresight or depth to finance investments with positive discounted present values. Externalities cannot be appropriated by pioneer firms that create intangible benefits.	**High technology industry:** market failures and imperfect competition limit the ability of the private sector to profitably develop high technology applications. Imperfect capital markets: the private costs of funds exceed their social benefit because asymmetries of information result in adverse selection. Externalities in the creation of knowledge that spillover beyond the firm cannot be appropriated.

ket failures (i.e., capital market imperfections or externalities). As a practical matter, it is not possible for governments to determine ex ante if the conditions exist to shift profits through intervention or how trade partners will respond to such beggar-thy-neighbor policies; capital market imperfections are also difficult to identify and correct.[144] With regard to externalities, there is ample evidence that research and development and high-technology industries generate positive externalities that cannot be fully appropriated by firms. Under these conditions, private markets unaided will underinvest in precompetitive research and development, as well as basic research. The best policy response would be a tax or subsidy directed at the source of the externality if it could be identified and measured, and an effective instrument designed—all difficult tasks. Whether a country could raise its national income from such policies would depend on whether the externalities were national or global in scope and whether the resources drawn from other sectors would be more effectively used.[145]

Government policies to support innovation include provisions for research consortia, subsidies for research and development and sunrise industries, access to intellectual property, government procurement, the weakening of competition rules to support national champions or strategic alliances, restrictions on foreign investment in strategic sectors, and restrictions on the foreign sales of goods embodying new technologies. In each of these areas, there is scope for conflict between innovation, trade, and competition policies. The Tokyo Round Codes cover some of these policies, such as subsidies and government procurement, and the Uruguay Round is dealing with others (intellectual property and investment measures), but awareness of the need to agree on rules of the game is growing. In the case of subsidies, for example, there is no agreement among countries on when the subsidization of basic and precompetitive research ends and direct industrial subsidization begins.[146]

International rules governing innovation policies based on free market competition would imply, inter alia, research consortia open to foreign as well as domestic firms, support for generic research and development that is widely diffused, and competition rules that balance considerations of market power against the need for alliances to pool resources and share the risks of research and development. With regard to trade policies, in industries characterized by imperfect competition and economies of scale, the benefits of trade liberalization have been shown to be even greater than under perfect competition.[147] Thus, the presence of imper-

[144] Grossman (1990), pp. 112–14.
[145] For a discussion of these issues see Krugman (1987).
[146] See OECD (1990a), Part 4, for a review of issues and policies related to government assistance to industrial research and development.
[147] Richardson (1989).

fect competition further strengthens the case for maintaining a multilateral effort toward greater trade liberalization.

Trade and the Environment

In recent years, environmental concerns have taken on transnational and global dimensions and increased the scope for conflicts between environment policies and trade policies. This is apparent in the number of trade disputes related to the impact of environmental regulations on trade and in environmental concerns over the prospects of trade liberalization at the regional and multilateral levels. The environmental issues raised in connection with the proposed NAFTA are the most recent examples of the latter. Environmentalists are concerned that trade liberalization contributes to the degradation of the environment by reducing standards to the lowest common denominator and thereby encouraging the exploitation of resources at an unsustainable rate and the migration of "dirty" industries to countries with lower environmental standards. On the other hand, trade officials are concerned about environmental policies that are motivated by protection and about the use of trade policies to pursue environmental goals at national and international levels.[148]

In principle, the goals of an open, world trade system, which aim to promote the efficiency of resource use through specialization in areas of comparative advantage, need not conflict with those of environmental policy, which focus on the sustainable use of resources and pollution control. A host of practical problems emerge, however, when environmental externalities are transnational or global in character and countries differ in their environmental preferences. These relate to the design of policies to achieve environmental goals, including the proper role of trade policy.

Many of the problems involved in reconciling trade and environmental objectives arise because the prices of internationally traded goods and services do not fully reflect the environmental costs of their production and consumption or disposal. Environmental policies aim to internalize these costs through various forms of intervention including the assignment of property rights, environmental regulations and standards, subsidies and taxes, trade measures, and the use of marketable permits and emission charges. While price-based measures can achieve environmental goals at lower cost and provide incentives for innovation, governments rely primarily on less efficient direct regulation, including trade measures. Poorly designed environmental policies can lead to trade distortions that are not justified in terms of the environmental benefits achieved. Similarly, trade policies are seldom the best instruments to achieve environmental goals.[149]

Environmental issues were not explicitly included in the Uruguay Round agenda; however, several provisions of the GATT and the Tokyo Round Codes and proposals related to these provisions under consideration in the Round could come into play in relation to the effects of environmental measures on trade and the use of trade measures for environmental purposes. These include the Subsidies Code, which defines countervailable subsidies; the Standards Code, which deals with technical barriers to trade; proposed sanitary and phytosanitary regulations; and Article XX, which provides for exceptions to GATT rules for measures "(b) necessary to protect human, animal or plant life or health . . . (g) relating to the conservation of exhaustible natural resources . . ." The proposed improvements to the Tokyo Round Codes, which aim to clarify underlying principles and procedures, will not fully address possible conflicts between environmental policies and trade policies, and it is expected that these issues will be taken up in a comprehensive way after the Uruguay Round.

The challenge is to develop a policy framework that fosters environmentally sustainable growth and development while maximizing the welfare gains derived from free international trade. This will require a multidisciplinary approach to ensure that environmental objectives are scientifically based and that policies achieve environmental goals in an efficient manner and with the least distortion to international trade. Apart from GATT, work on these issues is under way at the OECD, UNCTAD, and other forums. In particular, at the June 1991 ministerial meeting, the OECD ministers called for the further analysis of the links between trade and the environment and the development of policy guidelines to protect the environment and preserve the open multilateral trade system.

[148]Environmental policies that are motivated by protection seek to offset the cost advantages other countries might enjoy because of differences in environmental standards. Trade policies used to achieve national environmental goals usually involve export controls and import bans, with or without complementary domestic measures. At the international level, discriminatory trade measures have been included as enforcement mechanisms in international environmental agreements (e.g., the Montreal Protocol Concerning the Protection of the Ozone Layer and the Basel Convention on the Control of Transfrontier Movements of Hazardous Wastes and their Disposal). Trade measures have also been used to impose one country's environmental preferences on another country.

[149]See Low and Safadi (1991) for a discussion of the design of environmental policies and the interaction between trade policy and environmental policy. In some cases, trade measures may be needed for effective enforcement, for example, a prohibition on the use of toxic substances.

The GATT System

Recent activity in the General Agreement on Tariffs and Trade (GATT), in part, has been influenced by negotiations in the Uruguay Round. Resort to the GATT's dispute settlement mechanism has been relatively frequent, but implementation of panel findings, in some cases, has been linked to the Round's results; GATT surveillance was strengthened as the result of the Round's midterm review; and there was a significant increase in GATT membership, possibly also reflecting, in part, the breadth of the negotiations. GATT membership now numbers 103 countries (Table A43), accounting for nearly 90 percent of world trade. In addition, 28 countries apply the GATT on a de facto basis, and most other major trading countries hold GATT observer status. Further, the Tokyo Round Codes, which clarify, extend, and enhance GATT disciplines in such diverse areas as subsidies and government procurement, have been accepted by virtually all industrial countries and an increasing number of developing countries (Table A44). The code disciplines, excepting government procurement, form part of the Round's negotiations, with a view that they will apply to the full membership upon conclusion of the Round. Government procurement is the subject of parallel negotiations.

This Appendix deals with recent GATT activities, looking specifically at the Sessions of the CONTRACTING PARTIES,[1] the work of the GATT Council of Representatives, GATT surveillance, GATT involvement with instruments of protection, and the Committee on Trade and Development, which is concerned with issues of trade interest to developing countries.

The Contracting Parties

The Session of the CONTRACTING PARTIES, which usually meets once a year, is the GATT's senior body. As an early result of the Uruguay Round it was agreed in April 1989 that the Session would meet at the ministerial level at least once every two years; this reflects both the increasing importance of trade to international economic policy developments and the perceived need to improve the effectiveness and decision-making capability of GATT as an institution. It was the November 1982 Session, at the ministerial level, that found the multilateral trading system to be seriously endangered by, inter alia, protectionist pressures and an increasing disregard for GATT disciplines. Ministers consequently agreed to make determined efforts to ensure that trade policies and measures would be consistent with GATT rules and principles. This agreement paved the way for the 1985 Session to initiate the basis for launching the Uruguay Round in Punta del Este, Uruguay, in September 1986. At the most recent Session, held within a week after the December 1990 ministerial meeting failed to conclude the Uruguay Round, Contracting Parties reiterated their commitment to a successful conclusion of the Round, and set the stage for resumption of the negotiations by making explicit the general sense of lost opportunity that had permeated the closing days of the Brussels meeting.

The GATT Council of Representatives

In the period between meetings of the Session, the GATT Council of Representatives (from member governments, normally at ambassadorial level) meets about nine times a year to act on ongoing issues. Its recent agendas have been dominated by membership and dispute settlement matters, but it also has considered such diverse issues as the effects of German unification and the Canada-U.S. Free Trade Agreement, the relationship between trade and the environment, and questions regarding the continued appropriateness of a waiver that has allowed the United States since 1955 to use import restrictions on certain agricultural products.

Membership

Since August 1990, seven governments—Bolivia, Costa Rica, El Salvador, Guatemala,

[1]Individual GATT members are called Contracting Parties: each has a single vote in decisions to be taken. When members act, invariably by consensus, they do so as the CONTRACTING PARTIES.

Macao,[2] Tunisia, and Venezuela—have acceded to the GATT. In addition, membership requests from Algeria, Bulgaria, the People's Republic of China, Honduras, Mongolia, Nepal, Panama, and Paraguay are in various stages of consideration, and Viet Nam is exploring the possibility of joining the GATT, as is Taiwan Province of China. The former U.S.S.R. was granted GATT observer status in May 1990; at the time, it announced that it sees this as a step toward membership, but several Contracting Parties, including Japan and the United States, made clear that acceptance of a Soviet accession request will hinge on progress in its building a market-based price system, consistent with GATT principles. The establishment of the Commonwealth of Independent States and changes in the economic regimes obviously will affect the future relationship with GATT as well.

Further, Poland is in process of renegotiating its Protocol of Accession to reflect the changes toward the greater market orientation of its economy. Accordingly, Poland seeks to replace its present commitment to a specific rate of expansion of its imports from GATT members with acceptance of the full GATT disciplines, including the usual schedule of bound tariffs[3] on which GATT accession is normally based. The absence of a bound tariff schedule is making it difficult for Poland to participate in tariff negotiations and could limit its market access opportunities.

Similarly, Hungary has taken steps toward renegotiating its Protocol. It seeks an elimination of the special provision in its Protocol, including its right to use bilateral import measures vis-à-vis other Contracting Parties and vice versa, and Hungary's waiver from its GATT obligations regarding trade with the members of the (former) Council of Mutual Economic Assistance. The normalization of Hungary's GATT status can be expected to result in the withdrawal of the U.S. nonapplication (since 1973) of the GATT to Hungary. Although the United States grants Hungary most favored nation (MFN)[4] trading status, it does so on a bilateral basis (which can be withdrawn unilaterally).

The new GATT members followed a trend, starting with the Mexican accession in 1986, of lowering and binding most of their tariffs and, in some cases, of taking measures to liberalize nontariff barriers. Thus, Bolivia, Costa Rica, El Salvador, Guatemala, and Venezuela agreed to bind the entirety of their tariffs, joining Chile and Mexico as the only GATT members to have done so; Macao has announced that by early 1992 it would submit a schedule to bind its tariffs at an acceptable level, and Tunisia bound about one fifth of its tariffs.[5] In addition, Costa Rica will eliminate import surcharges, surtaxes, and quantitative restrictions by late 1994; Guatemala will eliminate its remaining quantitative restrictions by July 1994; Tunisia is to abolish import licenses on many products; and Venezuela will continue with its present program of removing import prohibitions, restrictive import licensing requirements and other quantitative measures, with the goal to eliminate them completely by 1995.

Dispute Settlement

This subsection deals with dispute settlement under the GATT (normally handled within the context of the Council), as distinct from that under the Tokyo Round agreements (which are discussed below under "Instruments of Protection").

The working of GATT's dispute settlement mechanism is normally based on consensus. This has resulted at times in lengthy delays in the establishment of dispute panels and in the adoption of their reports (with a single party able to block consensus). In 1989, the Council decided on certain improvements in the dispute procedures, including the establishment of some firm time limits for the conclusion of various phases of the dispute settlement process.[6] In particular, the Council, unless it decides otherwise, is required to establish a panel no later than the Council meeting following that at which the request first appeared on the Council's regular agenda. However, the changes did not address problems in the adoption of dispute panel findings nor their implementation.

The year 1990 marked a substantial decline in the number of dispute panels established by the Council—one panel in 1990, compared with 5 in 1989 and 13 in 1988 (Table A45). Part of the explanation is that Uruguay Round participants were loath to spoil the negotiating atmosphere by trade

[2]Although the People's Republic of China will resume the exercise of sovereignty over Macao in December 1999, it has stated that Macao will remain a free port and a separate customs territory and may decide its own economic and trade policies. This autonomy in trade relations allows Macao, as it does Hong Kong (which became a GATT member in April 1986), to have separate status as a GATT Contracting Party.

[3]To bind a tariff is to make a GATT legal commitment not to raise the rate above a specified level; provisions exist for renegotiation of bound rates.

[4]The most-favored nation (MFN) clause is a fundamental principle included in GATT Article I, whereby any privilege or concession granted by one contracting party to GATT to a product of another contracting party will be unconditionally granted to the like products of all other contracting parties.

[5]The bindings were taken at levels between 17 percent and 52 percent.

[6]The new procedures are being implemented on a trial basis as from May 1, 1989, pending changes negotiated during, and final adoption in the context of the conclusion of, the Uruguay Round.

disputes with the anticipated conclusion of the Round, in December 1990, near. This is supported by the fact that the failure to conclude the Round was followed by the almost immediate establishment of four dispute panels.

The greater automaticity under the new procedures appears to have made GATT's dispute settlement more effective. Seven dispute panels (four in 1991) have been established under the revised procedures; in three of these, panels were constituted despite serious reservations on the part of the party complained against (once the EC and twice the United States). Four of the seven panels have submitted their reports, of which two were adopted without difficulty and with no apparent problems regarding their implementation.[7] However, adoption of one of these reports, which found a U.S. countervailing duty on imports of Canadian pork GATT-inconsistent, became entangled with the dispute settlement mechanism of the Canada-U.S. Free Trade Agreement (FTA). The United States noted it was the latter mechanism that would determine whether or not U.S. law had been correctly applied. Canada, with wide support, argued that it was not a matter of whether the duty was consistent with U.S. law, but rather that it had been found in contravention of U.S. obligations under GATT. Once the dispute mechanism under the FTA found against the U.S. duty, the United States, in July 1991, agreed to the adoption of the GATT findings. Understandably, this has raised widespread concerns that the GATT mechanism is being undercut.

The improved record is in contrast to that for disputes brought prior to the implementation of the new procedures: Two panels established in 1985 and 1987,[8] respectively, still need to start work (due to disagreement on panel members); in 8 out of the 15 panel reports adopted under the old procedures, findings have not been implemented to the satisfaction of some GATT members; and in five of these, the party complained against, in agreeing to adoption of the panel report, tied implementation to the outcome of the Uruguay Round.[9]

The importance of an effective GATT dispute mechanism is underscored by the fact that even a problem-ridden one has been able to diffuse significant trade differences. Thus, as the result of recent cases, both Japan and Korea have taken measures to liberalize beef imports; Japan has acted to improve market access for eight agricultural products as well as for wines and alcoholic beverages; the United States has introduced measures to bring its customs user fee and its sugar import regime into line with its GATT obligations; and India, Norway, and Sweden have moved to liberalize restrictions on certain agricultural products.

Selected Other Council Matters

In the context of *German unification*, the EC implemented transitional measures, as of October 1990 until the end of 1991, to govern imports of industrial products from Bulgaria, the Czech and Slovak Federal Republic, Hungary, Poland, Romania, the former U.S.S.R., and Yugoslavia to the extent that they are for use in the former German Democratic Republic (GDR). In connection with these measures, which include tariff quotas, the EC requested a temporary waiver from its GATT MFN obligations. Concurrently, the United States proposed a working party to examine both the possible trade diversion effects measures and the possible trade consequences of the extension of the EC's Common Agricultural Policy (CAP) to the former GDR. While the United States saw the EC's waiver request as part of the proposed working party's agenda, the EC saw it as a pro forma matter. After informal consultations, the waiver was granted by an unusual rollcall vote at the December 1990 Session of the CONTRACTING PARTIES along with a decision to create a working party to examine the effects of the measures and to monitor adherence to the waiver conditions.

Following the entry into force of the *U.S.-Canada FTA* on January 1, 1989, the Council established a working party to examine the compatibility of the FTA with GATT provisions. The working party began its meetings in 1991, and the concerns raised by a number of members indicate that there may be no consensus on the full conformity of the FTA with the GATT. While there is a general view that the FTA follows the GATT closely, particular worries have arisen about its dispute settlement mechanism and its agricultural provisions. On the former, some members question whether parties to

[7]The report on the U.S. prohibition of certain fish imports under the Marine Mammal Protection Act has not yet been adopted by the Council.

[8]Concerning a Canadian complaint against U.S. restrictions on imports of certain sugar-containing products and a U.S. complaint about the EC's third-country meat directive, respectively.

[9]These cases involve findings that (1) aspects of U.S. patent protection are not consistent with the GATT obligation to grant national treatment to imports; (2) Canadian restrictions on imports of ice cream and yogurt do not fall within the exceptions to the GATT for the general elimination of quantitative restrictions; (3) elements of the EC oilseeds subsidy program were inconsistent with its national treatment obligations and impaired expected market access opportunities under the EC's zero tariffs on oilseeds; (4) that EC antidumping duties on certain products assembled in Japanese-owned plants located in the EC involved a discriminatory internal tax in violation of GATT's national treatment requirements; and (5) that Japanese border measures on, inter alia, starch and dairy products were not in conformity with GATT rules on quantitative restrictions.

the FTA would feel more bound by dispute settlement findings under the FTA than under GATT. On agriculture, certain members felt that the perceived lack of full liberalization of trade in agricultural products with the FTA breached the requirement that a regional arrangement cover substantially all trade between its members.

The 1955 *U.S. waiver* has given rise to contention in the Council in 1990. The waiver has allowed the United States since 1955 to impose, under its Agricultural Adjustment Act, quantitative restrictions and special duties on certain agricultural products. For some time, a number of GATT members, particularly the EC, have felt that the United States has failed to adjust its agricultural policies sufficiently and that therefore the waiver is no longer justified. These views prevented the GATT working party on the 29th and 30th U.S. Annual Reports on the Agricultural Adjustment Acts from reporting consensus conclusions to the Council in 1990.[10] With the United States of the opinion that it was in full compliance with its obligations, the Council's consideration of the working party report, as well as of the 31st and 32nd U.S. Annual Reports on the Act, has been postponed, probably until after the Uruguay Round. In this regard, the United States' agricultural offer in the Uruguay Round implied readiness to eliminate the waiver, leading the EC to unblock adoption of a dispute panel report, finding an EC complaint against continued U.S. restrictions on imports of sugar and sugar-containing products unwarranted.

In May 1991, in recognition of the heavy international environmental agenda leading up to the United Nations Conference on Environment and Development (UNCED), the Council held a structured discussion on the relationship between *trade and the environment* and the role that GATT would need to play. Participants generally were concerned about the widespread misconception that GATT was an obstacle to environmentally sound policies and agreed that this needed to be dispelled. They also concurred that GATT should not involve itself in the design of global environmental policies, but confine itself to its area of competence. Work would be needed, in particular, to ensure that trade measures taken to protect environmental standards were not simply a disguised form of protection.[11] Views on how the work should proceed diverged, however. Some, particularly members of the European Free Trade Association, look to the activation of a dormant working group on environmental measures, while others prefer to await the outcome of consultations on the terms of reference for the group.[12] In the interim, the Secretariat is to (1) set out the trade aspects of the preparatory work for UNCED and the history of GATT involvement in the area of trade and the environment, and (2) prepare an inventory of trade measures taken for environmental protection reasons as notified to the GATT.

GATT Surveillance

The *surveillance functions* of the GATT over trade policies and measures have been strengthened significantly since 1989. At that time the Council began its reviews of members' trade policies and practices under the Trade Policy Review Mechanism (TPRM) and, in that connection, charged GATT's Director-General to report annually on developments in the international trading system. Surveillance over specific aspects of trade policies and measures of individual members or groups of members is exercised through (1) the Committee on Balance of Payments Restrictions, which is responsible for multilateral surveillance of trade restrictions taken for balance of payments purposes, (2) in monitoring the Tokyo Round codes, and (3) in the Committee on Trade and Development.

Report by the Director-General

The Council, in April 1991, had before it the Director-General's second Annual Report on the status of the trading system, in which he noted that, although slowing down, the growth in the volume of world trade in 1990 had continued to outpace that of output; however, the weakening of the global economy risked intensifying defensive trade actions. Nevertheless, there had been notable positive developments in trade policy, including far-reaching liberalization by Central and Eastern Europe and by some developing countries; and the growing and strengthened participation in the multilateral trading system by a number of countries as

[10]Under the waiver, the United States reports annually on the Act.

[11]In this regard, the Council established a dispute settlement panel in February 1991 that could set a precedent on the use of trade measures for environmental reasons; the panel is investigating a U.S. prohibition on imports of certain fish products under the terms of the U.S. Marine Mammal Protection Act. The panel found, in September 1991, that the U.S. embargo violates GATT's prohibition on quantitative restrictions. The matter is now being discussed bilaterally between the United States and Mexico but has yet to be adopted by the Council.

[12]A GATT working group on Environment Measures and International Trade has been in existence since 1971; springing from the preparatory work for the United Nations' 1972 "Conference on the Human Environment," it was to examine upon request any specific matters relevant to the trade policy aspects of measures to control pollution and protect human environment, especially with regard to the application of the provision of the General Agreement, taking into account the particular problems of developing countries. The group has never met.

evidenced by the recent stream of accessions and accession requests and the disinvocation of cover for import restrictions maintained under the GATT's balance of payments provisions. On the negative side was the temporary suspension of the Uruguay Round in December 1990. Although the negotiations had resumed in February 1991, major outstanding issues continued to present difficulties, including agriculture, services, tariffs, and rules. Other identified areas of concern were persistent trade frictions between the EC, Japan, and the United States, and recourse to antidumping and countervailing duty actions with protectionist overtones. Further, there was the need to guard against the risk of an introspective orientation of regional arrangements. The Director-General's overview met with widespread agreement. It is clear, however, that the Council's discussion of broad trade policy issues needs to evolve over time and, at this time, is inhibited on a number of points important to a thorough discussion by the ongoing Uruguay Round negotiations.

The Trade Policy Review Mechanism

The Trade Policy Review Mechanism (TPRM), established in April 1989, aims to make the trade policies and practices of each country under review explicit and to gauge their possible effects on both the country itself and the global trading system. The reviews, however, are not to judge whether a member's trade measures conform with its GATT obligations, that being the task of the dispute settlement mechanism.

All GATT members are subject to the TPRM, with the frequency of reviews varying from two years to six years according to the importance in world trade of the country in question. The reviews are backed by a submission by the country and a paper prepared independently by the GATT staff; the papers are published together with the substance of the discussions in the GATT Council. Since initiation of the reviews in December 1989 through mid-1991, 17 members have been examined: all the traders on the two-year cycle (Canada, the EC, Japan, and the United States), as well as Australia, Chile, Colombia, Hong Kong, Hungary, Indonesia, Morocco, New Zealand, Nigeria, Norway, Sweden, Switzerland, and Thailand.

The first round of reviews already is contributing considerably toward transparency by clearly setting out existing policy measures and reasoning, which in turn provides the basis for informed discussions at a national and an international level. The TPRM also has focused attention on the widespread adoption of outward-looking, market-oriented trade policies as an integral part of structural adjustment that aims to improve the competitiveness of the economy; countries as varied as Australia, Chile, Colombia, Hungary, Indonesia, Morocco, New Zealand, Nigeria, and Thailand have chosen this economic policy path, switching from a previous bias toward protection and import substitution. In each case, a positive external environment was stressed as being necessary for the success of adjustment efforts. The reviews also have served to highlight the responsibility of the major traders in safeguarding and improving a liberal system. The relative openness of their economies was acknowledged, but each was subject to criticism. Thus, in the case of *Canada*, stress was laid on the lack of transparency in its multilayered tariff system. For the *EC*, emphasis was placed on the trade distortions stemming from the CAP, the harassment aspect of its use of antidumping actions, its widespread resort to bilateral trade restrictive agreements, and on the nontransparent nature of its national subsidies. With regard to *Japan*, concern was evident about its inclination to settle trade matters bilaterally, the lack of transparency in the administration of trade policies, the high level of support for agriculture, and the difficulty in penetrating its market. On the *United States*, the review was marked by unease that it may have weakened its past strong commitment to the GATT and the multilateral trading system; this was reflected in the stress on the threat of unilateralism, the resort to measures, such as VERs, and the unilateral interpretation of multilateral disciplines, particularly in the context of antidumping investigations and duties. As to other large traders, both *Australia* and *New Zealand* were urged to bind more tariffs and to lower rates in areas of concern to developing countries, such as textiles and clothing. *Norway*, *Sweden*, and *Switzerland* were commended for their generally low tariffs, but criticized for their high levels of agricultural protection and tariff peaks in sensitive areas like textiles and (in the case of Switzerland) for the presence of cartels. *Hong Kong* drew praise for having essentially no trade restrictions, but was urged to increase its tariff bindings.

Balance of Payments Provisions

The GATT authorizes the use of trade restrictions for balance of payments reasons under Articles XII, for developed countries, and XVIII:B, for developing countries. On restrictions maintained under Article XII, full consultations must be conducted annually by the GATT Committee on Balance of Payments Restrictions. On measures maintained under Article XVIII:B, consultations are normally held under simplified procedures every other year. However, under the simplified consultations, the Committee must decide whether these suffice or whether an indepth (full) examination of the con-

cerned party's use of trade measures is required. Full consultations consider the overall macroeconomic situation of the consulting country, including its prospects and alternative means of adjustment; look at the member's restrictive system in some detail; and take into account external factors, including access to markets, that affect the country's balance of payments situation. Background documentation is supplied by the IMF to the Contracting Parties for all consultations and, in the case of full consultations, the IMF makes a statement assessing the balance of payments situation of the consulting party.

The use of the provisions under Article XII by developed countries has declined steadily (Table A46). Czechoslovakia is the only country recently to invoke the Article—in early 1991—in connection with an import surcharge on consumer goods and foodstuffs.

In contrast, Article XVIII:B has been used widely by developing countries and represents the most broadly applied exception to the GATT's general prohibition on the application of quantitative restrictions; some 80 percent of all such restrictions notified to the GATT are justified under the Article. However, since 1989, five developing countries have disinvoked their current use of Article XVIII:B. Argentina, Brazil, Ghana, and Peru did so while the external financial situation remained under pressure, as part of a wholesale lifting of restrictions in the context of national economic policies to remove market impediments; Korea revoked its use of the provisions under comfortable, external circumstances, as part of lengthy negotiations in the Committee in 1989, and is now lifting its remaining restrictions over an agreed time schedule.

Since early 1990, full consultations have been conducted with Czechoslovakia and Yugoslavia and consultations under simplified procedures, with Bangladesh, Egypt, Nigeria, the Philippines, Tunisia, and Turkey. The consultation with Czechoslovakia went smoothly, with the Committee in firm support of its economic transformation efforts. Czechoslovakia's use of the provisions was seen by many as being a model, in that the applied measure was price-based and to be removed within a preset time frame, with the intent to do so more speedily, if possible. The consultation with Yugoslavia also went forward in a sympathetic environment, with the Committee expressing understanding for Yugoslavia's difficult situation and support for its economic policies, commending the scope and pace of economic and trade liberalization efforts.

In the simplified consultations, it was agreed that Egypt, Nigeria, the Philippines, Tunisia, and Turkey would proceed to full consultations. This halted the previous trend of few departures from simplified procedures for developing countries and partly reflects the view of many industrial countries that procedures need to be tightened, particularly to shrink the periods of application and to reduce use of non-price-based measures. Thus, while not denying the right of members under GATT to use trade measures for balance of payments reasons, developed countries have begun to stress their own right to examine such restrictions fully.

Instruments of Protection

Broadly, GATT recognizes tariffs as the only legitimate instrument of protection, although there are exceptions under which nondiscriminatory, nontariff restrictions may be maintained. GATT also allows countries, under certain conditions, to levy selective duties to protect domestic industries against subsidized or dumped imports. This section looks at various instruments of protection and developments in related GATT committees.

Tariffs

Tariffs in industrial countries have been reduced to minimal average levels in successive rounds of multilateral trade negotiations and a large proportion, often in excess of 90 percent, of their tariffs are bound. However, tariff reductions have been less pronounced in some sectors, particularly agriculture and textiles, and both tariff peaks and escalation (successively higher tariffs along the product chain) remain a feature in most countries. In many developing countries, average tariffs are considerably higher, at times at prohibitive levels, than in developed countries; moreover, although there are significant exceptions, a low percentage of their tariffs are bound.

The GATT Committee on Tariff Concessions, after overseeing the phased implementation of the Tokyo Round tariff cuts, continues as a forum for tariff matters, including the supervision of GATT tariff schedules. In recent years, much of the Committee's work has been related to the implementation, begun in 1988, of the new Harmonized Commodity Description and Coding System (HS). Replacing a variety of different and often inconsistent classifications, the HS provides customs and trade officials with an agreed definition of the content of tariff lines, facilitating both the conduct of, and negotiations on, trade. The HS has been adopted by 65 GATT members, accounting for some 95 percent of the trade of Contracting Parties.

Nontariff Measures

The use of nontariff measures (NTMs) has grown in importance since the late sixties, both in relative

terms, given the decline in tariffs,[13] and in absolute terms. Thus, in 1990, selected NTMs[14] affected 18.5 percent of the value of nonfuel imports into 22 industrial countries—an increase of some 20 percent over the 1981 coverage ratio.[15] Many of these NTMs are in the form of VERs[16] and other gray area measures that effectively bypass GATT's safeguard provisions.

Safeguards

GATT's main safeguard provision is Article XIX, which allows temporary restrictions on imports when domestic producers experience, or are threatened with, serious injury; the Article provides for compensation to trading partners affected by the restrictions. In practice, Article XIX has proved relatively ineffectual if recourse is measured against the rise of discriminatory, gray-area measures. In the period 1985–90, GATT members used the Article 15 times, bringing the number to 139 for the period 1950–90, while during the same period, the known number of discriminatory export restraint arrangements grew from 69 to 284 (excluding those under the Multifiber Arrangement (MFA)).[17] Since 1980, Article XIX has been invoked by industrial countries only, with one exception (Chile) (Table A47). As of the end of December 1990, 22 Article XIX measures were in force, of which 16 were for longer than three years.

Subsidies

The Subsidies Code, to interpret and apply GATT Articles VI, XVI, and XXIII, was negotiated in the Tokyo Round. The Code prohibits export subsidies on manufactures; for primary products it enjoins members to refrain from export subsidies that result in a "more than equitable share" of world export trade. Domestic subsidies are to be avoided to the extent that they have adverse trade effects. Offsetting countervailing duties can be imposed under the Code in the case of injury to domestic producers from imports of like products that benefit from subsidies (export or domestic). As of the end of 1990, the Code had 25 signatories,[18] accounting for about 90 percent of Contracting Parties' merchandise trade.

It is widely agreed that the Code has shortcomings, including interpretative problems. Views differ on the definition, scope and measurement of subsidies, measurement of injury, and the breadth of application of countervailing duties. The differences include such basic points as whether for a subsidy to be actionable a financial contribution by government is required, how different types of subsidies are to be treated, and the definition of "primary" and "manufactured" products, "domestic industry" and "like products." There is also disagreement about the application of the injury test in determining the need for countervailing duties: some members (e.g., the EC) apply the test to all countries, whereas others (e.g., the United States) apply it only to signatories of the Code or to those that have entered into bilateral agreements to discipline subsidies.

The Committee on Subsidies and Countervailing Measures is charged with the oversight of the Code. For doing so, it depends on members notifying their relevant use of subsidies. Compliance with the notification obligation is sporadic, partly because of genuine data problems, but partly for defensive reasons. Thus, enforcement of the Code is foundering on nonsupport by the signatories, and trade frictions on subsidies have increased.

Nor has dispute settlement under the Code been very effective. Five of the six panel reports brought before the committee have not yet been adopted, as the consensus practice requires the consent of the party losing the case. The sixth report was adopted in the context of a bilaterally agreed solution to the dispute, with the report essentially limiting itself to an outline of the solution, but not coming to any findings. More recently, in May 1991, a panel was established to consider a U.S. complaint about the exchange rate guarantee scheme operated by Germany in favor of its civil aircraft manufacturing industry. The EC, though not objecting to the establishment of the panel, maintained that as GATT

[13]The increase in NTMs may have largely offset the reduction of tariff barriers to imports into the developed economies. For example, it is estimated that the economy-wide tariff equivalent of U.S. NTMs on textiles, steel, and automobiles in 1984 was about 25 percent, bringing protection to the level of the early postwar years. See de Melo and Tarr (1988).

[14]The measures include import deposits and surcharges, variable levies, quantitative restrictions (including prohibitions, quotas, nonautomatic licensing, VERs, and restraints under the MFA), automatic licensing, antidumping and countervailing actions, and price control measures.

[15]UNCTAD (1990b).

[16]A typical VER is discriminatory, in that it limits the supply of a particular type of exports by country. The GATT, which is concerned with governmental actions affecting trade, prohibits export restraints under normal circumstances; when permitted, they must be nondiscriminatory and, in general, applied through duties, taxes, and charges. However, the involvement of governments in VERs is not always clear. Also, VERs do not always have firm market-sharing provisions; they may, for example, be in the nature of an export forecast and thus be cautionary in nature. For these reasons, VERs fall into a "gray area," in that there can be doubt as to their illegality under GATT. Further, signatories to the Tokyo Round code on Subsidies and Countervailing Duties seem to have acquired legal powers to negotiate VERs.

[17]GATT (1989a) and (1991a).

[18]The EC is counted as one when the number of signatories is given, unless otherwise indicated.

recognized trade in civil aircraft as a special sector, the proper forum for the dispute was under the Civil Aircraft Code. This has raised the more systemic point that action on a report in one forum may be held until parties see that they cannot do better elsewhere.

Dumping

The Tokyo Round Agreement on Antidumping Practices came into effect in 1980. It interprets the provisions of GATT Article VI, which lays down the conditions under which duties (ADDs) may be imposed as a defense against dumped imports. At present, there are 25 signatories to the agreement, which is administered by the Committee on Antidumping Practices.

In some countries, antidumping actions are the most actively used trade policy instrument (tariffs, of course, are the broadest instrument). Despite a recent decline in the number of antidumping investigations, the broadening scope of such measures has become an important source of trade friction among Contracting Parties. In particular, the Antidumping Code, and its interpretation, has involved controversy over definition and measurement of both dumping and injury, and over the actual application of duties; problem areas also include the application of dumping in third markets,[19] the use of price undertakings in antidumping proceedings, and revision and termination of undertakings. Legislation by some countries to widen the coverage of antidumping duties has been a source of concern to trading partners.

An important recent controversy relates to "local content" arguments in antidumping cases: what determines whether a product is derived from local or foreign sources—factory residence or domestic value added? In June 1987, the EC adopted regulations stipulating that ADDs may be applied, under certain conditions, to products assembled in the EC but using imported parts as materials; this was to prevent circumvention of ADDs on finished products. On this basis, the EC Council in April 1989 imposed ADDs on certain electronic products produced (but largely assembled) by five Japanese-related companies in the EC. Exports to the EC of similar products by the non-EC based affiliates of these companies were already subject to ADDs. The EC argued that these firms subsequently set up assembly plants in the EC to *evade* the original duties. The EC held that the newly imposed duties only enforced compliance with the original ones and, therefore, fell within allowable GATT exceptions to assure, inter alia, that nothing in the GATT shall prevent a member from adopting measures to secure abidance by GATT-consistent laws or regulations (Article XX:D). Japan, in its first dispute settlement case against another GATT member, filed a complaint against the duties. The panel, established by the Council[20] in October 1988, found against the EC on the grounds that nothing in the GATT precluded action aimed at the *avoidance* of duties. The EC levies thus involved a discriminatory internal tax, contravening the requirement of national treatment for imports. The EC agreed to the adoption of the panel report, in May 1990, but noted that it would not consider amending its own legislation until the Uruguay Round had dealt effectively with the circumvention of duties (for which GATT provisions do not now exist).

More recently, there has been a notable increase in dispute activity in the context of the Antidumping Committee. The first dispute panel established by the Committee, in January 1989, found against U.S. ADDs on certain steel imports from Sweden; however, the report, which was submitted to the Committee in September 1990, remains unadopted.[21] Late in 1990, the Committee established a dispute panel to examine a Finnish complaint against Australian duties on imports of Finnish power transformers and was informed of Canadian and Mexican requests for dispute settlement consultations regarding possible U.S. anticircumvention measures on duties on imports of color television components and of Mexican consultations with the United States on the latter's imposition of duties on certain cement imports from Mexico. This increase in dispute activity is not surprising in view of the growing perception that antidumping activity is being used defensively, possibly frustrating rather than fostering fair competition.

Government Procurement

The Agreement on Government Procurement, negotiated in the Tokyo Round, is administered by the Government Procurement Committee, which has 12 members. With the government and its agen-

[19] A GATT panel established in March 1987, at the request of the EC to investigate the Japan–United States agreement on semiconductors did not address the validity of prevention of dumping in third markets, but it did rule (in June 1988) that the type of measures taken by Japan to prevent dumping of semiconductors in third markets was contrary to the prohibition on quantitative restrictions on exports under the GATT.

[20] Japan filed its complaint under the GATT dispute mechanism (and hence in the Council) rather than that of the antidumping code as the EC had defended its duties under GATT and not within the context of the code.

[21] The United States and others are of the view that the panel's *specific* recommendation, to eliminate the duty, runs contrary to the authority of the panel to draw only *general* conclusions (that U.S. legislation should be brought into line with its obligations under the GATT and the code).

cies the largest single purchaser in many countries, the agreement seeks to increase transparency in procurement laws, regulations, and procedures, and to ensure that such measures do not serve to protect domestic producers from international competition or discriminate among foreign suppliers or goods.

Much of the recent work of the Committee has been taken up with negotiations to improve and extend the coverage of the agreement. These negotiations, involving signatories only, are conducted apart from the Uruguay Round, but clearly are influenced by the dynamics of the Round. The first phase of the negotiations was concluded in 1988, with a lowering of the threshold value (above which procurement contracts must be open to bidding to the agreement's signatories) from SDR 150,000 to SDR 130,000, and an extension of the agreement's coverage to leasing contracts. Since then, negotiators have concentrated on increasing (1) the number of procurement entities subject to the agreement and (2) its scope to include services. By late in 1990, negotiating offers had been put forward by all major participants, with improvements and the formulation of a final package expected to be coming from further bilateral and plurilateral discussions. However, delay in concluding the Uruguay Round halted the momentum in the government procurement negotiations, which have made little headway since Brussels.

In only its second action on dispute settlement, the Committee established a panel in July 1991 to examine an EC complaint that a U.S. government entity had purchased equipment without following the required tendering procedures.[22]

Textiles and Clothing

Trade in textiles and clothing is subject to special restrictions under the MFA. The MFA was initially negotiated in 1974 (to succeed the Short-Term (1961–62) and Long-Term (1962–73) Arrangements on Cotton Textiles) and has been renewed three times. MFA IV went into effect in August 1986 and was scheduled to expire on July 31, 1991; it was recently extended for 17 months, pending the results of the Uruguay Round, which are expected to include a phase out of the MFA.

Overall management of the MFA is in the hands of the Textiles Committee, made up of representatives of its 41 signatories and chaired by the Director-General of GATT. MFA members account for some 80 percent of world textile and clothing exports (excluding intra-EC trade). While some 21 members maintain few, if any, restrictions, those implemented by others affect up to 50 percent of trade in the sector. The restrictions, in the form of bilaterally agreed export restraints, constitute a major departure from GATT's central principle of nondiscrimination.

Recent activity in the Textiles Committee centered on the present extension, to the end of December 1992, of MFA IV. Initially, some exporters operating under restraints sought assurances that these would not be tightened during the extension period. Others sought a straightforward extension on the grounds that the appropriate venue for negotiations on the MFA was the Uruguay Round. The latter view held sway, as many MFA signatories thought that detailed negotiations on the extension could complicate the potential Uruguay Round agreement to gradually eliminate, or bring into GATT conformity, all MFA measures.

The Committee on Trade and Development

The Committee on Trade and Development (CTD) deals with issues of trade interest to developing countries. In particular, it examines how Contracting Parties put into practice Part IV of the General Agreement, which provides for differential and more favorable treatment for developing countries on a best efforts basis. The CTD also has primary responsibility for oversight of the Tokyo Round's Enabling Clause, which is the GATT's legal basis for MFN derogations for preferences to and among developing countries. The CTD, accordingly, monitors the implementation of the Generalized System of Preferences (GSP)—under which industrial countries acting individually grant preferential treatment, mainly in the form of lower tariffs, to developing countries—and, more recently, that of the Global System of Trade Preferences Among Developing Countries (GSTP).

Preoccupation of virtually all GATT delegations with work related to the Uruguay Round has kept the CTD's activity low key in the recent past. Its main issues of concern have included graduation of certain countries from GSP schemes, country coverage of the GSTP, and credits and recognition in GATT (and the Uruguay Round) for unilateral trade liberalization by developing countries.

The Enabling Clause establishes the principle of integrating developing countries fully into the multilateral trading system—that is, the graduation of these countries from differential and more favorable treatment; however, the Clause does not lay down criteria for graduation. Therefore, some industrial countries, notably the United States, have incorpo-

[22]The first, adopted in May 1984, found against the EC on a U.S. complaint regarding the exclusion of value-added taxes from the contract price (effectively raising threshold values), a matter that the EC brought into line with the agreement in 1987.

rated graduation aspects into their GSP schemes. This has resulted in some instances in removal of GSP benefits to a number of newly industrialized economies (NIEs), whose competitiveness was seen as no longer warranting special preferences. Developing country concern has centered on the fact that GSP schemes are to be nondiscriminatory (under a 1971 GATT decision and the Enabling Clause). However, with most developing countries now full participants in the Uruguay Round and ready to offer market access concessions in return for those from developed economies, the graduation issue may be less divisive. Rather, the focus of CTD debate has shifted from preferences under GSP to general market access questions in the context of the success or otherwise of the market-oriented, outward-looking policies adopted by many developing and Central and Eastern European countries. The CTD is unanimous on the need for improved market access, but most feel that the structure and extent of a possible improvement is a matter for negotiation in the Uruguay Round.

A related element in the debate on how to help assure domestic and external balance emerging from economic reforms is "credit and recognition" for unilateral market opening by developing countries. While the logic of credit is acknowledged, the how and when is still not defined. It is, however, tacitly agreed that credit should be considered only—in terms of market opening—if liberalization is made irreversible, by binding it in GATT; in this regard, nonbound liberalization could be "recognized" by temporary reciprocity by industrial countries. The airing of views on this issue in the CTD is recent, but any resolution will stem from actual negotiation in the Uruguay Round.

The CTD's concern about the GSTP involves the universality of its country coverage. The GSTP went into force on April 19, 1989 and now has 28 GATT members as signatories.[23] Because membership is limited to the Group of Seventy-Seven, some industrial countries and some non-Group of 77 developing countries, believe that the GSTP is at odds with the nondiscriminatory requirements of the Enabling Clause.

[23] Argentina, Bangladesh, Bolivia, Brazil, Chile, Cuba, Egypt, Ghana, Guyana, India, Indonesia, Malaysia, Mexico, Morocco, Nicaragua, Nigeria, Pakistan, Peru, Republic of Korea, Romania, Singapore, Sri Lanka, Thailand, Trinidad and Tobago, Tunisia, Tanzania, Yugoslavia, and Zimbabwe.

The Interface Between Trade and Competition Policies

This appendix discusses some of the major interactions between trade and competition policies. It aims to bring together some of the current thinking on these issues and is not intended to be prescriptive. A comprehensive analysis of the issues involved would require an in-depth review of the aims of competition policies, the legal principles underlying competition laws, and differences across countries in competition laws and their enforcement; trade theories and trade rules embodied in GATT and national legislation, as well as their implementation; and traditional and new theories of industrial organization. While a flavor of all issues involved is given, the paper focuses on interlinkages primarily from the perspective of trade policy. Future work could examine these interlinkages in greater depth from the perspective of competition policy.

Recognition of the fact that the effects of competition policies spill across national boundaries and that trade and competition policies are interrelated is not new; however, these spillover effects and interrelationships are now receiving increased attention. This is reflected in the communiqué of the OECD ministerial meeting of June 1991 and in extensive work programs under way in the OECD and elsewhere on these issues. The current focus on these issues primarily reflects increased tension and new challenges associated with the growing and rapid integration of the world economy through increased trade, but more particularly the globalization of investment and production and the associated increase in intra-firm trade and foreign sales and purchases of firms located abroad.[1]

The continued integration of the world through trade and investment has not, in many countries, been accompanied by the structural adjustment necessary to cope with increased competition. Thus, a number of industrial countries continue to protect declining industries and promote "strategic" sectors and "national champions" through nontariff and domestic measures. Such measures frequently conflict with competition laws of countries implementing these measures, as well as with competition policies of exporting countries.

The globalization of investment and production raises issues beyond those that have emerged, because of increased integration through trade. First, to the extent corporations choose to compete in foreign markets by establishment in those markets rather than through trade, their access to markets and the location of industry depends on foreign investment policies for new investment ("greenfield") and takeovers of existing assets (mergers, acquisitions, etc.). Regarding takeovers, the increase in merger activity and takeovers associated with EC 1992 and the extensive powers granted to the EC Commission under its New Merger Control Regulation have brought these issues into sharper focus.[2] Second, the emergence of the "global corporation"[3] has blurred the distinction between "national" and "nonnational" firms and has raised questions about the relevance of traditional trade policy instruments and rules that assume nonnational firms supply domestic markets primarily through trade and about the relevant criteria for analyzing foreign penetration of domestic markets and domestic penetration of foreign markets.[4] From the perspective of competition policy, globalization raises fundamental issues concerning the appropriateness of national competition laws and the role of governments in fostering competition.

[1]Outward foreign direct investment (FDI) by Group of Five countries expanded, on average, by 27 percent in real terms during the period 1983–89, or three times faster than merchandise trade flows. Relative to the rate of growth of real GNP, the growth in FDI is about twice the rate that would have been expected, based on historical experience. In the United Kingdom, France, and Germany, about one fifth of domestic sales of manufactured goods and over one fourth of exports are from foreign-owned firms; total sales by U.S. firms abroad are five times U.S. exports (Julius (1991) p. 5).

[2]The number of mergers and acquisitions made by Europe's 1,000 largest firms—either within an EC member state, across EC frontiers, or internationally—increased from 208 in 1984–85 to 383 in 1986–87 (Jacquemin and others (1990)).

[3]The term "global corporation" refers to multinational corporations that increasingly operate on the basis of a worldwide rather than a multicountry strategy (Ostry (1990), p. 1).

[4]This is traditionally done by relating data on imports and exports to domestic variables, such as apparent consumption and production. It has been suggested that foreign sales and purchases of "domestic" firms may be a more relevant criteria (Julius (1991)).

To provide perspective on the issues covered in this appendix, a few general observations would seem necessary. Many of the problems at the interface of trade and competition policy are, in a sense, problems of trade policy and could be resolved within the existing multilateral framework for international trade. Indeed, some of these issues are on the Uruguay Round agenda; success in the negotiations could go a long way toward resolving international conflicts and creating more competitive markets. It is recognized, however, that a number of the issues at the interface of trade and competition policies go well beyond the Uruguay Round agenda.[5] These include a growing divergence between the "nationalistic" objectives of governments and the "global" strategies of corporations;[6] an inconsistency between "nationalistic" concepts underlying domestic trade and competition policies and the global concepts that are necessary in an increasingly interdependent world;[7] the need for a better understanding of the access problems created by various business practices; and unresolved issues related to the policy implications of new theories of industrial regulation and "strategic" trade theory. Progress in these areas will likely require substantial analytical and empirical work to get a better handle on the issues involved and their importance.

The rest of the appendix is organized as follows. The first part defines the aims of competition and trade policies, their interaction, the potential for conflict, and the broad implications of these linkages. The second summarizes previous and ongoing efforts to harmonize competition laws and to reduce inconsistencies between trade rules and competition policies and laws. The third discusses the specific nature of the conflicts between these policies with reference to a selected group of trade measures and restrictive practices that currently are a major source of trade friction. The last part outlines recent proposals for resolving conflicts in this area and describes major research under way in the OECD and elsewhere on these issues.

5OECD (1991), Fcketekuty (1991b), Graham and Richardson (1991).

6For example, "rules of origin" can conflict with "global" strategies.

7Ostry (1990). It has been suggested by a number of observers that global (not national) economic welfare ought to be given more priority in competition policy considerations. For this reason, the exemption for export cartels and import cartels contained in most countries' competition laws should be removed (Goldberg and Ordover (1991), Barton (1990)). In cases where the impact on national and global welfare goes in the same direction, governments would likely agree to such a principle. In cases where it does not, this would seem possible only in the context of a multinational agreement.

Definitions, Aims, Sources of Conflict, and Implications

Competition policy defines the rules that regulate competition among firms. Although views differ on the appropriate aims of competition policy[8] and the role of government in achieving those aims,[9] competition policy, in broad terms, seeks to promote the efficient functioning of markets so as to maximize the welfare of consumers. Competition laws cover trusts, monopolies, mergers and acquisitions, and property rights, and they are intended to curtail the abuse of market power through price discrimination, price fixing, collusion, and other restrictive business practices. Such laws basically have been developed with domestic transactions in mind, although the competition laws of some countries (for example, the United States and Germany) and the European Community (EC) do have an extraterritorial reach when the conduct of a foreign enterprise in a foreign country has some "effect" within the domestic territory.[10]

Trade policy, which includes various multilateral, regional, and bilateral trade agreements, as well as national laws, that give effect to these agree-

8The aims of competition policy have received considerable attention recently in the literature (see, for example, National Consumer Council (1991), Greer (1989), and Jacquemin and others (1990), and numerous references contained therein). Greer (1989) identifies five aims of competition policy covering goals related to efficiency; consumer welfare; the maintenance of competition as an end in itself; fair conduct; equity and distribution concerns; and political and social objectives. These aims are not unambiguous (for example, efficiency covers three elements—allocative, productive, and innovative efficiency—which are not always compatible) or necessarily consistent with each other. The priorities attached to each differ across countries and, within countries, across sectors, and over time.

9The traditional structure-conduct-performance (S-C-P) paradigm of industrial organization analysis emphasizes the role of government in fostering "competition" (as provided by decentralized market structures) to achieve allocative efficiency. The Chicago School, which rejects the S-C-P paradigm, believes that market concentration enhances efficiency and thus argues for a "smaller" competition policy (one in which governments only curb mergers that create monopolies or near monopolies and discourage blatant collusive restraints, such as horizontal price fixing) (Greer (1989), pp. 1–3). The theory of "contestable" markets (a perfectly contestable market is one in which entry and exit are costless) suggests that governments can have it both ways; governments can protect the public and smaller firms from the threat of monopolistic behavior by large firms and, at the same time, allow larger firms enough freedom to meet the requirements of efficiency (Baumol and Lee (1991) p. 1). The laissez-faire approach of the Chicago School is evident in recent approaches to antitrust enforcement in some countries, which take a more relaxed view of vertical mergers and joint ventures and apply minimal restrictions on the terms of technology licensing.

10Matsushita (1988), p. 427.

ments and other national trade objectives, in a broad sense, regulates competition among firms across national boundaries, although the codes and laws that regulate such competition are less comprehensive than those that regulate domestic competition. Competition and trade policies have similar roots in that both aim to promote competition and to provide remedies for dealing with noncompetitive behavior. Policies that promote freer international trade serve to sharpen domestic competition, and thus they reinforce the broad objectives of competition policy.

Conflicts between competition and trade policies and among nations arise for two main reasons. First, not all countries have well-developed competition laws, and, where they do exist, approach, jurisdiction,[11] investigatory powers,[12] procedural rules and remedies,[13] and enforcement differ. These differences may limit access of foreign firms to domestic markets directly or indirectly via effects on inward direct investment, or they may enable domestic firms to unfairly target foreign markets. Second, both GATT and national trade laws permit trade-limiting actions in certain circumstances, which may weaken competition in both international and domestic markets. In addition, the trade-promoting policies of one country may conflict with the competition laws of other countries. Conflicts may also arise when countries have similar competition laws; for example, restrictive business practices that normally are actionable under competition law escape such action if they are taken under the "cover" of trade policy or government compulsion.[14]

Many of the issues being discussed under the U.S.-Japan Structural Impediments Initiative (SII) cover trade-related competition issues. These include restrictive business practices and lax enforcement of competition laws, which may restrict competition directly, and restrictions on foreign direct investment, which may restrict competition indirectly. Problems associated with the use of antidumping duties (ADDs) and voluntary export restraints (VERs) are examples of competition-related trade policies.[15] These trade policy instruments tend to foster noncompetitive behavior by encouraging the formation of cartels, oligopolistic market structures, and the use of restrictive business practices. The specific nature of these conflicts is discussed below.

Inconsistencies between trade and competition policies, together with the increased potential for these inconsistencies to cause conflict in an interdependent world, call for (i) a re-examination of the GATT and national trade laws in terms of the principles of competition policy, and (ii) an examination of the relevance of competition laws for international trade.

Trade rules in particular need of review include remedies to deal with "unfair" trade practices (for example, antidumping and countervailing laws, and national laws to protect intellectual property rights); remedies to deal with import competition from "fair" trade (for example, Article XIX of GATT, VERs, and other gray-area measures); export promotion policies (for example, direct and indirect subsidies); instruments used to pry open foreign markets (for example, Section 301 of the U.S. 1974 Trade Law); and local content rules and rules of origin.[16]

In the area of *competition policy*, issues that need to be re-examined from a trade angle include the appropriate economic and geographic definition of the "market"; the criteria applied in assessing the impact on market structures and competition of mergers and acquisitions (both nationally and across borders); the impact on international trade of collusive behavior among domestic producers vis-à-vis foreign producers; collusive behavior among domestic and foreign firms; competition in

[11]Under the "principle of territoriality," most countries apply their laws to conduct that takes place within their territory regardless of the nationality of the persons or firms involved. This principle has been extended in some countries (e.g., the United States, Germany) and in the EC under the "doctrine of effects" and the concept of "enterprise unity" to cover conduct abroad that has an effect on domestic markets (OECD (1984), p. 122).

[12]National fact-finding powers (e.g., access to information), and the mode used to consider competition cases (administrative, judicial, or political) differs among countries in large part reflecting differences in practices between civil and common law countries (OECD (1984), pp. 123–24).

[13]In some countries, only governments can bring suits, while in other countries (e.g., the United States) and the EC, private persons can do so (OECD (1984), p. 124).

[14]Under the doctrines of "Sovereign Immunity," "Act of State," and "Foreign Sovereign Compulsion," restrictive business practices that are implemented under government compulsion normally are not actionable under domestic or foreign competition laws.

[15]VERs might be classified as restrictive business practices, particularly when they involve industry-to-industry agreements. Their classification above as a trade policy instrument refllects their frequent use by governments as substitutes for "safeguard" measures (instead of Article XIX of GATT) and antidumping and countervailing duties.

[16]In its narrowest sense, "unfair" trade refers to trade that takes place partly as a result of dumping and subsidies, while "fair" trade refers to all other trade. In more general usage, however, the term "unfair" trade tends to be defined to include whatever the user unilaterally determines to be unfair. The distinction used in this paper between "unfair" and "fair" trade is used purely for presentational purposes and does not imply endorsement of such distinctions.

production and marketing activities; and the activities of regulated industries.[17]

Related to the above issues are the rules governing foreign direct investment and the conditions under which foreign firms operate in domestic markets. Domestic policies in these areas affect the access of foreign firms to domestic markets and the conditions under which they compete against domestic firms. Disciplines on trade-distorting investment measures are under negotiation in the Uruguay Round. Other concerns in this area, which have arisen in the context of the rapid increase in outward direct investment during the 1980s, have given rise to proposals to create a more comprehensive rules-based system for investment that would complement the GATT.

Past Efforts to Deal with the Interaction Between Trade and Competition Policies

A number of attempts have been made in the past at the multilateral, regional, and bilateral levels to harmonize competition policies and to reduce conflicts between trade and competition policies. Most progress in this area has been achieved in the context of regional arrangements.[18]

Multilateral Efforts

The first and most ambitious attempt to deal with interrelated trade and competition issues was contained in the Havana Charter (1945) for an International Trade Organization. Chapter V of the Havana Charter contained policies and principles to assist in preventing business practices that adversely affect international trade, restrain competition, limit access to markets, or foster monopolistic controls.[19] After the Havana Charter failed to obtain the necessary votes for ratification, a proposal was made in Economic and Social Council of the United Nations (ECOSOC) in 1953 to revive Chapter V as a separate instrument. The proposal was not accepted, however, because it did not receive the support of the United States or of a number of other countries.[20] Similar, but unsuccessful, attempts were made in GATT between 1954 and 1960. Finally, in 1960 the CONTRACTING PARTIES adopted a resolution that recommended consultations whenever a Contracting Party felt it was being harmed by restrictive business practices of firms from other parties.[21] Such activities were to be reported to the Secretariat; no such reports have been made to date.

Beginning in the 1970s, the United Nations continued efforts to develop harmonized international competition policies. In 1980, in line with the 1974 recommendations of a UN Group of eminent persons, "The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices" (UNCTAD Code) was approved by the General Assembly. The Code is a set of voluntary guidelines that promotes the exchange of information and informal cooperation while leaving each country to devise its own laws. The Code deals with restrictive business practices, trade and antitrust issues, and the activities of multinational corporations, which are of particular concern to developing countries. The Code was reviewed at an UNCTAD conference in 1985, where particular attention was given to OECD analysis that pointed to the risks of antidumping legislation being applied anticompetitively.[22]

Within the OECD, discussions among members on restrictive business practices began in 1953.[23] Subsequently, a series of Council Recommendations were adopted that provided the basis for cooperation on competition and trade issues. These include the 1976 Guidelines for Multinational Enterprises (MNEs); the September 1979 Council Recommendation Concerning Cooperation Between Member Countries on Restrictive Business Practices Affecting International Trade; the Revised Recommendations of the Council of May 1986; and the Recommendations of the Council of October 1986 for cooperation between member countries in areas of potential conflict between competition and trade policies.[24] The 1976 agreement contains vol-

[17]Competition authorities have gone some way toward incorporating the realities of the global market place into competition laws and their enforcement (Goldberg and Ordover (1991)). For example, the U.S. Department of Justice's Antitrust Enforcement Guidelines for International Operations (1988) allow for transnational competition in defining the market, assessing market dominance and entry and exit barriers, and calculating market shares. To the extent that trade policy has attempted to deal with the implications of globalization (for example, laws to prevent circumvention of antidumping duties and the treatment of "transplants" under trade laws), such attempts have tended to restrict trade and competition.

[18]This section, for the most part, does not cover relevant GATT Articles and Codes or modifications in the implementation of national trade and competition laws to reduce conflicts in these areas.

[19]Jackson (1969).

[20]Jackson (1969), OECD (1984), and Barton (1990).

[21]Jackson (1969), p. 526.

[22]Barton (1990).

[23]In 1953 the Organization for European Economic Cooperation (the predecessor of the OECD) established a Group of Experts on Restrictive Business Practices.

[24]The 1986 Recommendations adopted by the Council resulted from a request to the Committee of Experts on Restrictive Business Practices by the 1982 OECD ministerial meeting to review the 1979 recommendation and, after consultation

Table 18. Indicative Checklist for the Assessment of Trade Policy Measures

1. What are the expected direct economic gains to the domestic sector, industry, or firm in question (technically, the increase in producers' surplus) and also what jobs are expected to be created or protected by the measures?
2. What are the expected direct gains to government revenues (e.g., from tariffs, import licenses, tax receipts) or increased government costs (e.g., export promotion, government subsidies, lost tax revenues)?
3. What are the direct costs to consumers owing to the resulting higher prices they must pay for the product in question and the reduction in the level of consumption of the product (technically, the reduction in consumers' surplus)?
4. What is the likely impact of the measure on the structure of the relevant markets and the competitive process within those markets?
5. In the medium- and longer-term perspective, will the measure, on balance, encourage or permit structural adaptation of domestic industry leading over time to increased productivity and international competitiveness or will it further weaken and delay pressures for such adaptation? What will be the expected effect on investment, by domestic firms in the affected sector, by potential new entrants, by foreign investors?
6. What would be the expected economic effects on other sectors of the economy, in particular, of firms purchasing products from, and selling products to, the industry in question?
7. How are other governments and foreign firms likely to react to the measure, and what would be the expected effect on the economy of such actions? Is the measure a response to unfair practices in other countries?
8. What are the likely effects of the measure on other countries? How can prejudice to trading partners be minimized?

Source: Organization for Economic Cooperation and Development (1984), p. 24.

untary guidelines dealing with issues related to dumping, subsidies, distribution and licensing, and conflicting requirements that may be imposed on MNEs as a result of different approaches by OECD member countries to law enforcement and jurisdiction, and it provides for consultation between member states before the OECD Committee on International Investment and Multinational Enterprises. The 1979 and subsequent recommendations encourage governments to take account of the impact of their practices on competition, and they contain provisions for notification, exchange of information, consultation, and conciliation (by the Committee of Experts on Restrictive Business Practices—now called the Committee on Competition Law and Policy) in the event consultation does not produce a satisfactory solution. So far, the conciliation provision has not been used. To further enhance the coordination of trade and competition policies, in April 1985 the OECD Council approved the Indicative Checklist for the Assessment of Trade Policy Measures, which had been developed jointly by the Committee of Experts on Restrictive Business Practices and the Committee on Consumer Policy, in consultation with the Trade Committee (Table 18).[25] More generally, trade and competition issues are discussed in an interdisciplinary manner within the OECD by a number of committees including the Trade Committee, the Economic Policy Committee, the Committee on International Investment and Multinational Enterprises, the Consumer Policy Committee, and the Committee on Competition Law and Policy. The work of these Committees is to be further integrated as part of the expanded work program that the OECD has in progress on trade and competition issues.

Regional Efforts

Attempts to harmonize trade and competition policies have been taken within the context of various regional arrangements. These include the European Community (EC); the European Free Trade Association (EFTA); and the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA). These issues are also under discussion in the U.S.-Canada Free Trade Agreement (FTA), in the negotiations between the EC and EFTA for the creation of a European Economic Area (EEA), in the negotiations among Canada, Mexico, and the United States to form a North American Free Trade Area (NAFTA), and in the negotiation of Association Agreements between the EC and a number of Eastern European countries.

with the Trade Committee, devise revised recommendations to strengthen cooperation in this area. As a first response to the 1982 Ministerial Council mandate, the Committee on Restrictive Business Practices produced a report on *Competition and Trade Policies*, *OECD, 1984*. Part I of this report, consisting of an introduction, summary, and conclusions, was transmitted to the 1984 Ministerial Council as a background document.

25The approach was illustrated in a study on the costs of VERs in the automobile sector (OECD (1987b)) and in a recent comprehensive report prepared for the OECD on nontariff barriers to competition (Goldberg and Ordover (1991)). The results of the 1987 study are summarized in Kelly and others (1988), p. 165. Further studies using this approach on antidumping duties and distribution-related barriers to international competition are under way in the OECD.

The Treaty of Rome, which established the EC, contains the most comprehensive set of rules to ensure the effective functioning of markets among different countries and to minimize the scope for conflict between trade and competition policies. Articles 85 to 94 give the European Commission power to control anticompetitive practices affecting the common market.[26] In particular, noncompetitive behavior related to price discrimination and subsidies within the EC are covered by these articles and not by the EC's Antidumping and Countervailing Laws, which apply to nonmember countries. In addition, Article 113 of the Treaty of Rome provides for a common commercial policy, although exceptions have been made (under Article 115) for purely national measures. Although the Single European Act (EC 1992) is silent about trade and competition policy, it is understood that the Treaty of Rome will be applied in full after 1993. In particular, the Commission has stated that it will not permit exceptions under Article 115, and laws related to state aids (subsidies) are being enforced more strictly.[27] In addition, the EC Merger Control Regulation (implemented in September, 1990) creates extensive new obligations for the notification of concentrations between large companies that meet certain threshold requirements. The extent of extraterritorial powers in the directive has the potential to create conflict between the Commission and other competition authorities.[28]

With regard to EFTA, Articles 13 through 17 of the Stockholm Convention contain a set of competition rules covering government aids (subsidies), government purchasing practices, the right of establishment, and dumped or subsidized imports. To prevent dumping by companies of one EFTA member in the markets of other EFTA members, EFTA competition rules include a "boomerang" provision, which provides for the re-export of products to domestic markets of producing firms.[29] Unlike the EC, however, EFTA does not yet have a supranational body to enforce competition policies within the free trade area.

With regard to ANZCERTA, Article 4 of the 1988 Protocol on Acceleration of Free Trade in Goods provided that, with the achievement of full, free trade in goods on July 1, 1990, neither country would take antidumping actions against the other; rather, each country would apply its competition laws to anticompetitive conduct affecting trans-Tasman trade in goods.[30] To give effect to these commitments both countries amended their competition laws—the Trade Practices Act (Australia) and the Commerce Act (New Zealand)—effective July 1, 1990 to extend prohibitions on the anticompetitive use of market power contained in both acts to cover the abuse of market power within trans-Tasman markets. In addition, the competition authorities in each country were given new investigatory powers to obtain information and documents in the other country and the courts of each country were permitted to sit and take evidence (including by videolink) in each other's country.[31]

In the negotiations leading up to the establishment of the *United States-Canada FTA*, issues related to the interaction between trade and competition policies were discussed. Indeed a major motivation behind Canada's decision to negotiate this agreement was an attempt to shield its exports from "contingent" protection measures (antidumping and countervailing duties) in the United States. For its part, the United States was particularly interested in more effective discipline on the use of subsidies and measures to deal with subsidies and dumping. In the event, little harmonization of these policies was achieved in the FTA because of unresolved technical issues, uncertainty about the economic impact of greater price competition that would result if the existing antidumping laws of both countries were not applied against each other, and difficult questions on the conduct of domestic policy and the exercise of sovereignty.[32] In addition, neither country was willing to dismantle sub-

[26]Article 85 deals with restrictive agreements by firms; Article 86 deals with abuse of a dominant position (monopolistic behavior); and Articles 87–94 deal with subsidies and activities of public utilities.

[27]It should be noted, however, that the addition to the Treaty of Rome of Articles 130f–g, which define Community responsibility for the promotion of technological development, is argued by some as justifying a more protectionist interpretation of other parts of the Treaty (National Consumer Council (1991)).

[28]"The EC approach to competition policy is quite different from that of the U.S. Justice Department. In the United States, the Government must prove that a proposed merger would be anticompetitive before it may prevent it." In the EC, under the new Commission rules, "the burden will rest with the company to provide information to prove that its plans would *not* restrict competition" (Julius (1991), p. 12). Under Article 24 (the so-called reciprocity clause) of the Merger Control Regulation, which requires the Commission to report by September 1991, and periodically thereafter, regarding the treatment of Community enterprises under merger laws of other countries, third countries may come under pressure to alter aspects of their competition laws (Canada (1991), p. 20).

[29]Smith (1991).

[30]This agreement does not cover the use of countervailing duties.

[31]Apart from these provisions, the two governments under a 1988 Memorandum of Understanding on Harmonization of Business Law are examining the scope for harmonization of business laws and regulatory practices that increase transactions costs of trans-Tasman trade (Broome (1990)).

[32]The Free Trade Agreement contained procedural changes that set up a new binational appeal mechanism that can replace existing judicial review by domestic courts of final decisions taken by administering agencies, as well as a review mechanism to monitor changes in antidumping and countervailing

sidies, particularly domestic agricultural subsidies, on a bilateral basis, given concerns about subsidy practices in other countries. A Working Group has a five-to-seven-year timetable to negotiate rules on subsidies and methods for dealing with unfair pricing and government subsidization.[33]

In June 1990, the EC and EFTA launched negotiations to form a European Economic Area (EEA). The negotiations aim, inter alia, to harmonize competition laws and rules on subsidies; to agree on mechanisms to ensure that such rules are enforced; and to explore the possibility of using competition policy rather than antidumping and countervailing laws to deal with anticompetitive pricing practices within the EEA.[34]

Bilateral Efforts

The United States currently has bilateral agreements cover cooperation on antitrust issues with Australia, Japan, Canada, Germany, and the EC. In addition, France and Germany have a bilateral agreement with each other.[35] These agreements aim to avoid or minimize conflict in the enforcement of antitrust laws and contain clauses to notify each other of pending proceedings, to cooperate in the development of evidence, and to consult about proceedings. Some provisions of these treaties specifically reflect the close relationship between trade policies and competition law enforcement.[36]

The agreement between the United States and the EC (September 1991) is the most recent bilateral agreement to have been signed. It includes provisions whereby each party will notify the other when its own antitrust enforcement activities raise the possibility of a jurisdictional conflict. It also includes "lead role" provisions whereby one party may take the major enforcement role in a case of common concern. The lead role provisions reflect the principle of "jurisdictional rule of reason." This principle was developed in U.S. Courts to limit jurisdictional claims resulting from the prior reliance on the "effects doctrine," which allows a state to claim jurisdiction over conduct that has an effect in its own jurisdiction, even if the conduct originates elsewhere. The parties have agreed to allocate jurisdiction on the basis of "functional advantage" (i.e., a case would be given to the authority with the greatest enforcement powers), the principle of "comity" (the maintenance of international respect and courtesy), an "agency clause" (which allows one party to request the other to take action against anticompetitive conduct in its own territory), and information sharing. Although the agreement does not contain a binding mechanism for resolving disputes, it is expected to provide one avenue for resolving antitrust disputes, including those that may arise under the EC Merger Control Regulation.

Bilateral cooperation between the United States and Japan on competition issues has been strengthened in the context of the U.S.-Japan *Structural Impediments Initiative (SII)*, which was launched in September, 1989. The first Annual Report of the Working Group (1990) on SII contained commitments to implement measures to solve structural problems that, inter alia, were intended to remove impediments to more efficient, open, and competitive markets. These commitments cover a wide range of structural issues including a number that deal with the application and the enforcement of competition laws. In response to U.S. concerns about structural impediments to the Japanese market, Japan agreed to reform its distributive system, to make the *keiretsu* system more open and transparent, to eliminate exclusionary business practices, to liberalize the foreign direct investment regime, and to implement measures to adjust price differentials between Japan and the United States.[37] For its part, the United States agreed to reform its antitrust policy so as to improve the legal climate for joint production ventures and to reduce uncertainty about the treatment of such ventures under

duty laws as they apply to the partner country. The agreement also provided for the elimination of (i) export subsidies on bilateral trade in agricultural products and (ii) the elimination by Canada of import-licensing requirements for wheat, oats, and barley when subsidy levels in the two countries are equivalent. The dispute settlement mechanism will also be used to deal with issues affecting trade in services and foreign direct investment, but not issues related to intellectual property.

[33]Smith (1991).

[34]Xafa and Kronenberg (forthcoming).

[35]OECD (1984) and Barton (1990).

[36]For example, the United States-Australia agreement provides the Australian Government with the option of notifying the U.S. Government of policies it has adopted, which may have antitrust implications in the United States. This is intended to enable Australian exporters to identify and avoid potential difficulties before they commit themselves to actions that might otherwise be subject to U.S. antitrust laws. The agreement also provides for the Australian Government to be notified of decisions by the U.S. Department of Justice or the Federal Trade Commission to undertake an antitrust investigation that may have implications for Australian law, policies, or national interests. Both governments have accepted mutual obligations to communicate their concerns arising out of notifications, and each is entitled to request consultations (OECD (1984), pp. 131–32).

[37]The *keiretsu* system refers to "vertical" links between manufacturers and suppliers of inputs and "horizontal" links between corporations involved in manufacturing, banking, and insurance. Members of *keiretsu* exchange shares have interlocking directorates, and often make joint personnel and investment decisions. Such relationships are not necessarily exclusive in that members of *keiretsu* groupings have business relationships with firms outside of their grouping in the normal course of business.

antitrust laws. It also agreed to reform its product liability system so as to encourage innovation and enhance international competition, to maintain an open and nondiscriminatory policy toward foreign direct investment, and to eliminate VERs on machine tools (in the context of the Uruguay Round negotiations) and steel (in the context of the negotiation of a multilateral steel consensus).

Actions to fulfill these commitments were reviewed in the 1991 Annual Report of the Working Group. Significant measures implemented by Japan included a liberalization of foreign direct investment (consistent with the OECD Code of Liberalization of Capital Movements) and revised guidelines to ensure transparency and improved enforcement of the Antimonopoly Act. The guideline document, "The Anti-Monopoly Law Guidelines Concerning Distribution Systems and Business Practices," was issued on July 11, 1991 by the Japanese Fair Trade Commission (FTC). It covers 28 major types of business practices in distribution and other business spheres and gives the FTC's interpretation on enforcement policy under the Anti-Monopoly Law.[38] The document was made available to other OECD member countries for review prior to its implementation.

Examples of Conflicts Between Trade and Competition Policies

This section examines selected trade policies that are currently a major source of friction among countries and their relationship to competition policies. These include trade measures to deal with "unfair" trade, including business practices that may limit access to markets, measures to provide temporary relief against a surge of imports associated with "fair" trade, and the use of subsidies to promote "strategic" industries.

Unfair Trade Practices and Remedies

Dumping and Antidumping Actions

In principle, antidumping and competition laws have similar objectives with respect to dumping (international price discrimination) and domestic price discrimination, respectively.[39] Both seek to ensure that suppliers do not abuse market power so as to reduce or eliminate competition. In practice, however, the objectives of these laws tend to diverge. Whereas domestic competition laws are primarily concerned with protecting "competition," dumping remedies often seem to be more concerned with protecting "competitors."[40] This, and other differences between antidumping and competition laws, results in different standards being applied to import-pricing practices in the enforcement of antidumping laws than would be applied if such practices were examined under competition statutes.[41] For example, the standards for measuring price discrimination, assessing the adverse impact of price discrimination on producers, and choosing entities to look at when considering this adverse impact differ between antidumping policy and competition policy.[42]

To understand the source of conflict between antidumping and competition laws, it is useful to consider if dumping is harmful and, if it is, why can domestic competition laws not be used to contain its harmful effects? As summarized in Table 19, dumping may do economic harm to an importing country if it involves predatory pricing that is intended to drive domestic firms out of business or if it is done on an intermittent basis. Other forms of dumping typically involve pricing behavior that is considered normal market behavior if it occurs in domestic markets. As noted in Table 19, systemic arguments based on the concept of fairness, which are used to defend the use of ADDs to counter nonpredatory dumping, do not stand up to close scrutiny.

Although predatory pricing may be harmful to an importing country, the conditions required for successful predation are quite stringent (Table 19) and, in practice, this does not seem to be the predominant form of dumping.[43] Intermittent dumping may occur more frequently, but it is difficult to deal with because harm may be done before ADDs could be applied. Thus, the possibility of successful preda-

[38] International Trade Reporter (1991), p. 1077.

[39] After tariffs, antidumping actions are the most frequently invoked trade policy instrument. The extensive coverage of antidumping actions reflects the fact that such actions are a major and growing source of friction in the multilateral trade system. In addition, antidumping actions can be a substitute for countervailing actions and appear to have become the preferred policy instrument to deal with unfair trade practices and, in some cases, to shelter sensitive sectors and promote strategic sectors.

[40] The interests of producers were put forcefully in Australia, where producers stated that "[d]umping should be considered as a corporate and not a country activity and national interest should play no part" (Stubbs (1989), quoted in Banks (1990) p. 55). In the EC, it has been noted that "The Community authorities have frequently given more weight to the interests of the complainant industry than to the interests of consumers or processors" (Bell (1987), p. 30, National Consumer Council (1991), p. 18).

[41] OECD (1984), Gruen (1986), Bank (1990), De C. Grey (1988), and Nicolaides (1991).

[42] De C. Grey (1988), p. 451.

[43] A review of ADD cases (1980–85) in Australia, one of the largest users of ADDs, revealed no evidence of successful predation (Gruen (1986)). Likewise, "[t]he link between antidumping action and predatory intent is quite loose in the EC chemical industry, contrary to the alleged goal of the antidumping regulations and the claims of petitioners" (Messerlin (1990), p. 466).

Table 19. Dumping and Antidumping

Is Dumping Harmful?[1]	Are Antidumping Laws Needed?
1. From the perspective of the *importing country* dumping is harmful if it involves predatory pricing or intermittent dumping (Viner (1966)). a. *Predatory pricing* involves sales in foreign markets at prices below domestic prices to drive foreign firms out of business, after which prices in the foreign market are increased. This form of dumping is not frequent because the conditions required for successful predation are stringent: (i) there must be only one foreign supplier (world trading monopoly or sustainable cartel); (ii) re-entry barriers must exist for local suppliers in the foreign market; and (iii) less costly strategies for attaining market dominance must be absent. b. *Intermittent dumping* involves the use of export sales as a mechanism to dispose of surpluses. For a small country a one-off dump might wipe out an industry.	1. a. Antidumping laws are required to *shield domestic producers* against anticompetitive behavior (e.g., predatory pricing and intermittent dumping) in foreign markets. Antidumping laws are required because domestic competition laws, which are used to remedy anticompetitive behavior of domestic firms, generally cannot be used to deal with anticompetitive behavior in foreign markets. However, it is not easy to identify predatory "intent." In the case of intermittent dumping, it is difficult to devise a scheme to overcome such dumping because the harm is likely to be done before antidumping duties are put in place. b. Antidumping laws are also necessary to protect consumers against the consequences of predation. In practice, however, consumer interests are given little weight in antidumping cases. In general, however, the consumer's best defense against predatory pricing is an alternative supplier (Finger (1987)).
2. *Dumping as normal market behavior.* Other forms of "dumping" involving sales in foreign market at prices below domestic prices are part of a profit-maximizing strategy of private firms; they often are a side-effect of domestic interventions that serve to protect the exporters' domestic market from world competition, keeping home prices high. (The source of the economic costs are the interventions, not dumping as such.) It is not low prices abroad but high prices at home that should be objected to. — This is sometimes viewed as cross-subsidization; but the conditions for such a strategy to be successful are stringent; in particular, the exporter must be a monopolist or a cartel. — Selling products at a price that does not cover full costs is not regarded as an unfair trading practice internally; it should not be regarded as unfair in international trade (Gruen (1986)). — "It is normally in an importing country's *overall economic interest* to take the external trading environment as given and accept cheap imports, even if they are dumped or subsidized." (Gruen (1986)) (Finger (1987)). If dumping is intermittent, the costs to producers are likely to outweigh the benefits to consumers; if dumping is long term, the opposite is likely to be true.	2. Some argue that antidumping laws are required to deal with dumping that is not harmful to maintain support for an open multilateral trade system. a. *Fairness.* If the view is widespread that certain trade actions are unfair, failure to reflect that view in the rules of the game may erode support for the game itself, even if such trade rules are beneficial to a community as a whole (Bhagwati (1988), p. 3). This argument would seem more applicable to *subsidies* (government action) than "dumping" (actions by private firms), especially if there is no predatory intent. b. *Antidumping contract.* There is an implicit contract between government and industry regarding the antidumping/protection trade-off (perceptions of political feasibility). The commitment to a speedy and readily available antidumping system underpins the existing fragile consensus between government, industry, and unions on the need for change toward a less assisted, more outward-looking, restructured industry (Gruen (1986)). But such a rationalization may end up endangering the broader liberalization objective it is meant to serve.

[1]Based on Banks (1990) and de C. Grey (1988).

tion would seem to be the main reason antidumping laws are needed.

In the above connection, the trade system needs antidumping laws to deal with predatory dumping because domestic competition laws cannot prevent foreign companies from becoming monopolies.[44] A major defect in GATT's antidumping provisions, however, is that they make no distinction between predatory and other kinds of dumping. Nor has such a distinction been made in national trade legislation.[45] In practice, ADDs tend to be used primarily to counter dumping that is unlikely to be harmful, rather than to deal with predation. In many cases,

[44]Nicolaides (1991), pp. 130–31.

[45]It has been observed, however, that predatory pricing is not easy to identify in practice, which probably explains why it is not mentioned in GATT's Antidumping Code or in national laws (Banks (1990)).

ADDs are thought to present greater problems than the dumping they are intended to remedy.[46] Indeed, existing antidumping regulations are considered to be anticompetitive in their objectives, methods, and instruments.[47]

The major problems in the implementation of antidumping laws are related to the determination of injury, the calculation of dumping margins, insufficient recognition of the principle of national treatment,[48] and the use of antidumping provisions to sustain collusion in domestic markets (Table 20). The latter reflects the frequent use of price undertakings (EC) and VERs (U.S.) as remedies against dumping and an apparent lack of concern as to whether injury is done to a competitive or an oligopolistic industry (Messerlin (1990)).[49] In this connection, recent reviews of antidumping cases in the EC are instructive.[50]

The EC review (based on Commission documents and data) covered all cases in the chemical industry (1980–89) involving both anticartel action under Article 85(i) or Article 86 of the Treaty of Rome[51] and antidumping action.[52] It was found that 52 percent of antitrust cases under Article 85(i) had "twin" antidumping cases; thus EC firms being fined for price fixing were simultaneously asking for legal action against foreign price cutting. In addition, EC antidumping procedures were found to provide a high level of protection, to facilitate cartelization of the industry, and to reduce incentives for the industry to adjust. Also, the large net benefits obtained by firms from ADDs, despite anticartel fines imposed later, would likely result in future requests for more antidumping action. The Canadian study covered all antidumping cases during 1980–88. It concluded that it was extremely doubtful that any of the cases reviewed that were actionable under Canadian antidumping laws would have resulted in action under domestic competition law. In most cases, the use of ADDs reduced the pace of restructuring by domestic producers, which were found to be relatively inefficient in global terms.[53]

The experience with antidumping duties suggests that greater weight should be given to competition policy criteria, particularly those related to consumer interests, in the determination of antidumping cases. This might be achieved by applying the standards of competition policy to antidumping cases or by replacing antidumping laws with competition laws. In addition, the principle of "national treatment" needs to be recognized in measures dealing with the circumvention of antidumping duties, including through assembly operations that use dumped inputs. With the increased globalization of production, the latter will likely give rise to more frequent international disputes if not addressed.[54]

Subsidies and Countervailing Duties

Subsidies are provided for a variety of reasons, including those related to social and regional objectives, and are not trade distorting in all cases.[55] Thus, GATT and rules embodied in the Subsidies Code permit the use of subsidies on exports of primary products; signatories are to avoid export sub-

[46]Messerlin (1990), and Banks (1990).

[47]The Royal Institute of International Affairs (1991).

[48]For example, the EC "screwdriver" rules were found inconsistent by a GATT dispute panel with the principle of national treatment. Others have noted that the treatment of non-national firms under this law is arbitrary. For example, in some cases, foreign companies previously established in the EC (earlier "transplants") are complainants in antidumping cases against "newer transplants" (Messerlin (1990)).

[49]It has been noted that "if dumping is used as a market entry strategy it is more likely to be resorted to by firms attempting to break into oligopolistic industries in which case the prevention of injury further weakens competition" (The Royal Institute of International Affairs (1991)).

[50]Messerlin (1990), and Lexonomics, Inc. (1990). A study of a sample of antidumping cases in all OECD members that are frequent users of ADDs is in progress in the OECD.

[51]Competition cases involving price discrimination and predatory pricing typically fall under Article 86, which deals with abuse of dominant positions. Article 85(i) bans all agreements that have as their object or effect the prevention, restriction, or distortion of competition within the EC.

[52]The chemical industry is the most intensive user of EC antidumping regulations, accounting for about 40 percent of all cases initiated (and 46 percent of those terminated with a restrictive outcome) between 1980 and 1987.

[53]The other major findings of the study were as follows: first, successful dumping complaints tended to be in concentrated industries with a domestic market focus (making it easier to coordinate a complaint); producing internationally comparable products (making it easier to obtain a broader coverage of dumped imports on which to apply ADDs); with a low rate of innovation and high exit barriers (making it easier to establish material injury); and low barriers to entry (because products involved "low" or established technology). By contrast, unsuccessful complaints involved highly competitive domestic industries (making it difficult to link injury to import prices); producing specialized products (making identification of "like" products more difficult); characterized by low exit barriers and high industry innovation (making it easier to redeploy resources) and increasing domestic demand (making the finding of injury unlikely). Second, dumping findings almost always occurred when the measure of normal value was a "constructed" value. The critical criteria applied to determine injury was price suppression; secondary criteria (the impact of dumped imports on capacity utilization, profitability, and employment) did not consider the relative efficiency of Canadian and foreign producers.

[54]The Uruguay Round aims to include provisions to deal with anticircumvention in the GATT Code, to reduce the harassment effects of ADDs, and to phase out VERs (a substitute for safeguards).

[55]The use of subsidies as a strategic policy instrument is discussed in this section, as well as the use of countervailing duties to deal with unfair trade practices.

sidies on primary products that result in a "more than equitable share" of world trade and domestic subsidies that distort trade. However, the Code lacks precision in that it does not define what a subsidy is, nor does it provide much guidance on what subsidies are to be avoided.[56] The GATT also permits countervailing duties (CVDs) to counter the trade-distorting effects of subsidies provided by trading partners. While there is an intuitive complementarity between subsidy rules and rules for CVDs, the rules in fact lack symmetry in that it may be legitimate in GATT for one country to provide a subsidy, and equally legitimate for another country to countervail that subsidy.[57] The lack of symmetry and precision in subsidy and CVD rules has permitted these instruments to be used in a manner that reduces competition in domestic and international markets and undermines trade concessions made to trading partners.[58]

Of particular importance for trade and competition policy interlinkages is the use of subsidies to promote "strategic" industries in an attempt to gain a competitive advantage. In some cases this is defended by strategic trade theory, which suggests that, in certain circumstances, the use of industrial policies (of which subsidies are a key component) are justified to promote strategic sectors and to prevent global monopolization or oligopolization of such sectors. (Subsidies to Airbus have been defended on this basis.) But the "empirical" importance of strategic sectors is not known, and countries disagree on the optimal policy approach to foster such sectors.

The globalization of investment and production and the increased importance of competition based on technological superiority call for strengthened multilateral rules on the use of subsidies and countervailing duties and on access to government-funded research and development.[59] In the latter context the treatment of "nonnational" firms, which frequently are not accorded national treatment, is of particular concern.

Protection of Intellectual Property Rights

Intellectual property rights (IPRs) are protected by a number of laws, including patent law (the most important industrial property law), copyright laws, and "unfair competition laws" that protect trademarks, trade secrets, the copying of designs, and the misappropriation of other commercial values.[60] The protection of IPRs is considered necessary for the functioning of a competitive market-based economy; in particular, given the externalities inherent in IPRs, patent rights and other laws to protect IPRs are required as "second-best" solutions to allow inventors to recover the research and development costs (plus "normal" profits) of their inventions.[61] Views differ, however, on the extent and form of the protection that is required; "There are problems of both 'too much protection' and 'too little protection'."[62]

Intrinsically, intellectual property laws, which confer rights on the owners of IPRs to exploit those rights monopolistically, and competition laws, which seek to prevent monopolies, would seem to be in conflict. At the national level, this potential conflict is resolved in some laws by conferring only a limited monopoly right (one that is limited in time, type, and horizontal coverage) to the holder of an IPR.[63] These potential conflicts are further reduced in two basic ways. First, competition policy applies to clauses included in licensing agreements; second, competition policies provide the basis for remedies to deal with the abuse of IPRs. However, conflicts arise among countries because not all countries have laws to protect IPRs. Where laws do exist, differences exist in underlying principles,[64] norms (coverage, rights conferred,[65] duration of protection), and enforcement. In addition,

[56] It might also be noted that most countries, other than those of the EC and, to a lesser extent, of EFTA, do not have disciplines at the national or regional level on the use of subsidies. Within the context of EC 1992, the Commission is seeking to ensure greater discipline on the use of subsidies, consistent with the Treaty of Rome. Within the OECD, efforts are under way to increase transparency in the use of subsidies and to analyze their economic impact.

[57] Finger and Nogues (1987), p. 154.

[58] The use of countervailing duties raises similar issues to those raised by antidumping.

[59] The Uruguay Round aims to improve rules relating to subsidies and CVDs. However, Messerlin (1989) notes that ADDs and CVDs can be substitutes, and that ADDs are the preferred instrument of plaintiffs. Thus, any strengthening of disciplines on the use of CVDs could be meaningless without strengthened disciplines on ADDs.

[60] Stern (1990).

[61] OECD (1989b).

[62] Matsushita (1988), p. 429. While it is argued by some that protection of IPRs is essential for research and development generation, Subramanian (1990) notes that this is not the case for technology importers for whom imitation serves as a substitute; moreover, the lack of IPR protection might not adversely affect incentives for global research and development if countries denying such protection are "small enough."

[63] Graham and Richardson (1991), p. 16.

[64] For example, Section 337 of the U.S. Tariff Act of 1930 deprives foreign exporters of the right of national treatment in determining whether or not a product violates IPRs. The United States is committed to modify this aspect of the Tariff Act in the context of the Uruguay Round.

[65] For example, U.S. patent laws are based on "first to invent," while others, including Japan's law, are based on "first to file." "Parallel imports" (i.e., imports by government of patented products produced under license in the importing country) of goods under patent are permitted in some countries but not others. In Japan, a service mark is not protected as a trademark whereas it is in some other countries. The products covered by patents differ across countries (e.g., pharmaceuticals) as does the length of the patent.

Table 20. Examples of Problems with Antidumping Laws and Procedures

GATT Antidumping Code	European Community[1]	United States[2]
1. **Initiation of cases** (Article 5(i)) Establishes only minimum standards.	1. **Initiation of cases** Searching informal and formal review by Commission before launching. The concept of domestic industry that can initiate cases tends to be "established" firms, representing a major proportion of the market. This favors oligopolistic structures. Domestic industry concept blurred by anticircumvention rules whereby in some cases both defendants and complainants are running "screwdriver" plants.	1. **Initiation of cases** Low threshold to establish justification for investigation.
2. **Determination of dumping** a. *"Normal" price in foreign market* (Article 2(4)) Use of constructed value with reference to "reasonable" level for administrative selling costs and profits. Used only where no sales in home market or sales do not permit proper comparison in the ordinary course of trade with a third country.	2. **Determination of dumping** a. *"Normal" price in foreign market.* If there are no domestic sales, the domestic price or normal value can be assumed to be equal to (i) export price to a third country; (ii) an estimate based on costs and profits; or (iii) domestic price from a "surrogate country." Two thirds of investigations are based on (ii) or (iii). Where (ii) is used, costs including profits are based on full costs rather than *marginal* or average *variable* costs, as is the case for normal antitrust principles.[3] In practice, higher profit margins tend to be used for Japanese and newly industrializing economies' (NIEs) firms than for U.S. firms; also higher profit margins are used for non-NIE developing countries than for industrial countries. Where (iii) is used, the level of development of the surrogate country and the investigated country differs, creating bias in favor of finding dumping; countries with high trade barriers and monopolistic economies (conditions resulting in high costs and profits) are used as surrogate in 43 percent of cases using third country data; countries under dumping investigations are used in 25 percent of third country cases leading to a domino effect.	2. **Determination of dumping** a. *"Normal" price in foreign market.* Constructed values include fixed and variable costs—"floors" for selling and administrative expenses established. Constructed values can be used where home market sales have been made over an extended period at prices that do not permit recovery of costs over a reasonable period of time.
b. *Export price that is compared to domestic prices* (Article 2.5) Export price may be constructed if actual export price is considered unreliable.	b. *Export price that is compared with domestic prices* A weighted average of exporters' domestic prices is compared with export prices on a "transaction by transaction basis."[4] Cases of "negative" dumping (export price greater than domestic price) are omitted in determining dumping margin. Costs such as advertising and overhead and profit estimates are given asymmetric treatment resulting in a systematic bias in favor of finding dumping.	b. *Export price that is compared to domestic prices* Same as for EC[4] "de minimis" dumping margin at half a percent, which given the many adjustments, implies an unwarranted degree of precision. Use of Export Selling Price (ESP) provides some allowance for selling costs in export market.
c. *Definition of "like product"* (Article 2.2) Identical product or product with characteristics closely resembling those of the product under consideration.	c. *Definition of "like product."* A broader definition of "like" product is used than is the case for EC competition regulations. This creates problems when products are differentiated.[5]	
d. *Size of remedy* (Article 8(3)) The amount of duty is not to exceed the margin of dumping.	d. *Size of remedy* (Article 8(3)) Use of "lesser duty" (below dumping margin) if adequate to remove injury.	d. *Size of remedy* (Article 8(3)) Margin based exclusively on dumping rather than injury.

3. **Determination of "material" injury** (Article 3, Section 4) Injury must be shown from dumped imports but need not be the only factor causing injury. — Cases may be initiated if there is a "threat" of material injury.	3. **Determination of "material" injury** (Article 3, Section 4) Antidumping duties (ADDs) tend to act as a "conditional safeguard" mechanism—a simple correlation between an upsurge in imports and a decline in domestic production is considered adequate for material injury test. The ability to initiate cases based on "sufficiently freely disposable export capacity" of the exporter results in reduced imports even when such cases do not result in a determination of injury.	3. **Determination of "material" injury** (Article 3, Section 4) Material injury defined as not inconsequential, immaterial, or unimportant. Need to show injury and to show that imports were a cause (but not the major cause) of injury.
4. **National interest clause** (Article 6) All interested parties shall be given an opportunity to present evidence.	4. **National interest clause** The use of "interests of the Community" clause in EC legislation is disappointing. A 1979 regulation required competition aspects to be taken into account in antidumping actions. During the period 1980–83, this clause was mainly used to include the interests of users of products but it was not used much. Since 1983 it has been increasingly used to take account of issues related to "industries in crisis," "fair competition," and industries considered to be "strategic." The "community" interest rarely considers consumers' interests.[6]	
5. **Rules of origin (anticircumvention)** — Not specified in GATT Code.	5. **Rules of origin (anticircumvention)** "Screwdriver" plants deemed to be inputs circumventing duties must source 40 percent of outside home country to avoid antidumping procedures.	5. **Rules of origin (anticircumvention)** Anticircumvention provision for parts and components subject to ADDs is applied where difference between value of goods sold in the United States compared with value of parts and components used to produce goods is low.
6. **Use of antidumping duties to sustain domestic collusion** (Article 7) — Proceedings can be suspended or terminated based on "voluntary" undertakings of exporters to revise prices or cease exports.	6. **Use of antidumping duties to sustain domestic collusion** The use of price undertakings instead of ADDs (main outcome until 1987) can become mechanism for price fixing. But the shift to duties since 1988 has also been used as an instrument of collusion—a 1988 regulation that requires foreign producers not to bear ADDs (1) increases the bargaining power of EC firms during negotiation of undertakings and (2) stabilizes the coalition of EC producers.	6. **Use of antidumping duties to sustain domestic collusion.** Undertakings by exporters to cease dumping and/or eliminate injury rarely used; quantitative restrictions agreed to following "public interest" assessment.
7. **"Residual" duties**	7. **"Residual" duties** The imposition of duties on potential exporters of potential like products discourages entry of efficient newcomers and protects domestic coalition.	
8. **Sunset clause** (Article 9) Antidumping provisions should remain in force for only as long as needed to counteract injury.	8. **Sunset clause** Except under special circumstances, ADDs lapse after five years.	8. **Sunset clause** Quasi-sunset clause that can be avoided by U.S. producers.
9. **Cumulation** — Not covered in GATT Code.	9. **Cumulation** Cumulation of exports from several exporting countries creates a bias against small exporters including developing countries.	9. **Cumulation** Imports from two or more countries of like products cumulated in determining their effective domestic industry despite size.

[1]Based on Messerlin (1991).
[2]Based on Rowat (December 1990).
[3]Prices that do not cover full costs are typical in a cyclical industry (Barton (July 1990)).
[4]This is considered by Messerlin and others to be the most important bias in the antidumping procedure in that it provides quasi-certainty of finding dumping.
[5]For examples of like products that cause bias, see Messerlin (1990).
[6]National Consumer Council (1991).

competition laws differ in their treatment of practices and conditions attached to the transfer of technology (e.g., grant-back provisions, exclusive dealing, price fixing, etc.).

Although Chapter V of the Havana Charter included provisions relating to rights under patents, trademarks and copyrights, GATT does not contain similar provisions. Article XX(d) of GATT exempts IPRs from its disciplines; this exemption permits GATT members to take measures to protect IPRs provided such measures are applied in a nondiscriminatory manner. Article IX of GATT provides for cooperation between Contracting Parties to prevent the use of trade names to misrepresent the origin of a product, but no cases have been examined under this provision. During the Tokyo Round, the United States and the EC formulated rules to cover counterfeit goods, but these were not adopted due to the opposition of developing countries.[66]

In recent years, conflicts over the protection of IPRs have increased as technological progress has become an important determinant of international competitiveness. This conflict is most evident in U.S. trade relations with its trading partners;[67] countries targeted by "Special 301" and other countries object to the unilateral character of this provision and to the possibility that concessions made to the United States might not be available to other countries on an MFN basis. Conflicts also exist, primarily among industrial and developing countries, with regard to the conditions included in licensing agreements.

At the national level and within the OECD, these developments have lead to a re-examination of the interaction between competition policies and laws to protect IPRs.[68] At the multilateral level, it led to a decision to include trade-related aspects of intellectual property rights (TRIPs) among the "new issues" of the Uruguay Round.[69] The decision to bring TRIPs into the Uruguay Negotiations reflected dissatisfaction (by the demanders for increased protection for IPRs) with the provisions of the World Intellectual Property Organization (WIPO), which provides disciplines on the manner (national treatment) but not the extent of intellectual property protection, and with the lack of enforcement mechanisms in WIPO.[70]

An agreement in the Uruguay Round on TRIPs would likely eliminate some differences in intellectual property laws among countries. Whether or not conflicts would remain in the area of licensing agreements remains to be seen. Many developing countries would prefer that a TRIPs agreement list abusive or anticompetitive practices that are to be excluded from licensing agreements; whereas most industrial countries would prefer to decide these on a case-by-case basis under their domestic competition laws.

The preference of industrial countries for the case-by-case approach reflects recent thinking on the economic and legal impact of particular business practices. In this connection, an OECD report on patents and licensing challenged the notion that competition policy and intellectual property rights are in basic conflict and recommended that competition authorities in member countries adopt a case-by-case approach to licensing agreements.[71] The report argued that, in practice, the distinction between horizontal agreements (considered to be more restrictive) and vertical agreements (considered less restrictive) is difficult to make; that the presumption that the holder of an intellectual property right automatically has "market power" is incorrect; and that where market power does not exist, restrictions in licensing agreements may foster competition, provided there are no horizontal restraints; and that even when a technology with market power is licensed, vertical restraints in the agreement may be pro competitive in the absence of certain conditions related to market structure and entry. The conclusions of the 1989 report, which differ considerably from the earlier Council Recommendations on Restrictive Business Practices in Patent Licensing (1974), were accepted by the OECD Council; the Council withdrew the 1974 guidelines and recommended that governments take into account, to the extent possible, the conclusions of the 1989 report.[72]

[66]Matsushita (1988), p. 429.

[67]In the absence of what the United States considers adequate protection of IPRs, "Special 301" of the U.S. Trade and Competitiveness Act of 1988 mandates retaliation against countries that do not provide protection for IPRs.

[68]In the United States, for example, practices once considered suspect on antitrust grounds are now deemed acceptable (Graham and Richardson (1991)).

[69]The Uruguay Round negotiations aim to adapt existing GATT rules to protect IPRs, while ensuring that these rights in themselves do not become barriers to legitimate trade, and to establish disciplines on trade in counterfeit goods. The negotiations cover basic principles (applicability of GATT's MFN and national treatment principles); standards concerning availability, scope, and use of IPRs; and enforcement of these rights and dispute settlement. The negotiating issues, the interests of various negotiators, and the national and global welfare consequences of protecting IPRs are discussed in detail in Subramanian (1990). The costs and benefits of extending patent protection to developing countries are discussed in Deardorff (1990).

[70]Subramanian (1990). Intellectual property rights have been under the purview of WIPO since 1970. Existing agreements on IPRs include the Paris Convention (1967), the Berne Convention for the Protection of Literary and Artistic Works (1971), the Rome Convention, and the Treaty on Intellectual Property in Respect of Integrated Circuits.

[71]OECD (1989b).

[72]In making this recommendation, the Council recognized

Measures to Deal with "Unfair" Trade Practices Not Covered by GATT

Unilateral and bilateral approaches have been used with increasing frequency to pry open foreign markets and to deal with unfair trade practices not covered by GATT, or, in the view of some Contracting Parties, not adequately covered by GATT. Super 301 (now lapsed) and Special 301 (Section IV.e) of the U.S. Trade and Competitiveness Act of 1988, and discussions under SII (Section III) are prominent examples of this approach. Bilateral and unilateral attempts to pry markets open are of particular interest from the perspective of trade and competition policies because of their inherent inconsistency with either the principles of competition policy or, in some cases, with each other. In some cases (for example, the U.S.-Japan Semiconductor-Trade Agreements of 1986 and 1991), they tend to encourage anticompetitive practices in markets that are targeted; such anticompetitive practices are discouraged by the United States within the context of SII discussions.[73]

The approach used in SII raises more fundamental questions. Ostry (1990) questions the legitimacy of the objective implicit in SII—a desire to have Japan behave more like the United States. A number of other observers have suggested it would be preferable to address such issues in a multilateral forum. In the latter context, a number of considerations are relevant. First, similar conflicts exist among other countries and will likely increase with the completion of EC 1992 and the full implementation of the U.S.-Canada FTA. Second, a greater understanding of the access problems created by collusion and the lack of competition in distribution systems, as well as their impact on international trade, is required before appropriate multilateral solutions can be devised.[74] Third, the inconclusive state of the academic debate on the optimal competition policy and the optimal degree of government intervention to influence market structures suggests that solutions in this area require a broader participation of countries if they are to reduce the potential for conflict.[75]

that in some member countries the recommendations conflicted with existing competition laws and that it would take time for these to be amended.

[73]More generally, the use of VERs encourages anticompetitive practices in both exporting and importing countries (Section IV.2).

[74]A review of empirical analysis of the impact of the *keiretsu* system on Japanese imports and exports concluded that the evidence is inconclusive (Japan Economic Institute (1991)).

[75]In this context, the Japanese concept of "workable competition" as opposed to "excessive competition" is at odds with other countries' views on market structures.

Measures to Deal with Fair Trade: Voluntary Export Restraints

Article XIX of GATT permits the use of safeguard measures to deal with temporary import surges associated with fair trade. Because the provisions of Article XIX are considered too restrictive by some GATT Contracting Parties,[76] VERs and other gray-area measures are frequently used as substitutes.[77] While the use of VERs might be challenged under Article XI of GATT, which prohibits quantitative restrictions,[78] the parties that negotiate such agreements and have "standing" in GATT (i.e., governments in importing and exporting countries that negotiate VERs) have no incentive to do so. Consumers and users of products subject to VERs who bear the costs of these agreements have "no standing" in GATT.[79]

The prevalence of VERs raises policy issues that straddle both competition and trade policies. These include conflicts between competition laws and trade policy conducted outside domestic statutory frameworks; inconsistencies between elements of existing trade laws and the principles of competition policy;[80] and differences in the enforcement of competition laws among countries.

The implementation of VERs normally requires firms in exporting countries to form cartel-type arrangements (with or without government endorsement) or engage in other restrictive business practices. Enterprises are thus caught between the necessity to solve disputes with trading partners and the requirements of antitrust laws not to engage in restrictive practices.[81] In practice, however, such

[76]The provisions that some Contracting Parties find too restrictive include the requirements to apply safeguards on a nondiscriminatory basis and to negotiate compensation (or face retaliation) to Contracting Parties affected by the use of safeguards.

[77]See Section III, Appendix I, and Goldberg and Ordover (1991) for reasons why VERs have proliferated despite extensive empirical work that documents the significant costs they impose on consumers and importing countries (in net welfare terms).

[78]Jackson (1989).

[79]Goldberg and Ordover (1991).

[80]VERs increase the scope for collusion in foreign and domestic markets and can change the nature of competition. The potential for such collusion is exacerbated by the growing importance of multinational enterprises (Goldberg and Ordover (1991)).

[81]Matsushita (1988). Exporting firms in such situations might be subject to antitrust laws in the exporting country (if the cartel affects domestic competition) and also in the importing country (if the latter applies the principle of extraterritoriality). To deal with this conflict, Matsushita (1988) suggests new rules are needed for VERs to reduce the antitrust liability of such firms. While this would reduce uncertainty for exporting firms it would not reduce the anticompetitive characteristics of VERs; it would in fact encourage the use of such measures.

conflicts have not been very frequent because VERs are not subject to antitrust legislation in the importing country if they are covered by domestic trade laws.[82] In cases where domestic trade policy has been conducted outside the domestic statutory framework, foreign government compulsion has been used to eliminate the risk of antitrust action in the importing country.[83] Most VERs in the EC and the United States have been implemented under the cover of foreign government compulsion.[84] But, in any case, the elimination of the risk of antitrust action does not reduce the anticompetitive characteristics of these arrangements.

Such arrangements are possible, not because competition laws and trade laws are inconsistent, but because elements of existing trade laws are not consistent with the principles of competition policy.[85] Indeed, as already noted, trade policy overtly encourages anticompetitive behavior involving the formation of cartels and the use of restrictive business practices.[86] In addition to these concerns, VERs create conceptual problems for antitrust market share analysis.[87]

In the above context, the recent agreement between the EC and Japan on imports of Japanese vehicles into the EC is important because it is viewed as a test case of the EC "post-1992" approach to imports in trade-sensitive sectors and because of concerns it has raised both inside and outside the EC.[88] Aside from the continued protection of the EC vehicle market for a long transition period, the agreement raises other concerns involving trade and competition policies: the requirement for Japan to monitor exports will likely involve business practices normally considered to be restrictive; to the extent the agreement contains an implicit limit on the output of "transplants," it raises questions about its consistency with national treatment and EC competition law; the requirement for Japan to monitor sales from transplants within the EC is only possible because of the block exemption of car distribution from EC competition laws, but this exemption is being questioned by consumer groups within the EC.[89] The agreement implicitly recognizes its dubious legality under EC competition rules and the GATT in that it commits the EC to a declaration that EC competition law will not obstruct the operation of the agreement, and both

[82]In the United States, for example, the President is permitted to negotiate orderly marketing arrangements, which may involve the use of voluntary restraints by foreign exporters, under Sections 201–203 of the 1974 Trade Law, provided they meet certain criteria (in particular, the U.S. International Trade Commission (USITC) must determine that an article is being imported into the country in such quantities as to be a substantial cause of, or threat of, serious injury to the domestic industry); such arrangements are not subject to U.S. antitrust law (Koulen (1988), p. 439). Under Article 115 of the Treaty of Rome, the Commission can temporarily allow a member state with officially recognized national restrictions (including VERs) to prevent the import of products covered by these restrictions through third countries; with the implementation of the single market program, the Commission intends to eliminate the use of Article 115.

[83]Koulen (1988), and National Consumer Council (1991).

[84]Matsushita (1988), Koulen (1988), and National Consumer Council (1991). Only two cases of VERs negotiated by the United States have been potentially at risk under U.S. antitrust law in that they did not meet the criteria set out in Sections 201–203 of the 1974 Trade Law. These were restraints on steel exports from the EC and Japan to the United States (1969–74); and the 1981 VER on Japanese autos to the United States (Koulen (1988), pp. 444–45). Foreign government compulsion was used in both cases to avoid antitrust risk in the United States (OECD (1984)). The VER on Japanese autos could not be implemented under U.S. Trade Law because an investigation under Section 201 of the Trade Act by USITC had determined (December 1980) that imports of cars into the United States had not increased in such quantities as to be a cause of serious injury or a threat to the domestic industry.

[85]Koulen (1988), p. 445.

[86]De C. Grey (1988). The circumstances in which this occurs are described in detail in Goldberg and Ordover (1991).

[87]Goldberg and Ordover (1991). These include difficulties in (i) factoring into a concentration index the sales of firms subject to a VER; (ii) adjusting the current level of imports subject to nontariff barriers (NTBs) in analyzing the competitiveness effects of mergers, joint ventures, etc.; (iii) measuring the extent to which a VER is being avoided by "washing"—that is, diverting imports through third countries; and (iv) measuring the entry-inducing effects (through foreign direct investment) of VERs in considering the competitive constraint from foreign firms on domestic industry.

[88]The agreement is intended to replace existing national restrictions on imports applied by some EC member states (the United Kingdom, France, Italy, Spain, and Portugal) with an EC-wide restriction that would remain in place until 1999. An EC-wide restriction is required because national restrictions are not consistent with Articles 9 and 10 of the Treaty of Rome, which provide for the free flow of goods within the single market provided all duties have been paid, and the Commission has stated it does not intend to approve any exceptions (under Article 115) to the free flow of goods after 1992. The agreement requires Japan to monitor (i.e., restrain) exports to the Community and to each market currently restricted so that its total exports do not exceed 1.23 million a year through 1999 and its exports to each market currently restricted do not exceed agreed "forecasts." The Commission based its negotiations on "working assumptions" concerning the output of "transplants" (plants that build Japanese vehicles in the EC); Japan and the United Kingdom do not consider these assumptions as placing a limit on the output on "transplants"; other EC members, such as France and Italy, are apparently of the impression that the working assumptions of the Commission imply a limit on the output of transplants. The agreement leaves open the possibility that the export forecasts could be modified during twice yearly consultations to monitor the agreement.

[89]Under this exemption, EC car makers have a ten-year antitrust exemption that expires in 1995, which permits them to segregate the market through the use of exclusive dealerships. The system of distribution is currently being investigated in Britain by the Monopolies and Mergers Commission and is to be reviewed by the European Commission by 1995. European and U.K. consumer groups have complained that the system of car distribution within the EC is illegal under EC rules.

the EC and Japan have agreed to defend this agreement in GATT.

Proposals to Reduce Policy Inconsistencies

Much of the basic rethinking that will be necessary to adapt trade and competition laws to the realities of the global market place is only in the early stages. Work is proceeding on two fronts. Within the Uruguay Round, negotiations to revise trade rules to provide more predictable access to markets have a bearing on a number of the issues covered in this appendix. Outside the Round, competition laws are being scrutinized to identify the extent to which a greater harmonization of these laws is required and how this might be achieved. In addition, thought is being given to the possibility of using competition laws rather than trade rules to regulate competition across national boundaries.

The Uruguay Round aims, inter alia, to refashion the rules on the use of subsidies, countervailing and antidumping duties, and safeguards, and to agree on rules of origin. In addition, new rules covering trade-related aspects of investment and intellectual property rights are being devised, and an agreement appears possible to completely phase out the use of VERs over a specified time frame. A successful conclusion to the Uruguay Round would go a considerable way toward reducing many of the conflicts that arise between competition and trade policies because of inadequate trade rules. An assessment of the extent to which the Round is successful in this regard will need to be made at the conclusion of the Round.

Proposals to refashion competition laws fall into four broad categories. These include the development of a global competition policy (this is considered a nonstarter but is described here for completeness and to contrast it with the EC 1992 model); the achievement of greater harmonization of competition laws through policy convergence (EC 1992 model); continued efforts within the OECD to harmonize competition policies (this would stop short of either of the first two approaches) and to encourage OECD member countries to give greater weight to competition policy considerations in implementing trade policy; and specific proposals to use competition laws rather than trade rules to regulate competition across borders. The latter include proposals related to dumping and safeguards.

A Global Competition Policy

A global competition policy would need to be based on agreed objectives of competition policy and on the role of governments in achieving those objectives; global economic welfare (rather than net national welfare) would be a leading contender among the possible objectives.[90] These would provide the foundation for global competition laws, which would be enforced by a supranational competition authority. Global competition laws would involve rules for traditional areas covered by national competition laws such as antitrust, and abuse of dominant positions, as well as agreed rules on the use of subsidies and the protection of intellectual property. National competition laws would need to be made consistent with these rules and could be used to deal with the harmful effects of dumping and subsidies rather than existing national antidumping and countervailing laws. Goldberg and Ordover (1991) suggest that competition laws might also be used instead of GATT's safeguard provisions to provide temporary relief for industries against import surges (see Section V.4.b). Such an approach would need to explicitly recognize that trade policies can undermine the objectives of competition policy and that current differences in competition laws and their enforcement among countries can undermine trade liberalization agreements. Moreover, it would be based on principles (for example, the geographic and economic definition of the market) and practices (for example, assessment of the effects of mergers and acquisitions on market structures) that allow for the increased integration of the world economy through trade, investment, and production.[91]

A Global Competition Policy with associated laws and enforcement procedures is not considered within reach in the foreseeable future. This primarily reflects a view that most governments would be reluctant to concede the sovereignty over domestic policies implied by this approach as well as a lack of agreement on what constitutes an optimal competition policy and on the appropriate role of government in fostering competition. Beyond these reasons, such a task would be difficult in that it would likely require a major revision of legal systems in many countries as well as harmonization of thousands of rules and regulations. Indeed, such an approach would go well beyond what has already been achieved in regional arrangements such as the

[90]Goldberg and Ordover (1991) note that a global welfare criterion would rule out the use of export cartels as well as import cartels that transfer profits from owners/licensors of IPRs to licensees.

[91]In this context, the role of mergers and acquisitions in facilitating adjustment in an interdependent world has received considerable attention. While it frequently is assumed that mergers and acquisitions provide efficiency gains, Jacquemin and others (1990) note that this is not supported by theory or empirical studies. In many cases, small- and medium-sized firms with smaller economies of scale (but more flexibility) adapt faster than large firms.

EC, ANZCERTA and the U.S.-Canada Free Trade Agreement and also beyond what is being implemented in the context of EC 1992. As indicated below, however, EC 1992 suggests that a Global Competition Policy may not be necessary to achieve a greater harmonization of competition policies among countries.

Harmonization of Competition Laws Through Policy Convergence

A somewhat less demanding approach, but one which involves the most advanced model of policy convergence, is that being employed by the EC to implement the Single Market Program. This involves the prior harmonization of a minimum number of essential regulations; "mutual recognition" by member countries of regulations that are not harmonized; and factor mobility. As factors of production (capital, entrepreneurship, and labor) will likely move to locations with preferred regulatory systems, this will put pressure on national authorities to adopt these preferred systems and thus result in a convergence of such policies among EC member states. The advantages of this approach are (i) it does not require the prior harmonization of all laws, rules, and regulations; and (ii) it accepts different tastes and preferences among consumers in different countries, differing performance of individual enterprises, and acknowledgement that government policies affect the performance of market participants. Policy convergence under this model aims to optimize factor mobility and competition, not to harmonize tastes, culture, and corporate behavior.[92] Despite its appeal, this approach is not considered feasible on a global basis, or even among all OECD members, because the necessary conditions (factor mobility and mutual recognition) are not all likely to be met. In particular, the requirement of labor mobility is considered a major obstacle to this approach.

The Role of the OECD

Given the difficulties inherent in achieving complete harmonization of competition policies, more pragmatic approaches are generally preferred to the far-reaching proposals outlined above. These involve stepped-up efforts within the OECD to achieve greater harmonization of competition laws.[93] The OECD has in fact already expanded its work on competition policy and the linkages between competition, trade, and innovation policies. This program involves the trade and competition directorates and was agreed by the June 1991 OECD ministerial meeting (Table 21). In this connection, a study on "Nontariff Barriers to Trade and Competition: Theory and Evidence"[94] has already been completed and other studies on antidumping and distribution-related barriers to international competition are in progress.[95] The preparation of these studies is intended, in part, to demonstrate the use of the "checklist" approach approved by the Council in 1985 and thereby encourage OECD members to apply this approach at the national level.

Authorities in a number of OECD countries have suggested that a greater harmonization of competition and trade policies would need to be achieved in three stages. First, competition laws would need to be established in all countries, including non-OECD countries, based on agreed principles. Second, steps would need to be taken to achieve greater uniformity in the enforcement of competition laws across countries. Third, at a later date, steps might be taken to ensure greater convergence of these laws across countries.

The Use of Competition Policy to Regulate Trade Across National Boundaries

Antidumping Laws

Most economists who have analyzed the effects of antidumping actions suggest that competition principles need to be given greater weight in the implementation of antidumping laws.[96] One way to achieve this would be to replace antidumping regulations with the principle of national treatment under domestic competition laws.[97] Thus, the same definition of undesirable pricing behavior that is

[92]Ostry (1990).

[93]Ostry (1990) proposed a broad work program for the OECD that includes, inter alia, issues related to trade and competition policies. This consists of a review of theoretical and empirical literature on "strategic industries" with a view to proposing a consensus working definition for policy use; an analysis of interrelated sets of policies—trade, research and development, and market structure policies, with a view to highlighting the impact of significant differences in policy on industrial and trade performance; and the development of recommendations for short-run action (to defuse international friction) and implementation of a longer-run process of policy convergence.

[94]Goldberg and Ordover (1991).

[95]The study on antidumping will (i) analyze a representative sample of antidumping cases and the criteria applied (including, where relevant, views put forward by competition authorities); (ii) identify common aspects, if any, in the structure of the industries involved in these cases (e.g., market structure in both importing and exporting countries, concentration, product diversification, entry barriers); and (iii) analyze the remedies imposed as a result of these actions and the economic effects of these remedies (including on competition, industry and market structures, and consumer interest).

[96]Barton (1990).

[97]Ostry (1990).

Table 21. Excerpts from OECD Communiqué, June 1991

1. **Trade agenda** (para. 17)	Looking beyond the Uruguay Round to the *trade issues of the 1990s*, Ministers emphasize the need to address the new dimensions of trade policy. This includes a whole range of issues which arise because of the increasing globalization of the world economy and the closer relationship between trade policy and competition, investment, technology and innovation, and environment policies. The increasingly international scope of economic activity has seen the emergence of areas in which the needs of private agents and governments run ahead of the existing "rules of the game." There is a perceived need for better understanding of these issues and, where appropriate, convergence policy approaches and consideration of fresh rules. Many issues, traditionally viewed largely from a domestic policy perspective, have taken on an international dimension, affecting the setting of trade and investment policies themselves. Hence, widening the consideration of trade policies in the 1990s to take account of new developments will go hand-in-hand with efforts to avoid conflict with other policy spheres.
2. **Competition policy** (para. 23)	The increasing international scope of economic activity has resulted in a situation in which the existing "rules of the game," as defined by national or regional competition policies might be usefully complemented. Ministers ask the Organization to continue its work on the international dimension of competition policies and on their interaction with policies in other areas such as trade and industry. They note that recent work in the Organization on competition law and policy provides the foundation for greater policy convergence and progress toward updating and strengthening the existing rules and arrangements (including both policy principles and procedures) for international cooperation in this area. They invite the relevant committees actively to pursue these matters, including the effectiveness of trade rules in facilitating international competition.

applied to domestic firms would be applied to foreign firms exporting to domestic markets; this is similar to the approach used under ANZCERTA.[98] Ostry (1990) and others suggest that this approach is unlikely to be adopted for two reasons. First, dumping is seen as a policy that achieves strategic trade objectives; it must be controlled to ensure a domestic base in strategic sectors because of "rents" or "externalities." Second, because competition policy differs significantly among countries (in this case with respect to the treatment of pricing behavior), the application of national treatment would result in a substantial divergence in international pricing practices, which would likely be unacceptable to many firms and countries. Third, free trade among countries is considered essential if competition laws are to be applied to dumping to ensure that "parallel imports" arbitrage the difference between prices in exporting and importing markets.[99]

Other observers suggest that the above approach may deserve further attention. First, as already noted, dumping complaints normally are not associated with predation. In fact, evidence suggests that antidumping laws are more frequently used to shelter "sensitive" sectors and promote strategic sectors. Second, the argument that antidumping duties are necessary where arbitrage is not feasible is not persuasive; if the barrier to arbitrage is a formal trade barrier, it would be preferable to lower the barrier through a GATT proceeding or an administrative law action than to counter it through an antidumping duty;[100] and where the barrier is a purchasers' refusal to deal, as is often alleged to be the case in Japan, antitrust action is plausible.[101] Antitrust action would not require a formal supranational enforcement procedure, although Barton suggests a GATT-type dispute settlement process might be useful to persuade nations to improve their domestic laws and to assure effective access to domestic courts for foreign parties.

Competition policy considerations could, however, be given more prominence in antidumping cases while stopping short of replacing antidumping laws with the principle of national treatment. This approach, which is supported by competition authorities in a number of OECD countries, would assign competition authorities a much greater role in examining dumping complaints than is currently the case; in fact, some argue that there is no reason why competition authorities should not be responsi-

[98] It differs from the EC approach where *common* competition laws apply to all members of the Community.

[99] "Parallel imports" in this context refer to the re-importation of goods previously exported.

[100] This argument seems to assume that tariffs are not major barriers to access and that other barriers could be successfully challenged in GATT. In the context of the Uruguay Round, this suggests that users of ADDs should put more emphasis on increasing access to the markets of countries that dump exports and less on attempts to further tighten the use of ADDs.

[101] Barton (1990).

ble for the implementation of antidumping laws.[102] In this connection, the Uruguay Round negotiations are concerned more with streamlining and strengthening legal procedures and rules than with considering ways to give greater weight to efficiency considerations and consumer interests in antidumping laws.[103]

Voluntary Export Restraints and Article XIX of GATT

Both trade and competition authorities agree on the need to limit or ban the use of VERs because of the costs they impose on consumers and their adverse effects on competition. Within the Uruguay Round it is proposed to phase out the use of VERs over a transitional period and, in the meantime, subject the use of these measures to GATT surveillance; this is linked to new safeguard rules, where the main issue is selectivity. Although transition periods to remove VERs may be overly long, an agreement to totally phase out VERs could be a major step forward. To eliminate the possibility of government-to-government VERs being replaced by industry-to-industry VERs, it has been suggested that the exemption of pure export cartels from most competition laws (which is based on a "national" welfare criteria) should be repealed and that antitrust authorities in exporting countries should challenge such arrangements in the interest of "global" welfare.[104] Given the strong built-in incentives for these authorities to consider only the national interest, this proposal may only be workable if it can be enforced by a supranational body.

The negotiations within the Uruguay Round on Article XIX are based on the implicit premise that "safeguard" actions are a necessary policy tool to sustain the multilateral commitment to free trade. While not disagreeing with this assumption, Goldberg and Ordover (1991) suggest that import relief might be based on competition policy, rather than on trade policy. This would involve a more relaxed antitrust policy to permit industries to restructure. In their view, competition policy is more transparent and nondiscriminatory than trade policy, and it is more likely to reflect efficiency considerations as well as consumer, national, and even global welfare concerns.

[102]In this context, there could be a risk that competition authorities would then become subject to the same sectoral pressures as trade authorities. In addition, it assumes that noncompetition-type objectives (for example, regional development, etc.) currently have no role in the enforcement of competition laws, which is not the case in all countries.

[103]It should be noted, however, that some Nordic and Asian countries have argued that greater weight should be given to consumer interests in antidumping decisions.

[104]Goldberg and Ordover (1991).

Ongoing Research on Trade and Competition Policies

In addition to the extensive OECD work program on trade and competition issues, major research programs are under way in thinktanks and elsewhere. A brief description of two programs involving The Institute of International Economics (Washington, D.C.) and The Royal Institute of International Affairs (London) is provided below. The projects will involve input and advice from trade policy practitioners, civil servants, business practitioners, and staff of international institutions.

The Institute for International Economics project, *Global Competition Policies*, is far-reaching and aims to survey national competition policies and the potential tensions they create in a globally integrated economy, and to evaluate proposals for international harmonization and strategic unilateral alteration of these policies. The project will include several *country studies* covering the philosophy of competition policy, statutes, practice, and institutional issues, including the relationships between relevant institutions for administering trade and competition policies and the extraterritorial reach of competition policies that cause conflict and inefficiency; *thematic studies* on issues, such as dumping and antidumping policy, VERs, subsidies, intellectual property protection and technology transfer, policies toward nonnational firms, extraterritorial aspects of antitrust laws and policies toward mergers and acquisitions, the *keiretsu* structure of Japanese industry, and selective exemptions from antitrust policy; a survey of the *history* of efforts to achieve an internationally or regionally consistent competition policy, including the EC's experience in the implementation of EC 1992; and a *survey of recent academic literature* on "new" trade policies, and "new" thinking on industrial regulation. Based on these studies, and taking into account the results of the Uruguay Round, the authors aim to develop a future agenda of competition policy issues that need to be resolved and to suggest a priority to items on this agenda and possible approaches and institutional arrangements that may be needed to address these issues.[105]

The Royal Institute of International Affairs project, *Anti-Competitive Effects of Trade Policy*, aims to investigate whether trade policies in the EC, Japan, and the United States have effects that contradict the objectives of domestic competition policies. Particular attention will be devoted to antidumping. The project will also consider whether trade policy should be reformed to make it more competition oriented and whether the scope of competition policy should be widened to take into account factors that are relevant to competition in international markets.

[105]Graham and Richardson (1991).

Measures and Costs of Protection

With the decline in tariff rates to relatively low levels that are bound under GATT rules, the use of protective nontariff barriers (NTBs) by industrial countries has become widespread. Countries have resorted to orderly marketing arrangements, VERs, import quotas and levies, and various other forms of discriminatory intervention. In order to assess the significance of these developments, researchers have attempted to quantify the prevalence of NTBs and to estimate their effects. This appendix describes some of the frequently used measures of the incidence of nontariff barriers and the methodological problems involved in their construction and interpretation. It then reviews some of the empirical studies that attempt to quantify the effects of NTBs and the potential gains from trade liberalization. Stoeckel, Pearce, and Banks (1990) have estimated that the potential gains from further tariff cuts are relatively small compared with the eventual benefits that would flow from dismantling the nontariff barriers that have been built up during the past three decades.

Measuring Nontariff Barriers

Various methods have been used to measure the incidence and restrictive effects of NTBs; this section describes two methods that are frequently found in the literature. The first is used primarily to provide descriptive statistics on the kinds, pattern, and frequency of NTBs. The second involves the estimation of the ad valorem tariff equivalent of an NTB, or the nominal level of protection that an NTB provides.[1]

Descriptive Measures of Nontariff Barriers

The *frequency index* measures the percentage of tariff lines covered by NTBs. This index is often used to describe the restrictiveness of a trade regime, and it is one of the criteria used in Section V to classify countries' trade regimes. This measure, however, does not capture the relative importance of the restricted items in either imports or domestic output, nor does it indicate the effectiveness of the restrictions in place.

The *trade coverage ratio* measures the percentage of import value covered by NTBs. It suffers from the problem of any "own" trade-weighted index in that products facing very restrictive NTBs will enter the calculation with zero or low weights. At the extreme, an NTB that precludes all imports of an item will receive a weight of zero. The index therefore underweighs the most restrictive measures. Another problem is that the coverage ratio includes all items covered by NTBs even though some of these restrictions may not be binding. Thus, as restrictions are relaxed the trade coverage ratio would tend to increase, rather than decline. This suggests that trade coverage measures such as those shown in Table 21 and in Tables A13 and A14 need to be interpreted with caution.

While these descriptive measures have serious drawbacks, their chief advantage is that they can be constructed with information that is relatively easy to obtain, and they give some idea of the prevalence of restrictive measures if not their overall effectiveness.

Price Impact Measures

Price impact measures attempt to quantify the effects of NTBs by computing their impact on prices. This is measured by the difference between the domestic price and the foreign price of a restricted item. The difference between the two prices, adjusted for known factors, is attributed to NTBs and is expressed as a ratio or as a nominal tariff rate.[2]

There are several problems with these measures. First, it is not always clear which prices to compare. Imported goods are often not identical to those produced domestically so there may be price differences because of differences in quality and

[1]This section draws on Laird and Yeats (1990), which provides an extensive review of the methods used to quantify the incidence and effects of protection.

[2]Measures of the effective rate of protection or the effective rate of assistance take into account the effects of the structure of nominal protection, owing to tariff and NTBs on final and intermediate products, on the gap between factor incomes with and without trade barriers. The nominal tariff equivalents of NTBs are used in calculating such measures.

Table 22. Estimated NTB Tariff Equivalents in Japan and the United States, 1973
(In percent)

	Japan			United States		
		Nontariff barriers			Nontariff barriers	
Product Group	Nominal tariff	Reported frequency	Price impact	Nominal tariff	Reported frequency	Price impact
Meat products	13	17	161	7	50	54
Apparel	19	—	0	21	100	32
Sugar and products	66	20	68	6	80	23
Fruits and nuts	14	23	180	7	69	128

Source: Laird and Yeats (1990), p. 49.

other factors. Ideally, the price of the closest domestic substitute should be used, while the foreign price should be the c.i.f. import price inclusive of tariffs and other taxes.

Second, such price comparisons often do not account for transport costs inside the country. Sampling prices at different locations in the same country could significantly bias price impact measures. Third, the domestic-foreign price ratio for any particular year may be distorted by transitory factors, such as poor weather. Fourth, the comparison uses world prices that prevail under protection, which may be significantly lower than prices that would prevail under free trade. This is especially true for agricultural products. Finally, this approach can be biased by the degree of substitutability between domestic and foreign goods. If domestic and foreign goods are close substitutes, then a very restrictive NTB may produce only a small price differential.

Roningen and Yeats (1976) provide an example of this method. They compiled price statistics for 90 products that face NTBs in 15 developed countries. The analysis took the world price to be the lowest observed price in any country. Price differences were adjusted to account for domestic sales and excise taxes, tariffs, and transport costs. The remaining price difference is assumed to reflect the effects of NTBs. Table 22 summarizes some of their results.

They found, for example, that in Japan restrictions on meat products were associated with domestic meat product prices that were 161 percent higher than world market prices. In the United States, the price impact of restrictions on meat products was estimated to be much less even though a higher percentage of the products studied was restricted; this could be due to greater substitution possibilities in the U.S. market.

Measuring the Effects of Nontariff Barriers

Significant difficulties arise in quantifying the effects of NTBs. The approach adopted in most studies involves converting NTBs to their ad valorem tariff equivalents, using methods similar to those discussed above. These NTB tariff equivalents are then treated as an additional protection beyond that of the tariff in place.

There are two major problems with this approach. Typically when a quota and tariff are both operating simultaneously, only one of them provides the binding restriction. For example, if a quota is the binding restriction, then the tariff has no impact on the level of trade flows. On the other hand, a sufficiently high tariff may make a quota nonbinding.

The second problem involves the estimation of NTB tariff equivalents. For the reasons discussed above, researchers have found that estimates of tariff equivalents are unstable and vary widely from year to year. For example, domestic and international price changes in agricultural goods have led to large annual swings in such estimates of 100 percent or more. Thus, the estimated effects of NTBs can differ substantially depending on the choice of tariff equivalents and other model parameters, such as supply and demand elasticities in product and factor markets.

Sectoral Studies

Reviews of sector studies of the cost of protection can be found in Kelly and others (1988), Goldberg and Ordover (1991), and Richardson (1989). These surveys provide ample evidence that the gains from protection in terms of jobs saved are outweighed by the welfare loss to the economy. Thus, it would be

less costly to provide adjustment assistance to facilitate the exit of resources from sectors where comparative advantage has shifted abroad. Most sector studies reach this conclusion based on partial equilibrium models, but those based on general equilibrium models, which take into account the pull of resources from other sectors and the higher downstream costs to domestic producers, demonstrate more forcefully that the gains from protection are quite small compared with the costs. Reviewing industries characterized by imperfect competition and economies of scale, Richardson finds that the benefits of trade liberalization are even greater than under perfect competition. Selected studies in those sectors most affected by VERs and quota restraints are discussed below. It should be noted that in some sectors conditions have changed since these studies were done. For example, in recent years, the VER on Japan's automobile exports to the United States has not been a binding constraint for most Japanese companies, and the VER on steel exports to the United States became nonbinding after 1986 for some major exporting countries.

Automobiles

Several effects of automobile VERs on prices have been documented. First, prices of imported automobiles subject to the restraint tend to increase as exporters raise prices to clear markets and earn quota rents. Second, to the extent domestic producers behave oligopolistically and domestic and imported automobiles are imperfect substitutes, domestic prices will also increase. Such price increases will be mitigated to the extent that outside competitors gain entry into the protected market. Finally, there will be some quality upgrading under the VER as producers shift toward production of cars with more optional equipment. It has been argued that VERs have led to substantial quality increases so that price increases as a result of them overstate the costs of the restraint to the consumer. However, such quality changes may also have some negative effects if they result in more limited consumer choice.

A number of studies have attempted to estimate these price effects, as well as the costs to consumers and the employment effects of such protection. For example, it was estimated that the VER between the United States and Japan resulted in U.S. import prices being 15 to 25 percent higher in 1985 than they otherwise would have been, while prices of domestic cars were about 6 percent higher. In another study of the effects of removing the VER in the mid-1980s, Collyns and Dunaway (1987) estimated that import prices would have been 23 percent lower, while domestic prices would decline by up to 12 percent. Feenstra (1985) estimated import prices to have been 16 percent higher with the restraint and domestic prices to have been 9 percent higher. The studies by Feenstra and Collyns and Dunaway attributed a significant part of these price increases to quality improvements, with the latter noting that while transactions prices of automobiles rose 23 percent in 1981–84, the automobile component of the consumer price index increased by only 6 percent.

Estimates of the costs of the U.S. VER to consumers have ranged from 17 to 20 percent of the value of total U.S. imports of automobiles (6 to 7 percent of apparent consumption), while net welfare costs, which subtract the gains to domestic producers from the quota, have been estimated at between 4 to 8 percent of imports (1½ to 3 percent of apparent consumption).[3]

Further, most studies have found the employment gains from the U.S.-Japan VER to have been modest. The estimates of employment gains vary from 20,000 to 35,000 in OECD (1987e) to 55,000 in Hufbauer, Berliner, and Elliott (1986). The costs to consumers per job saved have been estimated to be substantially higher than average annual wages and salaries.

A recent study by Smith (1989) estimated relatively large gains (on the order of 0.2 percent of GDP) from the elimination of the EC's automobile VERs. This analysis broadly confirmed the results of other studies in concluding that eliminating VERs in the EC would increase Japanese automobile sales and reduce prices, with the reduction in prices of domestic cars being more modest. This study further concluded that a decline in profits of some European producers could result in consolidation of the industry through mergers and acquisitions.

Textiles and Apparel

The restrictive effects of the MFA have been examined in terms of the tariff equivalents of quotas, or the difference between the price under the quota and that under a free trade regime. For the United States, the tariff equivalent of the MFA quotas on textiles and apparel has been estimated at about 15 and 25 percent, respectively.[4] A recent USITC (1989) study found that, in most cases, quotas were binding in 1987 and that the tariff equivalents on textiles and apparel were 22 percent and 28 percent, respectively. The tariff equivalent of German quotas on men's and boy's shirts has been estimated at 54 percent. For Canada, estimates indicate that without quotas, landed prices would have been lower by 17 percent for outerwear and 25

[3]USITC (1985) and Hufbauer, Berliner, and Elliott (1986).
[4]Cline (1990).

percent for shirts. These results are based on the hypothesis of perfectly elastic supply and may therefore be excessive. Estimates for the United Kingdom, which relax this assumption, suggest that abolishing the MFA would reduce the U.K. landed price of imports by only 5 to 10 percent.

These quotas have resulted in significant costs to consumers in the protected markets. Cline (1990) estimated the decline in U.S. net welfare from protection of the textile and apparel sectors to be $0.8 billion and $7.3 billion, respectively, in 1986. This amounts to about 36 percent of the total value of U.S. textile and apparel imports and 6½ percent of apparent consumption. Another estimate by the USITC (1989) based on 1987 data ranged between $4.1 and $4.3 billion or about 16 percent of the value of imports.

The Cline and USITC studies are similar in their estimates of the employment reduction from elimination of the MFA. Cline estimates this at about 234,000, while the USITC study estimates a range between 233,000 and 291,000. The consumer cost per job saved ranges from $14,000 to $19,000 in USITC (1989) to $35,000 in Cline.

In a study of the removal of global quotas and tariffs on textiles and apparel by the developed countries, Trela and Whalley (1990) estimated a global net welfare gain of approximately $23 billion in 1986. As expected, the simulation results indicated that the removal of such protection would result in a reallocation of production from the developed to the developing countries. The developing countries would also achieve a net welfare gain of around $8 billion.

Steel

A number of studies have estimated the costs of protection for the U.S. steel industry and the economy. The cost to consumers of U.S. VERs on steel has been estimated at about 3 percent of apparent consumption by Tarr and Morkre (1984) and USITC (1989) (or about 17 percent of the total value of steel imports for Tarr and Morkre and 12 percent for USITC). The number of jobs saved by the quotas has been rather small owing to the capital intensity of the production processes, ranging from 9,000 to 10,000 by USITC and Tarr and Morkre, respectively. A study by Tarr (1989) accounting for interdependence among various industries estimates jobs saved at 20,000. The consumer costs per job saved are generally well above $50,000 a year.

Multilateral Trade Liberalization

There is a broad consensus of support for a successful conclusion to the Uruguay Round of trade negotiations based on the benefits that would accrue from a more liberal trading system. A successful outcome of the Round is generally understood as one that would include substantial liberalization of agricultural trade, the phasing out of the MFA and other NTBs, and extended GATT disciplines in new areas of services, investment, and intellectual property.

While a consensus exists around the desirability of reaching agreement in the Uruguay Round based on a qualitative understanding of its benefits, there is less of a consensus regarding the quantitative effects of Uruguay Round-type trade liberalization. Some studies that attempt to quantify global and regional effects of multilateral trade liberalization do exist; however, the results obtained differ substantially for a number of reasons. Among these are differences in methodology and model structure, the measurement of NTB tariff equivalents, and the type of trade policy change simulated. Such differences, as well as similarities, may be illustrated by reviewing three multilateral trade models: Whalley (1985); Stoeckel, Pearce, and Banks (1990); and Deardorff and Stern (1990). It must be noted, however, that none of these models are capable of estimating some of the complex effects of negotiations in services, investment, and intellectual property.

Model Structure

The differences in the structure of the three models explain some of the differences with respect to simulation results. One common feature of these models, however, is that none of them take account of the dynamic effects associated with increasing returns to scale and imperfectly competitive markets. The simulated effects of trade liberalization measure the one-time static effects that would result after product and factor markets fully adjust to the policy change.

The Whalley model is a computable general equilibrium model and is most closely related to textbook trade theory based on comparative advantages, that abstracts from the macroeconomic effects of changes in aggregate demand and nominal exchange rates. Trade patterns are determined by the interaction of supply and demand in the context of differing endowments of capital and labor between regions. Full employment and balanced trade are assumed for all regions at all times. The basic method is to use given base-year data on production, consumption, and trade, together with certain substitution elasticity parameters for supply and demand relationships in order to calculate equilibrium relative product and factor prices; this step is referred to as calibration. Once the characteristics of the base-year equilibrium are determined, policy simulations may be generated by solving the model for different sets of tariff and NTBs, that is, coun-

terfactual simulation. This method of analysis abstracts from disequilibrium adjustment of output and factor markets, emphasizing long-run real comparative static effects of trade policy changes. These effects are the changes in consumer welfare and producer costs of trade liberalization, terms of trade effects, and decreased tariff revenue and quota rents accruing to the importing country after liberalization.

The Stoeckel model is also a general equilibrium model that focuses on the long-run comparative static effects of trade policy changes. It combines an input-output structure of interindustry flows of intermediate goods with the three primary factors of production: land, labor, and capital. While product, land, and capital markets are assumed to clear, the labor market assumption only requires that there be no unmet labor demand. The primary difference between this model and the Whalley model is that trade may be unbalanced in the former. The Stoeckel model also permits changes in aggregate demand and output.

The Michigan model used by Deardorff and Stern is somewhat different in allowing some additional Keynesian short-run disequilibrium features associated with nominal rigidities and unemployment. It permits nominal exchange rates to have effects on the trade balances and employment. However, the simulations of multilateral trade liberalization incorporate the assumption that aggregate expenditure changes endogenously to maintain a given level of employment, with gross employment changes indicating the required adjustment in labor markets.

The Whalley model consists of 7 regions and 33 commodity groups. Assumptions with respect to consumer preferences allow for varying income elasticities of demand and production technology assumptions permit a variety of elasticities of substitution between inputs. Further, the Whalley model assumes that domestic products and imports from each source are not perfect substitutes.

The Stoeckel model consists of nine regions and seven commodity groups. This model generally assumes a greater degree of substitutability between primary factors of production (land, labor, and capital) and between imported and domestic goods than the Whalley model. However, the Stoeckel model is similar in assuming imperfect substitutability between products from different regions.

The Michigan model is the most disaggregated and includes 34 countries, 22 traded goods, and 7 nontraded goods. Elasticities of substitution between capital and labor, as well as between domestic and imported commodities, are closer to those in the Whalley model. However, while the other two models assume that imported goods from different sources are imperfect substitutes, as are imported and domestic goods, the Michigan model treats imports from all sources as identical while permitting incomplete substitution between domestic goods and imports aggregated from all sources.

Tariff and Nontariff Barriers

The Whalley model simulates the effects of eliminating all tariff and NTBs. NTBs are estimated in terms of their ad valorem tariff equivalents using a residual method developed by UNCTAD. This method entails allocating a part of the difference between domestic and world prices to transportation costs and tariffs, with the remainder expressed as a nontariff barrier term. The tariff equivalents of NTBs are set exogenously. In computing the base-year equilibrium position, this model allocates the quota rents from NTBs to the importing country. The tariff equivalent data for the United States, EC, and Japan are from UNCTAD and an arithmetic average of these was used for the other developed country region. These equivalents are assumed equal to zero for the Organization of Petroleum Exporting Countries (OPEC) and, given a paucity of data for the less developed countries, the Whalley model applies tariff equivalent figures from a study of Bangladesh to the developing country region. Finally, NTB tariff equivalents for the newly industrializing economies (NIEs) are assumed to equal the equivalents for the developing country region multiplied by the ratio of NIE tariffs to developing country tariffs.

The Stoeckel model simulates the effects of a global cut in tariff and NTBs by 50 percent. The NTBs are also expressed in their tariff equivalent form and determined exogenously in the model.

The Michigan model simulates the effects of a complete elimination of tariff and NTBs in the developed countries. In simulating these effects, estimates of ad valorem tariff equivalents were made using available data for major industrial countries and a subset of developing countries. High and low estimates of these data were made with the latter adjusted for the percentage of trade covered by NTBs. The Michigan model is unique relative to the others in that the tariff equivalents of NTBs vary endogenously to reflect the difference between the estimated demand for a product and the quota restriction. Thus, a decline in import demand owing to changes in other variables would reduce the estimated NTB tariff equivalent.

As may be seen from Table 23, NTB tariff equivalent estimates vary substantially from study to study because of the differing underlying data sources used in the method of calculation, the period for which data were collected, and the extent of trade coverage. Generally, it appears that, at least for manufacturing industries, the estimates of

Table 23. A Comparison of NTB Tariff Equivalents
(In percent)

Stoeckel, Pearce, and Banks		Whalley		Deardorff and Stern	
European Community					
Agriculture	5.3	Agriculture and food	33.2	Not available	
Mining	9.3	Minerals and extractive ores	48.5		
Processed food	105.2	Energy	28.2		
Textiles, clothing, and footwear	39.8	Nonmechanical manufacturing	7.9		
Motor vehicles, metal products,	4.2	Machinery and transport	1.7		
and machinery	5.6				
Other manufactures					
United States					
Automobiles	11.0	Agriculture and food	43.8	Food, beverages, tobacco	14.5
Motorcycles	30.0	Minerals and extractive ores	0.0	Footwear	4.3
Color TVs	15.0	Energy	5.6	Printing and publishing	22.3
CB radios	21.0	Nonmechanical manufacturing	7.5	Chemicals	0.0
Textiles and clothing	30.0	Machinery and transport	0.0	Petroleum and related	0.0
Nonrubber footwear	18.5			Iron and steel	11.3
Carbon and alloy steel	30.0			Nonferrous metals	0.0
Specialty steels	25.0			Metal products	0.0
Nuts and bolts	15.0			Nonelectrical machinery	0.0
Sugar	30.0			Electrical machinery	0.2
Dairy	80.0			Miscellaneous manufacturing	0.0
Meat	14.0				
Peanuts	28.0				
Mushrooms	20.0				
Japan					
Not available		Agriculture and food	72.1	Food, beverages, tobacco	27.1
		Minerals and extractive ores	46.0	Footwear	6.1
		Energy	37.7	Chemicals	1.1
		Nonmechanical manufacturing	8.1	Petroleum and related	1.3
		Machinery and transport	1.8	Nonmetallic minerals	1.1
				Miscellaneous manufacturing	0.8

Sources: Deardorff and Stern (1990), Table A10; Whalley (1985), p. 286; and Stoeckel, Pearce, and Banks (1990), pp. 40 and 50.

NTBs in the Stoeckel model are somewhat higher than for the other two models.

Simulation Results

The seven-region Whalley model was used to simulate the comparative static effects of multilateral elimination of tariffs and NTBs. The results were presented in terms of the regional long-run net welfare changes which, when scaled by GDP, yield a 2.2 percent gain for the EC, a 0.5 percent increase for the United States, a 2.8 percent gain for Japan, and an overall global increase in welfare of 0.4 percent of world GDP. The small overall gain is due primarily to terms of trade losses in developing countries. These arise in this experiment because trade barriers in developing countries are very high compared with other regions. In the context of the Uruguay Round, a more appropriate experiment would be an equiproportionate cut in trade barriers.

The Stoeckel model was used to simulate the effects of a 50 percent reduction in tariffs and NTBs. Since trade was permitted to be unbalanced in this model, welfare calculations of the type made in the Whalley model were not, strictly speaking, permitted. However, as mentioned, GDP changes were reported for this simulation and might roughly be compared with the results from the Whalley model. The EC was estimated to gain 5.2 percent of GDP from this liberalization, while North America gains 3.9 percent and Japan, 9 percent. The gain in GDP for the countries reported (and which does not include a residual country category) was estimated at about 5 percent.

Deardorff and Stern used the Michigan model to simulate the effects of a complete trade liberalization by developed countries (including elimination of agricultural subsidies). They do not present welfare calculations for the same reason that the Stoeckel model does not; that is, since trade is permitted to remain unbalanced, welfare calculations would be complicated by issues regarding accumulations and decumulations of reserves. However, a comparison of the effects of this simulation on

Table 24. A Comparison of the Stoeckel Model and the Deardorff and Stern Model

Percentage Change in Value of Exports				Percentage Change in Value of Imports			
Stoeckel, Pearce, Banks		Deardorff and Stern		Stoeckel, Pearce, Banks		Deardorff and Stern	
European Community (EC)	16.4	EC	5.3	EC	9.5	EC	5.2
Japan	36.7	Japan	6.7	Japan	33.5	Japan	6.3
North America	26.5	United States	3.7	North America	26.1	United States	3.5
World	17.1	Canada	4.6	World	16.0	Canada	4.8
		World	4.7			World	4.5
Memorandum							
Change in terms of trade in Deardorff and Stern (*in percent*)							
EC	−0.30						
Japan	−1.13						
United States	0.08						
Canada	−0.02						
World	−0.05						

Sources: Deardorff and Stern (1990), pp. 256–57; and Stoeckel, Pearce, and Banks (1990), p. 70.

changes in exports and imports with Stoeckel's simulation of a 50 percent global liberalization is presented in Table 24. Generally, the Stoeckel model estimates a much greater increase in trade than the Deardorff and Stern results.

Overall, the results of the three models suggest that the Michigan model lies between the more extreme results of the Whalley and Stoeckel models, to the extent that comparisons can be made between these models given their different structures and simulation experiments. Whalley's results appear to be driven by rather strong terms of trade effects; while Stoeckel's results appear to be driven by somewhat higher degrees of substitution between products and factors of production. The Stoeckel model also assumes higher NTB tariff equivalents than the other two models; this together with higher assumed elasticities of substitution explains the relatively large gains estimated from trade liberalization.

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Statistical Appendix

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Table A1. Major Industrial Countries: Real GNP, Domestic Demand, and Trade Volumes, 1973–90

(Annual changes, in percent)

	Average[1] 1973–82	1983	1984	1985	1986	1987	1988	1989	1990
Real GNP									
Canada[2]	3.4	3.2	6.3	4.8	3.3	4.2	4.7	2.5	0.5
United States	2.0	3.6	6.8	3.4	2.7	3.4	4.5	2.5	1.0
Japan	3.9	2.8	4.3	5.2	2.6	4.3	6.2	4.7	5.6
France[2]	2.8	0.7	1.3	1.9	2.5	2.3	4.2	3.9	2.8
West Germany	1.9	1.9	3.1	1.8	2.2	1.5	3.7	3.8	4.5
Italy[2]	3.4	1.1	2.7	2.6	2.9	3.1	4.1	3.0	2.0
United Kingdom[3]	1.4	3.7	2.2	3.6	3.9	4.8	4.3	2.3	0.8
Real total domestic demand									
Canada	3.5	3.6	4.7	5.3	4.2	5.3	5.2	3.8	−0.2
United States	1.7	5.1	8.7	3.8	3.3	3.0	3.3	1.9	0.5
Japan	3.4	1.8	3.6	4.1	3.7	5.1	7.6	5.7	5.8
France	2.5	−0.7	0.4	2.5	4.5	3.3	4.4	3.5	3.2
West Germany	1.4	2.3	1.9	0.9	3.3	2.6	3.6	2.7	5.0
Italy	2.5	0.2	3.5	2.8	3.0	4.1	4.4	3.0	1.9
United Kingdom	1.2	4.9	2.5	2.7	4.6	5.3	7.8	3.3	−0.1
Export volumes									
Canada	4.6	7.4	18.6	6.4	4.0	3.6	9.3	1.1	4.5
United States	5.4	−3.8	8.0	3.2	8.0	14.5	22.5	11.1	8.8
Japan	8.0	7.9	16.2	4.6	−0.6	0.3	5.1	3.8	5.5
France	5.1	3.7	5.5	1.5	0.6	3.5	8.7	8.1	4.9
Germany[4]	5.3	−0.3	9.2	5.9	1.3	2.9	6.8	8.0	4.5
Italy	4.6	3.4	7.9	3.2	3.8	3.3	4.9	9.0	3.5
United Kingdom	4.4	2.3	8.1	5.6	4.2	5.2	1.8	4.8	6.6
Import volumes									
Canada	5.0	11.1	19.7	10.4	8.1	6.2	13.6	4.9	−0.4
United States	2.8	12.9	24.9	4.5	13.4	5.8	6.6	6.2	3.3
Japan	2.4	0.8	10.5	0.4	9.5	9.3	16.7	7.8	5.8
France	5.4	−1.9	3.4	4.2	10.1	7.5	8.8	7.8	5.2
Germany[4]	3.0	4.0	5.1	4.1	6.1	5.5	6.5	7.2	12.8
Italy	2.6	−1.9	10.8	4.1	7.6	11.3	6.4	8.3	4.5
United Kingdom	2.3	8.9	11.4	3.2	7.4	7.4	13.1	7.9	1.2

Source: International Monetary Fund (1991b).
[1]Compound annual rates of change.
[2]GDP at market prices.
[3]Average of expenditure, income, and output estimates of GDP at market prices.
[4]Data through June 30, 1990 covers West Germany.

Table A2. Shares in World Exports of Manufactures, 1963–89[1]
(In percent)

	1963	1973	1977	1981	1986	1989
Total exports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Developed countries	80.9	83.1	82.6	81.4	79.6	77.6
European Community[2]	44.0	46.5	45.0	40.1	42.6	41.5
Intra-EC	20.6	22.8	20.9	18.9	23.0	24.1
Japan	...	10.0	11.9	13.3	14.1	12.3
United States	...	12.3	12.0	13.9	10.3	12.3
Other developed countries	...	14.3	13.8	14.1	12.6	11.5
Developing countries	5.8	6.9	8.0	10.5	12.4	15.1
Four Asian NIEs[3]	...	3.7	4.2	6.2	7.9	10.1
Other developing countries	...	3.2	3.8	4.3	4.5	5.0
Eastern trading area	13.3	10.0	9.3	8.1	8.0	7.3

Sources: General Agreement on Tariffs and Trade (GATT); International Monetary Fund (IMF); United Nations; United Nations Conference on Trade and Development; and IMF staff estimates. Based on GATT classifications.
[1]Standard International Trade Classification (SITC) categories 5 through 8 minus 68.
[2]EC-10: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.
[3]The newly industrializing economies (NIEs) of Hong Kong, Korea, Singapore, and Taiwan Province of China.

Table A3. Developing Countries' Exports by Product, 1980–88

	1980	1985	1988
	(In millions of U.S. dollars)		
Food	65.9	64.1	77.7
Raw materials	20.4	14.5	23.2
Ores and minerals	13.9	11.0	14.6
Fuels	338.7	193.5	133.7
Nonferrous metals	10.7	7.5	13.7
Total exports of primary products	449.5	290.4	262.7
Textiles	12.3	13.8	26.0
Clothing	15.7	22.0	40.6
Other consumer goods	16.9	25.4	49.7
Iron and steel	5.1	7.5	13.2
Chemicals	9.5	12.4	23.0
Other semimanufactures	14.7	18.2	37.0
Machinery and transport equipment	30.7	53.1	114.2
Total exports of manufactures	104.7	152.2	303.7
Total merchandise exports	562.7	448.0	574.8
	(In percent of total exports)		
Food	11.7	14.3	13.5
Raw materials	3.6	3.2	4.0
Ores and minerals	2.5	2.4	2.5
Fuels	60.2	43.2	23.3
Nonferrous metals	1.9	1.7	2.4
Total exports of primary products	79.9	64.8	45.7
Textiles	2.2	3.1	4.5
Clothing	2.8	4.9	7.1
Other consumer goods	3.0	5.7	8.6
Iron and steel	0.9	1.7	2.3
Chemicals	1.7	2.8	4.0
Other semimanufactures	2.6	4.1	6.4
Machinery and transport equipment	5.5	11.8	19.9
Total exports of manufactures	18.6	34.0	52.8

Source: General Agreement on Tariffs and Trade, *International Trade* (Geneva), various issues.

Table A4. Shares of Exports of Manufactures by Area and Sector, 1973–88

(In percent)

	1973	1980	1985	1988
Total exports of manufactures				
Industrial countries	83.1	82.3	79.0	77.6
Developing countries	6.9	9.5	12.7	15.1
Eastern trading area	10.0	8.1	8.3	7.3
Textiles				
Industrial countries	73.3	70.0	64.6	58.8
Developing countries	17.3	21.9	25.2	28.0
Eastern trading area	9.3	8.1	10.2	13.2
Clothing				
Industrial countries	55.0	49.3	46.6	40.6
Developing countries	30.3	38.3	45.5	45.4
Eastern trading area	14.7	12.5	8.0	14.0
Other consumer goods				
Industrial countries	76.0	80.1	75.9	73.5
Developing countries	13.1	14.1	18.9	20.5
Eastern trading area	10.9	5.8	5.2	6.0
Iron and steel				
Industrial countries	83.6	83.9	77.3	76.0
Developing countries	3.3	6.6	10.6	13.0
Eastern trading area	13.1	9.6	12.1	11.0
Chemicals				
Industrial countries	87.1	86.5	65.9	66.6
Developing countries	4.4	6.7	8.2	9.0
Eastern trading area	8.6	6.8	26.0	24.4
Other semimanufactures				
Industrial countries	80.5	84.5	80.2	78.3
Developing countries	11.7	10.7	14.7	17.1
Eastern trading area	7.8	4.8	5.1	4.6
Machinery and transport equipment				
Industrial countries	84.9	84.8	82.6	81.7
Developing countries	3.1	5.9	8.7	11.2
Eastern trading area	11.9	9.4	8.7	7.1

Source: General Agreement on Tariffs and Trade, *International Trade* (Geneva), various issues.

Table A5. The Level of Post-Tokyo MFN, Applied, and GSP Tariffs in Selected Developed Countries

Product Group	Australia	Austria	Canada	EEC	Finland	Japan	Norway	New Zealand	Sweden	Switzerland	United States	All Developed
Average MFN tariff rates												
All food items	4.9	8.0	6.2	3.7	8.9	9.7	2.8	9.7	1.6	10.0	4.1	6.4
Food and live animals	2.8	5.9	6.8	3.2	9.3	10.0	3.0	5.7	1.4	9.0	3.8	6.5
Oilseeds and nuts	4.1	1.9	6.0	10.3	7.9	5.6	4.5	0.9	3.5	7.5	1.4	5.3
Animal and vegetable oils	2.0	0.8	—	0.1	0.8	0.3	—	—	—	0.2	0.9	0.1
Agricultural raw materials	5.1	2.3	0.6	3.4	1.1	0.7	0.6	1.0	1.7	1.9	0.3	0.8
Ores and metals	10.2	5.6	2.1	2.8	1.9	2.5	1.5	6.0	2.5	1.4	1.9	2.3
Iron and steel	17.2	8.4	5.4	5.5	3.9	5.0	1.8	8.8	4.8	2.0	4.3	5.1
Nonferrous metals	3.9	6.1	2.2	3.2	1.2	5.5	1.9	4.0	1.0	1.2	0.7	2.3
Fuels	—	2.1	1.4	0.1	0.1	1.5	—	0.2	—	—	0.4	1.1
Chemicals	5.4	6.3	6.4	8.4	2.4	5.5	5.9	6.7	5.0	0.9	3.7	5.8
Manufactures excluding chemicals	17.7	14.1	7.0	8.1	8.2	5.7	6.1	22.6	5.4	3.3	5.6	7.0
Leather	17.8	5.3	3.8	10.2	11.8	11.9	4.7	20.9	4.1	1.8	4.2	5.1
Textiles yarn and fabrics	15.3	18.2	9.4	17.3	22.7	8.6	12.8	16.2	10.6	6.0	10.6	11.7
Clothing	49.3	30.2	12.6	19.9	32.0	15.0	20.3	93.0	13.6	8.6	20.3	17.5
Footwear	43.9	25.9	11.9	22.5	16.0	14.2	11.2	40.3	14.3	9.6	11.7	13.4
Other items	0.2	3.3	0.1	4.8	1.3	2.3	2.0	1.2	1.8	0.4	4.2	3.8
Average applied tariff rates												
All food items	3.1	6.8	3.0	4.4	5.2	9.4	1.4	7.8	0.8	9.1	3.5	5.3
Food and live animals	1.7	4.9	2.9	4.8	5.7	9.7	1.5	3.9	0.8	8.4	3.2	5.3
Oilseeds and nuts	2.0	1.5	4.6	4.9	5.5	4.8	4.3	0.7	2.2	7.4	1.0	4.0
Animal and vegetable oils	2.4	0.8	0.1	—	0.8	0.3	—	—	—	0.2	1.0	0.2
Agricultural raw materials	0.7	1.6	3.7	0.4	1.0	0.3	0.4	0.7	1.4	0.7	0.3	0.5
Ores and metals	4.3	0.3	2.7	0.7	0.1	1.8	0.4	4.2	0.2	0.1	2.2	1.5
Iron and steel	7.3	0.5	5.6	2.3	0.1	2.9	0.7	6.4	0.4	0.1	5.0	3.4
Nonferrous metals	2.4	0.2	2.8	0.5	—	4.3	0.1	2.1	0.1	0.1	0.7	1.3
Fuels	—	1.5	0.2	0.3	—	1.2	—	—	—	—	0.4	0.6
Chemicals	4.0	0.5	3.0	3.4	0.1	4.8	0.4	4.9	0.4	0.1	3.9	3.1
Manufactures excluding chemicals	11.5	2.0	6.2	4.6	1.3	4.6	1.3	18.3	1.4	0.4	4.9	4.7
Leather	10.9	0.9	11.0	2.1	2.3	10.7	0.8	21.4	0.3	0.1	2.7	3.1
Textile yarn and fabrics	11.3	2.0	18.3	5.3	1.0	7.1	1.6	10.9	1.7	0.6	12.1	7.9
Clothing	35.6	5.1	17.2	7.3	7.7	10.0	3.0	75.6	4.8	1.7	18.1	11.9
Footwear	27.9	1.2	23.4	6.5	3.8	12.5	2.4	28.4	2.8	0.6	9.5	9.0
Other items	0.1	1.1	4.7	0.1	0.1	0.7	0.4	0.9	0.1	0.2	3.6	3.3
All products	8.3	2.0	4.4	2.5	1.0	3.1	1.0	11.0	0.8	1.0	3.4	3.0
Average tariff for GSP beneficiaries												
All food items	1.3	9.0	1.5	5.0	7.0	11.1	0.3	6.2	0.4	6.3	3.6	5.5
Food and live animals	1.0	8.9	1.3	5.1	7.2	11.7	0.3	0.8	0.4	6.5	3.4	5.6
Oilseeds and nuts	0.7	0.1	5.6	6.2	8.8	5.0	3.2	—	1.7	9.0	0.3	4.5
Animal and vegetable oils	0.3	0.3	—	—	10.7	1.2	—	—	—	0.1	0.1	0.4
Agricultural raw materials	0.1	1.4	3.1	0.5	5.5	0.5	0.5	—	2.1	0.3	0.1	0.5

Table A5 (concluded)

Product Group	Australia	Austria	Canada	EEC	Finland	Japan	Norway	New Zealand	Sweden	Switzerland	United States	All Developed
Ores and metals	1.6	0.9	0.5	0.5	0.1	1.3	0.3	0.2	0.1	0.4	1.1	0.9
Iron and steel	4.9	2.9	4.0	3.3	0.4	2.0	0.4	2.3	1.0	0.4	3.5	3.0
Nonferrous metals	0.3	1.1	0.9	0.5	—	3.1	1.7	0.5	0.1	0.9	0.3	1.1
Fuels	—	1.5	—	0.2	—	1.3	—	—	—	—	0.3	0.6
Chemicals	4.2	4.0	6.1	4.1	0.1	5.1	0.2	1.1	0.6	0.4	1.0	3.7
Manufactures excludtng chemicals	11.4	18.9	13.8	6.4	9.3	4.2	5.9	14.3	6.9	2.7	6.6	6.7
Leather	9.6	6.6	9.6	2.8	6.1	8.4	5.5	18.0	1.2	1.1	1.4	3.2
Textile yarn and fabrics	6.3	17.5	19.8	7.6	6.0	6.1	11.0	8.5	6.8	2.7	9.0	8.4
Clothing	35.1	27.2	16.2	9.3	23.6	8.6	18.9	82.8	13.2	7.6	17.8	14.6
Footwear	25.6	24.4	23.3	9.1	14.8	7.9	11.6	22.1	13.4	4.4	9.4	10.1
Other items	—	5.3	5.6	0.1	0.1	1.0	0.1	1.7	—	0.4	4.0	3.8
All products	4.3	4.9	4.4	2.1	4.6	2.3	2.8	3.3	2.3	2.3	3.6	2.7

Sources: Laird and Yeats (1990); calculations based on the General Agreement on Tariffs and Trade Tariff Study and the United Nations Conference on Trade and Development's Series D Trade Tapes.

Note: EEC = European Economic Community; GSP = Generalized System of Preferences; MFN = most favored nation.

Table A6. Importance of GATT Tariff Bindings in Industrial Countries[1]

(In percent)

	Bound Tariffs	
	Share in tariff lines	Share in imports[2]
United States		
Agriculture	90	87
Industry	100	100
Total	98	99
Canada		
Agriculture	90	98
Industry	98	98
Total	96	98
Japan		
Agriculture	60	63
Industry	97	86
Total	91	81
European Community		
Agriculture	63	69
Industry	99	99
Total	88	93
Austria		
Agriculture	55	75
Industry	96	94
Total	88	91
Finland		
Agriculture	51	89
Industry	97	99
Total	90	97
Norway		
Agriculture	67	96
Industry	95	99
Total	90	99
Sweden		
Agriculture	46	78
Industry	97	97
Total	88	94
Switzerland		
Agriculture	44	57
Industry	99	100
Total	90	93
Australia		
Agriculture	26	36
Industry	11	24
Total	12	25
New Zealand		
Agriculture	48	59
Industry	39	47
Total	41	48
All markets		
Agriculture	61	74
Industry	87	95
Total	82	92

Sources: General Agreement on Tariffs and Trade (GATT); and Organization for Economic Cooperation and Development.

[1]Tariff bindings are upper limits on tariffs agreed to in GATT. All data refer to 1984 except Australia (1980/81) and New Zealand (1983/84). Since the launching of the Uruguay Round in 1986, Australia and New Zealand have offered to bind a larger proportion of their tariffs.

[2]Refers to imports subject to a most-favored-nation tariff.

Table A7. Import Coverage Ratios of Selected Nontariff Measures, by Country Groupings, Applied by Selected Developed Market-Economy Countries

(In percent)

	NTM Coverage in Imports from							
	World		Developed countries		Developing countries		Former U.S.S.R. and Eastern Europe	
Product Group	Broad	Narrow	Broad	Narrow	Broad	Narrow	Broad	Narrow
All food items	35.9	31.8	41.8	35.4	28.7	26.6	56.7	54.9
Food and live animals	39.3	34.5	47.3	39.2	31.0	28.7	61.1	59.3
Oilseeds and nuts	7.4	6.9	5.7	4.9	10.3	10.3	8.5	8.5
Animal and vegetable oils	10.0	9.6	12.9	12.1	7.6	7.3	23.8	23.7
Agricultural raw materials	4.3	2.9	3.4	2.5	5.9	3.9	5.7	2.1
Ores and metals	17.9	11.6	20.4	14.2	11.9	5.6	25.3	15.9
Iron and steel	52.9	35.3	56.8	40.7	40.6	19.7	67.1	44.0
Nonferrous metals	0.8	0.2	0.8	0.1	0.3	0.1	2.4	1.4
Fuels	17.9	13.5	23.8	17.2	12.6	9.3	43.8	36.9
Chemicals	10.8	6.6	10.9	7.0	8.1	4.3	15.8	6.4
Manufactures, excluding chemicals	17.8	11.0	15.5	7.2	24.2	21.2	18.9	14.6
Leather	13.2	1.3	7.4	1.7	16.8	1.0	16.2	2.5
Textile yarn and fabrics	38.7	34.3	17.0	11.8	61.6	58.1	69.3	61.2
Clothing	63.1	56.6	27.6	6.8	71.6	68.5	75.1	72.9
Footwear	19.7	8.0	14.2	0.2	20.9	10.9	52.5	6.1
Vehicles[1]	54.7	29.6	58.6	31.6	0.7	0.7	11.1	10.7
All items, excluding fuels	18.5	12.5	16.8	9.6	22.4	19.2	22.7	17.1
All items	18.4	12.6	17.1	9.9	19.9	16.8	30.4	24.4

Source: United Nations Conference on Trade and Development (1991a).

Note: Ratios have been computed using as far as possible 1988 trade weights; otherwise trade statistics for 1986 (or 1989 in the calculations regarding the United States) were used. The "broad" group of nontariff measures (NTMs) includes certain para-tariff measures, surcharges, variable levies, antidumping and countervailing actions, quantitative restrictions (including prohibitions, quotas, nonautomatic licensing, state monopolies, voluntary export restraints and restraints under the Multifiber Arrangement (MFA) and similar textile arrangements), import surveillance, automatic licensing, and price control measures. The "narrow" group of NTMs excludes from the broad group defined above, para-tariff measures, antidumping and countervailing actions, automatic licensing and import surveillance measures. Australia, Austria, Canada, EC-12, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, and the United States.

[1]From Laird and Vossenaar (1991).

Table A8. Trade Coverage Rates of Selected NTMs Applied by Developed Countries, 1981–90

(1981 = 100)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	(Non-fuel trade; core measures)									
Total	**100.0**	**101.6**	**101.7**	**104.1**	**103.8**	**103.3**	**104.7**	**105.3**	**104.6**	**103.1**
Austria	100.0	100.0	100.0	100.0	100.0	99.6	99.6	99.6	99.6	99.6
Canada	100.0	114.6	114.6	114.6	107.6	107.6	110.1	80.2	68.1	68.1
EC	100.0	106.2	114.2	111.7	110.0	108.9	108.4	108.6	108.5	109.0
Finland	100.0	100.0	106.0	106.0	106.0	105.5	105.5	105.5	105.5	105.5
Japan	100.0	100.0	100.1	100.1	100.1	97.2	97.2	96.8	96.7	96.7
New Zealand	100.0	100.0	100.0	100.1	69.2	66.0	39.8	39.8	25.8	19.6
Norway	100.0	101.0	100.3	99.1	98.9	98.6	98.6	98.4	98.4	90.9
Switzerland	100.0	100.1	100.3	100.8	100.8	100.8	100.8	100.8	100.8	100.8
United States	100.0	96.3	88.5	97.7	100.0	101.1	106.5	110.7	110.4	106.0

Source: Laird and Vossenaar (1991).

Note: Ratios have been computed using 1988 trade weights (except for the EC and the United States, for which 1989 trade weights were used). The group of "core" nontariff measures (NTMs) includes certain surcharges, variable levies, quantitative restrictions (including prohibitions, quotas, nonautomatic licensing, state monopolies, voluntary export restraints and restraints under the Multifiber Arrangement (MFA), and similar textile arrangements), and price control measures. Countries applying the measures are Austria, Canada, EC-12, Finland, Japan, New Zealand, Norway, Switzerland, and the United States.

Table A9. Export Restraint Arrangements, 1987–90[1]
(By number of arrangements)

	September 1987	May 1988[2]	March 1989[3]	December 1990[4]
Total export restraint arrangements[1]	**135**	**261**	**289**	**284**
By sectoral composition				
Steel	38	52	50	39
Agricultural and food products	20	55	51	59
Automobiles and transport equipment	14	17	20	23
Textiles and clothing[5]	28	72	66	51
Electronic products	11	19	28	37
Footwear	8	14	18	21
Machine tools	7	7	14	15
Other	9	25	42	39
By protected markets				
European Community	69[6]	138[7]	173[8]	. . .
United States	48	62	69	. . .
Japan	6	13	13	. . .
Other industrial countries	12	47	33	. . .
Eastern Europe	—	1	1	. . .
By restrained exporters				
Japan	25	28	70	. . .
Eastern Europe	20	45	41	. . .
Korea	24	25	38	. . .
Other industrial countries	23	59	57	. . .
Other developing countries	42	98	83	. . .

Sources: General Agreement on Tariffs and Trade (GATT), "Review of Developments in the Trading System," L/6289 and C/W/548 (Geneva, 1987, 1988, 1989); and C/RM/02/2.

[1]Includes voluntary export restraints (VERs), orderly marketing arrangements, export forecasts, basic price systems, industry-to-industry arrangements, and discriminatory import systems. Excludes restrictions under the Multifiber Arrangement (MFA).

[2]Of the reported increase from September 1987, almost half were in existence prior to 1988 but were reported to GATT only in 1988.

[3]Of the 289 VERs reported in the September 1988–February 1989 GATT report on developments in the trading system, at least 24 have either not been confirmed by the countries concerned or may have lapsed, although no termination dates were indicated.

[4]Preliminary data.

[5]Excluding restrictions under the MFA.

[6]Including 20 arrangements involving individual European Community (EC) member states.

[7]Including 51 arrangements involving individual EC member states.

[8]Including 96 arrangements involving individual EC member states.

Table A10. Textiles and Clothing: Nontariff Barriers to Trade

Period	Agreement	Outcome
1957–62	Japanese voluntary export restraint (VER) with the United States	Restricted export of cotton, textiles, and apparel.
1961	"Short-term agreement" (19 countries)	Importing country is allowed to unilaterally impose a quota if exporting country does not come up with an acceptable proposal of VER.
1962–73	"Long-term agreement" (19 countries)	Renewal of short-term agreement plus restrictions on cotton textiles must be compatible with annual export growth of at least 5 percent for each exporting country.
1971	Japan, Hong Kong, Taiwan Province of China, and South Korea voluntarily restrain their exports to the United States	The combined restrictions from long-term agreement and these additional country specific VERs restrict U.S. imports from a total of 37 countries.
1974–77	Multifiber Arrangement (MFA) I	Bilateral agreements; more fibers subject to restraints; 6 percent annual export growth is allowed.
1978–81	MFA II	Further restrictions and entrance of European countries in the agreement.
1982–86	MFA III	New restrictions with unilateral quotas allowed in some cases.
1986–91	MFA IV	Agreement is expanded to include silk blends and vegetable fibers.

Source: Goldberg and Ordover (1991).

Table A11. Summary of Antidumping Actions Taken by Selected Countries, 1981–90[1]

		Investigations Initiated				Provisional Measures[2]				Definitive Duties[3]				Price Undertakings[4]				Outstanding Antidumping Actions
Country	Year	Industrial countries	Developing countries	Eastern Europe	Total	Industrial countries	Developing countries	Eastern Europe	Total	Industrial countries	Developing countries	Eastern Europe	Total	Industrial countries	Developing countries	Eastern Europe	Total	Total
United States	1981	10	3	2	15	5	3	1	9	4	0	0	4	1	0	0	1	85
	1982	44	5	1	50	7	3	1	11	39	4	4	47	0	1	0	1	n.a.
	1983	22	18	0	40	15	10	0	25	5	2	0	7	0	0	1	1	52
	1984	27	16	3	46	15	20	1	36	16	17	0	33	0	0	0	0	104
	1985	21	30	10	61	18	10	9	37	18	8	2	28	0	0	0	0	112
	1986	23	39	1	63	11	32	0	43	8	17	0	25	0	0	0	0	122
	1987	21	15	5	41	24	26	5	55	11	22	5	38	2	0	0	2	151
	1988	23	7	1	31	12	1	0	13	16	6	0	22	0	0	0	0	167
	1989	11	14	0	25	21	14	1	36	19	9	1	29	0	0	0	0	198
	1990	12	11	1	24	37	27	3	67	33	27	4	64	0	0	0	0	192
European Community (EC)[5]	1981	16	2	4	22	8	0	0	8	5	0	0	5	4	1	3	8	n.a.
	1982	11	2	23	36	1	1	5	7	5	0	0	5	2	1	14	17	n.a.
	1983	10	4	12	26	7	2	7	16	3	3	2	8	9	2	14	25	n.a.
	1984	18	4	11	33	6	1	3	10	5	1	4	10	8	1	4	13	124
	1985	14	9	11	34	7	2	2	11	4	2	1	7	4	3	8	15	146
	1986	8	6	9	23	4	2	0	6	5	2	0	7	6	2	3	11	123
	1987	4	8	5	17	2	3	7	12	3	0	4	7	4	3	4	11	n.a.
	1988	15	12	3	30	2	7	1	10	2	2	0	4	1	2	2	5	n.a.
	1989	5	17	7	29	3	4	2	9	4	8	1	3	2	2	2	6	170[6]
	1990	4	9	3	16	3	3	3	9	3	4	5	12	6	4	6	16	152[7]
Canada	1981	21	6	2	29	17	1	2	20	13	0	2	15	0	0	0	0	123
	1982	51	12	1	64	16	7	0	23	3	3	2	8	0	0	0	0	159
	1983	22	9	3	34	38	9	1	48	28	9	0	37	0	0	0	0	152
	1984	16	7	3	26	27	10	3	40	9	3	1	13	0	0	0	0	155
	1985	23	10	2	35	20	9	2	31	10	6	0	16	1	0	0	1	132
	1986	15	8	4	27	9	10	4	23	12	9	4	25	1	0	1	2	152
	1987	17	5	2	24	11	1	0	12	5	3	0	8	2	0	0	2	150
	1988	9	10	1	20	7	12	1	20	9	9	0	18	3	2	0	5	159
	1989	9	4	1	14	9	3	1	13	3	0	1	4	1	0	0	1	143
	1990	6	5	3	14	1	4	3	8	33	29	7	69	5	0	0	5	103
Australia	1983	55	15	1	71	21	11	1	33	26	12	1	39	8	2	0	10	159
	1984	47	20	3	70	13	9	0	22	25	7	0	32	6	1	0	7	192
	1985	34	24	5	63	11	12	2	25	9	6	0	15	2	1	0	3	167
	1986	31	20	3	54	15	14	3	32	9	9	2	20	4	1	0	5	171
	1987	24	14	2	40	6	9	2	7	3	0	0	3	0	1	0	1	109
	1988	7	11	2	20	5	5	0	10	2	3	0	5	1	0	0	1	49
	1989	7	10	2	19	4	2	3	9	3	4	1	8	2	2	0	4	19
	1990	12	11	0	23	4	6	0	10	0	0	0	0	2	1	0	3	11

Source: General Agreement on Tariffs and Trade (GATT), *Basic Instruments and Selected Documents*, various years.
Note: n.a. = not available.
[1]Years run from July to June. These data refer to the number of cases and do not provide any indication of the magnitude of the trade involved.
[2]Provisional measures might be taken in an antidumping case pending a definitive determination.
[3]Definitive duties are levied following a final positive determination of dumping and material injury to the domestic industry.
[4]Price undertakings by exporters might be accepted in lieu of antidumping action. In these circumstances, an exporter would undertake to cease exports at dumped prices.
[5]The EC actions reported refer only to other signatories of the GATT Antidumping Code.
[6]The figure includes measures applicable to imports from countries not party to the Antidumping Code.
[7]In effect as of September 1, 1990.

Table A12. Summary of Countervailing Actions Taken by Selected Countries, 1981–90[1]

Country	Year	Investigations Initiated				Provisional Measures[2]				Definitive Duties[3]				Price Undertakings[4]				Outstanding Countervailing Duty Actions
		Industrial countries	Developing countries	Eastern Europe	Total	Industrial countries	Developing countries	Eastern Europe	Total	Industrial countries	Developing countries	Eastern Europe	Total	Industrial countries	Developing countries	Eastern Europe	Total	Total
United States	1981	3	4	0	7	1	4	0	5	0	3	0	3	n.a.	n.a.	n.a.	n.a.	48
	1982	54	21	0	75	29	17	0	46	4	5	0	9	n.a.	n.a.	n.a.	n.a.	n.a.
	1983	9	26	0	35	10	24	0	34	13	10	0	23	n.a.	n.a.	n.a.	n.a.	53
	1984	4	15	3	22	3	14	0	17	2	9	0	11	0	0	0	0	56
	1985	12	48	0	60	9	30	0	39	3	18	0	21	0	6	0	6	86
	1986	15	26	0	41	6	18	0	24	8	9	0	17	1	0	0	1	76
	1987	4	7	0	11	5	11	0	16	4	12	0	16	0	2	0	2	89
	1988	3	10	0	13	3	6	0	9	2	8	0	10	0	1	0	1	88
	1989	2	6	0	8	0	11	0	11	0	8	0	8	0	0	0	0	91
	1990	3	3	0	6	7	19	0	26	7	18	0	25	0	0	0	0	73
European Community (EC)[5]	1981	0	0	0	0	0	0	0	0	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.
	1982	0	1	0	1	0	0	0	0	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.
	1983	2	1	0	3	0	0	0	0	0	1	0	1	n.a.	n.a.	n.a.	n.a.	n.a.
	1984	0	1	0	1	1	0	0	1	1	1	0	2	0	0	0	0	n.a.
	1985[6]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4
Canada	1981	3	0	0	3	3	0	0	3	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.
	1982	0	0	0	0	0	0	0	0	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.
	1983	2	0	0	2	1	0	0	1	0	0	0	0	n.a.	n.a.	n.a.	n.a.	1
	1984	2	1	0	3	2	1	0	3	0	0	0	0	0	0	0	0	3
	1985	1	1	0	2	1	1	0	2	3	0	0	3	0	0	0	0	3
	1986	1	0	0	1	1	0	0	1	0	1	0	1	1	0	0	1	5
	1987	3	1	0	4	2	1	0	3	2	0	0	2	0	0	0	0	6
	1988	0	0	0	0	1	0	0	1	1	0	0	1	0	0	0	0	8
	1989	0	1	0	1	0	1	0	1	0	0	0	0	0	0	0	0	8
	1990	0	2	0	2	0	2	0	2	2	1	0	3	0	0	0	0	9
Australia	1983	9	0	0	9	8	0	0	8	0	0	0	0	n.a.	n.a.	n.a.	n.a.	2
	1984	3	0	0	3	7	0	0	7	0	0	0	0	n.a.	n.a.	n.a.	n.a.	2
	1985	5	0	0	5	3	0	0	3	1	0	0	1	3	0	0	3	1
	1986	2	1	0	3	5	1	0	6	0	0	0	0	3	0	0	3	7
	1987	1	2	0	3	1	1	0	2	0	0	0	0	2	1	0	3	10
	1988	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	5
	1989	1	1	0	2	1	1	0	2	0	0	0	0	0	0	0	0	2
	1990	4	3	0	7	2	0	0	2	1	0	0	1	0	0	0	0	1
New Zealand	1986	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	1987	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0
	1988[6]	4	0	0	4	1	0	0	1	0	0	0	0	0	0	0	0	n.a.

Source: General Agreement on Tariffs and Trade (GATT), *Basic Instruments and Selected Documents*, various years.
Note: n.a. = not available.
[1]Years run from July to June. These data refer to the number of cases and do not provide any indication of the magnitude of the trade involved.
[2]Provisional measures might be taken in a countervailing duty case pending a definitive determination.
[3]Definitive duties are levied following a final positive determination of subsidization and material injury to the domestic industry.
[4]Price undertakings by governments might be accepted in lieu of countervailing duty action. In these circumstances, a government would agree to eliminate or limit a subsidy, take other measures concerning its effects, or revise the export price to eliminate the injurious effect of a subsidy.
[5]The EC actions reported refer only to other signatories of the GATT Subsidies Code.
[6]No subsequent countervailing duty investigations took place.

Table A13. United States: Outstanding Unfair Trade Practice Cases Abroad and Safeguard Petitions, December 31, 1990

Directed Against	Dumping	Subsidies	Retaliation[1]	Safeguard Actions[2]	U.S. Imports, 1990 (*In billions of U.S. dollars*)	Share in 1990 U.S. Imports (*In percent*)
Industrial countries						
Canada	12	6	6	6	93.8	23.9
European Community	—	1	16	2	95.5	24.3
France	9	1	1	5	13.6	3.5
Germany	12	—	—	8	29.0	7.4
Italy	13	—	1	6	13.4	3.4
Spain	1	1	—	5	3.5	0.9
United Kingdom	4	—	2	4	20.9	5.3
Japan	50	—	8	9	93.1	23.7
Developing countries and regions						
Argentina	3	9	4	1	1.7	0.4
Brazil	7	6	4	2	8.6	2.2
China	11	—	—	3	16.3	4.1
Korea	9	1	6	7	19.3	4.9
Mexico	3	7	—	3	30.8	7.8
Taiwan Province of China	13	1	6	7	23.9	6.1
Venezuela	2	2	—	1	9.9	2.5
Subtotal	149	35	54	69[3]	392.8	100.0
Other	46	36	6	. . .[3]	124.2	—
Total	195	71	60	60[3]	517.0	—

Sources: Office of the U.S. Trade Representative; U.S. International Trade Commission; U.S. General Accounting Office; U.S. Department of Commerce; and General Agreement on Tariffs and Trade (GATT), semi-annual reports under Articles 2:16 and 14:4 of the Agreement.

[1]Cases initiated under Section 301 of the U.S. Trade Act of 1974.

[2]Cases initiated under Section 201 of the U.S. Trade Act of 1974.

[3]Since the U.S. Trade Act came into force, 60 investigations have been initiated under Section 201. Of these, 12 affected imports from any country, including several listed individually above.

Table A14. Industrial Country Subsidies

I. Total Subsidies (National Accounts Definition), 1970–88
(As a percentage of GDP at market prices)

	Total OECD	Major Seven Countries	OECD Europe	United States	Japan	Germany	France	Italy	United Kingdom	Canada	Austria	Belgium	Denmark	Finland	Iceland	Ireland	Nether-lands	Norway	Sweden	Australia	New Zealand
1970–74	1.2	1.1	1.9	0.5	1.2	1.8	2.1	2.2	2.2	1.1	1.8	1.3	3.0	2.7	3.8	4.7	1.6	5.4	1.9	1.1	1.6
1975–79	1.5	1.4	2.5	0.4	1.3	2.1	2.5	3.2	2.7	2.0	3.0	1.4	3.1	3.6	3.6	8.0	2.4	7.0	3.9	1.3	2.3
1980–84	1.6	1.4	2.7	0.5	1.4	2.0	2.8	3.6	2.3	2.6	2.9	1.4	3.2	3.2	3.2	7.1	2.8	6.4	4.8	1.7	1.9
1985–88	1.6	1.4	2.7	0.7	1.1	2.2	3.0	3.3	1.7	2.2	3.0	1.3	3.1	2.9	2.6	7.3	3.7	5.6	4.7	1.5	0.6

II. Industrial Subsidies (National Accounts Definition), 1970–86[1]
(As a percentage of sectoral GDP at market prices)

	United States	Japan[2]	Germany	France[3]	Italy[2]	United Kingdom[3]	Canada	Austria[3]	Belgium[2]	Denmark	Finland[4]	Iceland	Ireland[2]	Nether-lands	Norway[3]	Sweden	Australia	New Zealand
1970–74[5]	0.3	0.5	1.6	...	...	...	1.1	...	...	3.2	1.4	1.7	...	1.2	4.2	2.8	1.0	1.6
1975–79[5]	0.4	0.8	1.9	2.7	2.3	2.4	2.1	...	3.9	2.5	1.9	2.2	5.9	2.1	4.7	5.7	1.2	2.1
1980–84[5]	0.5	1.1	1.8	2.9	2.6	2.4	3.1	2.7	4.4	3.2	1.7	2.5	...	2.6	4.4	7.5	1.6	1.2
1985–86[5]	0.5	1.0	1.8	...	...	1.9	2.6	2.7	...	2.8	1.5	2.6	...	2.9	3.9	7.5	1.6	0.8

III. Industrial Subsidies (National Accounts Definition), 1970–86[1]
(As a percentage of total government outlays)

	United States	Japan	Germany	France	Italy	United Kingdom	Canada	Austria	Belgium	Denmark	Iceland	Ireland	Nether-lands	Norway	Sweden	Australia
1970–74[5]	0.7	2.1	3.0	...	...	...	2.2	...	...	4.7	2.4	...	2.0	7.2	4.0	3.5
1975–79[5]	0.9	2.6	3.2	4.8	4.8	4.9	3.8	...	6.9	3.1	2.9	7.0	3.1	7.2	6.4	3.4
1980–84[5]	1.1	3.1	2.9	4.7	5.0	4.4	5.1	4.5	7.0	3.1	3.5	...	3.4	7.2	6.9	4.5
1985–86[5]	1.2	2.7	3.1	...	...	3.3	4.1	4.3	...	2.9	3.5	...	4.0	6.4	7.0	4.1

Source: Ford and Suyker (1990), Tables 2, 3, and 8, pp. 43–45 and 54.
Note: OECD = Organization for Economic Cooperation and Development. No data are available for Greece, Luxembourg, Switzerland, and Turkey.
[1]Total subsidies excluding subsidies to agriculture and food processing.
[2]Based on input-output data.
[3]Sectoral GDP at market prices based on average value added tax rates.
[4]As a percentage of sectoral GDP at factor cost.
[5]Average of available years.

Table A15. Subsidies by Sector (National Accounts Definition)

(As a percentage of sectoral GDP at market prices)

		Industry, of which					
	Year	Total	Transport and communications	Housing[1]	Other[2]	Agriculture and Food Processing	Total[3]
United States	1986	0.5	0.7	1.2	0.4	5.5	0.7
Japan	1985	1.0	4.5	. . .	0.7	5.1	1.2
Germany	1986	1.9	6.5	2.7	1.2	12.7	2.1
France[4]	1984	3.3	7.5	. . .	2.5	6.4	3.1
Italy	1980	2.6	29.7	. . .	0.7	6.7	2.8
United Kingdom[4]	1986	1.6	6.1	. . .	0.7	. . .	1.7
Canada	1985	2.6	7.1	1.1	2.0	10.8	2.5
Austria[4]	1986	2.8	17.3	. . .	1.5	12.4	3.2
Belgium	1980	4.4	23.6	. . .	1.8	5.5	4.0
Denmark	1986	2.6	9.1	5.4	1.0	17.7	3.1
Finland[5]	1987	1.4	. . .	. . .	. . .	. . .	3.0
Greece	1987	. . .	. . .	. . .	. . .	. . .	5.8
Iceland	1986	2.6	2.7	. . .	2.6	7.8	2.7
Ireland	1975	5.9	19.1	. . .	2.8	14.8	6.8
Luxembourg	1987	. . .	. . .	. . .	. . .	. . .	4.4
Netherlands	1985	2.9	13.3	15.2	0.7	13.9	3.2
Norway[4]	1986	4.1	4.5	3.4	3.8	28.8	5.7
Portugal	1981	6.5	8.1	11.5	6.1	3.5	5.4
Spain	1980	3.8	16.8	. . .	2.8	2.8	3.3
Sweden	1986	7.4	12.6	18.4	4.2	2.1	4.8
Switzerland	1987	. . .	. . .	. . .	. . .	. . .	1.4
Turkey	1987	. . .	. . .	. . .	. . .	. . .	0.8
Australia	1985	1.6	9.7	. . .	0.8	. . .	1.7
New Zealand	1985	0.8	5.1	. . .	0.2	1.6	0.8

Source: Ford and Suyker (1990).
[1]Excluding mortgage interest deductibility.
[2]As a percentage of sectoral GDP including housing.
[3]As a percentage of total GDP.
[4]As a percentage of sectoral GDP at market prices based on average value-added tax rates.
[5]As a percentage of sectoral GDP at factor cost.

Table A16. Government Support in the EC by Sector[1]

(As a percentage of sectoral value added)

	Total[2]	Manufacturing	Manufacturing, Excluding Steel and Shipbuilding	Steel[3] (1981–85)	Shipbuilding	Railways	Agriculture
			(Years 1981–86)				
Germany	2.5	3.0	2.9	8.6	12.3	37.0	9.8
France	2.7	4.9	3.6	58.3	56.6	38.0	12.1
Italy	4.0	9.5	8.2	103.0	34.2	49.0	9.0
United Kingdom	1.8	3.8	2.9	57.6	21.6	18.0	14.1
Belgium	4.1	6.4	4.5	40.4	27.7	70.0	7.3
Denmark	1.3	2.8	2.8	18.0	33.8	15.0	8.0
Greece	2.5	12.9	13.9	. . .	. . .	. . .	. . .
Ireland	4.0	7.9	7.3	107.2	. . .	. . .	13.2
Luxembourg	6.0	7.3	3.5	14.6	0.0	181.0[4]	12.0
Netherlands	1.5	4.1	4.1	4.3	10.7	22.0	7.2
EC-10	2.8	5.1	4.0	. . .	. . .	. . .	. . .
			(Years 1986–88)				
Germany	2.5	2.7	2.7	—	16.6	32.0	13.5
France	2.0	3.7	3.5	—	68.0	29.0	7.6
Italy	3.1	6.7	6.5	—	28.2	8.0	11.0[5]
United Kingdom	1.1	2.7	2.5	—	25.0	9.0	8.6
Belgium	3.2	4.4	4.6	—	12.3	63.0	6.2
Denmark	1.0	2.0	1.6	—	7.8	14.0	4.9
Greece	3.1	15.5	16.4	—	. . .	5.0[6]	2.0
Ireland	2.7	6.1	6.2	—	. . .	18.0[6]	6.6
Luxembourg	4.1	2.3	4.4	—	. . .	174.0	14.1[5]
Netherlands	1.3	3.3	3.5	—	3.8	6.0[6]	6.2[5]
Portugal	2.3	8.3	8.1	—	. . .	12.0	6.4
Spain	2.3	5.3	3.7	—	17.5	28.0	1.3[5]
EC-12	2.2	4.0	3.8	—	. . .	. . .	. . .

Source: Ford and Suyker (1990).
Note: EC = European Community.
[1]Excluding supranational support.
[2]In percent of GDP.
[3]Aids to steel for the EC-10 have been virtually phased out under current policy.
[4]Figure inflated by pension arrangements.
[5]Based on national accounts data or long-term extrapolations; not comparable with figures for other member states.
[6]Figures expressed as a percentage of value added in the transport sector because separate data for railways are not available.

Table A17. Support to Manufacturing in the EC and EFTA Countries by Instrument[1]

(As a percentage of total support)

	Grants	Tax Concessions	Equity Participation	Soft Loans	Guarantees
Germany	30	63	0[2]	6	1
France	33	16	18	15	19
Italy	54	36	7	3	0
United Kingdom	69	6	16	7	2
Belgium	61	11	6	12	10
Denmark	70	0	0	29	1
Greece	88[3]	0[3]	9	0	3
Ireland	52	37	6	1	4
Luxembourg	68	9	5	18	0
Netherlands	64	30	0	6	0
Portugal	26	60	12	2	0
Spain	78	0	19	2	1
EC-12	49	30	9	8	5
Austria	21	. . .	68[4]	11	0
Finland	72	. . .	15	12	1
Iceland	27	. . .	0	33	40
Norway	61	. . .	11	27	1
Sweden	55	. . .	0	27	18
Switzerland	77	. . .	0	14	9
EFTA	58	. . .	16	18	8

Source: Ford and Suyker (1990).
Note: EC = European Community; EFTA = European Free Trade Association.
[1]EC countries (1986–88 average), excluding supranational support and support to energy and transport. EFTA countries (1984–87 average): including mining, quarrying, gas and electricity sectors. Data for EFTA countries do not include tax concessions.
[2]Support considered to be negligible. No figures available.
[3]Tax expenditures included in grants.
[4]Mainly support to state holding companies.

Table A18. Government-Financed Expenditure on Research and Development in the Enterprise Sector, 1970–88

(As a percentage of total research and development expenditure)

	United States	Japan	Germany	France	Italy	United Kingdom	Canada	Austria	Belgium	Denmark	Finland	Greece	Iceland	Ireland	Nether-lands	Norway	Portugal	Spain	Sweden	Australia
1970	43.0	1.3	. . .	. . .	4.7	. . .	. . .	. . .	. . .	5.0	. . .	. . .	. . .	. . .	. . .	18.3	. . .	4.0	. . .	. . .
1971	41.8	2.0	18.2	27.7	4.5	. . .	12.6	. . .	9.6	. . .	6.0	. . .	. . .	1.1	. . .	21.5	2.0	4.1	18.2	. . .
1972	41.0	2.0	. . .	. . .	5.2	33.1	11.0	8.8	. . .	. . .	. . .	. . .	. . .	. . .	. . .	24.3	1.8	4.0	. . .	. . .
1973	38.3	2.0	19.2	26.5	5.3	. . .	15.3	. . .	8.4	4.4	8.5	. . .	. . .	. . .	. . .	. . .	. . .	2.2	18.5	. . .
1974	35.9	1.5	. . .	. . .	5.3	. . .	11.4	. . .	. . .	. . .	. . .	. . .	. . .	5.3	. . .	23.0	. . .	1.1	. . .	. . .
1975	35.6	1.7	17.9	25.4	6.5	30.9	12.1	9.0	. . .	6.6	6.0	. . .	. . .	4.7	. . .	21.1	. . .	. . .	15.9	. . .
1976	35.4	1.5	. . .	. . .	8.1	. . .	10.2	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	5.1	2.2	. . .	4.8
1977	35.2	1.9	15.8	21.1	11.0	. . .	10.1	. . .	. . .	8.4	4.8	. . .	. . .	5.6	. . .	23.8	. . .	. . .	15.3	. . .
1978	33.6	1.5	. . .	. . .	. . .	29.2	7.8	7.1	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	4.0	. . .	. . .	10.9
1979	32.7	1.4	18.2	22.1	5.8	. . .	8.5	. . .	4.8	11.5	7.7	. . .	49.0	9.0	5.6	23.8	. . .	2.8	12.8	. . .
1980	31.5	1.9	. . .	. . .	9.3	. . .	6.6	7.4	. . .	. . .	. . .	. . .	. . .	. . .	5.8	. . .	3.3	2.9	. . .	. . .
1981	31.6	1.9	16.9	24.6	8.8	30.0	8.8	. . .	5.1	12.5	9.0	30.6	38.3	13.1	7.4	24.9	. . .	4.1	13.6	8.8
1982	31.9	. . .	. . .	24.2	11.7	. . .	10.7	. . .	. . .	. . .	. . .	. . .	. . .	13.1	7.2	21.4	1.6	4.8	. . .	. . .
1983	32.4	1.7	16.1	22.4	18.1	. . .	10.8	. . .	4.2	12.0	6.6	. . .	6.9	10.6	8.3	19.8	. . .	4.0	10.5	10.5
1984	32.4	1.7	. . .	. . .	18.0	. . .	11.1	. . .	. . .	10.8	. . .	. . .	. . .	10.4	14.3	20.1	2.2	. . .	. . .	9.4
1985	33.9	1.6	15.3	23.8	16.9	23.0	10.9	7.1	5.0	9.9	7.7	. . .	2.2	12.4	12.5	19.3	. . .	7.7	11.6	. . .
1986	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	14.5	. . .	3.6	. . .	. . .	5.6
1987	. . .	1.7	. . .	. . .	. . .	19.4	11.8	. . .	4.8	11.8	4.6	. . .	. . .	. . .	. . .	20.1	. . .	13.7	11.2	. . .
1988	32.7	. . .	12.1	21.3	17.9	. . .	. . .	. . .	. . .	. . .	. . .	. . .	. . .	13.8	. . .	. . .	. . .	. . .	. . .	. . .

Source: Ford and Suyker (1990).

Table A19. Determinations Under the 1988 Amendments to Section 301 of the 1974 Trade Act of the United States[1]

	Date	Countries and Regions Affected	Practices or Measures
"Super" 301[2]	May 1989	Brazil	Quantitative import restrictions
		Japan	Procurement of satellites and supercomputers Technical standards on forestry products
		India	Export performance requirements Protection in insurance markets
	April 1990	India	Export performance requirements Protection in insurance markets
"Special" 301[3]	May 1989	Brazil, India, Mexico, China, Republic of Korea, Saudi Arabia, Taiwan Province of China, Thailand	Designation on a Priority Watch List
		Argentina, Canada, Chile, Colombia, Egypt, Greece, Indonesia, Italy, Japan, Malaysia, Pakistan, Philip-pines, Portugal, Spain, Turkey, Venezuela, Yugoslavia	Designation on a Watch List
	April 1990	Brazil, India, China, and Thailand	Designation on a Priority Watch List
		Argentina, Egypt, Canada, Chile, Colombia, Greece, Indonesia, Italy, Japan, Korea, Malaysia, Pakistan, Philippines, Spain, Saudi Arabia, Taiwan Province of China, Turkey, Venezuela, Yugoslavia	Designation on a Watch List
	April 1991	China, India, Thailand	Initiated investigation of alleged violations of intellectual property rights
		Australia, Brazil, EC	Designation on a Priority Watch List
		Argentina, Canada, Chile, Colombia, Cyprus, Egypt, Germany, Greece, Hungary, Indonesia, Italy, Japan, Korea, New Zealand, Pakistan, Philippines, Spain, Taiwan Province of China, Turkey, Saudi Arabia, United Arab Emirates, Venezuela, Yugoslavia	Designation on a Watch List

Source: Office of the United States Trade Representative.
Note: EC = European Community.

[1]Section 301 of the 1974 Trade Act gives the President broad authority to retaliate against allegedly unfair trade practices of other countries. Since 1974, just over 100 complaints against developing and industrial countries have been filed (this excludes actions under "Super" and "Special" 301) of which approximately 25 percent were rejected and less than 10 percent led to trade retaliation. Of the remainder, some cases led to trade liberalization action by trading partners, but the majority had indeterminate results. In several cases, Section 301 actions have been followed up through General Agreement on Tariffs and Trade (GATT) dispute settlement procedures.

[2]Super 301, which expired in 1990, required the United States Trade Representative (USTR) to (i) identify "U.S. trade liberalization priorities" in terms of countries and practices; and (ii) initiate Section 301 investigations with a view to seeking the elimination or reduction of the practices, or compensation from them. The case against Brazil was dropped in 1990. The Japanese cases were dealt with within the wider context of the Structural Impediments Initiative. India was redesignated in 1990, but no retaliatory action has been taken so far.

[3]Special 301 requires USTR to identify foreign countries that deny adequate intellectual property protection or fair and equitable market access to U.S. persons that rely upon intellectual property protection, and that are not entering into good faith negotiations or making significant progress in improving intellectual property protection. The 1989 and 1990 Watch Lists did not require further action. In 1991, for the first time, investigations were initiated under Special 301.

Table A20. Commodity Composition of Exports, by Selected Eastern European Countries

(Percentage share)

	Food	Beverages	Crude Materials	Mineral Fuels	Animal and Vegetable Oils	Chemicals	Manufactured Materials	Machinery Transport Equipment	Miscellaneous Manufacturers	Others	Total
Czechoslovakia											
Socialist[1]	0.9	0.5	2.3	2.0	—	4.9	12.9	62.1	12.8	1.8	100
Developed	9.4	0.4	7.6	10.1	0.3	11.4	34.1	12.8	13.3	0.7	100
Developing	1.4	0.9	2.5	4.2	—	8.2	2.7	70.6	8.0	1.5	100
Hungary											
Socialist[1]	14.5	2.4	1.8	0.6	0.6	8.6	8.1	49.6	12.8	1.1	100
Developed	20.7	0.9	7.8	8.2	1.1	13.6	19.5	12.3	14.1	1.8	100
Developing	8.4	0.5	3.3	1.8	0.4	19.7	16.5	40.0	6.4	3.1	100
Poland											
Socialist[1]	3.6	0.2	3.0	9.2	—	7.7	14.0	47.0	8.5	6.8	100
Developed	18.3	0.5	8.4	16.7	0.4	6.9	21.5	14.0	10.7	2.7	100
Developing	2.3	0.5	10.0	10.1	0.1	7.6	25.0	37.2	2.5	4.7	100
Yugoslavia											
Socialist[1]	3.2	0.6	3.4	0.3	0.2	11.3	19.7	44.2	17.1	0.1	100
Developed	10.4	1.5	6.1	2.7	0.1	7.6	33.1	21.8	16.6	0.1	100
Developing	6.7	0.6	5.6	0.5	0.6	14.8	34.2	30.2	6.8	0.1	100

Source: The World Bank.
Note: Data for Czechoslovakia refer to 1986, 1987 for Hungary and Poland, and 1988 for Yugoslavia.
[1]Socialist countries include countries of the former Council for Mutual Economic Assistance (CMEA): Albania, China, Cambodia, the Democratic People's Republic of Korea, the Lao People's Democratic Republic, and Yugoslavia.

Table A21. Commodity Composition of Imports, by Selected Eastern European Countries

(Percentage share)

	Food	Beverages	Crude Materials	Mineral Fuels	Animal and Vegetable Oils	Chemicals	Manufactured Materials	Machinery Transport Equipment	Miscellaneous Manufacturers	Others	Total
Czechoslovakia											
Socialist[1]	3.7	0.8	6.1	38.7	0.2	4.3	6.9	32.4	4.0	2.9	100
Developed	5.8	0.6	9.3	0.7	0.8	19.0	15.4	39.7	7.0	1.7	100
Developing	14.5	1.1	8.5	4.2	0.5	4.6	12.0	37.8	8.5	8.2	100
Hungary											
Socialist[1]	2.4	0.9	6.7	31.0	—	8.1	13.3	31.4	5.2	1.0	100
Developed	4.0	0.6	4.7	1.0	0.1	26.0	20.0	35.9	7.6	0.1	100
Developing	19.4	0.8	12.4	9.4	0.1	7.6	14.6	22.0	10.6	3.0	100
Poland											
Socialist[1]	3.8	1.3	7.1	33.9	0.1	5.4	11.5	30.9	5.9	—	100
Developed	12.4	1.1	10.2	2.1	1.3	19.3	16.2	29.5	7.8	—	100
Developing	23.5	1.3	13.4	2.9	0.2	7.6	20.5	21.4	9.2	—	100
Yugoslavia											
Socialist[1]	6.2	0.3	14.0	24.4	0.1	16.3	18.6	18.2	1.8	—	100
Developed	3.0	0.2	6.2	2.7	0.2	22.5	18.0	40.2	7.0	—	100
Developing	17.5	0.4	19.0	31.6	0.3	8.0	13.0	8.8	1.3	—	100

Source: The World Bank.

Note: Data for Czechoslovakia refer to 1986, 1987 for Hungary and Poland, and 1988 for Yugoslavia.

[1]Socialist countries include countries of the former Council for Mutual Economic Assistance (CMEA): Albania, China, Cambodia, the Democratic People's Republic of Korea, the Lao People's Democratic Republic, and Yugoslavia.

Table A22. Total Transfers Associated with Agricultural Policies
(In billions of U.S. dollars)

	1979–81 Average	1983–85 Average	1986	1987	1988	1989	1990 Estimate
Total transfers[1]							
Australia	0.5	0.9	0.9	0.6	0.6	0.7	0.7
Austria	1.2	1.7	2.6	3.8	3.5	2.8	3.8
Canada	2.4	5.9	7.9	9.1	9.3	7.8	8.3
EC-12[2]	43.3	58.1	102.9	120.0	119.6	102.4	133.4
Finland	. . .	. . .	4.8	4.4	5.0	4.9	5.9
Japan	18.5	34.7	54.1	66.4	70.1	65.3	59.0
New Zealand	0.2	0.4	0.9	0.1	0.2	0.1	0.1
Norway	. . .	. . .	2.7	3.3	3.5	3.3	4.2
Sweden	. . .	. . .	3.5	3.1	3.0	3.1	3.4
Switzerland	. . .	. . .	4.3	5.4	5.7	5.0	6.2
United States	21.8	69.7	88.1	81.5	69.1	71.3	74.1
Total	87.9	171.4	272.8	297.5	289.6	266.7	299.1
Cost to taxpayers							
Australia	0.5	0.6	0.4	0.3	0.2	0.3	0.3
Austria	0.5	0.5	0.4	1.0	1.0	0.8	1.1
Canada	1.6	3.2	4.4	5.6	5.7	4.3	4.7
EC-12[2]	21.1	22.0	31.7	38.2	45.6	41.3	49.3
Finland	. . .	. . .	1.3	1.6	1.8	1.7	2.2
Japan	10.2	10.8	13.9	17.9	19.6	18.0	14.9
New Zealand	0.2	0.3	0.9	0.1	0.1	—	—
Norway	. . .	. . .	1.5	1.8	1.9	1.8	2.1
Sweden	. . .	. . .	0.5	0.6	0.6	0.5	0.5
Switzerland	. . .	. . .	1.1	1.7	1.8	1.8	2.3
United States	19.4	47.1	59.4	51.6	44.2	47.8	47.1
Total	53.5	84.5	115.5	120.4	122.5	118.3	124.5
Cost to consumers							
Australia	0.2	0.4	0.5	0.4	0.4	0.4	0.4
Austria	1.1	1.2	2.2	2.8	2.6	2.0	2.7
Canada	1.5	2.8	3.6	3.6	3.6	3.5	3.6
EC-12[2]	36.7	36.7	71.9	82.7	75.0	61.9	85.1
Finland	. . .	. . .	3.5	3.1	3.3	3.2	3.8
Japan	17.3	29.2	48.8	60.0	65.6	59.0	54.7
New Zealand	—	0.1	0.1	0.1	0.1	0.1	0.1
Norway	. . .	. . .	1.4	1.8	1.7	1.6	2.2
Sweden	. . .	. . .	3.2	2.7	2.6	2.7	3.0
Switzerland	. . .	. . .	3.8	4.5	4.7	3.9	4.9
United States	9.6	24.2	29.6	31.4	26.0	24.2	27.9
Total	66.4	94.6	168.6	193.1	185.6	162.5	188.4

Source: Organization for Economic Cooperation and Development, *Agricultural Policies, Markets and Trade, Monitoring and Outlook* (Paris), various issues.

[1]Total transfers are the sum of the cost to taxpayers and consumers less the additional budget revenue from import taxes. The latter is small and is not shown separately here.

[2]EC-10 prior to 1986. Total transfers of EC-10 in 1986 were $97.7 billion and 3 percent of their GDP.

Table A23. Agriculture in National Economies, 1988

	Share of Agriculture in Percent of GDP[1]	Agricultural Exports in Percent of Merchandise Exports[2]
Industrial countries		
Australia	4.2	35.1
Austria	3.1	3.7
Canada	3.0	8.2
EC-12	2.9	7.6
Finland	5.5	2.9
Japan	2.6	0.4
New Zealand	8.4	59.1
Norway	3.0	2.0
Sweden	2.7	2.1
Switzerland	3.2	3.1
United States	2.0	13.2
OECD average	2.9	8.0
Developing countries		
Sub-Saharan Africa	34.0	38.0
Of which		
Côte d'Ivoire	36.0	85.0
Kenya	31.0	63.0
East Asia	22.0	16.0
Of which		
Indonesia	24.0	22.0
Thailand	17.0	45.0
Philippines	23.0	26.0
South Asia	33.0	24.0
Of which		
India	32.0	18.0
Sri Lanka	26.0	50.0
Latin America and Caribbean	10.0	29.0
Of which		
Argentina	14.0	70.0
Brazil	9.0	31.0
Uruguay	11.0	52.0

Sources: Organization for Economic Cooperation and Development (1991); and World Bank (1990).
Note: EC = European Community; SITC = Standard International Trade Classification.
[1]Agriculture, hunting, forestry, and fishing as a percent of total GDP by kind of economic activity.
[2]Agricultural exports are SITC Revision 2, codes 0, 1, 2, 4, excluding fishery and forestry products.

Table A24. Factors Contributing to the Changes in Total Net Producer Subsidy Equivalents

(In percentage point contributions of total change)[1]

	1988	1989	1990 Estimate
Total net producer subsidy equivalent (PSE)	−5.9	−5.4	9.1
Quantity produced	−3.1	2.9	1.8
Unit PSE	−2.8	−8.2	7.2
Unit support not identified below	6.0	1.5	−2.9
Unit direct payments	0.6	−1.9	0.8
Unit market price support	−9.4	−7.8	9.3
Domestic prices *(in terms of U.S. dollars)*	8.4	8.4	−3.2
World prices *(in terms of U.S. dollars)*	−17.8	−16.2	12.5

Source: Organization for Economic Cooperation and Development, *Agricultural Policies, Markets and Trade, Monitoring and Outlook* (Paris), various issues.

[1]The approximate effect on the total net PSE of the change in the component if no other change had taken place. Market price supports for the total OECD are expressed in U.S. dollars and while they may be affected by exchange rate changes these are not shown in this calculation although they would be in a calculation for individual countries.

Table A25. Trade in Agricultural Products of Selected Industrial Countries

(In millions of U.S. dollars)

	1980	1983	1984	1985	1986	1987	1988
Exports							
Australia	9.3	6.5	8.2	7.5	8.1	9.1	10.5
Canada	7.0	8.2	8.4	6.9	6.4	7.2	8.8
EC-12[1]	27.3	23.4	24.6	24.7	26.7	30.4	29.9
New Zealand	3.5	3.4	3.2	3.4	3.5	4.3	5.0
United States	42.3	37.1	38.9	30.1	27.4	30.8	39.9
Imports							
Canada	4.6	4.4	4.9	4.6	5.0	5.4	6.0
EC-12[1]	50.6	39.5	40.6	39.2	42.1	45.5	42.6
Other Europe (excluding Turkey)	9.9	7.8	7.9	8.0	10.2	11.7	8.5
Japan	17.6	16.6	18.6	16.7	17.9	20.8	26.8
United States	19.9	19.2	22.8	23.2	24.5	24.1	22.7

Source: Organization for Economic Cooperation and Development (1991).

[1]Excludes intra-EC trade and eastern Germany.

Table A26. Cereal Exports, 1978/79–1990/91[1]

	1978–83[2]	1983–87[3]	1987–91[4]
	(In millions of tons per year)		
Industrial countries	164.9	156.8	167.2
United States	105.5	83.2	96.8
Canada	22.5	25.1	22.9
EC-12	17.1	23.0	27.4
Other Europe	1.8	4.1	3.1
Australia	13.4	19.8	14.3
Former U.S.S.R. and Eastern Europe	4.0	4.9	3.8
Developing countries	28.9	36.4	29.0
Asia	12.6	18.1	17.8
Thailand	5.8	7.7	6.0
Africa	4.4	2.0	4.0
Western Hemisphere	16.2	17.8	10.0
Argentina	15.3	16.9	8.9
Total World	197.6	197.9	200.0
	(In percent of world total)		
Industrial countries	83.4	79.2	83.6
United States	53.4	42.0	48.4
Canada	11.4	12.7	11.4
EC-12	8.7	11.6	13.7
Other Europe	0.9	2.1	1.6
Australia	6.8	10.0	7.1
Former U.S.S.R. and Eastern Europe	2.0	2.5	1.9
Developing countries	14.6	18.4	14.5
Asia	6.4	9.1	8.9
Thailand	2.9	3.9	3.0
Africa	2.2	1.0	2.0
Western Hemisphere	8.2	9.0	5.0
Argentina	7.7	8.5	4.5

Source: Food and Agriculture Organization, *Food Outlook* (Rome), various issues.
[1]Comprise rice, wheat, and coarse grains.
[2]Crop years 1978/79–1982/83.
[3]Crop years 1983/84–1986/87.
[4]Crop years 1987/88–1990/91.

Table A27. Cereal Imports, 1978/79–1990/91[1]

(In millions of tons a year)

	1978–83[2]	1983–87[3]	1987–91[4]
Industrial countries	56.2	46.4	42.3
North America	1.4	1.5	2.6
Japan	24.3	27.1	27.4
EC-12	25.0	12.1	6.9
Other Europe	3.7	2.3	2.4
Other	2.0	3.6	3.1
Former U.S.S.R. and Eastern Europe	45.6	43.8	39.5
Former U.S.S.R.	32.2	36.5	32.8
Eastern Europe	13.4	7.2	6.7
Developing countries	96.0	109.5	118.9
Asia	51.6	58.4	71.1
China	17.8	13.5	20.5
Korea	5.4	7.2	9.3
Saudi Arabia	3.6	7.6	5.7
Africa	22.0	29.5	27.4
North Africa	13.4	17.7	18.3
Sub-Saharan Africa	8.6	11.8	9.1
Western Hemisphere	22.4	21.7	20.3
Total World	197.9	199.6	200.6

Sources: Food and Agriculture Organization, *Food Outlook* (Rome), various issues; and World Bank, *World Development Report* (Washington), various issues.
[1]Comprise rice, wheat, and coarse grains.
[2]Crop years 1978/79–1982/83.
[3]Crop years 1983/84–1986/87.
[4]Crop years 1987/88–1990/91.

Table A28. Main Agricultural Producer Support Policies for Selected Countries and Major Commodities, 1991

Commodity	United States[1]	European Community[2]	Japan[3]	Canada[4]
Grains	CCC inventory operations and commodity loans; deficiency payments; acreage reduction (set-asides); Export Enhancement Programs (EEP); marketing loans for rice	Price supports maintained by intervention purchases subject to maximum guarantee quantities; variable levy; export refunds; co-responsibility levies (negative support); land set-aside (all products)	State trading, including the restriction of imports; deficiency payments	GRIP and NISA
Oilseeds	CCC inventory operations and commodity loans; EEP; marketing loans for soybeans	Deficiency payments	Deficiency payments	As above
Dairy	Price supports maintained by tariffs, quotas, and CCC inventory purchases	Price supports maintained by intervention purchases; production quotas; variable levies; export funds; offset by co-responsibility levies	Price supports through government stockholding, production quotas, and trade barriers; some deficiency payments	Production and import quotas; deficiency payments; fluid milk premium
Livestock	Beef: Tariff; quota; voluntary restraint agreements; EEP. Other: General (research and development, inspection, etc.)	Price supports maintained by intervention purchases; variable levies; export refunds	Beef: Tariff Pork: Variable levy Poultry: Tariff	Beef: Tariff Pork: Tariff Poultry: Production and import quotas
Sugar	Tariff quotas	Price supports maintained by intervention purchases; variable levies; export refunds; production quotas; offset by co-responsibility levy	State trading by JRSSPSC; price stabilization; variable import levy; controls on HFCS deficiency payments	Deficiency payments

Notes: This table includes only main support mechanisms and excludes support provided at the state or provincial level for all countries and at the national level for EC countries.

An overview is contained in Organization for Economic Cooperation and Development, *National Policies and Agricultural Trade* (Paris, 1987).

[1]*United States.* Commodity Credit Corporation (CCC) *inventory operations and commodity loans* for grains and oilseeds involve a program under which farmers are offered loans for their crops at a specified price, termed the *loan rate*. The crops serve as collateral and farmers may either repay their loans and redeem their crops or not pay their loan and surrender or forfeit their crops to the CCC. The latter option is attractive when the market price is below the loan rate, but this has not occurred for cereals since 1987. The interest rate is also below the market rate. CCC support purchases are also made for dairy products. *Marketing loans* enable the farmer to repay the loan at the world market price if this is below the loan rate and thus are like export subsidies.

A *deficiency payment* is used to raise the income of producers. It is roughly the difference between the *target price* and the higher of the *market price* or the *loan rate* times the program yield (which has been frozen), times the payment acreage. The payment acreage is *base acreage* less the *set-aside* less the *flexible planting acreage* (at least 15 percent).

Beef is supported by the U.S. Meat Import Law, which provides for quotas on meat imports when annual imports are estimated to exceed a certain trigger level defined as 110 percent of an adjusted base quota. Quotas have not been applied since 1979, and voluntary export restraint agreements are sometimes used.

[2]*European Community.* A *variable levy* is a levy on imports that is used to raise import prices of grains and dairy products to a threshold price, and of beef to a guide price, both of which tend to be above the domestic market price for the same commodity, thus effectively excluding imports. The European Community has argued that this is not a quantitative import restriction but a frequently adjusted tariff.

Maximum guarantee quantities result in a price reduction in the next year if a level of output for the current year is exceeded (it does not directly limit production in the current year) and are applied on a Community-wide basis. These differ from production quotas, which are applied to individual producers for the current year.

The current sugar regime has remained effectively the same since 1981. Domestic prices are maintained by production quotas and variable levies that effectively exclude all imports except special imports from African, Caribbean, and Pacific (ACP) countries. The production quotas, which include high fructose corn syrup (HFCS), are divided into three categories. Production for domestic consumption ("A" quota) receives full price guarantees. Production for export ("B" quota), set at a proportion of "A" quota, receives an export restitution. The remainder of sugar production, "C" sugar, is carried over into "A" quota for the next year. Co-responsibility levies are used to finance the sugar regime. A levy of 2 percent of the intervention price is made on all sugar produced under quota. In addition, a levy of up to 37.5 percent can be made on sugar produced under the "B" quota. However, revenue generated by these levies has been insufficient to cover the heavy cost of export refunds and so an elimination levy was introduced in 1985 and a supplementary levy was approved in February 1988.

Table A28 (concluded)

[3]*Japan.* State trading in grains is by the Food Agency of the Ministry of Agriculture, Forestry, and Fisheries; in beef, by the Livestock Industry Promotion Corporation (LIPC); and in sugar, by the Japan Raw Silk and Sugar Price Stabilization Corporation (JRSSPSC).

The LIPC used to both stabilize the domestic price of beef and to manage the supply of imported beef by quotas, but imports were liberalized in April 1991.

The institutional framework for intervention in the sugar market has not changed greatly since 1982 when the Sugar Price Stabilization Law was amended. The operations of the JRSSPSC to stabilize the price of imported sugar entail setting a *stabilization price ceiling band* and with it a *target price*. When the import price of sugar is below the target price, as it was during the 1980s, the JRSSPSC imposes surcharges and *variable levies* based on this difference. Part of these receipts is kept for rebates should the import price exceed the stabilization ceiling. To encourage domestic production, the Government fixes minimum producer prices. The JRSSPSC is obliged to buy sugar from refiners who have paid growers the minimum producer prices; the JRSSPSC resells the sugar to the same refiners (in a book transaction) at a lower price, which is comparable with the price of sugar made from imported raw sugar. The loss on this operation may be regarded as a *deficiency payment* and is financed from JRSSPSC levies and from the Government's budget. The production of HFCS is also regulated by production quotas, variable levies, and surcharges.

[4]*Canada.* Canada has introduced a major reform to rationalize the support programs under a standard framework. The main programs are the *Gross Revenue Insurance Plan (GRIP)* and the *Net Income Stabilization Account (NISA)*, which for 1991/92 have only been implemented for grains and oilseeds. The GRIP provides revenue protection that builds on the conventional crop insurance based on yield and price protection components. The yield component is based on conventional crop insurance. Price protection is based on the *target prices* calculated as a 15-year moving average of past market prices, and the level of support can be varied by setting the *coverage ratio* (the proportion of the target income that will be insured). The premiums for crop insurance are shared 50 percent by the producer, and 25 percent for each of the federal and provincial governments. The revenue insurance part is calculated as the difference between target revenue and market revenue. The former is calculated as the coverage ratio, times the target price, times the probable yield, times the seeded acreage. The coverage ratio can vary from 70 percent to 90 percent among provinces and crops but once set it would be fixed for five years. The cost of the revenue insurance is divided into 33⅓ percent to producers, 25 percent to provinces, and the rest, to the federal government.

Table A29. United States: Agricultural Support, 1980–92

Year[1]	Producer Subsidy Equivalent[2] (Crop Year): Amount (In billions of U.S. dollars)	Producer Subsidy Equivalent[2] (Crop Year): Percent of GNP	Total Public Spending[2] (Fiscal Year): Amount (In billions of U.S. dollars)	Total Public Spending[2] (Fiscal Year): Percent of GNP	Agricultural Budget Outlays[3] (Fiscal Year): Amount (In billions of U.S. dollars)	Agricultural Budget Outlays[3] (Fiscal Year): Percent of GNP
1980	15.7	0.6	23.7	0.9	11.2	0.4
1981	16.0	0.6	25.0	0.9	8.8	0.3
1982	19.8	0.6	34.9	0.8	11.3	0.4
1983	19.2	0.9	45.3	1.1	15.9	0.5
1984	31.4	0.7	36.6	1.3	22.9	0.7
1985	34.8	0.7	54.3	1.0	13.6	0.4
1986	44.7	0.9	60.0	1.4	31.4	0.6
1987	45.1	1.0	49.4	1.1	27.4	0.7
1988	37.2	0.8	42.5	0.9	17.2	0.4
1989	33.4	0.6	45.7	0.9	16.9	0.3
1990	35.9	0.7	44.9	0.8	12.0	0.2
1991	. . .	. . .	. . .	. . .	15.9[4]	. . .
1992	. . .	. . .	. . .	. . .	15.3[5]	. . .

Source: Organization for Economic Cooperation and Development, *Monitoring and Outlook of Agricultural Policies, Markets and Trade* (Paris), various issues; and United States, Executive Office of the President, *Budget of the U.S. Government, FY 1992*, and previous issues.

[1]Fiscal or crop years ended the year shown in the column.

[2]Total public spending includes all assistance to agriculture from federal and state governments. Some of this is excluded from the producer subsidy equivalent (PSE) as it could not be allocated across crops.

[3]Includes outlays for farm income stabilization and for agricultural research services.

[4]Estimate.

[5]Projection.

Table A30. United States: Support Programs for the Main Agricultural Commodities

	Crop Year Ended[1]								
	1980	1985	1986	1987	1988	1989	1990	1991	1992
	(In U.S. dollars per bushel)								
Wheat[2]									
Target price	3.40	4.38	4.38	4.38	4.38	4.23	4.10	4.00	4.00[3]
Loan rate	2.50	3.30	3.30	2.40	2.28	2.21	2.06	1.95	2.04
Average farm price	3.80	3.39	3.08	2.42	2.57	3.72	3.72	2.61	. . .
Deficiency payment	. . .	1.00	1.08	1.98	1.81	0.69	0.32	1.28	. . .
Acreage reduction program *(in percent)*	20.0	20.0	20.0	25.0	27.5	27.5	10.0	5.0	15.0
Corn[2]									
Target price	2.20	3.03	3.03	3.03	3.03	2.93	2.84	2.75	2.75[3]
Loan rate	2.10	2.55	2.55	1.92	1.82	1.77	1.65	1.57	1.62
Average farm price	2.52	2.63	2.23	1.50	1.94	2.54	2.36	2.30	. . .
Deficiency payment	. . .	0.43	0.48	1.11	1.09	0.36	0.58	0.51	. . .
Acreage reduction program *(in percent)*	10.0	10.0	10.0	20.0	20.0	20.0	10.0	10.0	7.5
Soybeans									
Loan rate[4]	4.50	5.02	5.02	4.77	4.77	4.77	4.53	4.50	5.02[3]
Average producer price	6.28	5.78	5.05	4.78	5.43	7.42	5.70	5.75	. . .
	(In U.S. dollars per hundredweight)								
Rice									
Target price	9.05	11.90	11.90	11.90	11.66	11.15	10.80	10.71	10.71[3]
Loan rate[4]	6.79	8.00	8.00	7.20	6.84	6.63	6.50	6.50	6.50
Average farm price	10.50	8.04	6.53	3.75	7.27	6.83	7.35	6.75	. . .
Deficiency payment	. . .	3.76	3.90	4.70	4.82	4.31	3.56	4.21	. . .
Acreage reduction program *(in percent)*	. . .	25.0	20.0	35.0	35.0	25.0	25.0	20.0	5.0
Dairy									
Milk support price[5]	13.10	11.60	11.60	11.35	10.60	10.60	10.10	10.10	10.10[3]
Average price of manufacturing milk	12.01	11.72	11.46	11.37	11.15	12.38	12.29	. . .	. . .
	(In U.S. cents per pound)								
Sugar									
Loan rate (cane sugar)	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00[3]
Average raw sugar price	30.11	20.34	20.95	21.83	22.12	22.81	23.27	. . .	. . .
Cotton (upland)									
Target price	57.7	81.0	81.0	81.0	79.4	75.9	73.4	72.9	72.9[3]
Loan rate	50.2	55.0	57.3	55.0	52.3	51.8	50.0	50.3	50.8
Average farm price	62.3	57.5	56.8	51.5	63.7	55.6	63.6	66.4	. . .
Deficiency payment	. . .	18.6	23.5	26.0	17.3	19.4	13.1	7.6	. . .
Acreage reduction program *(in percent)*	. . .	25.0	20.0	25.0	25.0	12.5	25.0	12.5	5.0

Source: U.S. Department of Agriculture (USDA).

[1]Except for dairy and sugar, which are on a calendar year basis. USDA publications refer to crop years in terms of the beginning year. The convention adopted here is the one applied to financial years.

[2]Wheat and corn bushels are converted into metric tons by multiplying by factors of 36.75 and 39.37, respectively.

[3]Fixed at these levels through 1995/96 as a minimum.

[4]Rice and soybeans benefit from a marketing loan arrangement. In the case of rice farmers to repay their loans at the higher of the world market price or 70 percent of the loan rate if the world market price is lower than the loan rate. Loans for soybeans can be repaid at the lesser of the loan rate and the world market price.

[5]Support prices at the start of the year; they are sometimes changed during the year.

Table A31. United States: Budgetary Spending on Agriculture, by Commodity, 1985/86–1991/92

(In millions of U.S. dollars)

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91 Provisional	1991/92 Estimate
Wheat	3,440	2,836	678	53	806	2,647	2,519
Corn	10,524	12,346	8,227	2,863	2,450	2,364	2,665
Grain sorghum	1,185	1,203	764	467	361	298	282
Other feedgrains	502	418	62	54	−90	75	126
Rice	947	906	128	631	667	818	775
Dairy	2,337	1,166	1,296	679	505	665	392
Upland cotton	2,142	1,786	666	1,461	−79	389	823
Other CCC expenditures	4,764	1,747	640	4,315	1,851	3,588	3,497
Total CCC net outlays	**25,841**	**22,408**	**12,461**	**10,523**	**6,471**	**10,844**	**11,079**
Of which							
Deficiency payments	6,166	4,833	3,971	5,796	4,178	6,117	6,574
Dairy termination	489	587	260	168	189	100	11
Export Enhancement Program[1]	10	643	1,199	393	234	900	1,200
Targeted export assistance[1]	16	68	104	122	155	40	...
Exports of dairy stocks	117	172	118	66	118	41	...
Agricultural credit insurance	3,234	2,564	2,618	2,987	2,241	1,715	835
Other income stabilization	533	−230	167	1,307	1,049	894	876
Total Farm Income Stabilization	**29,608**	**24,742**	**15,246**	**14,817**	**9,761**	**13,453**	**12,790**
Agricultural Research and Services	1,841	1,864	1,964	2,102	2,197	2,404	2,470
Total	**31,449**	**26,606**	**17,210**	**16,919**	**11,958**	**15,857**	**15,260**

Sources: United States, Executive Office of the President, *Budget of the United States Government*, various issues; U.S. Department of Agriculture, *Agricultural Outlook*, various issues; and the U.S. Department of Agriculture.

Note: CCC = Commodity Credit Corporation.

[1]Value of certificates issued in that year; the certificates would be recorded as spending when they were redeemed.

Table A32. United States: Quantitative Restrictions on Agricultural Imports

Commodity	1980	1985	1986	1987	1988	1989	1990	Imports/ Consumption Percent in 1990	Countries Directly Affected
Beef and veal (*in million metric tons*)[1] (VERs and unimposed quotas)	0.76	0.60	0.65	0.65	0.69	0.62	0.62	9	Australia, New Zealand, developing countries
Milk, cream, fresh (*in million gallons*) (Quota)[2]	1.50	1.50	1.50	1.50	1.50	1.50	1.50	—	New Zealand
Cheese (*in million metric tons*) (Quota)[2]	0.11	0.11	0.11	0.11	0.11	0.11	0.11	5	Austria, EC, New Zealand, Nordic countries, Switzerland
Cotton (*in thousand metric tons*) (Quota)[2]	135	27	27	27	165	27	27	—	Egypt, Mexico, Peru
Sugar (*in million metric tons*) (Tariff quota)[3]	...	2.68	1.85	1.00	0.79	1.24	1.93	23	Argentina, Australia, Brazil, Caribbean, Philippines, Thailand
Peanuts (*in thousand metric tons*)	179.0	0.8	0.8	0.8	0.8	0.8	0.8	—	Argentina, China

Source: U.S. Department of Agriculture.

Note: EC = European Community; VERs = voluntary export restraints.

[1] Trigger level: if beef imports are forecast to exceed this trigger level, voluntary export restraints or quotas are imposed. In practice, VERs have only been imposed in 1982, 1983, 1987, and 1988.

[2] Permitted under General Agreement on Tariffs and Trade (GATT) waiver per Section 22 of the Agricultural Adjustment Act. Quota year does not correspond to calendar year.

[3] Restrictive quotas were not imposed before May 1982. From May 1982 to December 1986, the quota year did not correspond to the calendar year. Quota figures shown are base quota with specialty. Quotas were imposed under presidential authority as a "headnote" to U.S. Tariff Schedule, but were changed in 1990 to a tariff quota. The tariff applied to imports in excess of the quota is 18 cents a pound, which is prohibitive.

Table A33. European Community: Average Degree of Self-Supply in Selected Agricultural Products, 1956–89[1]

	1956–60[2]	1968/69[3]	1978/79[4]	1980/81[5]	1983/84[6]	1985/86[7]	1988/89
Product							
Total cereals							
(excluding rice)	85	86	97	103	116	110	113
Wheat	90	94	108	119	134	124	123
Rye	98	100	108	101	106	111	106
Barley	84	103	112	113	120	119	118
Grain maize	64	45	60	66	84	77	95
Sugar	104	82	124	136	100	123	124
Fresh vegetables	104	98	94	100	101	107	106
Fresh fruit (excluding citrus fruits)	90	80	77	83	84	87	84
Wine	89	97	99	102[8]	103	104	91
Fresh milk products							
(excluding cream)	100	100	100[9]	101[10]	101[12]	. . .	. . .
Cheese	100	98	103[9]	106[10]	107[12]	. . .	. . .
Butter	101	91	111[9]	122[11]	134[12]	. . .	. . .
Eggs	90	99	101	102[11]	103[12]	. . .	102
Total beef and veal	92	90	100	103[11]	108[13]	107[14]	104
Poultry meat	93	101	105	110[11]	107[13]	105[14]	105
Sheep meat and goat meat	. . .	56	67	74[11]	76[13]	80[14]	83

Sources: Commission of the European Communities, *The Agricultural Situation in the Community* (Brussels), various issues; and data provided by the Commission of the European Communities.

[1]Data for 1956-60 and 1968/69 cover the six original members of the Community, and those for 1978/79 cover the six original members plus Denmark, Ireland, and the United Kingdom. Data for 1980/81, 1981/82, and 1983/84 cover ten members of the Community (including Greece and excluding Spain and Portugal).

[2]Average of the years 1956 through 1960.

[3]Average of crop years 1967/68, 1968/69, and 1969/70.

[4]Average of crop years 1977/78, 1978/79, and 1979/80.

[5]Average of crop years 1979/80, 1980/81, and 1981/82.

[6]Average of crop years 1982/83, 1983/84, and 1984/85.

[7]Average of crop years 1984/85, 1985/86, and 1986/87.

[8]Excluding Greece.

[9]Average of crop years 1976/77, 1977/78, and 1978/79.

[10]Average of 1979, 1980, and 1981.

[11]Average of 1980, 1981, and 1982.

[12]Average of 1982, 1983, and 1984.

[13]Average of 1983, 1984, and 1985.

[14]Average of 1984, 1985, and 1986.

Table A34. European Community: European Agricultural Guarantee and Guidance Fund—Guarantee Section, Expenditures by Sector, 1976–90
(In millions of ECUs)

	1980	1985	1986	1987	1988	1989	1990	1991[1]
Cereals[2] and rice[3]	1,714	2,360	3,485	4,237	4,512	3,340	4,611	5,261
Export subsidy	1,219	1,113	1,804	3,166	3,160	2,721	3,047	3,386
Intervention	509	1,247	1,681	1,071	1,352	619	1,564	1,875
Milk and products[2,3]	4,754	5,933	5,406	5,013	5,984	5,041	4,489	5,063
Export subsidy	2,746	2,028	2,155	2,258	3,082	2,922	2,401	2,477
Intervention	2,006	3,905	3,251	2,755	2,901	2,118	2,088	2,586
Oils and fats	687	1,803	2,632	3,827	3,917	4,139	5,014	5,888
Export subsidy	4	23	32	87	88	100	167	136
Intervention	683	1,780	2,600	3,740	3,829	4,039	4,847	5,752
Sugar[3]	567	1,805	1,726	2,035	2,082	1,980	2,127	1,885
Export subsidy	286	1,353	1,238	1,516	1,566	1,451	1,483	1,211
Intervention	289	452	487	519	516	529	644	674
Beef, veal, pigmeat, and poultry	1,563	2,974	4,348	3,033	4,179	4,376	2,585	4,389
Export subsidy	893	1,504	1,387	1,142	1,135	1,776	1,341	1,337
Intervention	671	1,470	2,961	1,891	3,044	2,600	1,244	3,052
Fruits and vegetables	688	1,231	986	967	708	1,020	1,296	1,439
Export subsidy	41	75	77	67	65	80	105	131
Intervention	646	1,156	909	900	643	940	1,119	1,308
Other	1,023	3,411	3,014	3,150	4,362	4,188	5,971	5,308
All sectors	11,005	19,517	21,597	22,262	25,745	24,084	26,093	29,233
Accession compensatory amounts (ACAs)	—	—	6	18	64	42	35	35
Monetary compensatory amounts (MCAs)	298	190	476	636	505	323	136	210
All sectors, including ACAs and MCAs	11,314	19,707	22,079	22,919	26,315	24,448	26,264	29,478
Budgetary guideline[4]					27,500	28,624	30,630	32,511
Depreciation of intervention stocks	...	—	—	—	1,240	1,443	1,470	810
Other[5]	...	37	114	259	132	−18	290	907
All sectors, including ACAs, MCAs, depreciation of intervention stocks, and other	...	19,744	22,193	23,178	27,687	25,873	28,024	31,195

Sources: Commission of the European Communities, *The Agricultural Situation in the Community* (Brussels), various issues; and Financial Report on the European Agricultural Guarantee and Guidance Fund.

[1]Preliminary draft budget; subsequent budget estimates indicated higher expenditures that, in the absence of corrective action, would have exceeded the guideline.

[2]Including the financial contribution from cereal and milk producers.

[3]Including food aid refunds.

[4]There are some additional inclusions and exclusions before the above total is comparable with the basis used for the budgetary guideline.

[5]Clearance of accounts plus interest following reform of financing arrangements, free distribution of intervention products, and set-aside of arable land. Figure for 1987 includes clearance of the 1983, 1984, and 1985 accounts. Figure for 1990 also includes rural development schemes linked to market operation.

Table A35. European Community: Target Prices for Selected Commodities, 1980/81–1991/92[1]

	1980/81	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90[2]	1990/91[2]	1991/92[3]
Cereals (*ECUs per ton*)									
Common wheat	214.01	259.08	254.98	256.16	256.10	250.30	247.78	234.22	233.26
Barley	194.32	236.30	232.61	233.81	233.80	228.00	225.48	213.29	212.33
Rye	197.31	238.37	234.61	233.86	233.80	228.00	225.48	213.29	212.33
Rice, husked (*ECUs per ton*)	408.16	539.49	548.37	548.37	548.37	549.85	546.88	546.13	533.08
Sugar, white[4] (*ECUs per ton*)	432.70	534.70	541.80	541.80	541.80	541.80	531.00	530.10	530.10
Olive oil (*ECUs per ton*)	2,479.70	3,162.30	3,225.60	3,225.60	3,225.60	3,225.60	3,225.60	3,220.10	3,220.10
Oilseeds (*ECUs per ton*)									
Sunflower	426.30	582.20	573.50	583.50	583.50	583.50	583.50	582.50	573.80
Colza and rapeseed	386.90	472.60	464.10	464.10	450.20	450.20	450.20	449.40	442.70
Wine, Type AII (*ECUs per hectoliter*)	55.69	71.02	71.02	71.02	69.60	69.60	69.60	69.48	69.48
Tobacco, #2 (*ECUs per kilogram*)	3.603	4.604	4.504	4.512	4.512	4.512	3.464	4.512	. . .
Cauliflower	14.75	21.52	21.74	21.96	26.94	26.94	27.11	24.26	. . .
Tomatoes (open grown)	24.79	24.85/20.70	24.08/21.48	24.08/22.87	23.68	23.68	24.69	24.04	. . .
Oranges	32.14/19.38	40.97/38.32	39.74	39.74	38.74	38.74	35.62	33.15	. . .
Apples	20.42	29.63	29.63	29.63	29.63	29.63	28.06	28.01	. . .
Milk (3.7 percent fat content)	222.60	274.30	278.40	278.40	278.40	278.40	278.40	268.10	268.10
Beef animals (live)	1,607.60	2,050.20	2,050.20	2,050.20	2,050.20	2,050.20	2,050.20	2,000.00	2,000.00
Pork	1,587.21	2,033.30	2,033.30	2,033.30	2,033.30	2,033.30	2,033.30	1,897.00	1,897.00
Sheep and goat meat (*ECUs per 100 kilograms*)[5]	345.00	428.04	432.32	432.32	432.32	432.32	432.32	431.58	422.95

Source: Commission of the European Communities, *The Agricultural Situation in the Community* (Brussels), various issues.
Note: ECU = European Currency Unit.
[1]Beginning of marketing year.
[2]Prices for cereals, rice, and sugar include the application of the stabilizer system (Regulation 1412/89). For milk, price also includes the reduction decided upon as part of the increase in the milk quota of 1 percent.
[3]Prices for cereals, rice, and sugar exclude the application of the stabilizer system.
[4]Intervention price.
[5]Sheep meat and goat meat were not covered by the Common Agricultural Policy prior to 1980/81.

Table A36. Japan: Self-Sufficiency Rates of Major Agricultural Products[1]
(In percent)

	1975	1980	1985	1986	1987	1988	1989
Rice	110	87	107	108	108	100	100
Wheat	4	10	14	14	14	17	16
Barley	10	15	15	14	14	15	14
Pulses	9	7	8	8	9	8	9
Soybeans	4	4	5	5	6	6	6
Vegetables	99	97	95	95	94	91	92
Fruits	84	81	77	74	74	67	67
Eggs	97	98	98	97	99	98	98
Milk and milk products	82	86	89	82	78	75	80
Meats	77	81	81	78	76	73	72
Beef	81	72	72	69	64	58	54
Pork	86	87	86	82	80	77	77
Poultry	97	94	92	89	88	85	84
Sugar	16	29	33	34	34	35	35
Fats and oils	23	29	32	33	30	33	30
Food total[2]	74	72	71	70			
Grains total	40	33	31	31	30	30	30
Food total (calorie basis)	55	53	52	51	49	49	48
Feed total (calorie basis)	34	28	27	27	26	26	26

Source: Japanese Ministry of Agriculture, Forestry, and Fisheries, "Food Balance Sheet," 1986–89.
[1]Data relate to fiscal years. Self-sufficiency rates = domestic production/domestic utilization; domestic utilization = domestic production + change in stocks + imports − exports.
[2]The ratio of the total value of domestic production to the total value of domestic consumption, expressed as a percentage.

Table A37. Japan: Administrative Prices of Major Agricultural Products
(In yen per kilogram)

	1980	1985	1986	1987	1988	1989	1990	1991
Rice (husked)								
Government purchase price	295	311	311	293	279	279	275	. . .
Wheat								
Government purchase price	178	185	183	174	166	160	154	. . .
Barley								
Government purchase price	162	167	165	156	148	138	132	. . .
Sugar								
Government purchase price	246	241	235	213	206	194	188	. . .
Soybeans								
Standard price	280	287	282	266	251	251	240	. . .
Manufacturing milk								
Guarantee price	89	90	88	83	80	80	78	77
Butter								
Stabilization indicative price	1,253	1,276	1,225	1,100	1,080	1,092	1,065	1,051
Skimmed milk powder								
Stabilization indicative price	501	541	541	527	521	527	513	507
Beef								
Lower stabilization price	1,105	1,120	1,090	1,020	995	995	985	960
Pork								
Lower stabilization price	588	600	540	455	410	400	400	400

Source: Japanese Ministry of Agriculture, Forestry, and Fisheries.
Note: Up to 1987, lower stabilization prices for beef were established separately for *Wagyu* steer beef and dairy steer beef, which were ¥1,370 and ¥1,020, respectively.

Table A38. Japan: Expenditure on Agriculture and Rural Development, 1975–91[1]

(In billions of yen)

	1975	1980	1985	1986	1987	1988	1989	1990	1991
Total Budgetary Expenditure	21,288.8	42,588.8	52,499.6	54,088.6	54,101.0	56,699.7	60,414.2	66,236.8	70,347.4
Agriculture, forestry, and fishing	2,176.8	3,584.0	3,300.8	3,142.9	3,028.6	3,171.9	3,158.9	3,122.1	3,265.8
Agriculture	1,918.0	2,925.3	2,646.2	2,493.1	2,389.1	2,446.3	2,420.0	2,378.5	2,492.0
Price Policies	850.9	766.5	569.3	475.3	456.8	352.7	316.5	316.7	335.1
Food control[2]	811.5	652.2	456.1	363.7	358.0	262.0	232.0	232.0	210.0
Milk and other livestock products	22.8	49.4	51.2	49.8	40.8	34.1	30.5	29.6	72.7
Vegetables	8.0	11.2	9.1	8.7	8.0	7.8	7.3	7.0	6.8
Fruits	0.7	1.6	0.7	1.7	0.9	1.1	0.0	1.6	0.7
Soybeans and rapeseeds	1.1	18.1	21.0	22.6	23.6	25.2	26.3	26.7	25.1
Sugar and sugar crops	6.8	34.0	31.2	28.8	25.5	22.5	20.4	19.8	19.8
Paddy field farming establishment	97.1	303.4	239.2	232.4	182.6	186.2	186.2	151.1	151.1
Infrastructure for rural communities	359.5	897.5	878.9	868.0	850.2	1,002.2	1,022.1	1,024.9	1,069.1
Promotion, production, and marketing	192.5	205.89	132.9	111.4	101.3	99.6	97.9	93.6	135.2
Agricultural structural improvements	81.7	197.3	194.4	188.8	186.0	181.3	178.6	184.1	188.9
Agricultural insurance	80.7	142.3	157.6	149.5	146.3	141.1	138.2	138.0	137.8
Research extension	55.2	92.6	89.3	89.7	89.5	89.0	89.6	90.6	93.0
Concessional loans	48.5	107.7	160.4	162.6	161.7	160.2	156.9	134.2	135.3
Other	151.9	212.1	224.2	215.4	214.7	234.0	234.0	245.3	246.5
Extrabudgetary expenditure									
Livestock Industry Promotion Corporation	...	31.1	19.4	66.7	50.4	61.9	41.7	...	...
Production support	...	23.6	13.5	56.8	32.6	48.0	30.7	...	...
Marketing and consumption	...	7.5	5.9	9.9	17.8	13.9	11.0	...	...
Grain	84.0	59.0	129.0	186.0	183.0	165.3	119.5	...	...
Japan Sugar Price Stabilization Agency	1.0	1.0	67.0	67.0	70.0	66.3	66.8	50.1	...

Source: Japanese Ministry of Agriculture, Forestry, and Fisheries.
[1]Data relate to fiscal years.
[2]Mainly rice.

Table A39. Japan: Nominal Protection Coefficients
(In yen per kilogram)

	1983	1984	1985	1986	1987	1988	1989	1990
Japanese support prices								
Rice	304	311	311	311	293	279	279	275
Wheat	185	185	185	183	174	166	160	154
Beef	1,120	1,120	1,120	1,090	1,020	995	995	985
Butter	1,302	1,302	1,276	1,225	1,100	1,080	1,092	1,065
Sugar	250	243	241	235	213	206	194	188
World prices								
Rice	66	60	52	35	33	39	44	42
Wheat	37	36	32	19	16	19	23	20
Beef	580	540	514	353	345	323	354	371
Butter	583	492	534	428	362	397	451	472
Sugar	44	27	21	22	22	29	39	40
Nominal protection coefficients								
Rice	4.6	5.2	6.0	8.8	8.8	7.2	6.3	6.6
Wheat	5.0	5.1	5.7	9.4	10.7	8.9	6.8	7.8
Beef	1.9	2.1	2.2	3.1	3.0	3.1	2.8	2.7
Butter	2.2	2.6	2.4	2.9	3.0	2.7	2.4	2.3
Sugar	5.6	8.9	11.3	10.5	9.9	7.2	5.0	4.7

Sources: Japan. Ministry of Agriculture, Forestry, and Fisheries, *Statistical Yearbook*, various issues; and International Monetary Fund, *International Financial Statistics*, various issues.

Note: The world prices in this table are only indicative of trends and generally understate import prices. World prices are f.o.b. prices and not c.i.f. In addition, the grades of the domestic products are generally different (typically higher) from the commodities used as the reference world prices. Japanese support prices are those shown in Table A37.

The world prices are:

Rice: Thai milled white rice, 5 percent broken, f.o.b. Bangkok.

Wheat: U.S. No. 1 hard red winter wheat, f.o.b. Gulf ports.

Beef: Frozen boneless beef, Australian and New Zealand origin, f.o.b. U.S. ports.

Butter: New Zealand, best quality. Selling price on the London Provision Exchange.

Sugar: International Sugar Agreement price, which is an average of the New York contract No. 11 spot price and the London daily price, f.o.b. Caribbean ports.

Table A40. Direct, Indirect, and Total Nominal Protection Rates
(In percent)

Country	Product	1975–79 Direct	1975–79 Indirect	1975–79 Total	1980–84 Direct	1980–84 Indirect	1980–84 Total
Exported crops							
Argentina	Wheat	−25	−16	−41	−13	−37	−50
Brazil	Soybeans	−8	−32	−40	−19	−14	−33
Chile	Grapes	1	22	23	0	−7	−7
Colombia	Coffee	−7	−25	−32	−5	−34	−39
Côte d'Ivoire	Cocoa	−31	−33	−64	−21	−26	−47
Dominican Republic	Coffee	−15	−18	−54	−32	−19	−51
Egypt	Cotton	−36	−18	−33	−22	−14	−36
Ghana	Cocoa	26	−66	−40	34	−89	−55
Malaysia	Rubber	−25	−4	−29	−18	−10	−28
Pakistan	Cotton	−12	−48	−60	−7	−35	−42
Philippines	Copra	−11	−27	−38	−26	−28	−54
Portugal	Tomatoes	17	−5	12	17	−13	4
Sri Lanka	Rubber	−29	−35	−64	−31	−31	−62
Thailand	Rice	−28	−15	−43	−15	−19	−34
Turkey	Tobacco	2	−40	−38	−28	−35	−63
Zambia	Tobacco	1	−42	−41	7	−57	−50
Average							
All countries		−11	−25	−36	−11	−29	−40
Lower-income developing countries		−13	−33	−46	−13	−35	−48
Imported food crops							
Brazil	Wheat	35	−32	3	−7	−14	−21
Chile	Wheat	11	22	33	9	−7	2
Colombia	Wheat	5	−25	−20	9	−34	−25
Côte d'Ivoire	Rice	8	−33	−25	16	−26	−10
Dominican Republic	Rice	20	−18	2	26	−19	7
Egypt	Wheat	−19	−18	−37	−21	−14	−35
Ghana	Rice	79	−66	13	118	−89	29
Korea	Rice	91	−18	73	86	−12	74
Malaysia	Rice	38	−4	34	68	−10	58
Morocco	Wheat	−7	−12	−19	0	−8	−8
Pakistan	Wheat	−13	−48	−61	−21	−35	−56
Philippines	Corn	18	−27	−9	26	−28	−2
Portugal	Wheat	15	−5	10	26	−13	−13
Sri Lanka	Rice	18	−35	−17	11	−31	−20
Turkey	Wheat	28	−40	−12	−3	−35	−38
Zambia	Corn	13	−42	−55	−9	−57	−66
Average							
All countries		20	−25	−5	21	−27	−6
Lower-income developing countries		11	−33	−22	13	−35	−22

Source: Krueger, Schiff, and Valdés (1988), Tables 1 and 2.
Note: Lower-income developing countries do not include Argentina, Brazil, Chile, Korea, Malaysia, and Portugal.

Table A41. Estimates of the Impact of Liberalization of Agricultural Policies by Industrial Countries

	Tyers and Anderson (1)[1]	Tyers and Anderson (2)[1]	Zietz and Valdés[2]	Huff[3] and Moreddu[2]	Krissoff, Sullivan, and Wainio (1)[4]	Krissoff, Sullivan, and Wainio (2)[4]	Frohberg, Fischer, and Parikh[5]	Burniaux, van der Mensbrugghe, and Waelbroeck[6]
Impact on international commodity prices (as percent change from baseline scenario)								
Wheat	12	−1	4	−0.3	29	23	18	...
Coarse grains	2	−12	−3	−0.9	23	19	11	17
Rice	16	−6	2	0.2	14	−5	21	...
Beef	50	9	11	0.9	16	7	17	10
Dairy products	105	122	...	2.8	68	61	31	14
Sugar	22	−14	15	2.5	32	15	...	...
Weighted average of all studied products	25	1			18	−1	...	...
Impact on agricultural trade balance (change from baseline scenario in billions of U.S. dollars)								
Latin America	25	35	6	0.4	7	16	...	...
Middle East and Africa	6	13	...	...	0	3	...	...
North Africa and Middle East	—	1	6	...	−1	1	...	...
Sub-Saharan Africa	5	11	−2	0.1	1	2	...	...
Asia	20	49	85	0.2	5	6	...	...
Total developing countries	51	98	17	0.7	11	24	10	...
OECD	−79	−134	...	−0.8	...	...	−5	...

Sources: Goldin and Knudsen (1990); Huff and Moreddu (1990); "The Ministerial Trade Mandate Model" in *OECD Economic Studies*, No. 13 (Winter 1989–90), pp. 45–67; Tyers and Andersen (1992).

Note: The first four studies are multicommodity, multicountry models of the main agricultural products, and are termed partial equilibrium models. The Zietz and Valdés and the USDA models have added the feedback of a change in national income from trade reform on the demand equations. The last two models are general equilibrium models.

[1] *T-A (1) and T-A (2).* Based on protection in 1990. Scenario T-A(1) assumes that industrial countries only liberalize their food policies in 1990 and that developing countries permit partial pass-through of these price effects. Scenario T-A(2) assumes that both developing and industrial countries liberalize their policies in 1990. Both assume instantaneous adjustment to the near equilibrium by making use of long-run elasticities. The net effects on food trade refer to 1990 and are expressed in 1985 dollars, and are from a scenario in which price-responsive productivity growth is assumed by increasing price elasticities of supply by 0.5.

[2] *(Z-V) Zietz and Valdés.* Based on 1981–83 base period and reports prices and trade balances after 20 years. Assumes full price transmission to producers and consumers in developing countries. The percentage-point change in the cereal import bill of the country group compared to the baseline scenario in the year 2000.

[3] *(OECD-MTM) Huff and Moreddu.* A 10 percent reduction in OECD support levels as measured by producer subsidy equivalents. Figures are approximate as they were read from charts. Simulates the impact on 1982–85 world prices resulting from a 10 percent reduction in OECD agricultural supports as measured by PSEs and the dismantling of set-aside programs and thus the magnitudes are not comparable to the other results. Estimates assume the complete pass-through of the price changes into domestic markets by developing countries but no other policy changes by developing countries. Developing countries included comprise Argentina, Brazil, China, India, Mexico, Korea, sub-Saharan Africa, and Thailand.

[4] *USDA (1) and USDA (2) Krissoff, Sullivan, and Wainio.* Simulates impact from 1986 base of a complete liberalization of industrial country agricultural support policies and assumes full pass-through of the resulting price change to producers and consumers in developing countries. USDA (1) incorporates a feed back of the change in agricultural income onto national income with an income multiplier of one (simulation IMEY2). USDA (2) also includes the realignment of developing country exchange rates to the parallel market levels, as a proxy for reducing the indirect biases against agriculture.

[5] *(BLS) Frohberg, Fischer and Parikh.* Models the impact of liberalization in 1980 compared to the a reference scenario in 2000. Agricultural trade balances are at 1970 prices.

[6] *(OECD-WALRAS) Burniaux, van der Mensbrugghe, and Waelbroeck.* A general equilibrium model focusing primarily on the effects of a liberalization by OECD countries on themselves and thus no impacts reported for developing countries. In terms of real household income the modelled OECD countries would gain $72 billion per year (1988 prices) or 0.9 percent.

Table A42. Effects on Global Welfare of Liberalization by Industrial Countries
(In billions of 1986/87 U.S. dollars a year)

	Changes in Welfare			
	Producer	Consumer/ taxpayer	Net welfare[1]	Net welfare in U.S. dollars per capita
European Community	−22.7	36.7	14.0	43
Japan	−21.8	30.4	6.3	52
United States	−17.2	25.6	8.6	36
Canada	−1.3	3.9	2.6	101
Australia	1.6	−0.5	1.1	71
New Zealand	1.7	−0.4	1.3	396
Industrial countries	−65.6	104.0	35.3	51
Centrally planned economies	9.8	−10.2	−0.8	—
Developing exporters	5.1	−5.1	0.7	2
Newly industrializing economies	0.5	−0.8	−0.9	−13
Other developing importers	11.8	−14.6	−4.4	−2
Developing countries	17.4	−20.5	−4.5	−2
Global	−38.4	73.2	29.9	7

Source: Roningen and Dixit (1990).
[1]Net welfare change includes bases to other groups, for example, quota holders.

Table A43. GATT Membership

GATT Membership Status	Country	Date of GATT Accession/Application	Date of IMF Membership
GATT Contracting Party	Antigua and Barbuda	March 30, 1987	February 25, 1982
	Argentina	October 11, 1967	September 20, 1956
	Australia	January 1, 1948	August 5, 1947
	Austria	October 19, 1951	August 27, 1948
	Bangladesh	December 16, 1972	August 17, 1972
	Barbados	February 15, 1967	December 29, 1970
	Belgium	January 1, 1948	December 25, 1945
	Belize	October 7, 1983	March 16, 1982
	Benin	December 12, 1963	July 10, 1963
	Bolivia	September 8, 1990	December 27, 1945
	Botswana	August 28, 1987	July 24, 1968
	Brazil	July 30, 1948	December 27, 1945
	Burkina Faso	May 3, 1963	May 2, 1963
	Burundi	March 13, 1965	September 28, 1963
	Cameroon	May 3, 1963	July 10, 1963
	Canada	January 1, 1948	December 27, 1945
	Central African Republic	May 3, 1963	July 10, 1963
	Chad	July 12, 1963	July 10, 1963
	Chile	March 16, 1949	December 31, 1945
	Colombia	October 3, 1981	December 27, 1945
	Congo	May 3, 1963	July 10, 1963
	Costa Rica	October 25, 1990	January 8, 1946
	Côte d'Ivoire	December 31, 1963	March 11, 1963
	Cuba[1]	January 1, 1948	March 14, 1946
	Cyprus	July 15, 1963	December 21, 1961
	Czechoslovakia	April 20, 1948	September 20, 1990
	Denmark	May 28, 1950	March 30, 1946
	Dominican Republic	May 19, 1950	December 28, 1945
	Egypt	May 9, 1970	December 26, 1945
	El Salvador	May 22, 1991	March 14, 1946
	Finland	May 25, 1950	January 14, 1948
	France	January 1, 1948	December 27, 1945
	Gabon	May 3, 1963	September 10, 1963
	Gambia, The	February 22, 1965	September 21, 1967
	Germany	October 1, 1951	August 14, 1952
	Ghana	October 17, 1957	September 20, 1957
	Greece	March 1, 1950	December 26, 1945
	Guatemala	October 10, 1991	December 27, 1945
	Guyana	July 5, 1966	September 26, 1966
	Haiti	January 1, 1950	September 8, 1953
	Hong Kong[1]	April 23, 1986	
	Hungary	September 9, 1973	May 6, 1982
	Iceland	April 21, 1968	December 27, 1945
	India	July 8, 1948	December 27, 1945
	Indonesia	February 24, 1950	February 21, 1967
	Ireland	December 22, 1967	August 8, 1957
	Israel	July 5, 1962	July 12, 1954
	Italy	May 30, 1950	March 27, 1947
	Jamaica	December 31, 1963	February 21, 1963
	Japan	September 10, 1955	August 13, 1952
	Kenya	February 5, 1964	February 3, 1964
	Korea, Republic of	April 14, 1967	August 26, 1955
	Kuwait	May 3, 1963	September 13, 1962
	Lesotho	January 8, 1988	July 25, 1968
	Luxembourg	January 1, 1948	December 27, 1945
	Macao[1]	January 11, 1991	
	Madagascar	September 30, 1963	September 25, 1963
	Malawi	August 28, 1964	July 19, 1965
	Malaysia	October 24, 1957	March 7, 1958
	Maldives	April 19, 1983	January 13, 1978
	Malta	November 17, 1964	September 11, 1968
	Mauritania	September 30, 1963	September 10, 1963
	Mauritius	September 2, 1970	September 23, 1968
	Mexico	August 24, 1986	December 31, 1945

Table A43 (continued)

GATT Membership Status	Country	Date of GATT Accession/Application	Date of IMF Membership
	Morocco	June 17, 1987	April 25, 1958
	Myanmar	July 29, 1948	January 3, 1952
	Netherlands	January 1, 1948	December 27, 1945
	New Zealand	July 30, 1948	August 31, 1961
	Nicaragua	May 28, 1950	March 14, 1946
	Niger	December 31, 1963	April 24, 1963
	Nigeria	November 18, 1960	April 30, 1961
	Norway	July 10, 1948	December 27, 1945
	Pakistan	July 30, 1948	July 11, 1950
	Peru	October 7, 1951	December 31, 1945
	Philippines	December 27, 1979	December 27, 1945
	Poland	October 18, 1967	June 12, 1986
	Portugal	May 6, 1962	March 29, 1961
	Romania	November 14, 1971	December 15, 1972
	Rwanda	January 1, 1966	September 30, 1963
	Senegal	September 27, 1963	August 31, 1962
	Sierra Leone	May 19, 1961	September 10, 1962
	Singapore	August 20, 1973	August 3, 1966
	South Africa	June 13, 1948	December 27, 1945
	Spain	August 29, 1963	September 15, 1958
	Sri Lanka	July 29, 1948	August 29, 1950
	Suriname	March 22, 1978	April 27, 1978
	Sweden	April 30, 1950	August 31, 1951
	Switzerland[2]	August 1, 1966	
	Tanzania	December 9, 1961	September 10, 1962
	Thailand	November 20, 1982	May 3, 1949
	Togo	March 20, 1964	August 1, 1962
	Trinidad and Tobago	October 23, 1962	September 16, 1963
	Tunisia	August 19, 1990	April 14, 1958
	Turkey	October 17, 1951	March 11, 1947
	Uganda	October 23, 1962	September 27, 1963
	United Kingdom	January 1, 1948	December 27, 1945
	United States	January 1, 1948	December 27, 1945
	Uruguay	December 6, 1953	March 11, 1946
	Venezuela	August 31, 1990	December 30, 1946
	Yugoslavia	August 25, 1966	December 27, 1945
	Zaïre	September 11, 1971	September 28, 1963
	Zambia	February 10, 1982	September 23, 1965
	Zimbabwe	July 11, 1948	September 29, 1980
De facto application[3]	Algeria		
	Angola		September 19, 1989
	Bahamas, The		August 21, 1973
	Bahrain		September 7, 1972
	Brunei[1]		
	Cambodia		December 31, 1969
	Cape Verde		November 20, 1978
	Dominica		December 12, 1978
	Equatorial Guinea		December 22, 1969
	Fiji		May 28, 1971
	Grenada		August 27, 1975
	Guinea-Bissau		March 24, 1977
	Kiribati		June 3, 1986
	Mali		September 27, 1963
	Mozambique		September 24, 1984
	Papua New Guinea		October 9, 1975
	Qatar		September 8, 1972
	Sao Tome and Principe		September 30, 1977
	Seychelles		June 30, 1977
	Solomon Islands		September 22, 1978
	St. Christopher and Nevis		August 15, 1984
	St. Lucia		November 15, 1979
	St. Vincent and Grenadines		December 28, 1979
	Swaziland		September 22, 1969
	Tonga		September 13, 1985

Table A43 *(concluded)*

GATT Membership Status	Country	Date of GATT Accession/Application	Date of IMF Membership
	Tuvalu[1]		
	United Arab Emirates		September 22, 1972
	Yemen, Republic of		September 29, 1969
Applied for GATT membership	Bulgaria		September 25, 1990
	China	September 14, 1989	December 27, 1945
	Guatemala	February 28, 1991	December 28, 1945
	Honduras		December 26, 1945
	Mongolia	October 8, 1991	February 14, 1991
	Nepal	June 1, 1989	September 6, 1961
	Panama	October 8, 1991	March 14, 1946
	Paraguay	February 24, 1989	December 28, 1945
Not a GATT member	Afghanistan		July 14, 1955
	Albania		October 15, 1991
	Aruba		December 27, 1945
	Bhutan		September 28, 1981
	Comoros		September 21, 1976
	Djibouti		December 29, 1978
	Ecuador		December 28, 1945
	Ethiopia		December 27, 1945
	Guinea		September 28, 1963
	Iran, Islamic Republic of		December 29, 1945
	Iraq		December 26, 1945
	Jordan		August 29, 1952
	Lao People's Democratic Republic		July 5, 1961
	Lebanon		April 14, 1947
	Liberia		March 28, 1962
	Libyan Arab Jamahiriya		September 17, 1958
	Namibia	September 25, 1990	
	Netherlands Antilles		December 27, 1945
	Oman		December 23, 1971
	Panama		March 14, 1946
	Saudi Arabia		August 26, 1957
	Somalia		August 31, 1962
	Soviet Union[2, 4]	May 16, 1990	July 23, 1991
	Sudan		September 5, 1957
	Syrian Arab Republic		April 10, 1947
	Vanuatu		September 28, 1981
	Vietnam		September 21, 1956
	Western Samoa		December 28, 1971
	Yemen Arab Republic		May 22, 1970

Source: International Monetary Fund (IMF); and General Agreement on Tariffs and Trade (GATT). Activities 1989. An Annual Review of the Work of the GATT.
Note: information relates to the period through October 1991 and does not account for subsequent developments, particularly in Eastern Europe and the former Soviet Union.
[1]Not a member of the IMF.
[2]Has applied for IMF membership.
[3]Countries to whose territories the GATT has been applied and which now, as independent states, maintain a de facto application of the GATT pending final decisions as to their future commercial policy.
[4]The Soviet Union has GATT observer status.

Table A44. Multilateral Trade Negotiation (MTN) Agreements—Legal Status at December 7, 1990

	Geneva 1979 Protocol[1]	Supplementary 1979 Protocol[2]	Technical Barriers[3]	Government Procurement[4]	Subsidies/ Countervailing Duties[5]	Bovine Meat[6]	Dairy[7]	Customs Valuation[8]	Import Licensing[9]	Civil Aircraft[10]	Antidumping[11]
Contracting Party											
Antigua and Barbuda											
Argentina	A		S	O	O	A	A	A*	S	O	A
Australia		A	O	O	A*	A	A	A	A		A
Austria	A		A	A	A	A		A	A	A	A
Bangladesh			O	O	O	O	O	O	O	O	O
Barbados											
Belgium	A	A	A							A	
Belize						P					
Benin											
Botswana								A*			
Brazil		A	A	O	A	A	O	A*	O	O	A
Burkina Faso											
Burma											
Burundi											
Cameroon				O				O		O	
Canada	A	A	A	A	A	A	O	A*	A	A	A
Central African Republic											
Chad											
Chile		A	A	O	A	O	O	O	A		O
Colombia			O		A*	A		O	O		O
Congo											
Costa Rica						O					
Côte d'Ivoire		A	O	O	O	O	O	O	O		O
Cuba			O	O	O	O	O	O	O		O
Cyprus								A			
Czechoslovakia	A		A*	O	O			A	A	O	A
Denmark	A*		A*							A*	
Dominican Republic		A	O	O					O		
European Community	A	A	A	A	A	A	A	A	A	A	A
Egypt		A	A	O	A	A	A	O	A	A	A
Finland	A		A	A	A	A	A	A	A		A
France	A		A							A	
Gabon			O	O	O	O	O		O	O	
Gambia, The											
Germany	A*		A*							A*	
Ghana			O		O				O	O	O
Greece			A							S	
Guyana											
Haiti		A					O				
Hong Kong			A	A	A			A	A		A
Hungary	A		A*	O	O	A	A	A	A		A
Iceland	A										
India		A	A	O	A	O	O	A*	A	O	A

Table A44 (concluded)

	Geneva 1979 Protocol[1]	Supplementary 1979 Protocol[2]	Technical Barriers[3]	Government Procurement[4]	Subsidies/ Countervailing Duties[5]	Bovine Meat[6]	Dairy[7]	Customs Valuation[8]	Import Licensing[9]	Civil Aircraft[10]	Antidumping[11]
Indonesia		A	O	O	A*			O	O	O	O
Ireland	A		A							A	
Israel	S	A	A	A	A*		O	O	O	O	O
Italy	A		A							A	
Jamaica	A			O	O		O		O		
Japan	A*		A	A	A	A	A	A	A	A	A
Kenya				O		O					
Korea		A	A	O	A			A*	O		A
Kuwait											
Lesotho								A*			
Luxembourg	A		A							A	
Madagascar			O			O					
Malawi								A*			
Malaysia		A	O	O	O			O	O		O
Maldives											
Malta			O	O	O	O	O		O	O	O
Mauritania											
Mauritius											
Mexico			A		O	O	O	A*	A		A
Morocco											
Netherlands	A		A							A	
New Zealand	A		A	O	A	A	A	A*	A		A
Nicaragua			O	O	O	O	O	O	O		O
Niger											
Nigeria			O	O	O	A	O	O	A	O	O
Norway	A		A	A	A	A	A	A	A	A	A
Pakistan		A	A		A			O	A		A
Peru		A	O	O	O			O	O		O
Philippines			A	O	A*			O	A		O
Poland	A		O		O	A	A	S	A	O	A
Portugal			A							A	
Romania	A		A	O	O	A	A	A	A	A	A
Rwanda			S								
Senegal			O		O				O		O
Sierra Leone											
Singapore		A	A	A	O			O	A	O	A
South Africa	A			O	O	A	A	A	A		O
Spain		A	A			O		A		A	A
Sri Lanka				O					O	O	O
Suriname											
Sweden	A		A	A	A	A	A	A	A	A	A
Switzerland	A		A	A	A	A	A	A	A	A	A
Tanzania			O		O				O		O
Thailand			O	O	O	O		O	O		O
Togo											
Trinidad and Tobago			O	O	O	O	O	O	O	O	O

Tunisia			A		O	A	O	O	O		O
Turkey			O	O	A	O	O	A*	O	O	O
Uganda											
United Kingdom	A		A*	A*				A*	A*	A*	
United States	A		A	A	A	A		A	A	A	A
Uruguay		A			A	A	A				O
Venezuela					O				O		
Yugoslavia	A		A		S	A	O	A	A	O	A
Zaïre		A	O	O	O	O		O	O		O
Zambia											
Zimbabwe			O	O					A*		
Other Countries											
Bulgaria[12]			O		O	A	A	O	O		O
China			O	O				O	O		O
Ecuador			O	O	O			O	O		O
Guatemala						A*					
Panama						O	O				
Paraguay						P					

Source: General Agreement on Tariffs and Trade (GATT), *GATT Activities*, 1989.
Note: A = Accepted; S = Signed (acceptance pending); O = Observer; P = Provisional; * = Reservation, condition, or declaration.
[1]Geneva (1979) Protocol to the General Agreement on Tariffs and Trade (GATT).
[2]Protocol Supplementary to the Geneva (1979) Protocol to the GATT.
[3]Agreement on Technical Barriers to Trade.
[4]Agreement on Government Procurement.
[5]Agreement on Interpretation and Application of Articles VI, XVI, and XXVIII of the GATT (Code on Subsidies and Countervailing Duties).
[6]Agreement on Bovine Meat.
[7]International Dairy Agreement, April 12, 1979.
[8]Agreement on Implementation of Article VII of the GATT (Customs Valuation Code, including Protocol). Upon entry into force of the Agreement on January 1, 1981, the provisions of the Protocol were deemed to be an integral part of the Agreement.
[9]Agreement on Import Licensing Procedures.
[10]Agreement on Trade in Civil Aircraft.
[11]Agreement on Implementation of Article VI of the GATT (Amendments to the Antidumping Code).
[12]Bulgaria has negotiated in the MTN a schedule of tariff concessions.

Table A45. GATT Panels Established Since 1985

Requested by	Date Established	Subject of Examination	GATT Panel Ruling	Date Reported to Council	Date Adopted by Council	Implementation	Date
	1991						
Brazil	February	U.S. denial of MFN treatment as to imports of non-rubber footwear from Brazil.					
United States	February	Import distribution and sale of alcoholic drinks by provincial market agencies in Canada.					
Mexico	February	U.S. import prohibition of yellowfin tuna and related products caught in purse seine nets.					
United States	March	Germany's "hidden subsidies" to Deutsche Airbus.					
Canada	May	U.S. restrictions on imports of alcoholic beverages.					
European Community (EC)	July	U.S. government procurement of Antarctic research equipment under "Buy America" clause of U.S. trade rules.					
	1990						
United States	April	Thailand's import restrictions and internal taxes on cigarettes.	Panel ruled in favor of the United States and said ban may have been acceptable if it had been "necessary" to protect human life. Since other means, including nondiscriminatory bans on promotion were available and consistent with GATT, the import ban was not "necessary."	Oct. 1990	Nov. 1990	The Thai Cabinet decided to lift its ban on imports of cigarettes.	Oct. 1990
	1989						
Sweden	January	U.S. antidumping duties on imports of stainless steel pipes and tubes from Sweden.	Panel set up under Anti-dumping Code ruled that 1987 U.S. decision to impose duties on imports of certain specialty steel products from Sweden is in violation of international trading regulations. It is recommended that the United States return about $8 mil-	Sept. 1990			

			lion in duties to Swedish firm involved.				
Brazil	February	U.S. tariffs on imports of certain products from Brazil.	Brazil informed the Director-General of GATT that it wished to withdraw the complaint as the issue that had led to the complaint had been resolved.	Sept. 1989		Not applicable.	
EC	January	U.S. restrictions on imports of agricultural products applied under the 1955 Waiver and under the Head-note to the Schedule of tariff concessions (Schedule XX—U.S.) concerning Chapter 10.	A GATT dispute settlement panel ruled in favor of the United States and against the EC in a complaint filed by the EC alleging that the U.S. sugar import quota system runs contrary to GATT provisions.	April 1990	Nov. 1990	The United States signed a proclamation authorizing conversion of U.S. sugar import quota program into tariff-rate quota system, which will assign a 16 cent tariff for every pound of sugar entering the United States over traditional quota levels, and bring program into compliance with GATT.	Sept. 1990
United States	July	EC quantitative restrictions on exports of copper scrap.	The GATT panel report noted that the United States had withdrawn its complaint.	Dec. 1989	Feb. 1990	Not applicable.	
Canada	December	U.S. imposition of counter-vailing duty on pork.	A GATT dispute settlement panel ruled in favor of Canada against the levying of countervailing duties on pork imports by the United States; the attempt to block report was defeated. Panel asked the United States to reimburse duties or reach some financial settlement with Canada.	Sept. 1990	July 1991		
	1988						
Canada	March	Japanese imports of spruce-pine-fir (SPF) lumber.	A GATT dispute settlement panel ruled in favor of Japan, stating that the Canadian complaint could not succeed in the terms in which it had been introduced.	April 1989	July 1989	Not applicable.	
United States	March	Norway's restrictions on imports of apples and pears.	A GATT dispute settlement panel ruled in favor of the United States, finding Norway's import restrictions on apples and pears inconsistent with GATT rules.	April 1989	June 1989	Although Norway did not agree with panel's conclusions, it did not object to adoption of report and is prepared to bring its measures on apples and pears into conformity with GATT. However, Norway has not yet been able to specify how this is to be done.	June 1989

Table A45 (continued)

Requested by	Date Established	Subject of Examination	GATT Panel Ruling	Date Reported to Council	Date Adopted by Council	Implementation	Date
	1988						
Australia	May	Japanese import restrictions on beef.	The complaint was withdrawn following a bilateral settlement concerning market-opening arrangements.	July 1988		Not applicable.	
Australia	May	Korean import restrictions on beef.	A GATT panel ruled in favor of Australia in a dispute over alleged South Korean restrictions on beef imports. The dispute is one of a series of interlinked, but technically separate, complaints by Australia, New Zealand, and the United States.	May 1989	Nov. 1989	Australia and New Zealand say Korea has done nothing to implement a more liberal beef import policy. Korea believes that independent study should be done before any final decisions are taken and says it will increase beef imports, but did not specify by how much.	Feb. 1990
Australia	May					Australia announced a bilateral understanding with Korea that resolved the beef trade dispute. Korea set its minimum import levels for 1990, 1991, and 1992. The target for 1990 is 68,000 tons.	May 1990
Chile	May	EC restrictions on imports of dessert apples.	A GATT dispute settlement panel ruled in favor of Chile, finding the EC's import restrictions on dessert apples inconsistent with Article XI:1 and were not justified by Article XI:2.	April 1989	June 1989	EC did not oppose report's adoption on clear understanding that what was argued in report, particularly in regard to Article XI and its implementation, would not be held against EC and should in no way compromise EC's Uruguay Round negotiating position.	June 1989
United States	May	Chile's import restrictions on dessert apples.					
United States	May	Japanese import restrictions on beef and citrus.	The complaint was withdrawn following market-opening measures taken by Japan.	July 1988		Not applicable.	
United States	May	Korean import restrictions on beef.	A GATT panel ruled in favor of New Zealand and the United States in a dis-	May 1989	Nov. 1989	The United States reached an agreement with Korea on latter's import regime on	April 1990

			pute overalleged South Korean restrictions on beef imports. A ruling in favor of Australia in the same matter was made in April 1989.			beef; Korea reaffirmed its GATT commitment for trade liberalization on an MFN-basis, assuring growth in beef imports through introduction of system of direct access for buyers and sellers of beef.	
United States	June	EC payments and subsidies on oilseeds and related animal feed proteins.	A GATT dispute settlement panel ruled in favor of the United States, condemning EC subsidy payments made to oilseed producers.	Dec. 1989	Jan. 1990	The EC accepted the GATT ruling in favor of the United States in a dispute over the EC's subsidies program for oilseed and protein production and processing and will "take the necessary action."	Dec. 1989
United States	June					EC agreed to comply (in second half of 1991) with GATT panel ruling against its oilseed support regime. This follows a decision on May 4. 1991 by EC's Farm Ministers on a farm price package for 1991/92 season that includes a 1.5 percent cut in oilseed support prices.	May 1991
Australia	September	U.S. restrictions on imports of sugar.	An investigative GATT panel ruled in favor of Australia that U.S. sugar import quotas are illegal under GATT rules and has called on the United States to either eliminate them or bring them into conformity with GATT.	May 1988	June 1989	The U.S. Trade Representative (USTR) said the United States accepts report adopted by GATT Council that found U.S. sugar import quotas inconsistent with GATT; USTR said report "did not find sugar program to violate GATT. Rather, it found U.S. administration of quota system in contravention of GATT."	June 1989
Australia	September					At the Council meetings in January 1990 and May 1990. Australia expressed concern that the United States had not yet implemented the report.	Jan. 1990
Australia	September					The United States signed a proclamation authorizing conversion of U.S. sugar import quota program into tariff-rate quota system, which will assign a 16 cent tariff for every pound of	Sept. 1990

Table A45 *(continued)*

Requested by	Date Established	Subject of Examination	GATT Panel Ruling	Date Reported to Council	Date Adopted by Council	Implementation	Date
	1988					sugar entering U.S. over traditional quota levels, and bring program into compliance with GATT.	
Australia	September					The United States announced that it had revised its sugar import policy in response to the panel report.	Oct. 1990
New Zealand	September	Korean import restrictions on beef.	A GATT panel ruled in favor of New Zealand and the United States in a dispute over alleged South Korean restrictions on beef imports. A ruling in favor of Australia in the same matter was made in April 1989.	May 1989	Nov. 1989	Australia and New Zealand say Korea has done nothing to implement a more liberal beef import policy. Korea believes that independent study should be done before any final decisions are taken and says it will increase beef imports, but did not specify by how much.	Feb. 1990
United States	September	EC restrictions on imports of apples.	A GATT dispute settlement panel ruled in favor of the United States, finding the EC's import restrictions on apples to be inconsistent with GATT rules.	June 1989	June 1989	EC did not oppose report's adoption on clear understanding that what was argued in report, particularly in regard to Article XI and its implementation, would not be held against EC and should in no way compromise EC's Uruguay Round negotiating position.	June 1989
Brazil	October	U.S. collection of countervailing duties on entries of nonrubber footwear from Brazil.	A dispute settlement panel set up under the Subsidies Code ruled in favor of the U.S., finding the collection of countervailing duties from Brazil to be consistent with Subsidies Code rules.	Oct. 1989			
Japan	October	EC regulations to prevent circumvention of antidumping duties.	A GATT investigative panel ruled that the EC's "screwdriver" law on the assembly of industrial goods violates GATT rules, specifically Article III:2 and does not meet the exception set out in Article XX(d).	April 1990	May 1990	EC agreed to GATT Council adoption of a dispute panel report condemning its legislation applying antidumping duties on goods assembled in EC from imported parts. However, the Commission said it would be taking no	May 1990

						steps for the moment to withdraw measures.	
United States	December	Canada's restrictions on imports of ice cream and yogurt.	A GATT dispute settlement panel ruled in favor of a complaint by the United States that Canada's quotas on ice cream and yogurt do not conform with Article XI of the GATT.	Oct. 1989	Dec. 1989	The Canadian government set quota levels for 1990 of 347 tons for ice cream and 332 tons for yogurt, which is up slightly from 345 tons and 330 tons, respectively, in 1989.	Dec. 1989
United States	December					Canada has taken no steps to comply with its obligations to terminate its import restrictions on ice cream and yogurt, indicating that it will wait for the outcome of the Uruguay Round before even "deciding on implementation."	June 1990
	1987						
Canada, EC, Mexico	February	U.S. taxes on petroleum and certain imported substances.	A GATT dispute settlement panel ruled in favor of Canada, the EC, and Mexico, finding the oil import fee contained in "Superfund" legislation to be contrary to GATT rules.	June 1987	Feb. 1988	U.S. Ambassador to GATT reported to Council on House Ways and Means Committee approval of changes in U.S. legislation to eliminate Superfund petroleum tax differential by raising tax on domestic crude oil and lowering tax on imports, both to 9.7 percent a barrel.	June 1989
EC	February	Japanese customs duties, taxes, and labeling practices on imported wines and alcoholic beverages.	A GATT dispute settlement panel ruled in favor of the EC against Japan's unfair customs duties, taxes, and labeling practices on imported wines and alcoholic beverages.	Nov. 1987	Nov. 1987	Japan decided on the basic direction of the liquor tax reform, but claims that the revision of the liquor tax, in the context of the overall tax reform, involved a decision by the Diet and therefore inevitably takes time.	Feb. 1988
Canada, EC	March	U.S. customs user fee.	A GATT dispute settlement panel ruled in favor of Canada and the EC, finding that the U.S. customs user fee of 0.17 percent is GATT-illegal because it exceeds the costs of services rendered.	Nov. 1987	Feb. 1988	The U.S. Ambassador to GATT reported to the Council on the House Ways and Means Committee approval of changes in U.S. legislation on customs user fees. The change is a one-year interim measure retaining the 0.17 percent fee but capping it at $575 per transaction.	June 1989
Canada, EC	March					The United States stated that it would implement the recommendations of the panel	Dec. 1989

Table A45 (continued)

Requested by	Date Established	Subject of Examination	GATT Panel Ruling	Date Reported to Council	Date Adopted by Council	Implementation	Date
	1987						
						upon expiry in October 1990 of the current customs users fees.	
Canada, EC	March					The United States announced that the U.S. Customs and Trade Act of 1990, signed into law on August20, 1990, contained a provision that had brought the U.S. customs users fee into conformity with GATT.	Oct. 1990
Canada, EC	March					As expressed at the October 1990 meeting, the EC does not consider the new U.S. legislation to be fully consistent with the panel report; it does not lead to the imposition of fees commensurate to the costs of customs services rendered for individual transactions.	March 1991
United States	March	Canada's restrictions on exports of unprocessed West Coast salmon and herring.	A GATT dispute settlement panel ruled against Canada's prohibition on exports of unprocessed West Coast salmon and herring.	March 1988	March 1988	Canada accepted a GATT panel ruling against its export prohibition of salmon and herring, requiring, however, that salmon and herring caught off the Pacific coast be landed in Canada to ensure accurate catch reporting/inspection/ grading and quality control.	March 1988
EC	April	Japan's trade in semiconductors.	A GATT dispute settlement panel ruled in favor of the EC against Japanese measures taken in the context of so-called third-country monitoring, constituting export restrictions inconsistent with Article XI:1.	March 1988	May 1988	Japan agreed to take the following steps to conform with GATT: (1) Monitoring of export prices hitherto undertaken prior to export would now be done ex post facto, and (2) The Supply and Demand Forecast Committee would be abolished.	March 1989
EC	April					At the June 1989 Council meeting, Japan announced that it had implemented the measures, effective June 1,	June 1989

						1989, requested by the panel report.	
EC	October	Section 337 of the U.S. Tariff Act of 1930.	A GATT dispute panel ruled that the United States discriminates against foreign companies in its application of patent infringement laws; Section 337 of the 1930 U.S. Tariff Act is incompatible with GATT rules on nondiscrimination and national treatment.	Nov. 1988	Jan. 1989	The United States must amend its omnibus trade legislation as a result of the GATT ruling regarding patents.	Jan. 1989
EC	October					The U.S. adoption of the report would not automatically change Section 337, therefore until legislated changes enacted by Congress take place, the policies that guide the President's review of Section 337 orders prior to the report will still apply.	Nov. 1989
United States	November	India's import restrictions on almonds.	The United States withdrew its complaint after it had settled its dispute with India.	June 1988		Not applicable.	
United States	December	EC–third country meat directive.	Consultations are suspended at present.				
	1986						
Canada	August	Initiation by the United States of the countervailing duty investigation into softwood lumber products from Canada.	The panel was informed that a mutually satisfactory settlement of the dispute was reached.	Jan. 1987		Not applicable.	
EC	October	Canada's countervailing duty investigation into manufacturing beef from the EC.	A GATT dispute settlement panel ruled in favor of the EC and suggested that Canada terminate the outstanding countervailing duty order and that it refund any duties collected under that order.	Oct. 1987			
United States	October	Japanese restrictions on imports of certain agricultural products.	A GATT dispute settlement panel ruled in favor of the United States against Japan's unfair agricultural import policies.	Nov. 1987	Feb. 1988	The Japanese Government accepted the GATT panel findings against all 12 categories of food named in the report. Previously, Japan had blocked acceptance of the report, claiming parts of it did not take into account domestic considerations.	Jan. 1988

Table A45 (concluded)

Requested by	Date Established	Subject of Examination	GATT Panel Ruling	Date Reported to Council	Date Adopted by Council	Implementation	Date
	1986						
United States	October					Japan notified the Council of market-opening measures concerning imports of certain agricultural products.	Sept. 1988
United States	October					Questions concerning the full implementation of the report were raised at a Council meeting.	June 1990
United States	October					The U.S. claims that Japan has still not implemented all the reforms it said it would, particularly concerning qualitative restrictions on certain dairy products and starch. Bilateral U.S.-Japan consultations on how to resolve the dispute will be held.	Feb. 1991
	1985						
EC	February	Definition of industry concerning wine and grape products contained in the U.S. Trade and Tariff Act of 1984.		March 1986			
Canada	March	U.S. restrictions on imports of certain products containing sugar.	Consultations have been deferred since the U.S. and Canada are holding bilateral discussions on the matter.				
EC	March	Import distribution and sale of alcoholic drinks by provincial market agencies in Canada.	A GATT dispute settlement panel ruled in favor of the EC against Canada's provincial pricing, listing, and distribution practices for beer and wine.	Dec. 1987	March 1988	Canada agreed to implement the panel's recommendation to remove discriminatory provincial liquor board regulations on wine and spirits, but recommendation to remove regulations from beer will not be implemented because it would give U.S. brewers "free ride."	March 1988
EC	March					Canada reported that an ad referendum settlement on the implementation of the panel's recommendations had been negotiated with the EC.	Dec. 1988

EC	March				The United States questioned the implementation of the report and requested that it be permitted to suspend the application to Canada of appropriate concessions or other obligations.	Oct. 1990
Nicaragua	October	U.S. trade measures affecting Nicaragua.	A GATT dispute settlement panel could not determine whether the United States was in compliance with its GATT obligations because it was not permitted to examine whether the United States was justified in its use of Article XXI.	Oct. 1986		

Source: General Agreement on Tariffs and Trade.

Table A46. Balance of Payments Consultations Since Introduction of 1979 Declaration

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Argentina							LF		S			E
Bangladesh	S		S		S		S		S		S	
Brazil	S	F		F		S		F	LF	S		E
Colombia						LF		S		S		S
Czechoslovakia												F
Egypt		S		S		S			LF		S	
Ghana	S		S	F		S		LF		SE		
Greece	F	F			E		F	E				
Hungary				F	LF	E						
India	S		S		S		S	F		F		F
Israel	F		F		F	F		F		F		F
Italy		F	E									
Korea		S		S	F		S	F		LFE		
Nigeria					LF		S		S			S
Pakistan	S		S			S		S		LF		S
Peru		S		S			S	LF		S		E
Philippines	F		S		S		LF		S			S
Portugal	F	F	F	F	F	F	E					
Sri Lanka		S		S		S		LF		S		S
Tunisia		S		S		S			S			S
Turkey		S		S		S		S	F			S
Yugoslavia		S, F			S		S		S			LF

Source: General Agreement on Tariffs and Trade, Balance of Payments (BOP/series).
Note: F = full consultation; LF = last full consultation; S = simplified consultation; E = balance of payments measure no longer applied.

Table A47. Recourse to Article XIX of the General Agreement on Tariffs and Trade, 1978–91

Country	Product	Measure	Year Introduced (Terminated)
Australia	Textile apparel items	Tariff increase	1975 (1988)
	Files and rasps	Quantitative restriction	1976 (1978)
	Textile apparel items	Tariff increase	1976 (1988)
	Brandy	Tariff increase	1977 (1979)
	Fixed resistors	Licensing	1977 (1979)
	Passenger motor vehicles	Quantitative restriction	1977 (1985)
	Selected sporting footwear	Quantitative restriction/licensing	1977 (1982)
	Double-edged safety razor blades	Quantitative restriction	1978 (1982)
	Round blunt chainsaw files	Quantitative restriction	1978 (1978)
	Sheets and plates of iron and steel	Quantitative restriction	1978 (1980)
	Wool worsted yarns	Tariff quota	1978 (1988)
	Certain trucks and stackers	Quantitative restriction	1980 (1982)
	Hoops and strips of iron and steel	Tariff quota	1982 (1983)
	Certain filament lamps	Tariff increase	1983
	Nonelectrical domestic refrigerators	Tariff increase	1983 (1985)
Austria	Broken rice	Quantitative restriction	1987
	Prepared fowls	Quantitative restriction	1990
Canada	Clothing items	Quantitative restriction	1976 (1978)
	Footwear other than canvas and rubber	Quantitative restriction	1977 (1981)
	Nonleather footwear	Quantitative restriction	1981[1]
	Leather footwear	Quantitative restriction	1982[2]
	Yellow onions	Specific surtax	1982 (1983)
	Fresh, chilled, and frozen beef and veal	Quantitative restriction	1985 (1985)
Chile	Sugar	Tariff surcharge	1984 (1989)
	Wheat	Tariff increase	1984 (1989)
	Edible vegetable oils	Tariff increase	1985 (1989)
European Community	Raw silk (Italy)	Quantitative restriction/tariff	1969
	Portable televisions	Quantitative restriction	1977 (1979)
	Preserved mushrooms	Quantitative restriction	1978 (1980)
	Cultivated mushrooms	Quantitative restriction	1980 (1984)
	Other cultivated mushrooms	Quantitative restriction	1980 (1980)
	Yarn of synthetic fibers (United Kingdom)	Quantitative restriction	1980 (1980)
	Frozen cod fillets (Ireland, United Kingdom)	Embargo	1981 (1981)
	Dried grapes	Compensatory tax	1982
	Certain tableware (France, United Kingdom)	Quantitative restriction	1983 (1983)[3]
	Certain electronic quartz watches (France)	Quantitative restriction	1984
	Morello cherries	Tariff	1985
	Preserved raspberries	Tariff	1986
	Sweet potatoes	Quantitative restriction	1986
	Certain steel products (Spain)	Quantitative restriction	1987
	Frozen squid	Suspension of imports at certain price levels	1987
	Refrigerators and freezers (Portugal)	Quantitative restriction	1988
	Processed cherries	Tariff	1989
	Certain semiprocessed red fruits	Tariff	1991
	Provisionally preserved cultivated mushrooms	Import quality allocated by means of licensing	1991
Finland	Women's pantyhose	Tariff surcharge	1976 (1979)
	Porous fiberboard	Tariff surcharge	1986 (1986)
Germany	Hard coal and hard coal products	Import licensing for countries outside the European Coal and Steel Community	1958

Table A47 (concluded)

Country	Product	Measure	Year Introduced (Terminated)
Iceland	Furniture, cupboards, and cabinets; windows and doors	Import deposit	1979 (1980)
Nigeria	Cement	Import licenses prohibited	1961
Norway	Various textile items	Quantitative restriction	1979 (1984)
South Africa	Certain footwear	Tariff increase	1984
	Malic acid	Tariff increase	1985
	Certain oil fatty acids, flasks, steel wire, plugs	Tariff increase	1986
	Optical fibers and optical fiber bundles	Suspension of tariff bindings	1987 (1988)
Spain	Synthetic rubber	Tariff	1967
	Cheeses	Quantitative restriction	1980 (1980)[3]
Switzerland	Dessert grapes	Tariff increases	1982 (1982)
United States	Ball bearings	Tariff increases	1974 (1978)
	Footwear	Quantitative restriction	1977 (1981)
	CB radio receivers	Tariff	1978 (1981)
	High-carbon ferrochromium	Tariff	1978 (1982)
	Clothespins	Quantitative restriction	1979 (1984)
	Lag screws or bolts	Tariff	1979 (1982)
	Porcelain-on-steel cookware	Tariff	1980 (1984)
	Preserved mushrooms	Tariff	1980 (1983)
	Certain speciality steels	Quantitative restriction	1983
	Heavyweight motorcycles	Tariff increase	1983

Source: General Agreement on Tariffs and Trade.
[1]Partial termination in 1985.
[2]Partial termination in 1985 and 1986.
[3]Replaced by export restraint arrangement.

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