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Issues and Developments in International Trade Policy

By Margaret Kelly, Naheed Kirmani, Miranda Xafa, Clemens Boonekamp, and Peter Winglee

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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., 1984–85 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (e.g., 1985/86) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million.

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

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Prefatory Note

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; Naheed Kirmani, Assistant Division Chief; Clemens Boonekamp, Senior Economist; and Miranda Xafa and Peter Winglee, Economists. Dan Lee, Philippe Moutot, and Bernhard Fritz-Krockow also made significant contributions to the preparation of this study. 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 the editor, Elin Knotter, of the External Relations Department, and to Marcela Toso and Barbara Bulcock who typed the bulk of the draft. The authors alone are responsible for the study; any opinions expressed are theirs and do not necessarily reflect the views of the Fund.

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, Mexico City, 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 Bonn, Brussels, London, 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 problems in the multilateral trading system that governments face as they seek to liberalize trade in the Uruguay Round of trade negotiations. It follows the pattern of the Fund staff surveys prepared in 1978, 1981, 1982, and 1985.* As in the latter paper, emphasis is on policy developments in the major trading nations as they relate to trade in both industrial and agricultural products. The survey also includes a review of trade policies in developing countries and refers to available quantitative evidence on protectionism wherever possible.

The study comprises six sections and five appendices. Section I provides an overview of recent trade policy trends, the major issues facing the multilateral trading system, and the prospects for liberalization in the Uruguay Round of trade negotiations. Section II describes recent trade trends, reviews the overall stance of trade and trade-related industrial policies in major industrial countries, and discusses the causes and costs of protection. Section III examines the trade policies of developing countries and the implications for them of trade restrictions in foreign markets. Section IV describes the recent evolution in the framework for international trade, including the major issues under discussion in the Uruguay Round, and the role of the

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

Fund in trade and its collaboration with GATT. Sections V and VI describe trade actions by major industrial countries in individual agricultural and manufacturing sectors, respectively, including quantitative estimates of the costs of protection in individual sectors. Appendix I describes the trade and trade-related industrial policies of the European Community. Appendix II reproduces the Ministerial Declaration on the Uruguay Round. Appendix III describes the classification of countries and regions used in the paper and Appendix IV provides a glossary. Appendix V contains statistical tables.

The study was completed in July 1988 and most of the data do not go beyond this period. In the light of subsequently available information, certain data have been updated and a few major developments have been incorporated in the text or in footnotes.

List of Abbreviations

ACP	African, Caribbean, and Pacific countries
CAP	Common Agricultural Policy (EC)
CCC	Commodity Credit Corporation (United States)
CSEs	Consumer subsidy equivalents
ECU	European currency unit
EEP	Export Enhancement Program (United States)
EFTA	European Free Trade Association
EMS	European Monetary System
ERA	Effective rate of assistance
ERP	Effective rate of protection
FOGS	Functioning of the GATT System (Uruguay Round)
GATT	General Agreement on Tariffs and Trade
GMP	Guaranteed minimum price
GNG	Group of Negotiations on Goods (Uruguay Round)
GNS	Group of Negotiations on Services (Uruguay Round)
GSP	Generalized System of Preferences
IDA	International Dairy Arrangement
IPRs	Intellectual property rights
ITO	International Trade Organization
LIPC	Livestock Industry Promotion Corporation (Japan)
MAFF	Ministry of Agriculture, Forestry and Fisheries (Japan)
MCA	Monetary compensatory amount
MFA	Multifiber Arrangement
MFN	Most-favored-nation (principle)
MTN	Multilateral trade negotiations
NIEs	Newly industrializing economies
NPC	Nominal protection coefficient
NRBP	Natural resource-based products
NTMs	Nontariff measures
OECD	Organization for Economic Cooperation and Development
PIK	Payment in kind (United States)
PSEs	Producer subsidy equivalents
QRs	Quantitative restrictions
SB	Surveillance Body (Uruguay Round)
SITC	Standard International Trade Classification
TEA	Targeted Export Assistance program (United States)
TNC	Trade Negotiations Committee (Uruguay Round)
TRIMs	Trade-related investment measures (Uruguay Round)
TRIPs	Trade-related intellectual property rights (Uruguay Round)
TSB	Textile Surveillance Body
UNCTAD	United Nations Conference on Trade and Development
VERs	Voluntary export restraints
WEO	*World Economic Outlook*

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I Overview

Issues in International Trade

The growth in world trade slowed in the first half of the 1980s compared with both the previous decade and relative to output. The slowdown in the early 1980s was particularly pronounced in developing countries, whose share of world trade has tended to decline. World trade growth picked up during 1986–87 and exceeded the growth of world output, but by a narrower margin than in the 1970s (Table 1).[1]

A number of factors underlie developments in the early 1980s. Large macroeconomic and structural imbalances, sluggish growth, and persistent unemployment intensified protectionist pressures in industrial countries. These pressures may have contributed to the slowdown of both world trade and production. The onset of the debt problem necessitated a reduction in imports relative to production in developing countries, including some of the newly industrializing economies. The decline in oil prices led to a particularly pronounced adjustment in imports in oil producing countries. With few exceptions, developing country policies have not been sufficiently outward-looking to achieve rapid export growth. Large exchange rate changes may also have contributed to the slowdown in world trade.[2]

The pickup in the growth of world trade in 1986–87 was not accompanied by an abatement of protectionist pressures. Trade policy developments continue to be a matter of concern. Instances of trade liberalization have been limited, while resort to restrictive trade measures has increased. Consequently, little evidence exists to suggest that the stance of trade policies is contributing to the correction of underlying disequilibria among industrial countries and to the resolution of the debt and balance of payments problems of developing countries. Indeed, trade policies (along with other policies) may well be hindering such a process. Given these developments, it needs to be considered whether unilateral liberalization can play a greater role in structural adjustment.

Industrial Countries

Protectionist pressures remain high in industrial countries and in some cases have resulted in an increase in trade-restricting measures (Section II). Nonfuel imports of industrial countries subject to nontariff measures (NTMs) rose from about 19 percent of their total nonfuel imports in 1981 to about 23 percent in 1987.[3] Since then there has been a sharp increase in export restraint arrangements reported by the General Agreement on Tariffs and Trade (GATT): such arrangements rose from 135 in September 1987 to 261 in May 1988[4] (Table 2). The increase in such arrangements has intensified restrictions in sectors that are already subject to quantitative measures, such as textiles, clothing, and agriculture. In terms of protected markets, the increase is most prominent in the European Community (EC); and it affects exports of both developing and industrial countries. Although it is difficult to quantify the impact, the recent increase in voluntary export restraints (VERs) and similar arrangements has undoubtedly further widened the country and product coverage of trade restrictions.

Developments in *agricultural trade policies* give great cause for concern, particularly as they affect an already highly protected sector (see Section V). Between 1981 and 1986, support provided to the farm sector through domestic measures and export subsidies has risen further, as evidenced by the increase in producer subsidy

[1] The relative growth of world production and trade is influenced by developments in the United States, which has a larger weight in world production than in world trade; and exchange rate movements between the dollar and other currencies, which affect the weights of individual countries.

[2] Although the evidence is mixed, economists have long argued that exchange rate volatility introduces an element of uncertainty that reduces the volume of international trade. For instance, de Grauwe (1988) finds that real exchange variability is one of the factors accounting for the slowdown in international trade since the advent of floating rates in 1973. Akhtar and Hilton (1984) find that nominal exchange rate volatility has significant adverse effects on trade, although the evidence on real exchange rate volatility is less conclusive. See also Quirk and others (1988) for a review of forward markets in industrial and developing countries, whose absence may have an adverse effect on trade where exchange risk exists.

[3] UNCTAD (1988).

[4] Of the reported increase, almost half were in existence prior to 1988 but were reported by GATT only in 1988.

Table 1. Trends in World Trade and Production[1]

(Average annual growth rates)

	1970–79	1980–85	1986	1987
World output[2,3]	4.1	2.5	3.2	3.2
Industrial countries	3.3	2.3	2.7	3.3
Developing countries	5.7	2.7	4.2	3.4
World trade volume[3,4]	6.4	2.4	4.7	5.7
Industrial countries	6.6	3.4	5.7	6.0
Developing countries	6.6	0.5	2.5	6.5

Source: International Monetary Fund, *World Economic Outlook* (Washington), October 1988.

[1] Composites for country groups are averages of percentage changes for individual countries weighted by the average U.S. dollar value of their gross domestic product (GDP) (output) and trade (trade volume) over the preceding three years.

[2] Compound annual growth rates of real GDP. Excludes China in 1970–79.

[3] World averages include the U.S.S.R., the German Democratic Republic, Bulgaria, and Czechoslovakia, which are excluded from the industrial and developing country averages.

[4] Average of export and import growth.

Table 2. Export Restraint Arrangements, 1987–88[1]

	September 1987	May 1988	Reported Increase Between September 1987 and May 1988
Total export restraint arrangements[1]	**135**	**261**	**126[2]**
By sectoral composition			
Steel	38	52	14
Agricultural and food products	20	55	35
Automobiles and transport equipment	14	17	3
Textiles and clothing[3]	28	72	44
Electronic products	11	19	8
Footwear	8	14	6
Machine tools	7	7	—
Other	9	25	16
By protected markets			
European Community	69[4]	138[5]	69
United States	48	62	14
Japan	6	13	7
Other industrial countries	12	47	35
Eastern Europe	—	1	1
By restrained exporters			
Japan	25	28	3
Eastern Europe	20	45	25
Korea	24	25	1
Other industrial countries	23	59	36
Other developing countries	43	98	55

Source: General Agreement on Tariffs and Trade, *Review of Developments in the Trading System* (Geneva), various issues.

[1] Includes voluntary export restraints, orderly marketing arrangements, export forecasts, basic price systems, industry-to-industry arrangements, and discriminatory import systems. Excludes restrictions under the Multifiber Arrangement.

[2] Of the reported increase, almost half were in existence prior to 1988 but were reported by GATT only in 1988.

[3] Excludes restrictions under the Multifiber Arrangement.

[4] Includes 20 arrangements involving individual EC member states.

[5] Includes 51 arrangements involving individual EC member states.

equivalents (PSEs) in all major industrial countries (e.g., according to the Organization for Economic Cooperation and Development (OECD), PSEs rose from 24 percent to 39 percent of gross agricultural production value in Canada; from 37 percent to 40 percent in the EC; from 57 percent to 69 percent in Japan; and from 16 percent to 28 percent in the United States).[5] The costs to consumers and taxpayers in terms of higher prices and budgetary expenditure have increased sharply; the OECD estimates such costs to have averaged $185 billion a year in 1984–86. Growth and employment are being adversely affected by the misallocation of resources implied by such policies, and access to the markets of major industrial countries has been curtailed. For example, one study estimates that in spite of their positive effects on agricultural employment, the Community's agricultural policies have reduced overall employment in the economies of France, the Federal Republic of Germany, Italy, and the United Kingdom by a net 2–3 million jobs.[6] Export subsidies have depressed world commodity prices with adverse consequences for the export earnings of efficient agricultural exporters, including some of the highly indebted countries. As a consequence, trade conflicts have increased markedly (U.S. disputes on beef and citrus products with Japan, and on wheat flour, pasta, oilseeds, and apples with the EC; also, the Community's dispute on beef with Canada).

Although certain elements of the U.S. Farm Bill of 1985 reduced agricultural support, this bill led to an increase in overall budgetary spending and provided for agricultural export subsidies (under the Export Enhancement Program), and made import quotas for sugar more restrictive. In Japan, recent market-opening measures in response to bilateral negotiations and rulings of GATT dispute panels, although important, do not address access to Japan's market for most basic farm products. Import controls that limit access to the Japanese market have reduced the effects of the appreciation of the yen on domestic prices.[7] In the EC, measures agreed in February 1988 to reform the Common Agricultural Policy (CAP) included a ceiling on expenditures on agriculture in the EC budget; a widening of the coverage of guarantee thresholds;[8] and the introduction of a land set-aside program. While these measures represent a

[5] PSEs are a comprehensive measure of the gross value of support provided by government support policies to producers. For details, see Section V.

[6] Stoeckel (1988).

[7] In this respect the Japanese Economic Planning Agency has recently recommended deregulation of the distribution and pricing systems.

[8] Guarantee thresholds are limits on production that, if exceeded, result in a support price reduction in the subsequent year.

change in direction of policy and will help contain EC budgetary expenditures on agriculture, they are not expected to contribute to increased access to the EC market or to reduce subsidized exports significantly, which, in the view of EC member countries, depend on negotiations in the Uruguay Round.

Against the background of severe imbalances in world agricultural production and trade, the lack of specific commitments in the communiqués of the OECD ministers' meeting in May 1988 and of the subsequent Toronto economic summit of the heads of state of the major industrial countries and the president of the European Commission is worrisome. The communiqués endorsed a "framework" approach that would include both short- and long-term elements. No agreement was reached, however, on concrete steps to cut agricultural subsidies in the short term and to phase them out over the long term.

The traditional arguments used to defend continued protection of the agricultural sector were reiterated during the staff's discussions with major OECD countries. These arguments include the desire to maintain a fair standard of living for farmers, to preserve rural life, and to ensure food security (EC and Japan). Also in the EC, the greater importance of employment in the rural sector, compared with the United States, makes policymakers more sensitive to the social and political costs of adjustment. These views continue to be expounded, even though agricultural support measures often do not meet their social objectives (e.g., support tends to favor large farms over small farms; rural employment created by agricultural support tends to be more than offset by losses in other sectors of the economy), and food security does not necessarily require domestic production.

In addition to these arguments, the view that free trade (or freer trade) is politically feasible only if all major agricultural producers act together is widely accepted. This view is particularly widespread when multilateral trade negotiations are under way, since they are based on a mutual exchange of concessions.[9] While the benefits from unilateral liberalization are recognized, many countries argue that it reduces pressure for others to act, and that the short-term costs of adjustment are reduced if liberalization is undertaken on a multilateral basis. In this context, recent studies have estimated that the direct welfare (income) gains of unilateral liberalization would range from $3 billion (in terms of 1985 dollars) in the United States to $9 billion in the EC and in Japan; although producers would lose more under unilateral liberalization, the economy as a whole would not be worse off than it would be under multilateral liberalization.[10] For some major agricultural producers (e.g., Australia and New Zealand), where agriculture is taxed in relative terms, a reduction in support for agriculture (without measures to reduce support for their more highly protected manufacturing sectors) would probably result in a less efficient allocation of resources.[11]

In the *industrial sectors,* quantitative restrictions have increased. Trade disputes have risen—reflecting the difficult trading environment, the differences in interpretation or lack of multilateral rules, and the unresolved issues in new areas not covered by GATT (such as intellectual property rights). Resort to antidumping and countervailing duty petitions to combat unfair competition has become more widespread (Section II). Although sector-specific subsidies may have declined, they may have been offset by an increase in the use of border measures and in regional and research and development expenditures that sometimes provide less transparent support to specific sectors. Progress in reducing the competitive subsidization of exports through officially supported export credits has been made as a result of the OECD Consensus Arrangement. Although it is generally agreed that development assistance is more useful if it is untied, no move in this direction has been discerned.

The increased use of nontariff measures (NTMs) reflects, in part, the fact that most industrial countries have "bound"[12] a considerable proportion of their tariffs, particularly on industrial products, at relatively low levels.[13] NTMs are particularly damaging, however, because of their lack of transparency and their distortive effects and also because they heighten uncertainty about access on usual terms to industrial country markets. In addition, VERs are applied on a discriminatory basis outside GATT control and thus undermine the fundamental most-favored-nation (MFN) principle of GATT.

Restrictions are particularly widespread in industries suffering from excess capacity (such as steel) and where comparative advantage has generally shifted to developing countries (such as some textiles and clothing). The more advanced developing countries are particularly vulnerable to restrictions in these as well as those sectors in which they have begun to make an impact on industrial country markets (such as electronic products and automobiles). In the textile and clothing sectors, despite significant structural adjustment in some industrial countries in textiles, multilaterally agreed restrictions have been in force for 27 years: the latest extension of the Multifiber Arrangement (MFA) (MFA IV, August 1986–July 1991) involves a widening of the coverage of these restrictions (Section VI).

Quantitative restrictions frequently increase the price

[9] The strength of this view in the United States may, in part, be based on the results of some studies that show that, unlike producers in other major industrial countries, U.S. producers would not lose from multilateral liberalization (Section V).

[10] Tyers and Anderson (1987).

[11] Stoeckel (1988).

[12] "Binding" tariffs in the GATT means that they cannot be unilaterally increased.

[13] The effects on developing countries of tariff peaks (high tariffs) and tariff escalation (successively higher tariffs for products at a higher stage of processing) in industrial country tariff schedules are discussed in Section III.

of items for which substitute products exist, which reduces demand for products subject to restrictions and makes it difficult for efficient producers to compete on world markets. Steel is such a case: despite substantial reductions in capacity in major industrial countries, excess capacity continues to be a problem, reflecting in part a decline in demand owing to increased competition from plastics and other substitutes. Sugar is another example in which quantitative restrictions, together with tariff escalation, have encouraged the production of nonsugar sweeteners that would not be profitable at the current free-market price of sugar. The U.S. Department of Agriculture has estimated that the reduction in the U.S. sugar quota has resulted in a loss of over $1 billion in foreign exchange for Caribbean Basin countries since 1984 (Section V).

The increased use of "unfair" trade legislation to restrict trade has resulted in a number of disputes (Sections IV and VI). While measures to combat unfair competition are permitted by GATT and have a valid basis in many cases, their extensive use has led to charges that industrial countries sometimes use them to harass foreign exporters and as substitutes for safeguard actions permitted under Article XIX of GATT.[14] Evidence suggests that this may in fact have occurred. Investigations involve costs for exporters even if they result in negative findings and, in addition, often lead to VERs or price undertakings that restrict trade. Recent and prospective amendments to national legislation in this area are likely to increase the adverse effects (Section II).

Liberalization measures have been relatively limited. In the context of their structural adjustment programs, Australia and New Zealand have reduced protection on a unilateral basis (as have a number of developing countries). Pressure for liberalization by other industrial countries has focused mainly on Japan. In recent years, Japan has taken measures to stimulate domestic demand and increase access to its market. These measures have helped to reduce protectionist pressures directed against Japan although other industrial countries still believe that more could be done.

Multilateral Versus Unilateral Approaches to Trade Liberalization

Trade policy in industrial countries continues to be characterized by bilateral/sectoral approaches to liberalization and dispute settlement. Such approaches may be at the expense of solutions to larger problems on a multilateral basis and sometimes have adverse effects on third countries. For example, Australia has argued that the separate bilateral agreements on beef that Japan previously had with the United States and Australia in effect discriminated in favor of high-quality beef produced mainly by the United States and against grass-fed beef produced by Australia and other countries. Details of bilateral agreements are normally not publicized, which makes it easy to ignore the interests of third countries.

Bilateral/sectoral approaches are also used to respond to macroeconomic imbalances; such approaches may take the form, for example, of pressure on Japan and newly industrializing economies to provide access in specific sectors to industrial countries. These approaches are often divorced from comparative advantage and are unlikely to improve the current account.

Recent moves to liberalize trade in the context of free trade agreements and regional trading arrangements also raise questions about the prospects for strengthening the multilateral trading system. More than one third of world trade now occurs in regional trading arrangements providing some degree of preferential access. The U.S.-Canada Free Trade Agreement and plans to complete the EC internal market by 1992 give further impetus to regional and bilateral trading arrangements. In spite of the possible trade-creating effects of such arrangements, concern has been expressed in a number of industrial and developing countries about their possible trade-diverting effects. These countries are also concerned that Canada, the EC, and the United States might as a result reduce their commitment to liberalization on a MFN basis, including in the current Uruguay Round.

The lack of major liberalization in agriculture in the U.S.-Canada Free Trade Agreement[15] has led some industrial countries to suggest that the U.S. interest in multilateral negotiations is now primarily in agriculture and in some selected new areas, such as telecommunications, banking, and patent protection. Although the United States notes that it has a much broader interest in multilateral negotiations, statements by the United States that it intends to pursue bilateral solutions to trade[16] reduce the willingness of other countries to agree to long-term reform of agricultural policies independently of other aspects of the Uruguay Round negotiations. This situation contributes to the delay in urgently

[14] Article XIX of GATT allows quantitative restrictions on a temporary basis to deal with import surges provided that compensation is made to affected exporters.

[15] In agriculture, the agreement prohibits export subsidies on bilateral trade; phases out tariffs over a ten-year period; eliminates some transportation subsidies on Canadian exports to the United States; and eases some nontariff measures between the two countries. However, "the two governments agreed that some of the most pressing problems in the agricultural area go beyond Canada and the United States and will need the cooperation of all countries. For example, the stiff competition for grain export markets leading to ruinous export subsidies cannot be resolved solely on a bilateral basis." (see Canada (1987, p. 77)).

[16] For example, U.S. Treasury Secretary Baker, in a speech before the fiftieth anniversary meeting of the National Cotton Council, Memphis, 1988, stated: "If not [successful at GATT], we might be willing to explore a 'market liberalization club' approach, through mini-lateral arrangements or a series of bilateral agreements, . . ."

needed short-term reductions in support to agriculture in the major industrial countries.

In the case of the European Community, other countries fear that the complexity of internal market discussions might encourage the EC to become more inward looking precisely at the time that multilateral negotiations are in progress. Concern has been expressed about the possibility of nontariff measures imposed at the national level in sectors such as automobiles being replaced by EC-wide measures that would possibly be more restrictive. Important aspects of the EC's external regime after 1992 have yet to be decided. The EC has indicated that it does not intend to raise barriers against the rest of the world upon completion of the internal market; it has nevertheless noted that its ability to contain possible protectionist pressures and to extend the benefits of the integrated market to third countries would depend, inter alia, on its obtaining improved market access in those countries. In the latter respect, it has noted that the Uruguay Round provides an opportunity for reciprocal market-opening actions. In addition, it has indicated that its dependence on export markets and the benefits to be gained from a liberal trade regime will also act to counter protectionist pressures.

Arguments for Protection

Industrial countries continue to defend protection using both traditional and not so traditional arguments (Section II). Among the latter, several are noteworthy because of the frequency with which they are mentioned and because of their implications for the global adjustment process. They include macroeconomic imbalances among the major industrial countries; associated exchange rate changes and exchange rate instability; and various versions of the "level playing field" argument. In addition, a number of countries cite the social costs of high unemployment (which often is regionally concentrated) as well as the high budgetary costs of unemployment benefits.

Arguments that justify protection as necessary to insulate particular sectors of the economy against exchange rate instability are of particular interest to the Fund. Those that defend protection on these grounds suggest that the lack of coherence of macroeconomic policies at the world level results in market-determined exchange rates that diverge widely from purchasing power parities. Therefore, it is argued, it is not "right" to ask world traders to adjust to such exchange rates. A number of industrial and developing countries have sought to insulate their economies or particular sectors from the effects of exchange rate (or other macroeconomic) changes in the rest of the world. In reality, however, it is difficult to insulate particular sectors from exchange rate instability without at the same time also insulating them from more permanent changes in exchange rate levels. This protection in turn slows down adjustment in the protected sectors and shifts it to other sectors; as a result, protectionist pressures are likely to emerge also in the latter. Moreover, such responses mean that to obtain a given current account outcome, a larger exchange rate change may be required. The appropriate response to exchange rate instability would be more vigorous efforts to adjust and coordinate macroeconomic policies. Protection serves only to aggravate macroeconomic imbalances and exchange rate instability.

A large share of world trade is already partially or fully insulated from world market forces, including exchange rate changes. This reflects the use of a variety of protective instruments including VERs and quotas, variable levies, and subsidies that are sometimes designed to compensate for differences between domestic and world prices. The reluctance to adjust to exchange rate changes is shown in current discussions between the United States and the EC on civil aircraft and in discussions among major countries on modifications to the producer subsidy equivalent (PSE) for its possible use in multilateral negotiations.[17]

The "level playing field" argument originally applied mainly to differences in cost factors between industrial and developing countries owing to lower wages in the latter. With the obvious increase in spending power in some of the developing countries, the argument is now being used to demand reciprocity in market access. Thus, many industrial countries suggest that further liberalization of their own economies is contingent on reciprocal actions by developing countries, mainly the newly industrializing economies (NIEs). This argument is also directed at centrally planned economies, and at alleged "invisible" barriers to trade in Japan. The need for a "level playing field" is also cited by some industrial countries that contend that sectoral liberalization (e.g., in agriculture, textiles, and steel) is possible only if all countries liberalize these sectors simultaneously. The emphasis on joint action has held back significant unilateral liberalization, despite theoretical and empirical demonstration of the beneficial effects of unilateral liberalization in most cases, both for the country concerned and for its trading partners.

Increased demands for reciprocity from NIEs partly reflect dissatisfaction by some industrial countries with the trade and/or exchange rate policies of NIEs against the background of substantial current account surpluses experienced by some of these countries. Singapore and

[17] The "dollar clause" proposed by the EC in the context of U.S.-EC discussions on civil aircraft (Section VI and Appendix I) is intended to shelter producers from the effects of exchange rate changes on losses emerging from the differences between dollar-denominated prices and costs in EC currencies; some modifications proposed to the PSE concept, for possible use in multilateral negotiations, are intended to neutralize the effects of exchange rate changes on PSEs at least over certain periods.

Hong Kong[18] already have open trade regimes. Although Korea and Taiwan Province of China have undertaken market-opening measures in recent years, some industrial countries consider that more is needed, given their comfortable external positions. In addition, many industrial countries believe that undervalued exchange rates contribute to the substantive external surpluses in some of the NIEs. It needs to be recognized that correction of external disequilibria among industrial countries depends primarily on their own macroeconomic policy adjustments.

Developing Countries

In addition to the measures undertaken by some NIEs, many other developing countries have undertaken trade liberalization in the context of structural adjustment programs, often supported by the Fund and the World Bank. Progress in a number of countries is slow, however, and developing countries as a group maintain trade regimes that are more protective and complex than those of industrial countries. In particular, statutory tariffs are generally higher and more dispersed in developing countries and the use of NTMs is more extensive than in industrial countries. Exchange restrictions also often reinforce trade restrictions.

Developing countries continue to explore the use of countertrade as an export marketing tool, as a possible mechanism to overcome shortages in foreign exchange and protectionist barriers in industrial countries, to counter effects of overvalued exchange rates (countertrade can act as a nontransparent export subsidy), and in some cases to promote intraregional cooperation. It is still difficult to obtain estimates of such trade; there are indications, however, that countertrade has stagnated since 1984 and actually declined in 1987. These developments may reflect an increased recognition of the drawbacks of countertrade and the additional costs it imposes on exporters. Both the Fund and the GATT have been concerned with countertrade practices, not only because of their costs but also because they undermine multilateralism and inhibit efficient resource use.

Arguments for protection in developing countries rely heavily on balance of payments justifications. Over 85 percent of all quantitative restrictions notified to the GATT by developing countries have been justified for balance of payments reasons. Debt problems of developing countries have also sometimes been cited as reasons for maintaining or intensifying exchange and trade restrictions. Some developing countries are hesitant to adopt outward-oriented policies because of pessimism about the prospects of improved market access in industrial countries. A traditional argument for protection used by developing countries relates to the development of infant industries.[19]

The protectionist policies of developing countries hamper their own adjustment efforts. Also, industrial countries argue that they would find it easier to obtain domestic political support for more liberal trade regimes if developing countries also liberalized their import regimes. At the sectoral level, for example, restrictions by developing countries on certain higher-valued textiles and clothing products in which industrial countries are competitive weaken the commitment of industrial countries to eliminate the Multifiber Arrangement and return textiles and clothing to normal GATT disciplines. Similarly, industrial countries have increasingly alleged pursuit of "unfair" trade practices by developing countries. For these reasons, industrial countries are increasingly calling for "graduation" and greater "integration" of developing countries into the GATT through reduced reliance on the balance of payments provisions of GATT, increased tariff bindings, greater acceptance of GATT codes, and adoption of more market-opening measures. Such calls are aimed mainly at the more advanced developing countries, especially those in Asia and Latin America that have made substantial inroads into markets of industrial countries.

Prospects for Liberalization

Against the background of continuing protectionism, the launching of the Uruguay Round of Multilateral Trade Negotiations (MTN) at Punta del Este, Uruguay, in September 1986 was of major importance. The new Round is viewed by many as essential in keeping domestic protectionist demands at bay and in restoring the relevance and credibility of the multilateral trading system. The Round addresses the major issues that are a source of concern in the multilateral trading system, including areas that in the past were largely neglected (such as agriculture), new areas (such as services), and sectors that have been relegated to special regimes through multilateral action (textiles and clothing). It also aims to apply GATT disciplines to segments of international trade that are now subject to "gray-area" measures (steel, automobiles, electronics, etc.). In addition, it gives greater recognition to the linkages between trade and other economic policies and to systemic issues, such as the functioning of the GATT (including its relations with international organizations). Although not included specifically as a topic in the negotiations, the role

[18] It should be noted that the term "country" used in this paper 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.

[19] For a detailed analysis of arguments for protection, see Corden (1987b).

of developing countries in the multilateral trading system is an issue in most negotiating groups. In launching the Round, industrial and developing countries committed themselves to observe a "standstill" and "rollback" of trade-restrictive measures, which were to be monitored by the Surveillance Body established for this purpose. A midterm ministerial review of progress in the negotiations is scheduled for December 1988.

A number of industrial and developing countries are of the view that the "standstill" commitment has not been observed by a number of major trading nations. Thus far, one conditional "rollback" offer has been made; the view expressed by some major industrial countries that VERs are not subject to the rollback gives little hope for significant reductions in these measures before the end of the negotiations. On agriculture, wide differences exist between proponents of a total elimination of subsidies and those who favor only their reduction. In other areas the reconciliation of divergent interests is proceeding slowly. The developing countries are participating actively in the discussions in the various negotiating groups. The discussions have indicated differing views between many industrial and developing countries on the greater acceptance by developing countries of GATT obligations.

The prospect of an early significant reduction in trade barriers prior to the end of the Uruguay Round appears remote. In this context, a number of countries have noted that previous multilateral trade negotiations proceeded slowly in the initial phases and that progress in the Uruguay Round, which involves more complex issues and trade-offs than in past Rounds, should be judged in that light. However, early action is necessary to contain protectionism and to alleviate external imbalances, including the debt problems of developing countries. The situation thus calls for renewed commitment at the political level and early action especially by major industrial countries in a position to play a leadership role, either jointly or unilaterally. Although difficult, issues such as the reduction in subsidies and containment of VERs require urgent action on the basis of enlightened self interest.

A number of developing countries, particularly highly indebted countries, have highlighted the interrelationships between trade and debt issues. While the Uruguay Round is not the forum within which to address the debt problem as such, clearly the questions of market access and the expansion of world trade are important to its resolution. For example, early substantial action by the industrial countries to reform their agricultural policies could facilitate structural adjustment in developing countries and thereby ease their debt burdens. Export diversification in developing countries depends partly on better access to markets for higher value-added products. To that end, elimination of quantitative restrictions that limit exports to industrial countries are needed, as are reductions of tariff peaks and escalation in the tariff schedules of industrial countries.

Surveillance

The need for effective multilateral surveillance over trade policies has been increasingly recognized. The GATT has primary competence in the trade field, and the Uruguay Round is discussing the establishment of an improved trade policy surveillance mechanism (see Section IV). Discussions within the Uruguay Round negotiating group on the functioning of the GATT system are proceeding fairly rapidly on the likely features of a mechanism to improve surveillance of trade policy at the international level. In this context a number of countries suggest that improved domestic surveillance of trade policies is also important. In their view, greater transparency at the national level is essential to reduce domestic pressures for protection and can also play an important role in mustering support for multilateral liberalization and in contributing to the success of improved multilateral surveillance. However, not all countries that favor the latter are taking steps to improve domestic trade policy surveillance.

One of the Fund's underlying purposes is to facilitate the balanced expansion of international trade with a view to promoting economic growth. Accordingly, trade policy issues receive careful attention in the work of the Fund, both in its exercise of surveillance and in connection with the use of Fund resources. The Fund and the GATT collaborate closely in supporting mutual objectives. The Fund stands ready to provide technical help where possible to the various negotiating groups within the Uruguay Round.

Within its overall surveillance responsibilities, the Fund has been encouraging its members to implement appropriate measures to eliminate macroeconomic imbalances and reduce structural distortions. The continued pressures for protection, combined with an increase in trade-restricting measures, suggest the need for the Fund to continue to emphasize the importance of policies that can contribute to an improvement in the world trading environment. Likewise, encouragement by the Fund for countries to liberalize their trade regimes continues to be necessary.

While recognizing that macroeconomic imbalances cannot be corrected through protection, a reduction in these imbalances can play a positive role in reducing protectionist pressures. The Fund through its surveillance activities can contribute to an improvement in the international trade environment by assisting its members to adopt appropriate macroeconomic policies. This is particularly important for the major trading nations, in view of their weight in world trade and the correspon-

dingly larger impact of their policies on the trading system. The timely adoption of structural measures by these countries is equally important.

Given the difficult international environment, it is important that countries not delay trade reforms, or increase restrictions, to improve their bargaining positions in the Uruguay Round. The recent increase in gray-area measures to protect industrial country markets is therefore of concern, as are views that liberalization is possible only if undertaken by all major trading countries. All countries should be encouraged to abide by the spirit of the standstill and rollback commitments of Punta del Este. In this context it is also important to note that joint or unilateral liberalization by major industrial countries could contribute significantly to resolving the debt problem.

Trade liberalization is a crucial aspect of structural and macroeconomic adjustment in both industrial and developing countries. Analysis of the role of trade reform in the adjustment process would be facilitated by an improved information base. In industrial countries, quantitative information on nonborder measures (particularly subsidies) is inadequate. In developing countries, information on both border and nonborder measures needs to be improved; this would also assist in the design of trade reforms in programs supported by the Fund. Improved information depends in part on greater efforts by member countries to collect relevant information on all forms of protection and to quantify its protective effect, and also on increased collaboration among the Fund, the Bank, the OECD, the GATT, and the UNCTAD to improve the information base.

II Industrial Countries' Trade and Industrial Policies

Trade Trends

Since 1981, the industrial countries have restored their share of world exports to almost the level prevailing in 1973, before the quadrupling of oil prices (Table A1).[20] The counterpart of this increase has been a decline in the developing countries' share to less than 20 percent of world exports. The trends in the major industrial countries diverge: Japan's share rose, whereas the U.S. share declined, and the EC share remained roughly stable if intra-EC trade is excluded.

These trends mainly reflect large terms of trade movements that occurred in the 1980s. In real terms (constant 1980 U.S. dollars), the industrial countries' share of world exports has remained constant since 1981, as has their share of world exports of manufactures. The divergent trends in the shares of total exports of Japan and the United States are also apparent for manufactured products (Table A2). Although the EC share of world manufactured exports has increased, the share exported to third countries has declined.

A long-term trend that is apparent over the past twenty years is a pronounced increase in intra-industrial country trade as a proportion of total trade. The percentage of intra-industrial country trade in the total trade with the rest of the world of a group of 11 industrial countries[21] increased from 46 percent in 1964 to 60 percent in 1985.[22] An important contributing factor to the growth of such trade has been the growth of intra-industry trade—largely in capital-intensive and science-based industries—for which the growth rate of exports has generally been higher than that for total exports. The growing integration of the industrial countries' economies has allowed them the advantages of the dynamic functions of trade, namely, large-scale production, product differentiation, and specialization. Integration was aided by the significant trade liberalization, particularly in manufactures, that took place in the first three decades of the postwar period. Since then the industrial countries have increased their use of nontariff measures (NTMs), but in general they retain more liberal trading systems than do the developing countries. This factor has probably contributed to the pronounced relative growth of intra-industrial country trade over the past two decades. Sluggish growth in the developing countries since the onset of the debt crisis in 1982 was a contributing factor.

[20] See Table A1 in Appendix V.

[21] Australia, Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, Luxembourg, the Netherlands, the United Kingdom, and the United States.

[22] OECD (1987g).

Trade Policies

Tariffs

Successive rounds of multilateral trade negotiations have reduced most-favored-nation (MFN) tariff rates in industrial countries to an average of 5–6 percent on industrial products, although tariffs on agricultural products remain considerably higher (Table A3). Average rates are lower for some products, reflecting tariff reductions beyond those agreed in the Tokyo Round in some countries, as well as preferential trade agreements maintained among industrial countries and between industrial and developing countries. Problems of tariff peaks and escalation, however, remain. Thus, 33 percent of EC tariff lines have MFN rates above 10 percent, while Japan and the United States have such rates on about 17 percent of their tariffs.[23] These tariff peaks tend to be concentrated in textiles, clothing, footwear, and some petrochemicals. Tariff escalation is also a feature of most industrial countries' schedules, particularly for certain foodstuffs, leather, fabrics, and some petrochemicals. For example, gasoline enters most developed countries at low tariffs but polypropylene does so at MFN rates of 12.5 percent in both the EC and the United States and at about 18 percent in Japan. Furthermore, not all tariffs are bound in GATT, particularly on agricultural products (Table A4). Tariff preferences granted under preferential trading arrangements affect a larger proportion of world exports than preferences granted

[23] UNCTAD (1988b).

under Generalized System of Preferences (GSP) schemes (Table A5).

Nontariff Measures

The increase in nontariff measures may have largely offset the liberalizing effects of tariff reductions in the postwar period. For example, it is estimated that the economy-wide tariff equivalent of U.S. nontariff barriers on textiles, steel, and automobiles is about 25 percent, bringing protection to its early postwar level.[24] Nonfuel imports of industrial countries subject to selected nontariff measures are estimated by UNCTAD to have increased from 19 percent of total imports in 1981 to 23 percent of the total in 1987 (Table 3). The sharp increase in voluntary export restraints (VERs) between September 1987 and May 1988 has probably further raised the total incidence of nontariff measures (Table 2).

Nontariff measures can take the form of border or nonborder measures. Voluntary export restraints are a common type of *border measure.* These gray-area measures are applied on a discriminatory basis and have increased in recent years. Preliminary data indicate that 261 such arrangements existed in May 1988, close to twice as many as in September 1987 (compared with 50 in 1978). About half of them are directed at developing countries, including heavily indebted countries, and four fifths are intended to protect the EC or U.S. markets.

Subsidies are the most important form of *nonborder measure,* but restrictive government procurement practices and technical standards are also significant. Trade frictions persist over the use of nonborder measures. Bilateral and multilateral discussions are under way to bring more discipline to the use of subsidies, to develop international standards acceptable to all countries further, and to open to international bidding a greater proportion of government procurement (currently less than half is open to international bidding).

Significant differences exist among the major industrial countries in their use of various types of nontariff measures. Protection in the EC and the United States tends to be more selectively targeted at specific exporters than in Japan. The EC accounts for nearly half of all VERs known to exist worldwide as of April 1988. The EC also extensively uses administrative controls, including import licensing to monitor imports and to enforce quantitative import restrictions, as well as variable levies on imports of agricultural products. The United States also relies heavily on VERs. Japan relies on global quotas for some agricultural products; its distribution system and other invisible barriers are seen by some countries as limiting market access.

[24] de Melo and Tarr (1988).

Table 3. Industrial Countries: Imports Affected by Selected Nontariff Measures[1]

(In percent of total imports)

	1981	1984	1987
Non-oil imports	18.7	19.9	22.6
Of which:			
Food items	35.3	38.7	38.2
Manufactures	18.1	18.3	21.5

Source: UNCTAD (1988b).

[1] Includes certain paratariff measures, import deposits and surcharges, variable levies, quantitative restrictions (including prohibitions, quotas, nonautomatic licensing, state monopolies, VERs, and bilateral restraints under the MFA), automatic licensing, and price control measures. In contrast to the Fund staff estimates presented in Table A8, it also includes antidumping and countervailing actions, and import surveillance.

Antidumping and Countervailing Duties

Industrial countries made increasing use of countervailing and antidumping duties in the 1980s (Tables A6 and A7). Although their number has declined somewhat in recent years, the trade values covered have increased. Disputes on their use have become more frequent as a result of differences in interpretations of definitions, measurement problems, and of the conditions of their legitimate use to combat unfair competition (see Section IV).

Australia, Canada, the EC, and the United States account for nearly all countervailing and antidumping investigations initiated by industrial countries. The United States has made more extensive use of countervailing (as well as antidumping) duties than other countries, reflecting in part the greater ease with which countervailing measures can be applied under U.S. legislation, which predates GATT and does not require an "injury test" for nonsignatories of the GATT Subsidies Code (or those without bilateral agreements with the United States on subsidies). It also reflects the limited use of subsidies as an instrument of industrial support in the United States, and the lead the United States has taken in trying to reform other countries' practices in this area. By contrast, EC countries have initiated few countervailing duty actions. They find it easier to invoke antidumping provisions because EC antidumping legislation is broader and sharper than countervailing duty legislation. Japan has almost never initiated antidumping or countervailing duty investigations.

The increased number of antidumping and countervailing duty investigations has resulted in charges from both industrial and developing countries that such investigations are used as a form of "administered protection" rather than to counter "unfair" trade practices. There is indeed some evidence that countervailing and antidumping duties are sometimes used as a substitute for

safeguard measures;[25] that foreign exporters are subject to disciplines that are not imposed on domestic producers;[26] and that investigations are used to harass foreign exporters and force them into export restraint arrangements.[27] A number of voluntary export restraints that protect the EC and U.S. markets are the result of antidumping or countervailing investigations. Recent changes in legislation to broaden the scope and intent of national legislation have heightened concerns in this area. These changes include the introduction of separate EC antidumping legislation to cover shipping and products assembled in the Community by foreign firms (Appendix I); and a ruling by the U.S. Court of International Trade that would make it more difficult to lift antidumping duties after they have been imposed (Section IV). Partly in response to these developments, in its latest report on world trade developments the GATT Secretariat notes that antidumping legislation, in particular, has evolved into a major tool of trade policy.[28]

Trade Policy in Individual Countries

United States

Over the past several years, growing external deficits in the United States and a heightened sensitivity to "unfair" foreign competition have intensified protectionist pressures. In line with its declared policy of free and fair trade, the U.S. Administration has attempted to avoid increasing protection by playing an active role in the Uruguay Round and by pursuing an aggressive policy to increase its access to foreign markets. This strategy has to some extent been successful. The Administration resisted protectionist proposals by Congress in specific sectors (e.g., safeguard measures against footwear imports in 1985 and new efforts to restrict textile imports), which were causing concern to both the Administration and trading partners. It has also undertaken bilateral market-opening discussions with trading partners. Nevertheless, the share of imports of manufactures covered by nontariff measures has increased more in the United States than in any other Group of Five (G-5) country in the first half of the 1980s (Table A8). In part this situation may have resulted from the appreciation of the U.S. dollar, which served to erode the competitiveness of a number of sectors. The United States maintains 62 voluntary export restraints out of a total of 261 known to exist worldwide as of May 1988. These affect mainly imports of automobiles, steel, and textiles and are directed at a broad range of exporting countries.

The major aspects of U.S. policy of concern to other countries include uncertainties in the manner of implementation of the recently passed Omnibus Trade and Competitiveness Act of 1988;[29] its use of bilateral approaches to settle trade disputes, which third countries sometimes perceive as disadvantageous to them; apprehension that the United States will increase its use of bilateral free trade agreements to the detriment of the multilateral trading system; its competitive subsidization of agricultural exports, which is contributing to depressed commodity prices with adverse effects on efficient agricultural exporters; and a perceived increase in its use of "administered protection."

In this context, a number of countries have noted changes in recent years in U.S. trade legislation including its frequent use of legislation on "unfair" trade.[30] Over the period 1980–87 the United States has initiated 411 antidumping investigations, 283 countervailing investigations, 60 safeguard investigations, and 60 investigations of "unfair" trade practices abroad—the latter under Section 301 of the U.S. Trade Act of 1974 (Table A9). Almost half of all antidumping investigations were directed against the EC and Japan, while countervailing investigations were mainly against suppliers in Brazil, Mexico, and the EC. It is noteworthy that Canada considers "administered protection" a barrier to trade and cited the desire to reduce its adverse effects among the reasons for entering into a free trade

[25] The outcome of the "injury test" is sometimes influenced by extraneous factors, such as exchange rate developments, that affect the competitiveness of domestic producers. See Finger and Hall (1982).

[26] In this context, Gruen (1986) proposed that Australia's system be changed to reduce the discrepancy between the concept of unfair trading practices as it is applied within Australia and as it is applied by Australia to its imports by returning the antidumping system to its original role of combating dumping as opposed to combating low prices.

[27] Finger and Nogues (1987).

[28] GATT (1988c), p. 108.

[29] The Omnibus Trade and Competitiveness Act of 1988 includes the following trade provisions: it grants negotiating authority for the United States to complete negotiations in the Uruguay Round by 1990, with "fast track" approach for a trade pact submitted for ratification to Congress by May 31, 1991; focuses unfair trade investigations on countries with consistent patterns of unfair trade practices; transfers authority to initiate unfair cases (under Section 301 of the 1974 U.S. Trade Act) from the President to the United States Trade Representative; requires domestic companies to make a positive adjustment to competition to win import relief; requires negotiations with other countries to gain greater access for U.S. telecommunications equipment; directs the President to initiate expedited unfair trade actions in certain cases of foreign pirating of U.S. patents and copyrights; authorizes further agricultural export subsidies; imposes sanctions against Japan's Toshiba Corporation for the sale of sensitive submarine technology to the U.S.S.R.; expands laws to allow action against unfair subsidies to international consortia; establishes negotiating goals for the Uruguay Round to ban "diversionary input dumping"; provides authority to the President to block foreign investments that impair national security; and reduces or eliminates tariffs on products with no domestic substitutes.

[30] The provisions dealing with "unfair" trade in the Omnibus Trade and Competitiveness Act of 1988 are of concern to some countries.

agreement with the United States.[31] These effects include the administrative and legal costs imposed on Canadian exporters by the initiation of an investigation and the uncertainty caused by the threat of contingent protection measures, which has by itself an adverse effect on trade flows and investment.

Partly reflecting the above concerns, the EC now publishes an annual list of U.S. trade barriers, to give a "more balanced view" of the U.S. trading environment. The EC document was first published in 1985 in response to the Report on Foreign Trade Barriers compiled by the U.S. Trade Representative's Office. The most recent document lists more than 30 barriers maintained by the United States, including tariff peaks on products of interest to the EC, agricultural import quotas, import monitoring, "Buy American" policies for machine tools, standards, testing, labeling, and certification requirements, government procurement practices, the Export Enhancement Program, tied-aid credits, and the U.S.-Japan semiconductor agreement. Also of concern to the EC are customs user fees, which the EC believes do not accurately represent user costs insofar as they are linked to the value of imports. The United States has agreed to modify its user fee system in response to a GATT panel ruling.

Major trade disputes and trade policy actions involving the United States have occurred in a number of sectors, including agriculture, electronics, and construction. These disputes center on the initiatives that the United States has taken to counter subsidies or other "unfair" trade practices abroad or to improve its access to foreign markets.

The United States signed a bilateral free trade agreement with Canada in January 1988, subject to ratification in both countries. The agreement provides for the gradual elimination of tariffs and quotas between the two countries over a ten-year transition period starting in January 1989 and for the reduction of barriers to trade in services (including banking services) and investment. In agriculture, the agreement additionally prohibits export subsidies on bilateral trade, including some transportation subsidies on Canadian exports to the United States. It also provides for a reciprocal opening of government procurement, reduction of technical barriers to trade, and introduction of a dispute settlement mechanism in which decisions will be binding. The two countries view various aspects of the agreement as a possible model for multilateral agreements in the Uruguay Round.

Although the impact of the U.S.-Canada Free Trade Agreement has not yet been systematically analyzed, it can be expected to provide substantial benefits to both countries as well as to the rest of the world. Earlier studies have estimated that the gains from specialization, competition, and the achievement of economies of scale could be substantial, particularly for Canada.[32] A priori, it can be expected that the amount of trade diverted from third countries as a result of the elimination of tariffs between the United States and Canada would be small in proportion to total trade. The low tariffs in the United States reduce the competitive advantage that Canada would gain through duty-free access to the U.S. market. Although U.S. exporters would gain a more significant advantage on the Canadian market—which is protected by higher tariffs—the considerably lesser importance of the Canadian market in world trade reduces the scope for trade diversion. This scope is further limited by the large volume of trade between the two countries, which presently amounts to more than one third of their total trade. Although probably small in proportion to total trade, the amount of trade diverted could be significant in certain sectors (such as textiles) that are protected by relatively high tariffs in Canada as well as by quotas under the Multifiber Arrangement.[33] This effect may nevertheless be mitigated by the intended reduction of tariffs on textiles in Canada. In addition, the real income gains in both countries resulting from the removal of trade barriers can be expected to benefit exporters in third countries. The effects on third countries of the simultaneous reduction in technical barriers as well as barriers to investment and trade in services are more difficult to assess because they are less transparent.

The United States also signed a bilateral framework agreement with Mexico in February 1988. The agreement is limited to establishing a bilateral consultation mechanism governing trade and investment relations without committing either party to trade liberalization measures. It consists of a framework of principles, procedures, and an agenda under which specific sectoral and other agreements are to be concluded at a later date. It also establishes procedures for mediation of bilateral trade and investment disputes and covers a number of sectors including steel, automobiles, textiles, and agriculture, as well as services, intellectual property rights, and trade-related investment measures. Bilateral agreements under the framework agreement reached with Mexico are expected to be negotiated after the U.S. presidential election in November 1988.

[31] Canada, Department of Finance (1988).

[32] Harris and Cox (1984) estimate the potential gains for Canada to be as high as 9 percent of GDP, including the gains resulting from previously unexploited economies of scale. This result has been challenged by other authors (see Stern, Trezise, and Whalley (1987)). Most estimates range between 2½ percent and 3½ percent of GDP (see Canada, Department of Finance (1988)). The gains for the United States would be more limited because the size of its market would increase by only 8 percent, compared with a twelvefold increase in Canada's market.

[33] See OECD, *Economic Survey of Canada* (Paris, 1988).

Japan

Since 1985, Japan has implemented a series of market-opening measures. A three-year Action Program was launched in July 1985, guided by the principle of "freedom in principle, restrictions only as exceptions." The pace of implementation of the program was faster than planned, with most measures in place before the July 1988 deadline. Under the program, tariffs on a broad range of industrial and agricultural products were reduced by 20 percent on average and a number of measures were enacted to improve market access. Technical standards, testing, and certification requirements were eased, and government procurement practices were modified to make competitive tendering more extensive. Quantitative restrictions on imported leather and leather footwear were abolished in April 1986. Japan submitted a proposal in the Uruguay Round to abolish all tariffs on imports of almost all industrial products in industrial countries.

In 1988, Japan agreed to reduce trade barriers as a result of GATT panel investigations and bilateral negotiations outside GATT. In the agricultural sector, which has traditionally been heavily protected, Japan agreed to phase out quotas on eight out of ten products found to be inconsistent with GATT rules. Japan is implementing changes necessary after conclusion in November 1987 of a GATT panel investigation (initiated by the EC) that the different tax rates applied to liquor of different quality and grade favored local products. Separate bilateral discussions with the United States and Australia also resulted in Japan's agreement to phase out its quotas on imports of beef and replace them with tariffs; and bilateral negotiations with the United States resulted in its agreement to phase out quotas on citrus fruits. Bilateral discussions have also been undertaken with the EC to ease barriers arising from standards, testing, and certification procedures in Japan, particularly on automobiles and pharmaceuticals.

Certain market-opening measures have also been taken as a result of bilateral discussions with the United States on sector-specific liberalization. These discussions covered electronics, telecommunications, pharmaceuticals and medical equipment, forestry products, and auto parts. Although conducted bilaterally with the United States, the talks are perceived as having improved access on Japan's market for all exporters. However, the U.S.-Japan semiconductor agreement that was concluded in September 1986 outside this framework has given rise to concerns of discrimination against third countries (Section VI). Similar concerns have been expressed about the U.S.-Japan bilateral discussions on government procurement.

While the measures that Japan has undertaken in recent years to stimulate domestic demand and improve access to its market have helped to some extent to reduce protectionist pressures directed against Japan, foreign exporters nevertheless continue to question the openness of its market. "Visible" barriers to trade in industrial products in Japan, as measured by tariff rates and common types of nontariff measures, are among the lowest in industrial countries (Tables 2 and A8). Japan maintained 13 known voluntary export restraints as of May 1988 affecting mainly imports of textile products from China, Korea, and Pakistan. Allegations of "invisible" barriers are often based on attitudes or traditions rather than on legal or institutional barriers. Aside from standards, testing, and certification requirements that have been eased to some extent under the Action Program or as a result of bilateral discussions, Japan's licensing system for some businesses and its distribution system are also considered by some countries to operate as barriers. Control over Japan's distribution system by Japanese producers in some industries is perceived to be exercised through loyalty to long-established business relations and exclusive distribution arrangements. The incomplete pass-through to import prices of the yen appreciation since 1985 has been interpreted by some countries as evidence of price-fixing through lack of competition in the distribution system or through administrative guidance to importers. The EC has also complained about Japan's indirect tax system, which applies higher taxes on large cars. Japan is presently reviewing its indirect tax system.[34]

With regard to Japan's access to major industrial country markets, about two fifths of its exports to the United States and the EC are subject to some degree of restraint. These include voluntary export restraints on automobiles, electronic products, machine tools, and steel. Several were introduced in the early 1980s and were meant to be temporary but have been rolled over beyond their expiration date, in spite of the sharp deterioration in Japan's competitiveness as a result of the appreciation of the yen after 1985.[35]

Voluntary export restraints and "administered protection," including antidumping duties, may have influenced the pattern of foreign direct investment by Japan as exporters have sought to circumvent them by setting up operations in protected markets (Table A10). This is most evident in Japan's direct investment in the machine

[34] Empirical analysis does not support the view that invisible barriers in Japan have significantly restricted imports. Bergsten and Cline (1985) find that the low share of manufactures in Japan's total imports can be largely explained by comparative advantage, given its limited natural resource endowment. Similar results were derived by Saxonhouse (1983), who finds no evidence that "invisible" barriers are any higher in Japan than elsewhere.

[35] In March 1985, the United States announced that it would not seek a further extension of the "voluntary" restraints on Japanese exports of passenger cars to the U.S. market. However, the Japanese Government decided to impose a ceiling of 2.3 million units (a 24 percent increase over the 1984 ceiling) through March 1987, which was subsequently extended through March 1989 although it was not binding in 1985–87.

Table 4. Japan: Shares in Stock of Foreign Direct Investment in Manufacturing

	All Countries			North America			Europe		
	1981	1988	VERs[1]	1981	1988	VERs[1]	1981	1988	VERs[1]
					(In percent)				
Manufacturing sector	100.0	100.0	35	19.3	40.9	7	6.7	9.2	27
Of which:									
Nonelectrical machinery	7.1	9.1	4	1.7	4.8	1	1.0	1.0	3
Electrical machinery	12.6	19.9	8	5.3	12.4	1	1.0	2.0	7
Transport equipment	7.8	15.7	16	0.7	6.2	3	0.5	2.2	13
					(In billions of U.S. dollars)				
Total	12.6	36.0		2.4	14.7		0.8	3.3	

Source: Based on data from Table A10 and from GATT (1988a).
[1] Number of voluntary export restraints directed against Japan as of May 1988.

tool, electronics, and automobile sectors in North America and Europe, to which an increasing proportion of Japan's rapidly expanding direct investment abroad is directed (Table 4).

European Community

The European Community's large agricultural surpluses and their effects on world prices have come under increasing criticism in recent years. Reforms introduced in the Community's Common Agricultural Policy (CAP) since 1984 were motivated primarily by domestic budgetary considerations and are not perceived by some countries as having adequately addressed the underlying problems, in particular those of access to the EC market and subsidization of exports. A number of trade disputes in agriculture revolve around the operations of the CAP; the most recent relates to the imposition of import restrictions on apple imports (see Section IV and Appendix I). One third to one half of all agricultural imports in the major EC countries are covered by quotas and monitoring arrangements (Table A8).

The EC accounts for about half of the voluntary export restraints applied by industrial countries. The number applied on either an EC-wide basis or nationally doubled to 137 between September 1987 and April 1988.[36] These restraints are increasingly directed against the imports of developing countries and cover mainly agriculture and food products, textiles and clothing (outside quotas under the MFA), steel, electronics, automobiles, and footwear. Japan is particularly affected by voluntary export restraints on automobiles and electronic products. Among the major EC countries, the share of industrial imports covered by voluntary export restraints and other nontariff measures in 1986 had risen to 15.4 percent in France, 17.9 percent in the Federal Republic of Germany, and 12.8 percent in the United Kingdom (Table A8). Within these totals, restricted imports of automobiles and electronics represented 3–4 percent in each country and were directed mainly against Japan.

In 1984 the EC adopted the New Commercial Policy Instrument intended to counter "unfair" trade practices abroad. Since then, the EC has introduced important changes in its legislation on antidumping that has broadened and sharpened the scope of existing rules and given rise to trade disputes with Japan and Korea (see Section IV). In addition, recent antidumping and countervailing duty actions by the EC have been directed against Brazil, Mexico, and the Eastern European countries.

The EC is implementing a broad-ranging program to reduce regulatory barriers and liberalize trade and factor movements within the Community. The program is expected to improve the EC's international competitiveness (see Appendix I). With the abolition of internal borders in 1992, national restrictions on imports from third countries will no longer be enforceable. Pressures exist within the EC for adoption of the most restrictive national trade regimes in some sectors on a Community-wide basis after 1992, which are resisted by members holding more liberal views. The EC has noted the possibility of linking access to its integrated market to reciprocal concessions granted by trading partners either on a bilateral or a multilateral basis in the Uruguay Round.

Canada

Canada relies mainly on border measures to protect selected industries, including textiles and clothing, footwear, automobiles, and shipbuilding. Tariffs on textiles and clothing are at least twice the average for all industrial products, and the bilateral restraint arrangements reached under MFA IV are generally more restrictive than those under previous MFAs. Imports of certain categories of footwear are subject to global quotas, and export restraint arrangements covering categories not covered by the quota have been negotiated with Korea

[36] Excluding arrangements that existed prior to 1988 but were reported by GATT only in 1988, the increase was about 40 percent.

and Taiwan Province of China. Until recently, Canada maintained voluntary restraint arrangements with Japan and Korea limiting their exports of automobiles to the Canadian market. The voluntary export restraint with Japan was negotiated to prevent the diversion of Japanese exports to Canada following the U.S.-Japan voluntary export restraint on automobiles. Although these arrangements were not formally renewed after they expired, both Japan and Korea agreed to monitor their automobile exports to Canada in order to avoid disrupting the Canadian market. A few months after the expiration of the VER with Korea, Canada imposed provisional antidumping duties averaging 35 percent on imports of Korean automobiles. Although sector-specific assistance to industry through nonborder measures has been de-emphasized in recent years, the Government continues to provide considerable support to the shipbuilding sector through subsidies and government procurement practices.

Among the barriers to trade that Canada faces abroad, protection to agriculture by foreign producers is the most important. Canada is a member of the Cairns Group[37] and together with it attaches great importance to the liberalization of trade in agriculture in the Uruguay Round. Canada has also frequently been the target of antidumping and countervailing investigations initiated by the United States (Table A9) and has cited this as a barrier to trade.

Industrial Policies

Industrial policy is broadly defined as the deliberate attempt by a government to influence the composition of a nation's industrial output. The definition encompasses all government actions to foster activity in specific sectors, either to shift resources to higher-productivity activities in support of adjustment objectives or to maintain resources in existing activities for security, political, or other reasons. A number of domestic and trade measures are used by governments to implement industrial policies. An indicative list of selected domestic measures would include subsidies (cash transfers, research and development funding, tax concessions, loan guarantees and insurance, subsidized credits, capital grants, regional aids); government procurement; national product standards; and commodity-specific indirect taxation. An indicative list of selected trade measures would include tariffs (peaks,[38] escalation[39]), and nontariff measures (import quotas, voluntary export restraints (VERs),[40] tariff quotas,[41] discretionary and nondiscretionary import licensing, countervailing and antidumping investigations and duties,[42] health standards, and export subsidies).

Rationale for Industrial Policies

Government assistance to industry has often been motivated by the desire to shape the industrial structure to serve developmental and political goals and/or to ease the burden of adjustment. Shaping the industrial structure has normally involved the promotion of sectors considered "strategic" (of special value) to the economy because they generate external economies or linkages to the rest of the economy (such as semiconductors), or because they are perceived as necessary to achieve market presence, or because they are for defense. Support to ease the burden of adjustment has tended to be concentrated in traditional industries that have been affected by an erosion of price competitiveness and/or to cushion the economic and social impact of external shocks. Throughout the 1970s and early 1980s, industrial countries made heavy use of subsidies to ease the effects of the oil shocks and to assist mature industries. Assistance to industry is at times conditional on specific commitments by the recipients. Following the oil shocks, subsidized loans and tax incentives were offered to companies that invested in energy-saving equipment or shifted to alternative sources of energy. Similarly, subsidies to mature industries have been linked to either job maintenance or to restructuring efforts involving cost-reducing investment, modernization, and capacity reductions to promote international competitiveness. Industrial policies may also be instituted as a defensive reaction to the adverse effects of the policies of others, for example, subsidies to counter the effects of foreign subsidies.

Approaches to Industrial Policies

National approaches to industrial policies differ widely across industrial countries. Industrial policies can take the form of informal administrative guidance to producers, as in *Japan*, which additionally provides tax preferences and credit subsidies on a limited scale. In the

[37] Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

[38] High tariffs on selected products in a structure with otherwise low overall tariff rates.

[39] Progressively higher tariffs, within a product category, as the level of processing and value added increases.

[40] Bilaterally agreed measures to restrain exports, such as orderly marketing arrangements and export management rules. VERs can be government-to-government, government-to-industry, or industry-to-industry arrangements. The distinction between different forms of VERs is largely legal and terminological and has little bearing on their economic impact.

[41] Higher tariffs after a specified level of imports.

[42] Duties equivalent to subsidy and dumping margins, respectively, on imported products.

United States, which has no industrial policy as such, the role of government is generally limited to maintaining a stable macroeconomic environment and enforcing regulations aimed at promoting competition and innovation while protecting consumers. Assistance to industry is provided indirectly through tax deductions and support for defense-related research and development expenditures that may have technological spin-offs for industry. The *European countries,* by contrast, have made heavy use of assistance to industry through subsidies. These can be fiscal and financial incentives, including interest rate subsidies, tax preferences, and contributions to pension funds to promote investment, research and development, and regional objectives, or to assist small and medium-sized enterprises and ailing companies. In countries in which the government is involved directly in industrial production, as in France, assistance has occasionally been provided to cover the operating deficits of state-owned enterprises or to write off their debts. Australia and New Zealand have traditionally relied on trade protection rather than on subsidies to industry. Canada has recently moved away from sector-specific assistance to more general forms of assistance, including research and development support.

Trends in Subsidies

Assistance to industry provided through subsidies can have an impact on trade flows by distorting relative prices and resource allocation. It may thus constitute a substitute for border protection even though it is not always designed to do so. Information based on a broad definition of subsidies is not available. (A broad definition would include tax preferences, government procurement practices, national standards, and all other government actions that favor domestic over foreign producers.) This situation reflects the lack of consensus over the definition of subsidies with a trade-distorting effect, as well as difficulties in collecting the relevant information from state and local governments in countries with a decentralized administration, such as the United States and the Federal Republic of Germany. Recent efforts by the EC and the OECD to compile information on subsidies have additionally met with resistance by their members to provide sector-specific information that may trigger countervailing duty investigations.

The lack of information on the sectoral distribution of subsidies to industry makes it difficult to ascertain how much industrial policy is used as a substitute for trade protection.[43] A few broad trends are nevertheless apparent in most industrial countries. A number of industrial countries have moved away from sector-specific government assistance toward research and development and regional support. Government subsidization increased in all Group of Seven countries in 1972–83 and in 1985 government assistance was higher than in 1972 in all countries except the United States (Table A11). In most countries, government aid to the manufacturing sector rose sharply and became more selective, largely in support of traditional sectors. Since 1982–83, however, some scaling down—or, at least stabilization—of sector-specific government aid does seem to have occurred in a number of OECD countries.[44]

In Germany the percentage of government subsidies to the manufacturing sector rose eightfold during 1974–84, and those to shipbuilding and steel, from 23 percent of total industrial subsidies in 1977 to 50 percent in 1983; a greater focus on the need to reduce these budgetary costs now exists. In the United Kingdom aid to industry doubled in 1976–81; steel, shipbuilding, and mining together received one fourth of total aid to industry in 1982–83, against 7.5 percent six years earlier. Again, the shift to a tighter budgetary policy and moves toward privatization are containing this trend. Recently, sector-specific subsidies have been reduced in some countries. In Canada, subsidies to the textile and clothing sectors are being phased out; in the EC, limits have been placed on subsidies to steel and shipyards.

However, the above trends may have been partly offset by an increase in less transparent subsidies that also assist specific sectors. In practice, regional assistance can be sector-specific where particular industries are heavily concentrated in one region, as with the coal industry in France, the Federal Republic of Germany, and the United Kingdom and the steel industry in France. Sector-specific assistance has also been increased through the use of border measures, particularly voluntary export restraints.

With regard to other domestic measures, tax preferences have been important in a number of countries. In Germany, tax concessions to enterprises by both federal and regional governments total some 40–50 percent of total subsidies (including such items as housing and consumer subsidies), while in the United States federal tax concessions to industry averaged 1.5 percent of GDP per annum in 1975–87. Recently, however, the tax system in the context of overall tax reform has become more neutral with respect to industry; this example is being followed by other countries, including the United Kingdom. Tax support in the United States has been provided mainly to encourage plant modernization and research and development expenditures. Support for the latter has been high in most developed countries (Table A12). Data on other forms of domestic support is difficult to

[43] To bypass this difficulty, Australia has proposed a measure of the effective rate of assistance (ERA) based on the difference between world prices and domestic prices.

[44] In a number of subsidized sectors capacity has also been reduced; subsidies per unit of output may not have been reduced.

quantify, or is not available. Considerable subsidies may be involved, however, in government procurement practices: total EC public procurement is estimated to contain a subsidy element of some 10 percent.[45] Interest subsidies may also be involved in national product standards, which can be geared to the interest of domestic firms. Further, it is sometimes thought that companies in industrial countries create vested interests by transmitting their own national standards to developing countries through technical assistance.

Substantial progress has also been made in reducing the competitive subsidization of exports through officially supported export credits (Table A13). Nevertheless, the subsidy element in these credits remains high: for the OECD countries as a group it rose from 14.2 percent in 1979 to 27.5 percent in 1981 before declining to 12 percent in 1985. Information on other forms of export assistance is not readily available for a wide range of countries. While subsidized export credits have declined under the OECD Consensus Arrangement, subsidization through the mixing of aid with export credits may have become more widespread.[46]

The move away from subsidies is part of a broader trend away from government intervention as evidenced by deregulation, privatization, and tax reform in a number of industrial countries. The reduction in sector-specific subsidies reflects, in particular, three major considerations: first, they are increasingly subject to countervailing duties; second, their budgetary cost has placed limits on their use; and third, governments are increasingly recognizing that they may delay adjustment in mature industries. In EC countries this trend has been additionally motivated by the more strict enforcement of EC competition rules (see Appendix I). The first two considerations may have contributed to a substitution of voluntary export restraints for sector-specific subsidies: voluntary export restraints are not countervailable and their cost is borne by consumers rather than by the budget.

Causes and Costs of Protection

Protection reflects a government's unwillingness or inability to undertake necessary structural adjustment or to withstand pressures for protection from vested interests. The arguments for protection, which have been refuted in a number of studies,[47] tend to ignore its costs.

[45] Pelkmans (1987).

[46] Mixed credit offers notified to the OECD in 1987 rose to SDR 9.2 billion from SDR 6.4 billion in 1986. The actual take-up of offers by developing countries may be less, however. This may have adversely affected the exports of middle-income developing countries, which cannot match the grant element of mixed credits.

[47] See, for example, Corden (1987b).

Traditional arguments for protection include the need to preserve or encourage mature industries (such as steel and shipbuilding), strategic sectors with linkages to the rest of the economy (such as high-technology industries), as well as sectors important for security and defense (such as coal in the Federal Republic of Germany and agriculture in Japan), and the need to accommodate the special characteristics of sectors such as farming. These arguments are advanced in terms of promoting the national interest, although protection often promotes sectoral interests at the expense of the rest of the economy. Industrial countries' arguments for temporary assistance to mature industries to return them to competitiveness are akin to developing countries' arguments for protection of infant industries. In practice, such assistance has often proved to be self-perpetuating and to spread to other areas through the rent-seeking behavior of interest groups that want similar treatment. Stockpiling of products that are important for defense would obviate the need for a high level of self-sufficiency produced at high cost, while income support delinked from production would accommodate the special characteristics of the farm sector.

As a considerable degree of adjustment of mature industries has occurred in the 1980s in industrial countries,[48] other arguments have come to the fore. Protection is frequently motivated by the perceived lack of a "level playing field" (i.e., competition without government assistance and subject to the same rules), particularly against centrally planned economies (China and Eastern Europe), against Japan's distribution system and other so-called invisible barriers, and against the newly industrializing economies because of the lack of reciprocity and perceived undervaluation of their exchange rates.

Persistent large external imbalances have given rise to the use of trade measures to counter macroeconomic disequilibria. Some market-opening discussions have taken the form of attempts to achieve a better balance in bilateral/sectoral trade. Additionally, the EC automobile industry has argued that access of Japan's automobile exports to the integrated EC market should depend on the achievement of a specified EC share of Japan's market. Attempts to balance sectoral/bilateral trade or, more generally, the use of trade measures to improve the current account ignore its fundamental determinants. Protection will not improve the current account unless it affects the savings-investment balance of the economy, as could happen with revenue-generating forms of protection such as tariffs or import licenses that are auctioned. The improved fiscal position might then improve the current account. However, the prevalent

[48] See Section VI. While significant reductions in installed capacity have occurred in a number of industries such as steel and shipbuilding, capacity utilization in OECD countries remains low.

forms of protection in industrial countries either transfer the windfall gains to foreign exporters (voluntary export restraints and minimum price undertakings) or entail a budgetary cost (subsidies).

Certain forms of protection tend to insulate the protected sector from exchange rate movements, thereby slowing the macroeconomic adjustment process (as happens with trade "managed" through voluntary export restraints and quotas). Examples include Japanese import quotas on agricultural products, bilateral import restraints by the EC and the United States on automobiles, steel, textiles, and machine tools, by the EC and Canada on footwear and clothing, and by several industrial countries on agricultural products. A similar effect arises from subsidies and import duties that are designed to compensate for the difference between domestic and world prices. Examples include variable import levies and export subsidies under the EC's Common Agricultural Policy and variable subsidies to the German coal industry. Indirectly, the same considerations apply to the shipbuilding sector in the EC, where subsidies depend, to some extent, on the difference between domestic costs and those of the most competitive world supplier. Along the same lines, the "dollar clause" proposed by the EC in the aircraft financing agreement under negotiation with the United States would partly insulate the Airbus consortium from exchange rate movements (Section VI). Some modifications being proposed to the producer subsidy equivalent (PSE) concept, which might be used in multilateral negotiations on agriculture, are intended to neutralize the effects of exchange rate changes, at least over certain periods. Moreover, the use of countervailing and antidumping duties as a safeguard measure in cases where exchange rate appreciation affects the outcome of the "injury" test has a similar effect. Sectors that are insulated to some degree account for 24.6 percent of agricultural imports and 12.5 percent of industrial imports of the G-5 countries.[49] These forms of protection are viewed partly as a response to exchange rate instability. Greater exchange rate stability among the major currencies is therefore viewed as promoting more open markets. However, by insulating these sectors from exchange rate movements, protection shifts the burden of adjustment to other sectors and may contribute to larger exchange rate fluctuations than might otherwise occur.

Within the context of the Uruguay Round, industrial countries argue that protection cannot be reduced unless all countries agree to liberalize together. This argument applies particularly to trade in agriculture but has been advanced in connection with all trade, including steel and services. Indicative of this reasoning are the discussions pursued by the EC to obtain reciprocal concessions from trading partners in exchange for access to its integrated internal market (Appendix I).

These arguments ignore the costs of protection and the benefits of unilateral liberalization. The costs of protection have been extensively analyzed in the economic literature.[50] It is widely recognized that protection imposes costs both on the country initiating it and on its trading partners. Any measure that restricts imports also restricts exports by shifting resources to the import-competing sector. Similarly, subsidies and other non-border measures targeted at specific industries necessarily divert resources from other industries, thereby "taxing" the rest of the economy. Protection can also involve direct budgetary costs or indirect costs through forgone tariff revenue. Protection entails costs owing to forgone specialization according to comparative advantage, as well as losses in terms of scale economies, product differentiation, and research and development efficiency. Additional costs are incurred because scarce resources are directed toward rent-seeking activities, and the enforcement of restrictions imposes administrative costs. By releasing resources for efficient industries, unilateral liberalization can increase potential growth and ease the external constraint.[51]

Protection provided through nontariff measures tends to be highly selective, favoring a few domestic industries. Nontariff measures compound relative price distortions arising from the dispersion in tariff rates (tariff peaks). A study of the dispersion of protection in German industry found that the coefficient of variation[52] of *nominal* protection increases from 0.4 for tariff protection to 1.0 for total protection including NTMs (Table A14). The coefficient of variation of total *effective* protection, which includes the effects of the escalation of tariff and nontariff protection on products at higher stages of processing, is calculated at 2.0.

The cost of voluntary export restraints is high for the markets they are intended to protect because of "quota rents" (normally captured by the exporting country) and distortion costs. Distortion costs arise because producers produce goods at marginal costs that do not reflect their opportunity costs and because consumers purchase goods at prices that do not reflect their scarcity values. By contrast, production subsidies—the first best instrument for raising sectoral output—do not involve

[49] Based on detailed information underlying Table A8 on selected nontariff measures; includes VERs, quotas, import licensing, and variable levies but excludes tariffs with quotas and pricing measures, which are not automatically adjusted to offset exchange rate movements. This is a conservative estimate of the importance of insulated sectors, insofar as it excludes (a) variable subsidies, e.g., to shipbuilding, coal, and aircraft, and (b) pricing measures, including antidumping and countervailing duties, that depend to some extent on the competitiveness of the domestic industry.

[50] See Corden (1987b) for a survey.

[51] See Section V for a discussion of the costs and benefits of liberalization in agriculture.

[52] The coefficient of variation is the standard deviation of protection across sectors divided by the average protection for all sectors.

the costs arising from consumption distortions. The recent trend toward voluntary export restraints, despite their higher cost to the economy per unit of the protected item, reflects the two advantages they have over sector-specific subsidies that were noted above, that is, they are not countervailable and their cost is less transparent because it is borne by consumers rather than by the budget.

The cost of U.S. voluntary export restraints on imports of automobiles, steel, and textiles has been estimated at $21 billion, of which the quota rent amounts to $14 billion and the distortion costs of the quotas, $7 billion.[53] The cost of "preserving" a job is estimated at eight times the average annual wage in the textile sector and at three times in the steel sector. Starting from the existing tariff dispersion, the economy-wide tariff equivalent of the quotas on these three sectors is estimated at 25 percent, bringing protection to its level of the early postwar years. Similar studies of the costs of the Multifiber Arrangement have estimated the quota rent transferred to the Asian newly industrializing economies by OECD countries at $2 billion.[54] The costs of voluntary export restraints on automobiles maintained by the EC and Canada have similarly been found to be very high (Section VI).

[53] These estimates, based on a general equilibrium model of the U.S. economy, vary by $2 billion under alternative assumptions on demand and supply elasticities of the protected products and on the terms-of-trade effects of a removal in protection. See de Melo and Tarr (1988).

[54] OECD (1985a).

III Issues Affecting Developing Countries

Trade Trends

Since 1981, major changes have occurred in the pattern of trade of developing countries (Tables A15 and A16). Their share of world exports has declined, reflecting the substantial decline in the value of oil exports that offset the increase in their share of world non-oil exports, including world manufactured exports. The rapid growth of exports of the four Asian newly industrializing economies (NIEs)—Hong Kong, Korea, Singapore, and Taiwan Province of China—stands out in this trend. An increasing proportion of developing countries' exports of manufactures was directed toward industrial countries, reflecting the continued importance of industrial countries as a market for the products of developing countries.

The ratio of exports to GDP rose during 1981–85 for about half of the 48 developing countries surveyed, comparable to the increase in the 1973–81 period (Table A16). Declines since 1981 were largest among the oil exporting countries, while increases outnumbered falls in African and Western Hemisphere countries, reflecting their response to the debt crisis.

Among the developing countries, the combined share of world exports of the four Asian NIEs has risen steadily from 3 percent in 1973 to 4.3 percent in 1981 and to over 6 percent in 1986 (Table A1). During this period their exports grew at an annual average rate of 17 percent, and at a rate of 10 percent a year since 1981. Exports of other geographical groupings of developing countries declined during 1981–86, at annual average rates of 8 percent in Africa, 2 percent in other Asian developing countries, 5 percent in Latin America, and 17 percent in the Middle East, compared with a growth rate of world exports of about 2 percent.

In contrast to the developments in total exports, developing countries' exports of manufactures grew in excess of the world rate during 1973–86. As a result, the share of developing countries in world exports of manufactures rose from 7 percent in 1973 to 12 percent in 1986 (Table A15). Most of this increase was attributable to the four Asian NIEs, whose share rose from 4 percent in 1973 to 8 percent in 1986; since 1981 the share of the other developing countries has fallen from 4.5 percent in 1981 to 3.9 percent in 1986 (Table A2).[55] Between 1973 and 1985, slightly less than half of the increase in developing countries' exports of manufactures came from engineering products (including machinery, transport equipment, office equipment, and electrical goods), into which the four Asian NIEs in particular have diversified (Table A17). Many developing countries' exports of manufactures continued to be concentrated in traditional sectors like textiles and clothing. These sectors, together with other consumer goods, accounted for a further one third of incremental exports of manufactures. Overall, developing countries captured about 14 percent of the increase in world exports of manufactures, with increases above this average in clothing, textiles, other consumer goods, and other semimanufactures.

The decline in export earnings and the financial constraints arising from the debt crisis have led to a decline in the share of developing countries' imports in world imports between 1981 and 1986 (Table A18). About three fourths of the countries included in Table A16 also experienced a decline in the ratio of imports to GDP during 1981–85. During 1973–81 this ratio had risen in about 70 percent of the cases.

Developing countries' imports, after growing at an annual rate of 22 percent during 1973–81, declined by 4 percent a year in 1981–86. During the whole period their imports increased at a rate of about 11 percent a year, with imports of manufactures growing at a slightly higher rate than those of primary products. Since 1981, the imports of the African and Middle Eastern developing countries have declined at roughly the same annual rate of between 7 percent and 8 percent, while those of the Latin American countries, after falling by one third during 1981–85, recovered by almost 5 percent in 1986. The imports of the Asian developing countries fell marginally in 1982 but have since grown at a yearly rate of 2.5 percent.

Industrial countries remained by far the major suppliers of the developing countries, accounting for 64 per-

[55] Aggregate data conceal some important country differences. Since 1979 the average growth rate in a number of other developing countries, including Brazil, China, Indonesia, Mexico, Saudi Arabia, and Thailand, has exceeded the world growth rate.

cent of their imports in 1986. This percentage has risen since 1981, in line with the more rapid growth in industrial countries compared with developing countries during 1981–86. In contrast, the importance of developing countries as markets for industrial countries has declined; in 1986, 19 percent of industrial countries' exports went to the developing countries, compared with 29 percent in 1981.

By region, the share of trade conducted with industrial countries has increased most in the developing countries of Europe and the Western Hemisphere since 1981 (Table A19). Classified by major export, oil exporting developing countries maintained their share of exports directed to industrial countries despite the decline in oil prices since 1981, although the trends in individual countries diverged. However, their share of world exports declined by three fifths since 1981 and their share of world imports by one half (Table A20). Exporters of manufactures, particularly Korea, increased their share of world trade as well as the proportion of their trade conducted with industrial countries in both exports and imports. By financial criteria, the share of the 15 heavily indebted countries in world exports has declined by one third since 1981, partly reflecting terms of trade losses. In imports, their share fell by one half to 3.6 percent in 1987, well below their share in 1973. The proportion of their exports directed to industrial countries increased considerably more than the developing country average, to 72 percent in 1987. Although a rising proportion of their imports originated in industrial countries, the dollar value of their imports from industrial countries has fallen by one third since 1981. Similar trends were apparent in the small low-income countries, which accounted for about 1 percent of world trade in 1986–87.

Trade Policies

The diverse historical and economic backgrounds and recent economic performance of developing economies complicate an overall assessment of their trade policies.[56] Some developing economies (e.g., Hong Kong, Malaysia, Singapore, and many African countries) inherited relatively liberal trade regimes at independence; others (e.g., Argentina, Brazil, and many other Latin American countries) have historically maintained highly protective trade regimes. Their growth and development strategies have also varied: some have adopted inward-looking growth strategies, while others have adopted more outward-oriented growth strategies under which they have continued to liberalize their trade regimes.

An assessment of trade policies in developing countries is also complicated by other factors. First, countries undertaking trade liberalization programs usually as a first step replace quantitative restrictions with tariffs; this normally involves an initial increase in tariffs followed by a reduction. Second, customs duties have historically been an important source of government revenue in the early stages of economic development because they are easier to collect than domestic income or consumption taxes when tax administration is weak and tax handles are limited; smaller economies and Asian and African countries depend more heavily on tariffs as a source of revenue than other developing countries (Table A21). Finally, macroeconomic imbalances may result in an increase in trade protection as an alternative to remedial policies to correct the savings-investment balance; in such a situation, an increase in import duties may be a means to reduce the fiscal deficit.[57]

Tariffs

Statutory tariffs are generally higher in developing countries than in industrial countries, typically ranging from zero to very high maximum rates. A recent study of 50 developing countries, which account for about 15 percent of world trade (average of exports and imports), provides results based on 1985 data.[58] It found that the unweighted average rate of tariffs for all products was 26 percent, or 34 percent if other import charges were included.[59] The corresponding weighted averages (based on country imports) were 24 percent and 30 percent, respectively. The latter can be compared with less than 5 percent on average for OECD countries. While variations existed among regional groupings, the study reported an inverse relationship between per capita income and tariff levels (Table A22). This inverse relationship is consistent with other studies that indicate that customs revenues become less important as a source of government revenues as the income level increases.[60] It is also consistent with other studies that indicate the superiority of outward-oriented over inward-oriented trade strategies in raising income levels.

The structure of tariffs in developing countries is broadly similar to that in industrial countries. Products such as tobacco, beverages, textiles, clothing, manufactures, and certain foodstuffs are subject to above-average duties, while fuels, chemicals, metal and metal products, and minerals and mineral products are subject to below-average tariffs.

Statutory rates tend to be substantially higher than

[56] See Anjaria, Kirmani, and Petersen (1985).

[57] For a fuller elaboration of these points, see Farhadian-Lorie and Katz (1988).

[58] Refik Erzan, and others, *The Profile of Protection in Developing Countries*, UNCTAD Discussion Papers, No. 21 (Geneva).

[59] Other import charges consist of customs surcharges and surtaxes, stamp taxes and other fiscal charges, and taxes on foreign exchange.

[60] Farhadian-Lorie and Katz (1988), and references therein.

average rates of duties collected (Table A21). The difference between statutory and average levels reflects (i) "duty drawback" schemes that some countries (e.g., Brazil and Colombia) allow on imports of raw materials and intermediate inputs; (ii) similar privileges that some countries (e.g., Brazil and Mexico) offer to attract foreign investment or to promote investments in specific projects or regions; (iii) preferential tariff reductions that a number of developing countries grant each other under preferential trade arrangements;[61] and (iv) temporary tariff reductions on a continuous basis on a wide range of products (e.g., Brazil).

In developing countries the proportions of "bound" tariffs are much lower than in industrial countries.[62] Only Mexico and Chile have bound 100 percent of their tariff schedules at maximum rates of 50 percent and 35 percent, respectively. For 18 other developing contracting parties for which information is available, the proportion ranges from zero percent to 39 percent with most falling in the 20–25 percent range.

The combination of high statutory tariffs with substantially lower actual average tariffs and a low level of tariff bindings has implications for the transparency of the trade system and the certainty of trading partners' access to developing country markets. Average tariffs may be increased substantially through changes in duty remissions and other schemes without amendments to the tariff schedule. Moreover, where tariffs are not bound, statutory tariffs can be increased without legal implications in GATT.

Nontariff Measures[63]

Developing countries frequently use nontariff measures (NTMs) as a major form of protection. A study of 50 developing countries found that 40 percent of all tariff lines (weighted by economic size) were subject to some form of NTM.[64] Excluding NTMs that were applied to all imports, the ratio was 27 percent. Import licensing was found to be the most common form of NTM, although foreign exchange restrictions were the most prevalent in Latin America and the second most frequent use in sub-Saharan Africa. As with tariffs, an inverse relationship was found between per capita income and the frequency of use of NTMs (Table A23).

A significant feature of NTMs of developing countries is that not only are they widespread but also they are stacked, that is, a given product is subject to more than one restriction.[65] While foodstuffs are the most affected sector, it is notable that all categories have higher frequency of use of NTMs than most industrial countries. In particular, textiles, clothing and footwear, and iron and steel all had high frequency of use of NTMs (and higher tariffs) despite the apparent comparative advantage of developing countries in these products. In contrast to industrial countries in which there is increasing resort to discriminatory measures, NTMs in developing countries are normally applied on a nondiscriminatory basis.

The GATT provisions on balance of payments restrictions are the most frequently invoked justification for restrictions by developing countries that are contracting parties to GATT. Some 85 percent of quantitative restrictions that have been notified to GATT by 24 developing countries have been justified for balance of payments reasons.

Recent Developments

A trend toward more liberal trade policies is evident in a number of developing countries. This reform is part of wider structural reform efforts taking place, and indicates a growing awareness by these countries of the benefits of outward-oriented policies. In some Latin American countries (notably Bolivia and Mexico), trade liberalization has additionally occurred in the context of anti-inflation programs. Some countries have been able to roll back restrictive measures introduced at the outset of the debt crisis, while the strong external positions of Korea and Taiwan Province of China have permitted these countries to continue liberalizing their trade regimes.

Despite these positive developments, trade liberalization for many countries continues slowly because of inward-looking development policies or has regressed partly because of financial difficulties arising from a high debt-service burden or because of failure to implement domestic policies necessary to improve the trade balance.

Information collected on 31 developing countries for 1985–88 indicates that tariffs were lowered in 13 coun-

[61] Preferential trading arrangements among developing countries include the Association of South East Asian Nations (ASEAN); agreements among members of the Economic and Social Commission for Asia and the Pacific (ESCAP); Latin American Integration Association (LAIA); Central American Common Market (CACM); Caribbean Community (CARICOM); West African Economic Community (CEAO); Economic Community of the Great Lakes Countries (CEPGL); Economic Community of West African States (ECOWAS); Mano River Union; Central African Customs and Economic Union (UDEAC); and Cooperation Council for the Arab States of the Gulf (GCC).

[62] Under GATT, a contracting party provides assurance of market access by "binding" its tariffs. This places limits on its legal ability to raise tariffs without compensating its trading partners. The major industrial countries have bound between 88 percent and 98 percent of their tariffs.

[63] Nontariff measures include import licensing, quotas, and prohibitions; foreign exchange authorizations; other financial measures; minimum import prices; and inspections and standards.

[64] Refik Erzan, and others (cited in footnote 58).

[65] This duplication occurs mainly in sub-Saharan Africa and across all regions in the food category.

tries; for the rest, changes were mixed or no information was available (Table A24). In a number of these countries trade reform involving initially the substitution of tariffs for quantitative restrictions, and subsequently a reduction in tariffs, was under way.[66] In some countries (such as Indonesia and Thailand) temporary surcharges or temporary increases in tariffs were used as supplementary measures to counter surges in imports; some of these countries continued to rely on quantitative restrictions as the basic mechanism for protection and defense against chronic balance of payments problems. In others (such as Brazil) domestic shortages were countered through temporary reductions in tariffs or temporary surcharges were eliminated when emergency situations no longer prevailed. Trade liberalization measures have also been taken to ease domestic inflationary pressures (such as in Mexico), and tariff reductions on certain products have been used to impose the discipline of world prices on domestic producers.

With regard to nontariff measures, 18 countries moved toward liberalization while 6 moved in the opposite direction. For some countries (Egypt, Korea, Mexico, Morocco, and Taiwan Province of China), the liberalization of quantitative restrictions has been accompanied by a general reduction in tariffs and import-related taxes.[67] However, for other liberalizing countries, including those that have been substituting tariffs for nontariff barriers, the liberalization was sometimes accompanied by higher tariffs (Argentina and Bangladesh).

In April 1988, a group of developing countries agreed to set up their own trade preference system—the Global System of Trade Preferences (GSTP)—at a ministerial meeting in Belgrade. The agreement was adopted by 48 countries, including Argentina, Brazil, Egypt, India, Mexico, Nigeria, and Pakistan. The arrangement explicitly excludes large industrial nations, and aims to promote trade between developing countries. The initial impact of the system is not expected to be large; UNCTAD estimates that the Global System of Trade Preferences will cover less than $10 billion of imports.

Trade Policies of Newly Industrializing Economies

Some common features of the four Asian newly industrializing economies are their outward-oriented growth strategies, their relatively poor natural resource bases, and their recent high annual average growth rates. There are, however, also many differences among them. One is that Hong Kong and Singapore are basically free trade ports and have few or no trade or exchange restrictions. Korea and Taiwan Province of China are more complex, and developments need to be reviewed individually.

Korea has made significant progress in liberalizing its import system since 1980, when over 30 percent of tariff code items were listed as restricted imports. By 1983, the share of restricted items had been reduced to 19 percent and, starting in 1984, a major new five-year program of liberalization was launched. As a result, the ratio of restricted items was reduced to less than 5 percent by April 1, 1988.[68] Agriculture remains the most heavily protected sector, accounting for over three fourths of the remaining restrictions. To safeguard against import surges, newly liberalized imports may be placed on an import surveillance list, or subjected to adjustment tariffs; however, the use of both procedures has been limited.[69] The surveillance list is scheduled to be eliminated by the end of 1988.

The Tariff Act was amended with effect from January 1, 1984. Revisions in the Act aimed to improve the competitiveness of Korean industry and provided for a lowering of tariff rates and a narrowing of their dispersion. As a result, the average unweighted tariff rate was reduced from 23.7 percent in 1983 to 18.1 percent in 1988.

These measures may have been partly offset by the operation of 39 special laws for both agricultural and nonagricultural products, which permit government agencies to regulate their imports. Under the market diversification plan, items can be subject to special import approval if imported from a country that has a substantial trade surplus with Korea. Under the tariff quota plan, tariffs on quota items are increased when a specified quota ceiling is reached. The special laws are being reviewed, and steps are being taken to streamline their application and reduce the extent to which they serve as unnecessary barriers.

In Taiwan Province of China, high tariffs have been the main barrier to imports. Since the early 1980s tariffs have been cut and the proportion of imports subject to import licensing has been reduced. The average nominal tariff rate fell to 23 percent in 1986. In 1987 further tariff cuts were implemented affecting 40 percent of items and reducing the average nominal tariff to 20 percent. In 1988 tariff cuts averaging 50 percent were applied to about 3,500 items. At end-1986, about 20 percent of Taiwan Province of China's imports were subject to non-

[66] This was the case for some countries that reduced tariffs (Egypt, Mexico, Taiwan Province of China, and Uruguay) and for others in which the direction of tariff changes was mixed (Argentina, Bangladesh, Nigeria, and Zaïre).

[67] In Egypt, the lifting of import licensing requirements has been accompanied by an increase in exchange restrictions and by the introduction of a list of 210 banned imports.

[68] In sectoral terms, liberalization was more significant on electrical and machinery appliances, electronics, machinery, and textiles.

[69] Of the 6,945 items liberalized through June 1986, only 106 were placed on the surveillance list, and by April 1, 1988 this number was reduced to 25.

automatic licenses; other nontariff measures included embargoes.

Countertrade[70]

The use of countertrade increased in importance in developing countries in the early 1980s but appears to have stagnated since 1984 and to have declined in 1987.[71] Countertrade has been utilized as an export promotion tool, and as a way of overcoming shortages in foreign exchange and protectionist barriers in industrial countries. For instance, countertrade can be used to gain a larger share of a global quota, but it cannot gain greater access to markets protected by voluntary export restraints. Some developing countries may also have used it to counter the effects of overvalued exchange rates, in which it functions as an export subsidy. It may have also been used to secure the transfer of technology, to increase the domestic levels of production and employment, or to export commodities for which international cartel-type agreements exist.[72] Latin American and African countries have also explored countertrade as a mechanism for intraregional economic cooperation.[73]

There are no international laws or agreements dealing directly with countertrade, but GATT provisions cover certain aspects of countertrade practices like subsidization, dumping, or discrimination.[74] While, the Fund has no jurisdiction over countertrade unless exchange restrictions are involved (such as in bilateral clearing arrangements), it is generally concerned with the increased use of countertrade because it undermines the multilateral character of the trade and payments system and imposes additional costs on the participants. The complexity of countertrade arrangements and the involvement of intermediaries increase transaction costs. Furthermore, such arrangements lack price transparency, raise arbitrage possibilities, and reduce flexibility, all of which contribute to increased welfare costs. Countertrade practices may entail many of the restrictive and discriminatory practices traditionally associated with bilateralism.

The extent of countertrade is difficult to gauge because trade data are not differentiated according to the source of financing, and because countertrade often involves military purchases for which data are not always available.[75] The OECD has estimated that a maximum of some $80 billion or 5 percent of world trade occurred through countertrade arrangements in 1983. This estimate excludes trade under bilateral payments arrangements and trade among Eastern European countries.[76] Including these, the total would rise by 9 percent to 14 percent of world trade.[77] The share of trade that occurs under documented countertrade agreements is highest between Eastern European countries and both developing and industrial countries, and among developing countries.

Estimates made by various bodies indicate a sharp growth of countertrade between 1980 and 1984, followed by stagnation and a decline in 1987. In 1987, the number of countertrade agreements signed decreased by about 45 percent. The trend toward more open export credit and cover policies since 1985 may have reduced countertrade transactions. The high transaction and opportunity costs of countertrade agreements may also have contributed to this decline.

Countertrade has normally involved raw materials, particularly oil, but also cereals, textiles, and clothing. The use of oil in countertrade continues, albeit at a reduced rate, despite a 1985 decision by the Organization of Petroleum Exporting Countries (OPEC) to phase out their use of countertrade agreements. Among OPEC countries, Indonesia, the Islamic Republic of Iran, Iraq, Libya, and Saudi Arabia have been involved in countertrade. Indonesia, which has legislation on countertrade, signed about 75 percent fewer agreements in 1987 than in 1983, its peak year for such agreements.

Other Asian countries that have used countertrade to varying degrees are China, India, Korea, Malaysia, Pakistan, the Philippines, Singapore, Taiwan Province of China, and Thailand. Much of their countertrade is with other developing countries, although Korea, Malaysia, Taiwan Province of China, and Thailand have also used it to increase their trade with centrally planned economies, and China has used it in trade with Western economies.

In Latin America, Argentina has used countertrade in its trade with centrally planned economies and in its purchases of natural gas from Bolivia. Brazil's use of countertrade has declined in importance in recent years. Although Colombia, Ecuador, and Mexico have regulations relating to countertrade, such trade is not mandatory and has declined in recent years. In Africa, a number of countries, including Ghana, Nigeria, Uganda, and Zimbabwe, have engaged in countertrade in an attempt to save foreign exchange reserves.

[70] Developments in countertrade are reported in the Fund's *Annual Report on Exchange Arrangements and Exchange Restrictions*. For details on the various forms of countertrade, see also Huh (1983) and Pringle (1985).

[71] International Monetary Fund (1988a).

[72] UNCTAD (1986).

[73] UNCTAD (1987a), p. 3.

[74] Examples of GATT provisions are listed in Huh (1983), p. 16.

[75] Countertrade among industrial countries often occurs in connection with trade offsets in sales of aircraft or military equipment.

[76] OECD (1985b), p. 12.

[77] GATT (1984a).

Trade and Trade-Related Industrial Policies Affecting Developing Countries

The trade and industrial policies of industrial countries—the major markets for developing countries' exports—affect the market access of developing countries and thus have an important impact on them. A number of developing countries argue that trade-restricting measures by industrial countries hinder their integration into the world economy and their resolution of debt problems. Some developing countries that have recently liberalized their trade regimes or continued their liberalization efforts either have faced increased barriers abroad or existing barriers have become binding as exports expanded. For instance, Mexico's non-oil exports, which nearly doubled over the two years up to 1987, have been increasingly subjected to antidumping and countervailing duty investigations, and existing barriers have become a binding constraint on export expansion.[78] Domestic political support for liberalization measures is thereby reduced. Some middle-income developing countries have also indicated that their exports to developing countries are adversely affected by their inability to match the grant element of mixed credits extended by industrial countries.

Generalized System of Preferences

Industrial countries grant tariff preferences to developing countries under the Generalized System of Preferences (GSP).[79] Trade preferences are also granted to selected developing countries under various regional trading arrangements.[80]

Currently 20 OECD countries and a number of Eastern bloc countries operate GSP schemes, with more than 140 beneficiaries. In 1986 $36 billion of exports from developing countries received preferential treatment by OECD countries, compared with $25 billion in 1980 and $10 billion in 1976, when GSP schemes came into full operation (Table A25). The growth of imports under the GSP slowed down significantly during 1980–86, to an annual rate of 6 percent, compared with an annual average growth rate of 21 percent during 1976–80, largely reflecting the slowdown in the growth of total and dutiable exports from the beneficiary countries. The ratio of imports accorded GSP treatment to total imports of OECD countries from beneficiary countries continued to increase, and by 1986 the ratio reached 15 percent, compared with 8 percent in 1980 and 7 percent in 1976.

Under most GSP schemes, "sensitive" items such as textiles, clothing, and footwear are excluded from preferences, while others, such as certain petrochemicals, receive limited GSP coverage. For example, in the EC some 140 sensitive products, such as methanol, are subject to either GSP ceilings—where the most-favored-nation tariff can be reintroduced at the request of the domestic industry once the ceilings are reached—or GSP tariff quotas—where the most-favored-nation tariff is automatically reintroduced when the quota level is reached. In the case of EC petrochemical imports from Middle Eastern exporters, the quota level is typically reached early in the year. The textiles and clothing sectors, the products of which represent about 17 percent of all industrial tariff lines, account for about half of industrial products excluded from all GSP schemes taken together.[81]

The GSP schemes of the EC, Japan, and the United States differ in their country and product coverage. For example, in fuels and petrochemicals, refined oil products (such as gasoline and jet fuel oil) enter the EC duty free, as do most first-stage processing products based on oil or natural gas. About 5 percent of the Community's annual consumption of other petrochemicals is imported. Most of these imports enter duty free under free trade or preferential agreements with EFTA or the Mediterranean countries; some of these imports are from the Gulf Cooperation Council countries, either under GSP ceilings or tariff quotas or subject to MFN tariff rates. Japan, by contrast, does not include refined oil products or petroleum gases in its GSP scheme. However, for many petrochemical products, such as methanol, the Japanese scheme features a global amount by product of about 10 percent of imports, distributed on a first-come, first-served basis. The U.S. scheme excludes OPEC countries (except Ecuador, Indonesia, and Venezuela) and those above a certain per capita income. However, petrochemicals are generally included and are given duty-free access subject to certain product graduation requirements.

In recent years, efforts to improve GSP schemes have been offset to some extent by a reduction in benefits in some schemes, including those of the EC (see Appendix I) and the United States. Some schemes have introduced lower margins of preference, stricter limits on the amount of preferential imports, and differential application of preferential treatment among beneficiaries, including product-specific graduation, and, more recently, country-specific graduation related to income levels. In the latter, countries can be graduated from schemes on

[78] Including antidumping duties imposed by the EC on Mexican exports of synthetic fibers and steel products and the voluntary export restraints on steel exports to the United States (negotiated in 1984).

[79] The Generalized System of Preferences is based on work undertaken by UNCTAD during the 1960s and was implemented after the Contracting Parties to the GATT approved a waiver to the nondiscrimination clause in Article I in 1971.

[80] Trade preferences granted by the EC to 66 African, Caribbean, and Pacific States under the Lomé Convention and to Mediterranean countries under association and cooperation agreements are reviewed in Appendix I.

[81] Anjaria, Kirmani, and Petersen (1985).

the basis of "competitive needs" criteria. The major beneficiaries (Hong Kong, Korea, and Taiwan Province of China) have been the countries most affected by these changes. The least developed countries receive more preferential treatment than other developing countries in most GSP systems. Generally this treatment implies zero tariff rates for least developed countries where other developing countries pay duties at some non-zero preferential rates.

Tariff Peaks and Escalation

Tariff protection in industrial countries in the form of peaks and escalation tends to affect developing countries especially heavily because it is concentrated in traditional export sectors, such as textiles and clothing, where the share of developing countries in the imports of industrial countries tends to be high. Further, high tariff items often have lower GSP coverage than low tariff lines (Table A26) and tend to have an overall higher incidence of nontariff measures.[82]

The trade effects of tariff peaks appear to apply largely to labor-intensive and resource-intensive sectors, suggesting that the industrial policies of the developed countries in these areas could have significantly influenced resource allocation in the developing countries. It is estimated that, disregarding nontariff measures, imposing a 10 percent MFN ceiling on the tariff rates of the industrial countries would increase their total imports from developing countries by about 1.5 percent (equivalent to almost 16 percent of trade covered by liberalization); the elimination of all tariffs on an MFN basis by the industrial countries would lead to an overall trade expansion for developing countries of some 5 percent.[83] Much of the expansion would come in the area of textiles and clothing, although food processing and miscellaneous manufactures would also benefit. These results are derived from a static model and could well be underestimates once the dynamic effects of improved resource allocations are taken into account.

Tariff escalation introduces trade biases, favoring the importation of raw materials rather than processed items. Owing to escalation, the effective protection afforded to processing industries in most developed countries through tariffs can be higher than the tariffs indicate. This is exacerbated by the fact that in many instances nontariff barriers also escalate from raw to processed materials; for example, the incidence of nontariff barriers on the importation of raw cotton is low, if not zero, in most developed countries whereas cotton fabrics from low-cost suppliers are subject to the Multifiber Arrangement.

The trade bias effects of tariff escalation are most pronounced in areas such as tropical foodstuffs and fabrics and, to some extent, in certain petrochemicals, where developing countries are the major source of the raw supplies.[84] This indicates that reduced tariff escalation could yield an increase in developing countries' exports of processed products, particularly as studies show that import demand elasticities in the industrial countries increase with fabrication.[85] If their costs remain competitive and they have access to the distribution chain, the initial expansion of exports would probably be centered on those developing countries that already have the relevant manufacturing skills, such as Brazil, and a number of Middle Eastern and Asian middle-income countries that have a high concentration of the required raw materials. Further, in a number of other countries heavily dependent on tropical exports and with a high population base, improved access to industrial countries could trigger investment plans for the establishment of processing facilities, with consequent positive employment effects.

Employment may not be such an important consideration for some Middle Eastern countries, which might elect to invest financial reserves in oil refining and petrochemical production and distribution systems in industrial countries. Some diversification into offshore refining and distribution facilities has already taken place. Thus, Saudi Arabia recently purchased, for some $1 billion, a share in a number of U.S. refineries and access to gasoline stations. Such diversification (including into petrochemical facilities) serves a number of functions. First, it provides the producers of the primary product with a secure outlet for all or part of their output. Second, it serves as a hedge against fluctuating prices: crude oil prices generally fall more rapidly than the prices of refined or petrochemical products and thus, when oil prices are low, and prices of petrochemical feedstocks (oil and natural gas) are low in consequence, the offshore production and distribution investments will be relatively profitable, particularly as the cost of transporting oil is low compared with the cost of conveying petrochemicals. Third, diversification into offshore facilities is a hedge against protectionist measures on refined and petrochemical products by importing countries.

Sugar is an important example of tariff escalation, with the average tariff for imports of sugar preparations into industrial countries being about 20 times higher than that for the raw product, giving considerable effective protection to processing plants in the developed countries. It is indicative in this respect that well over

[82] Refik Erzan and G. Karsenty, *Products Facing High Tariffs in Major Developed Market Economy Countries: An Area of Priority for Developing Countries in the Uruguay Round?* UNCTAD Discussion Papers, No. 22 (Geneva).
[83] Ibid.

[84] Yeats (1984), and Fund staff estimates.
[85] See Yeats (1984).

90 percent of developing countries' exports in the sugar category are in the form of the raw material. These exports are hindered, however, by high nontariff barriers in many industrial countries, particularly the EC, Japan, and the United States, all of which maintain some form of price-support mechanism to protect domestic growers. These supports have encouraged the production of nonsugar sweeteners, such as high fructose corn syrup, which would not be profitable at the current free market price of sugar. As such, developing countries could gain significantly from a reduction of nontariff barriers, to improve their market access to the industrial countries for the raw product.

Countervailing and Antidumping Duties

Industrial countries have had extensive resort to countervailing and antidumping investigations on manufactured products, often against those from developing countries. Since 1981, almost 50 percent and 30 percent of the countervailing and antidumping investigations, respectively, were on products from developing countries. Some 34–41 percent of investigations on developing countries' exports resulted in a negative finding of no dumping or subsidization. Evidence suggests that investigations are sometimes used to harass foreign exporters and that such actions are used as substitutes for safeguard measures.[86] Further, the initiation of such cases can lead to price undertakings (not to export below a certain price) and to voluntary export restraints, which have negative trade effects. For example, as a result of antidumping investigations, six exporting countries agreed in November 1987 to observe a minimum price on their urea exports to the EC; for Kuwait this undertaking covered 46 percent of its 1986 petrochemical exports to the EC. Saudi Arabia did not agree to such an undertaking, and the EC imposed an antidumping duty of 46 percent on EC imports of urea from Saudi Arabia, covering 11 percent of Saudi Arabia's 1986 exports of petrochemicals to the EC.

The above factors, together with their negative trade effects, suggest the need for a restrained use of countervailing and antidumping mechanisms and for very clear international disciplines in the area; only if the adverse effects of subsidies and/or dumping are severe and sudden would temporary protection against them be justified on social welfare grounds.[87]

Nontariff Measures

The incidence of nontariff measures applied by industrial countries on their nonfuel imports appears to fall somewhat more heavily on the exports of developing than of industrial countries; in 1987 the coverage ratios were some 25 percent and 21 percent, respectively, for the nonfuel imports of industrial countries from developing and industrial economies.[88] Exports of manufactures by developing countries are particularly affected by such measures, with the highest concentration in steel, textiles and clothing, and footwear. Voluntary export restraints are common in these sectors.

Including the bilateral export restraints concluded under the MFA, a considerable portion (up to 50 percent) of world trade in textiles and clothing is managed and thus not subject to the normal forces of international trade. This affects developing countries particularly, as the preponderance of intra-developed-country trade is not subject to export restraint arrangements. Since 1968, upward of 30 percent of world trade in steel has come under VERs, affecting exports from nearly all existing third-country suppliers to the United States, the EC, and, most recently, Australia, as well as exports from the EC to the United States. Exports of agricultural and food products are also restrained by VERs, mainly from the more efficient producers, such as Argentina, to the EC. In automobiles and transport equipment, as well as in electronic products, Japanese and Korean exporters limit their sales to both the EC and the United States, while in footwear a number of OECD markets are protected by VERs with Korean and other developing country exporters.

Voluntary export restraints divert trade as they can create additional opportunities for some existing suppliers and new entrants. Typically, VERs are "leaky" when first applied in that they do not cover all sources of supply and/or allow substantial growth rates in exports (as has occurred in some bilateral agreements negotiated in the past under the MFA) from restrained suppliers to the protected market. As the domestic price of the product subject to the VER is likely to move above the world price, "leakiness" will provide an incentive, inter alia, for (i) new entrants to invest in capacity to export to the affected market; and (ii) restrained exporters to circumvent their constraints by exporting via third countries, including by establishing capacity in those countries.

The evidence suggests that U.S. voluntary export restraints have been relatively "leaky," in contrast to those of the EC. Thus, from 1980 to 1986 import penetration (imports as a percentage of domestic production plus imports minus exports) of the U.S. market increased from 4.6 percent to 7.9 percent for textiles, from 14.5 percent to 25.4 percent for clothing, and from 16.3 percent to 23.1 percent for steel.[89] These higher ratios include increases in market shares especially by

[86] Finger and Nogues (1987).
[87] Corden (1987a).
[88] UNCTAD (1988b).
[89] Cline (1987); and American Iron and Steel Institute (1986).

new entrants from developing countries. By contrast, in the EC(10), the import penetration ratio for steel rose only marginally from 1980 to 1986;[90] and increases in import market shares since the late 1970s for clothing and footwear appear to have gone mainly to other industrial, particularly EC, country partners.[91] In the absence of known voluntary export restraint protection prior to late 1985, "leakiness" cannot be tested for Japan.

Over time, the trade-diverting effects of VERs tend to create pressure to broaden their country coverage. Thus, the United States negotiated VERs in 1984 with a number of new entrants from developing countries into its steel market, and the MFA has progressively become more restrictive. The diversion effects also cause VERs to spread across importing countries, resulting in globally managed market-sharing arrangements, as is now largely the case for steel and textiles and clothing. The market share begins to depend as much, if not more, on negotiating strength as on comparative advantage, and investments can come to rely on the retention of managed trade for their profitability. These factors fundamentally change the nature of competition in an industry: voluntary export restraints provide some real advantages to early and established producers, particularly in the form of rents and consequent resources for product upgrading and diversification; late starters can be quickly drawn into a VER network, as has happened with the MFA, perhaps inhibiting development on the basis of comparative advantage and protecting thereby the position of the earlier entrants.[92] All these factors make VERs difficult to dismantle as well.

With the proliferation of nontariff measures, liberalization of trade by OECD countries would most profoundly affect trade now covered by restrictive agreements. By one estimate, removal by industrial countries of all barriers on imports from developing countries would increase their exports of textile and clothing by some 125 percent, of steel by about 62 percent, and of footwear by approximately 85 percent.[93] The benefits would accrue mainly to those developing countries, such as Brazil and Korea, that already have well-established manufacturing sectors. Other studies bear out these results.[94] Other developing countries would also benefit, however, especially in areas such as clothing where many Asian countries hold a comparative advantage. These are estimates of static effects only. A dynamic estimate would be higher as it would include the effects of increased opportunities for economies of scale, product differentiation, and specialization.

The agricultural policies of the industrial countries also have an important impact on developing countries, including a number that are highly indebted. These policies have distorted trade through domestic and border measures (see Section V). Domestic measures have encouraged surplus production in industrial countries, reducing world prices and the markets for agricultural products, thus depressing the incomes of exporters of agricultural products, including many developing countries. These effects have been exacerbated by subsidized exports of surplus production, which in turn has led to trade disputes and the adoption by industrial economies of additional farm support measures to safeguard the interests of their own producers. Domestic measures have been accompanied by restrictions on market access through border measures, including quotas and variable levies, and other tariff and nontariff measures protecting the markets for diverse agricultural products in almost all industrial countries.

The agricultural policies of the industrial countries—together with the pricing policies of many developing countries—have contributed to a sharp decline in the share of developing countries' exports in world agricultural exports since the early 1960s. The decline is particularly marked for food products that are produced by industrial countries (Table 5). A recent study demonstrates that a relatively modest liberalization of agricultural trade, resulting in a 10 percent increase in world agricultural prices, would increase the income of developing countries by $26 billion (in 1985 dollars),[95] an amount exceeding bilateral grants and loans under official development assistance. Fully half of this increase would accrue to the highly indebted developing countries (see Section V).

Table 5. Export Shares of Food Products
(In percent)

	1961–63	1982–84
Developing countries	44.8	34.2
Industrial countries	46.2	62.7
Memorandum item:		
Food price index (1980 = 100)[1]	142.6	94.9

Sources: World Bank, *World Development Report, 1986*; and International Monetary Fund, *International Financial Statistics*.
[1] Relative to export unit value for all products.

[90] OECD (1987f).
[91] Hamilton (1987).
[92] For example, the Maldives, a new entrant, has export restraint agreements with the United States since 1985 and with Canada since 1986.
[93] Laird and Yeats (1987).
[94] See, for example, Kirmani, Molajoni, and Mayer (1984).
[95] Center for International Economics (1988).

IV Evolving Framework for International Trade

Overview of Multilateral Trade Initiatives

The Uruguay Round

The General Agreement on Tariffs and Trade (GATT) celebrated its fortieth anniversary in 1987. In its four decades of operation, the GATT has had many accomplishments. As a result of seven successive rounds of multilateral trade negotiations, average tariffs in industrial countries on industrial products have declined sharply, from over 40 percent in 1947 to about 5 percent today. World trade has expanded markedly, including a twentyfold increase in the volume of trade in manufactured goods. GATT's membership has quadrupled to cover 96 countries that account for over 85 percent of world trade[96] (Table A27).

In spite of these successes, the multilateral trading system stands at a crossroads today, as developments over the past decade have challenged its credibility and relevance. Protectionist pressures, nurtured by macroeconomic imbalances and inadequate structural adjustment, have intensified; a large number of discriminatory nontariff measures that bypass the GATT have been imposed; trade tensions among GATT members have escalated (both among industrial countries and among industrial and developing countries); and new areas such as services and intellectual property rights demand attention in a manner unforeseen when GATT was established. The shifts in the balance of world economic power since the late forties have been accompanied by an erosion of leadership in trade, together with an increasing tendency toward regionalism and bilateralism at the expense of multilateralism.

Against this background, the launching of the Uruguay Round of Multilateral Trade Negotiations (MTN) at Punta del Este, Uruguay, in September 1986 was of major importance. The new Round is viewed by many as essential to keep domestic protectionist demands at bay and to restore the relevance and credibility of the multilateral trading system. This Round is the most ambitious of its kind, as it goes beyond the traditional concerns (such as tariffs) of past MTNs, gives greater recognition to the linkages between trade and other economic policies, covers areas that in the past were largely neglected (such as agriculture), and includes new areas (such as services) as well as sectors (textiles and clothing) that have been relegated to special regimes through multilateral action. In addition, systemic issues, such as examining the functioning of the GATT, are an integral part of the negotiations. (Table 6 presents a list of selected issues considered by GATT and under the Uruguay Round.)

The Ministerial Declaration launching the new Round spells out the overall and specific objectives of the MTN and establishes a time frame of four years for its completion (Appendix II). The Round aims, inter alia, at further liberalizing trade, strengthening the role of the GATT, increasing GATT's responsiveness to the evolving international economic environment, and fostering cooperative action to strengthen the interrelationship between trade and other economic policies affecting growth and development. To conduct the negotiations, a Trade Negotiations Committee (TNC) was established with two subsidiary bodies, the Group of Negotiations on Goods (GNG) and the Group of Negotiations on Services (GNS). The GNG was further divided into 14 negotiating subgroups covering tariffs, nontariff measures, tropical products, natural resource-based products, textiles and clothing, agriculture, safeguards, GATT Articles, MTN agreements and arrangements, subsidies and countervailing measures, dispute settlement, trade-related intellectual property rights, trade-related investment measures, and the functioning of the GATT system. GATT members also committed themselves to observing a "standstill" and "rollback" of trade-restricting measures that are inconsistent with GATT.

The Uruguay Round participants spent 1987 in "the initial phase" of the negotiations, preparing the ground for the future exchange of concessions. Much of the discussion in the various negotiating groups was devoted to clarifying the content and modalities of the negotiations, submitting proposals, and other steps necessary to move the negotiations forward. At the end of the initial

[96] The most recent accessions to GATT include Mexico (1986), Botswana and Morocco (1987), and Lesotho (1988). A few other countries, including China, have applied for accession.

Table 6. Discussion Forums in GATT and the Uruguay Round

Sector/Issue	Tokyo Round Code/ GATT Committee or Overseeing Body[1]	Uruguay Round Negotiating Group
Agriculture	Committee on Trade in Agriculture	Agriculture
Balance of payments restrictions	Committee on Balance of Payments Restrictions	GATT Articles
Bovine meat	Arrangement Regarding Bovine Meat/International Meat Council	MTN Agreements and Arrangements
Civil aircraft	Agreement on Trade in Civil Aircraft/Committee on Civil Aircraft	MTN Agreements and Arrangements
Counterfeit goods	Expert Group on Trade in Counterfeit Goods	TRIPS
Customs valuation	Agreement on Customs Valuation/Committee on Customs Valuation	MTN Agreements and Arrangements
Dairy products	International Dairy Arrangement/International Dairy Products Council	MTN Agreements and Arrangements
Developing country matters, Part IV, Enabling Clause	Committee on Trade and Development	
Developments in the trading system	GATT Council	FOGS
Dispute settlement	Relevant Committee, GATT Council	Dispute Settlement
Dumping	Agreement on Anti-Dumping Practices/Committee on Anti-Dumping Practices	MTN Agreements and Arrangements
Government procurement	Agreement on Government Procurement/Committee on Government Procurement	MTN Agreements and Arrangements
Import licensing	Agreement on Import Licensing/Committee on Import Licensing	MTN Agreements and Arrangements
Natural resource products	Working Party on Problems of Trade in Natural Resource Products	NRBP
Nontariff measures	Group on Quantitative Restrictions and Other Nontariff Measures	Nontariff Measures
Regional arrangements	Specific working parties	GATT Articles
Safeguards		Safeguards
Services		Services
Subsidies and countervailing measures	Agreement on Interpretation and Application of Articles VI, XVI, and XXIII ("Subsidies Code")/Committee on Subsidies and Countervailing Measures	Subsidies and Countervailing Measures
Surveillance	GATT Council, relevant Committees	FOGS
Tariffs	Committee on Tariff Concessions	Tariffs
Technical barriers	Agreement on Technical Barriers to Trade ("Standards Code")/Committee on Technical Barriers to Trade	MTN Agreements and Arrangements
Textiles	Textiles Committee (also supervises Textiles Surveillance Body), Working Party on Textiles and Clothing (1983–86)	Textiles and Clothing
Trade-related intellectual property rights		TRIPS
Trade-related investment measures		TRIMS
Tropical products		Tropical Products

[1]The GATT Council of Representatives considers matters placed before it. Working parties may be established to investigate specific issues (e.g., accession and waivers).

Note: FOGS = Functioning of the GATT system; TRIPS = Trade-related intellectual property rights; TRIMS = Trade-related investment measures; NRBP = Natural resource-based products.

phase, there was broad "formal" agreement among the participants that satisfactory progress had been made, though many of them stressed that there was no room for complacency.

Developments under the Uruguay Round may be summarized as follows.

• Since the Uruguay Round pledge on the standstill, recourse to new trade restrictions has increased.

• Thus far, one conditional rollback offer has been tabled (by the EC). Many countries expect the rollback to be achieved toward the end of the negotiations rather than ahead of them.

• In view of the persistence of protectionist pressures and large macroeconomic imbalances, some countries have urged that the Round do more to create a climate of confidence and to send a positive signal to governments, the business community, and the financial markets concerning the direction of the negotiations. They recommend an "early harvest" of agreements, at least in selected areas by the time of the midterm review, which

would also help sustain the momentum of the negotiations. Others doubt the feasibility of achieving selected agreements and look more toward "globality" in the outcome of the negotiations, with balanced progress in the majority of negotiating areas.

• Progress in the individual negotiating groups has been uneven, as wide divergences of views continue to prevail. For example, on agriculture, which is crucial to the negotiations for a number of countries, views diverge on whether the ultimate objective of the negotiations should be a total or partial elimination of subsidies, and on the role of short-term measures. The discussion on services, although far from agreement, has been more substantive and has proceeded faster than initially expected by many countries. Discussions in other new areas (such as trade-related intellectual property rights and trade-related investment measures) are at a preliminary stage. Substantive discussions have taken place in the group on functioning of the GATT system on trade policy surveillance, ministerial involvement in GATT's work, and cooperation with international organizations. Agreement on dispute settlement procedures in the near future is hoped for.

• Negotiations in many of the groups appear to be inevitably linked. For instance, progress on nontariff measures appears to be linked to progress on safeguards, and that on subsidies to progress in agriculture; progress in textiles is linked with the issues of safeguards, subsidies, and reciprocity. Although these linkages may create deadlocks, they can also permit progress through quid pro quos. In delinked areas, such as the functioning of the GATT system and dispute settlement procedures, the negotiations are moving forward.

• Developing countries are taking an active part in all the negotiating groups. In their view, insufficient attention has been given in the discussions to the principle of differential and more favorable treatment that was reiterated in the Uruguay Round Declaration. Many developing countries are also concerned about increasing calls for them to become more fully integrated into the obligations of GATT and to reduce reliance on GATT provisions on trade restrictions for balance of payments purposes. While developing countries are resisting changes in these provisions, it is clear that many industrial countries feel strongly that implementation of the provisions needs tightening. These views have been expressed in various forums, including meetings of the GATT Committee on Balance of Payments Restrictions.

Other Initiatives

The Organization for Economic Cooperation and Development (OECD) has conducted substantive research on trade issues, including the costs of protection and the interrelationships between trade and structural adjustment. In particular, the OECD's analytical and quantitative work on agricultural trade has provided an impetus for reform. The OECD is also an important forum for its members to coordinate positions on trade policy issues.

At their latest meeting in May 1988, OECD ministers called for resolute efforts by OECD countries to fight protectionist pressures; resolve trade frictions on a nondiscriminatory basis; observe the standstill and rollback commitments of the new Round; and work toward a better functioning of the GATT. The OECD communiqué endorsed, inter alia, the need for greater integration of developing countries into GATT and for liberalization of trade in services. It called for efforts to reach tangible progress in the new Round before the end of 1988; toward this end, member countries were encouraged to agree on a "framework approach" (i.e., formulation of general principles guiding the specific points of negotiations). It urged a strengthening of policy reform efforts in agriculture, calling on members to agree on a framework approach, including short- as well as long-term elements that would promote reform.

The need to improve the trade environment has been featured in the annual economic summits of major industrial countries. In the most recent economic summit held in June 1988 in Toronto, the leaders of Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, and the United States, and the president of the Commission of the European Communities welcomed the proposed U.S.-Canada Free Trade Agreement, as well as progress toward a single market in the EC by 1992. They agreed that it was vital for the GATT to become a more dynamic and effective organization, particularly in regard to the surveillance of trade policies and dispute settlement procedures. They called for greater ministerial involvement in GATT discussions and strengthened linkages with other international organizations and emphasized the need to make agriculture more responsive to market signals.

Trade policy issues are also discussed in a number of other international organizations, including the Fund (see below), the World Bank, and the UNCTAD. The Bank and the Fund have increasingly emphasized trade policy issues in their consultations with members and in the design of adjustment programs. The Bank has prepared a handbook on the Uruguay Round to assist, in particular, the developing countries in their deliberations. The UNCTAD has done considerable research on trade issues of relevance to the new Round and is extending technical assistance to developing countries. It has also prepared an extensive inventory of nontariff measures maintained by its members.

The Role of the Fund

A key function of the Fund is the exercise of firm surveillance over exchange rate policies of its members.

In practice this function encompasses the review of wide-ranging economic and financial policies in a multilateral context through regular exercises in the *World Economic Outlook*, and through Article IV consultations with individual members. Trade policy issues are covered in the work of the Fund in the context of Fund surveillance and in the use of Fund resources. Furthermore, the Fund collaborates closely on trade matters with the GATT, which has primary responsibility in the trade field. Fund staff also collaborate on trade issues with the World Bank, especially in the design of trade policies in adjustment programs.

Article IV Consultations

The Fund conducts regular Article IV consultations with all its members to assess whether their domestic and external policies are conducive to financial stability and economic growth. In line with guidelines from the Executive Board of the Fund, Article IV consultations place emphasis, inter alia, on trade policy issues, particularly regarding analysis of the effects of the member's trade policy stance on domestic adjustment and on its trading partners.

Trade coverage has been generally comprehensive in recent consultation reports prepared by Fund staff, especially in the reports on major industrial countries. It has included descriptions of the trade regime, analysis of the trade policy impact on the domestic economy (on inflation and sectoral adjustment, for instance) and on trading partners (on access to domestic markets for foreign suppliers). Trade restrictions abroad affecting the consulting country are also featured. In some cases the impact of protection has been quantified. The analysis has focused on the economic impact of trade restrictions and not on their conformity with GATT. In some reports, aspects of regional trade issues have been featured (for example, in reports of some EC member states), and in others regional integration in the context of free trade agreements has been discussed (for example, the U.S.-Canada Free Trade Agreement).

Fund staff appraisals on the member's trade policies are generally featured as part of the appraisal of the performance of the economy as a whole. They provide a basis for discussion of the member's situation by the Fund's Executive Board. The Fund staff is attempting to improve and expand the analysis of trade issues in consultation reports, particularly with respect to the interlinkages between trade policy and macroeconomic and structural adjustment issues. Other areas to which more attention will be given include encouragement of improved domestic surveillance mechanisms in individual countries and adoption of more transparent trade regimes.

Trade Policies in Fund-Supported Programs

All Fund-supported programs contain, inter alia, a standard clause on trade whereby the authorities of the member using Fund resources make a commitment to avoid imposition of new, or intensification of existing, import restrictions for balance of payments purposes during the period of the stand-by or extended arrangement. In recent years, an increasing number of programs have gone beyond this "standstill" clause, and trade liberalization has been included as an integral part of the external and structural policies under the programs. Coverage of trade issues has increased in stand-by and extended arrangements approved in recent years, and most programs in support of arrangements under the structural adjustment facility have incorporated specific trade liberalization measures.

The increased emphasis on trade liberalization in Fund-supported programs reflects the greater weight being given to structural adjustments in designing stabilization programs. Developing countries increasingly recognize that structural adjustments, of which trade liberalization is an important element, are essential for improved efficiency in resource allocation, enhanced competitiveness, and a shift toward outward-oriented development strategies.

Programs that did not contain specific trade liberalization measures included cases in which (i) the trade regime was already liberal; (ii) trade liberalization had been undertaken prior to approval of the program or in the context of previous programs; and (iii) trade liberalization was held over until better control of a fragile external position was established.

The design of trade liberalization programs takes into account the circumstances of individual countries, and in most cases a gradual approach has been adopted. It is an important area of consultation and collaboration with the World Bank. The focus and depth of trade liberalization have varied widely, ranging from the elimination of quantitative restrictions (QRs) to a simple streamlining of regulations. These variations reflect factors such as the nature and level of the initial restrictions, complementary exchange rate action, balance of payments prospects, and the authorities' commitment to liberalization. Given that exchange and trade restrictions can be effective substitutes, the nature and extent of measures in the area of exchange restrictions and exchange rate policies are of particular importance in influencing meaningful trade liberalization.

Relaxation of quantitative restrictions, which are less transparent and more distortive than tariffs, was the most common type of specific trade liberalization measure included in Fund-supported programs in the past three years. Reduction in the scope of QRs was featured in about one fourth of the countries that were granted stand-by or extended arrangements in 1985, and in about one half in 1986–87. Within this category, elimination or

substantial relaxation of QRs, or restrictive import licensing, were featured in a number of programs. In a number of cases, the removal or substantive reduction of QRs was part of a more comprehensive liberalization package including major exchange rate and domestic price reforms.

Tariff reform was increasingly featured in Fund-supported programs in the past three years. Comprehensive tariff reforms were often part of wider trade liberalization programs designed in collaboration with the Bank, and supported also by Bank resources. Comprehensive tariff reforms were typically implemented according to a phased schedule in conjunction with a phased reduction in quantitative restrictions, often as part of medium-term programs. The aim of tariff reforms in most cases was to lower the average nominal rate of protection, in order to reduce the effective rate of protection as well as the dispersion of tariffs. However, in some cases tariff reform was not feasible because of its fiscal revenue repercussions. In cases where quantitative restrictions were replaced by tariffs, revenues from tariff collections were expected to increase after the tariff reform. In other cases, revenues were augmented by improvements in tariff collections or increases in tariff rates.

Other types of trade liberalization in Fund-supported programs included (i) liberalization or abolition of requirements for importer's licenses, sometimes in conjunction with other trade measures; (ii) rationalization of the exchange rate used for customs valuation; and (iii) abolition of import or export monopolies.

Export promotion has also been featured in some programs in the form of tariff rebates or exemptions on imported inputs used for export production, administrative streamlining, preferential tax treatment for exports, elimination of export duties, and foreign exchange retention privileges for exports. (Export promotion via elimination of the anti-export bias implicit in restrictive import regimes is usually more efficient compared with the more direct measures of export subsidization.)

In most of the programs, trade liberalization measures were not used as performance criteria but were monitored in the context of overall reviews of performance, reflecting partly the difficulties in quantifying trade liberalization as well as attempts to minimize the number of performance criteria. In a few cases, trade liberalization measures were implemented prior to approval of the program. Monitoring of trade liberalization under the structural adjustment facility took place through the use of benchmarks and annual reviews.

Fund-GATT Collaboration

Cooperation between the Fund and the GATT has been pursued at two levels—in regard to general matters of mutual concern, and in terms of the Fund's participation in the GATT's consultations with contracting parties maintaining trade restrictions for balance of payments reasons.

That exchange controls and trade measures can be used as substitutes has from the outset resulted in a special status for the links between the GATT and the Fund. GATT Articles XIV and XV give determinant effect to this cooperation; for example, when a country adopts trade measures to deal with balance of payments difficulties, the Contracting Parties consult with the Fund, in the context of that country's consultations with the GATT Balance of Payments Committee.[97] Other examples of institutional cooperation include the study prepared by Fund staff, at the request of GATT, on the effects of exchange rate fluctuations on world trade.

Furthermore, well-developed channels of cooperation exist between the two staffs, including the operations of the Fund's Geneva Office. The Director-General of GATT is invited to attend as an observer in the ministerial-level meetings of the Fund and the Bank. In turn, the Fund is represented as an observer at sessions of the GATT Contracting Parties, the GATT Council of Representatives, and most standing GATT committees.

The Fund has extended its strong support to the Uruguay Round, in which a number of issues of special interest to the Fund are under discussion. The Uruguay Round's Trade Negotiations Committee (TNC) has invited the Managing Director of the Fund to be represented at its meetings, as well as at the meetings of the groups of negotiations on goods and on services, and the groups on GATT Articles, functioning of the GATT system, trade-related investment measures, and natural resource-based products. The deliberations of the Round may well have significant implications for the Fund. For example, the Round is discussing possible strengthening of GATT's relations with other international organizations. Another example is the area of services in which the Fund has jurisdiction over the payments side,[98] and hence has a natural interest in seeing

[97] Article XV of the General Agreement, which provides the broad framework for this collaboration, states that "[t]he CONTRACTING PARTIES shall seek cooperation with the International Monetary Fund to the end that the CONTRACTING PARTIES and the Fund may pursue a coordinated policy with regard to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES."

The term "contracting parties" refers to GATT members acting individually. "Contracting Parties" is used in this paper in place of "CONTRACTING PARTIES" as used in GATT official documents to refer to actions by signatory countries as a group.

[98] Under its Articles, the Fund has jurisdiction over exchange restrictions on payments and transfers for current international transactions. The concept of "payments for current transactions" under the Fund's Article XXX(*d*) includes all foreign exchange payments "in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities." The determination whether a measure involves an exchange restriction is made by the Fund on the basis of a detailed examination of the specific circumstances, including both the form of the measure and its administration in practice. Also, the Fund may condition the use of its resources on criteria or other understandings for avoiding or eliminating exchange restrictions, including those with respect to service transactions.

that any new disciplines developed in the Uruguay Round are consistent with the Fund's jurisdiction.

Surveillance

Existing GATT Mechanisms

Broadly defined, almost all GATT bodies have surveillance functions and regularly review particular aspects of trade policies and measures. Existing GATT bodies concerned with surveillance include the following. (1) The special meetings of the Council, held twice a year, perform regular and systematic reviews of developments in the trading system, based on a six-monthly survey prepared by the GATT Secretariat. (2) The Committee on Trade and Development reviews matters of interest to developing countries. (3) The Committee on Balance of Payments Restrictions is responsible for multilateral surveillance of trade restrictions taken for balance of payments purposes. (4) The Textile Committee oversees the Multifiber Arrangement (MFA), and the Textile Surveillance Body reviews bilateral agreements of MFA members. (5) The committees associated with the various MTN codes review members' policies and measures at intervals of between four times a year and once every two years. (6) The Consultative Group of Eighteen (CG 18), established in 1975, has a mandate to follow international trade developments and forestall sudden disturbances in the trading system and the international adjustment process. The CG 18 is not a decision-making body; its function is essentially consultative but it may make recommendations to the GATT Council. It has not met since 1987.

In spite of these mechanisms, the need for more effective trade policy surveillance has been increasingly recognized, both within and outside GATT. Accordingly, the Uruguay Round is devoting much attention to surveillance issues.

Standstill and Rollback

The function of the Uruguay Round's Surveillance Body, established in early 1987 to oversee compliance of the new Round's standstill and rollback commitments, is more a political than a legal form of surveillance. Several countries have alleged contraventions of the standstill. For example, Chile has complained about GSP treatment in the United States and the Community's import licensing of apples; the EC is concerned about new manifestations of the Buy American program in the United States; the United States has raised the issues of import curbs on certain dairy products and new subsidies for white peabeans by Canada and new soybean subsidies by Switzerland; and Canada has complained about the Community's ban on imports of meat from animals given artificial hormones.

Regarding the rollback, thus far only the EC has put forward a proposal (in March 1988), which envisages rolling back some of its residual restrictions (over 100 quantitative restrictions covering a variety of products), excluding those on Eastern Europe and Japan. The offer is conditional on similar offers from other participants. As the first rollback offer, the EC announcement was generally welcomed by other participants, but some countries have expressed concern about its discriminatory nature (vis-à-vis Eastern Europe and Japan) and its limited significance in terms of the amount of trade it would liberalize.

The absence of significant rollback offers is viewed by many countries as an indication that any major rollback would probably be at the end rather than at the beginning of the negotiations, because many countries insist on a "balance of benefits approach," and are unwilling to give anything away unilaterally. Rollback issues are also complicated by the views of some countries that gray-area measures are not subject to the rollback but are subject to negotiation; their reduction would depend on progress on safeguards and on reducing subsidies.

Functioning of the GATT System

Dissatisfaction with the adequacy of existing surveillance mechanisms has led GATT members to consider possible improvements. Furthermore, many countries are no longer concerned only with obtaining direct trade advantages or with clarifying GATT rules but wish also to strengthen GATT's ability to adapt to present and future developments in the international financial and economic environment and to strengthen GATT's institutional powers. Hence, the negotiations in the Uruguay Round's group on functioning of the GATT system are centered on three aspects: first, to enhance GATT surveillance of trade policies and practices and their impact; second, to improve the effectiveness and decision making of GATT as an institution; and third, to enable GATT to play a more active part in global economic policymaking.

Trade Policy Reviews

A consensus appears to be developing that the objective of a trade policy review mechanism should be to enhance transparency and understanding of the trade policies of all members, and to allow for an evaluation of individual trade policies and trends, rather than an examination of the legal compatibility of any particular

measure with GATT rules. Many countries believe that the trade review mechanism would facilitate, inter alia, assessment of individual trade practices within the wider context of the external trade and financial environment. A mechanism requiring more frequent reviews for countries with the largest share of world trade compared with others is preferred. However, disagreements persist on the content of surveillance and on how direct an effect on trade any given policy measure should have for it to be covered by the surveillance discussion.

GATT Effectiveness

The discussions so far on improving GATT's effectiveness have focused primarily on greater ministerial involvement in its work. In the past three decades, ten GATT meetings at the ministerial level have been held. There is consensus that more frequent participation by trade ministers could provide political guidance and initiative, reinforce governments' commitments, give GATT greater prominence and credibility in domestic political arenas, and enable better monitoring of trade trends against the background of a wider political and economic context.

Broad support exists for periodic ministerial sessions of all GATT members, with full decision-making powers. Views are more divided about the size and composition of a possible smaller group of ministers who would meet more frequently, in an advisory role, to examine trade developments and policies before they were submitted for full deliberation in GATT. The concept of regular meetings with ministers representing certain constituencies, similar to the Fund's Executive Board, has not had much support among GATT members because the GATT is viewed as a contract, as opposed to an organization.[99]

Cooperation with Other Organizations

The Punta del Este Declaration states that negotiations should aim to increase GATT's contribution to economic policymaking by strengthening its relations with other international organizations responsible for monetary and financial matters.

Many GATT members believe that some of the substantive questions relating to trade, finance, and monetary issues need to be addressed in the Round to reach meaningful conclusions on institutional relationships. Some have noted that while trade liberalization alone cannot solve problems of indebtedness and financing, protectionism aggravates these problems and makes it more difficult for indebted countries to fulfill their responsibilities to the Fund and the Bank. The impact of macro- and financial policies on trade is not always clearly perceived by national policymakers. The question, therefore, is how GATT could make a greater contribution to the multilateral system in such a way that full account is taken of the interrelationships between trade and other policies.

The discussions on strengthening cooperation with other organizations are still in a preliminary stage, and views vary. Some favor strengthening cooperation only at the technical level between the secretariats of these institutions; others take a more ambitious approach, seeking to broaden the area of present cooperation and deal with actual policymaking and coordination. Some fear that the latter approach may lead to an overlapping and confusion of the roles of the organizations. Some developing countries are concerned that a strengthening of GATT/Fund/Bank relationships may result in cross-conditionality and in stronger pressures on them to pursue open trade policies without similar pressures being applied to industrial countries.

Instruments of Protection

Tariffs

Tariff levels in industrial countries have been reduced in successive GATT negotiations and a large proportion of industrial tariffs are "bound" in the GATT against increases (Section II). Tariff reductions have been less pronounced in some sectors, such as agriculture and textiles, and individual high tariffs remain. Tariff escalation (successively higher tariffs for products at a higher stage of processing) in industrial countries often makes the rate of effective protection higher than that of nominal protection.

Tariff reductions and supervision of GATT tariff schedules are overseen by the GATT Committee on Tariff Concessions established in 1980. Much of the committee's work in recent years has been related to preparations for implementation (which began in 1988) of the new Harmonized Commodity Description and Coding System, developed by the Customs Cooperation Council in Brussels. The new system, which serves as a single standard for the classification of traded goods, has presented some GATT members with the need for negotiations under Article XXVIII where the change from current nomenclatures disturbs the fine balance of concessions already negotiated.[100]

The Uruguay Round Group on Tariffs is discussing a number of proposals for tariff reductions. Some mem-

[99] Plans drawn up in the mid-forties to establish the International Trade Organization (ITO), on similar lines as the Fund and the World Bank, did not materialize.

[100] GATT (1986).

bers favor elimination of all tariffs on industrial products by industrial countries; others support more modest reductions. Industrial countries' tariff peaks and escalation are of concern to developing countries. The group is searching for agreement on a common negotiating basis that would cover a tariff-cutting approach, eliminate high tariffs and tariff escalation, and expand the degree of bindings by all participants.

While not the most important issue in the Uruguay Round, tariff negotiations are a significant part of the debate on developing country integration. Developing countries have not generally reduced or bound tariffs in previous MTNs. Mexico and Chile are the only GATT members that have bound 100 percent of their tariffs (Mexico at 50 percent and Chile at 35 percent). The degree of tariff bindings varies widely in other developing countries but is generally low. Industrial countries are urging developing countries to bind most of their tariffs to ensure security of access to their markets. The issue of tariff bindings is also being discussed in a number of other negotiating groups, including those on tropical products, textiles, and natural-resource based products.

Nontariff Measures

The proliferation of nontariff measures (NTMs) in the past two decades has led GATT members to search for better GATT disciplines in the use of such measures. Many NTMs are in the form of voluntary export restraints and other gray-area measures outside GATT surveillance. The Uruguay Round Group on Nontariff Measures is considering proposals on the modalities of the negotiations: the establishment of multilateral rules and the choice of a formula approach or a request-and-offer approach to liberalization.[101] In view of problems of measuring the equivalence of future concessions on NTMs, the group is also considering possible measurement yardsticks.[102] Issues under discussion include the NTMs to be covered in the negotiations and their trade-distorting effects. For example, some industrial countries are concerned about delays and the additional costs to exporters associated with preshipment inspection; developing countries consider that such inspection helps save foreign exchange and deters unethical business practices. Progress in the group, particularly concerning gray-area measures, is linked to progress on safeguards.

Certain nontariff measures, including technical barriers to trade, import licensing, and government procurement, are governed by codes agreed in the Tokyo Round (Table A28).

Safeguards

The GATT's main safeguard provision is Article XIX, which allows temporary restrictions on imports where domestic producers are seriously injured and provides for compensation to affected trading partners. In practice, however, these provisions have been ineffective. Recourse to Article XIX has declined at the same time as an increasing number of discriminatory gray-area measures are taken outside GATT. With one exception (Chile), Article XIX has been invoked only by industrial countries since 1978 (Table A29). (Developing countries have tended to utilize GATT's balance of payments provisions to justify their trade restrictions.) Of 134 Article XIX actions taken since 1950, 23 had a duration of more than five years, and 32 had a duration of three to five years. As of mid-1987, 26 Article XIX measures were still in force. This compares with 135 known export restraint arrangements reported by GATT in September 1987 and 261 in May 1988 (Table 2).

Although the 1982 GATT ministerial meeting called for a comprehensive safeguards agreement, such an agreement was not reached because of differences in views between proponents of nondiscriminatory safeguards and those who favor selective action against imports from particular supplying countries. These differences also influence discussions in the Uruguay Round Group on Safeguards. In addition to the principle of nondiscrimination, the group is discussing other features of a possible new safeguards code, including transparency (clarity in rules and application of restrictions); degressivity (phased reduction during period of maintenance of restrictions); temporariness (limit on duration of measures); and compensation (redress for countries adversely affected by the restrictions). Other issues relate to appropriate definitions of "injury," "domestic industry," and "like or directly competitive products." Some countries favor the establishment of a surveillance body or safeguards committee that would ensure that Article XIX measures are taken solely to deal with emergency, short-term imbalances.

The discussion on safeguards is linked to a number of other areas, for both substantive and tactical reasons. Developing countries support a solution on safeguards based on nondiscrimination, as they are vulnerable to discriminatory restrictions; they also call for elimination of the Multifiber Arrangement, which is a major derogation from normal GATT rules on nondiscriminatory application of temporary restrictions. Some developing countries have also linked their cooperation on services and other "new" areas to progress on safeguards. A

[101] The background documentation for use by the group includes an extensive compilation of nontariff measures by the GATT Group on Quantitative Restrictions and Other Non-Tariff Measures established in 1983.

[102] One suggestion is the use of the concept of effective rate of assistance (ERA), which measures the support to industry provided through both border and nonborder assistance.

number of industrial countries appear inclined to link progress on safeguards with progress on developing countries' acceptance of greater discipline on balance of payments restrictions under GATT Article XVIII:B, and with progress on subsidies.

Subsidies and Dumping

Subsidies

An Agreement on the Interpretation and Application of Articles VI, XVI, and XXIII of the GATT, more commonly referred to as the "Subsidies Code," was negotiated in the Tokyo Round. The code aims to bring greater discipline to the use of subsidies. Export subsidies on manufactures are prohibited. For primary products, the code enjoins signatories to refrain from export subsidies that result in a "more than equitable share" of world export trade in such products. Since signatories recognize that domestic subsidies may serve important social and economic policy objectives, domestic subsidies are not prohibited, but signatories are enjoined to avoid their use where they have adverse trade effects for others. The code permits the imposition of countervailing duties to offset the injurious effects on domestic producers arising from imports of like products that benefit from subsidies abroad (export or domestic). As of June 1988, there were 25 signatories to the Subsidies Code (with the EC counted as one) (Table A28).

The Subsidies Code has many interpretative difficulties. Differences of view exist among GATT members regarding the definition, scope, and measurement of subsidies and the application of countervailing duties. These differences include, for example, treatment of financial versus other subsidies, input versus final product subsidies, and specific versus general subsidies; definitions of "primary" and "manufactured products," "domestic industry," and "like products." They have led to many trade disputes related to the conditions of use of subsidies and of measures to counter their effects.

The Committee on Subsidies and Countervailing Measures is responsible for overseeing the code and acts as the forum under which signatories consult on matters related to the code, including clarification of definitions and resolution of disputes. The use of subsidies has to be notified by signatories to the committee. Actual notifications are inadequate, however, partly because of insufficient data on subsidies and partly because countries do not want to publicize their subsidies to avoid countervailing duties. These factors have made the code difficult to enforce, and trade frictions on subsidies have increased in recent years.

GATT members basically disagree about whether the existence of a subsidy requires a financial contribution by governments. The committee issued (in 1985) a draft recommendation on the principle of specificity that held that a subsidy exists only if the government provides assistance to a particular industry as opposed to all industries. This recommendation, in principle acceptable to most signatories to the code, was not adopted because the United States opposed a concept that would exclude the provision of energy-related inputs to industry at prices below world market levels.[103]

Differences of interpretation have made it difficult for the committee to reach clear conclusions in some disputes. For example, progress was not made on disputes over EC subsidies on exports of wheat flour and pasta products,[104] which required clarification of definitions of primary and manufactured products. Also, disagreement on the definition of domestic industry became evident in a dispute involving EC subsidies to the wine industry: the EC argued, and a GATT panel found (in a report not yet adopted by the GATT Council), that U.S. grape growers could not file a countervailing duty petition against wine imports.[105] Similar cases involving the practice of broadening the definition of domestic industry have arisen with respect to countervailing duty petitions by U.S. orange growers against Brazil's exporters of orange juice, and by Canadian cattle growers against EC beef exporters. (On the latter, a GATT panel found in October 1987 that cattle growers were not part of the domestic industry, but the panel's report has not yet been adopted.) More recently, a GATT panel was established to investigate U.S. charges that EC oilseed subsidies nullify zero tariff bindings on soybeans.

Another source of disagreement relates to the application of the "injury test" in determining the need for countervailing duties. Some countries (e.g., the EC) apply the injury test to all countries, while others (e.g., the United States) apply it only to signatories of the Subsidies Code or to nonsignatories that have entered into bilateral agreements to exercise discipline over sub-

[103] In 1983, the U.S. Commerce Department argued that subsidies for the Mexican petroleum processing industry and the Canadian lumber industry were not countervailable owing to the absence of specificity. In response, the U.S. Administration introduced legislation to make subsidies on natural-resource products countervailable. The Commerce Department then introduced the concept of de facto specificity, referring to a situation in which a few dominant users benefited from such subsidies, although they were in principle available to all users, and in 1986 invited new countervailing duty petitions that resulted in positive findings of subsidies in both Mexico and Canada, reversing the previous negative findings.

[104] A bilateral agreement on pasta reached in 1987 between the EC and the United States involving a reduction in export restitution by the former did not address the underlying issues that the two parties agreed to address in the Uruguay Round.

[105] This was related to certain provisions of the U.S. Trade and Tariff Act of 1984 concerning countervailing action on imported wine; the effect of the provision was to stretch the definition of the word "industry" sufficiently to allow grape growers, as well as wine producers, to initiate actions against wine imports. The EC contended that any request for a countervailing investigation could, under the code, only be introduced by producers of the like product (in this case wine) and not by grape producers.

sidies. A further issue is whether cumulation of imports is valid for the purpose of determining injury. Legislation expanding the scope of countervailing duties in some industrial countries has also been a source of concern to other countries.

Against this background, negotiations in the Uruguay Round Group on Subsidies and Countervailing Measures are both complex and difficult. For some countries the main objective is to achieve international discipline in the use of subsidies; others emphasize discipline in the use of countervailing duties on the basis of specificity, for the most part narrowly defined to include financial contributions by governments. Various approaches to subsidies are under discussion. One issue is whether to proceed with a classification of subsidies (prohibited, actionable, or nonactionable) or to bring all kinds of government assistance, including that for agriculture, under GATT's wing. Another issue is whether agreement on a definition of subsidies is a prerequisite to consensus on an effective dispute settlement system. The negotiations are further complicated by the linkage between subsidies and agriculture and by the widespread use of subsidies in the steel sector. Developing countries have emphasized the need to take fully into account, in drawing up any new rules, the principle of differential and more favorable treatment for them.

Dumping

The Tokyo Round Agreement on Antidumping Practices, which replaced that negotiated during the Kennedy Round, came into effect in 1980. It interprets the provisions of GATT Article VI, which lays down the conditions under which antidumping duties may be imposed as a defense against dumped imports. Antidumping investigations are reported to the GATT Committee on Antidumping Practices. An ad hoc group on the implementation of the antidumping code studies technical issues referred to it by the committee.

Recourse to antidumping measures, as well as disputes over their application, have increased considerably in recent years. The antidumping code has involved controversy over definitions and measurement of dumping, injury, and the application of antidumping duties. The problem areas (some are similar to those in the Subsidies Code) include the appropriate definition or use of domestic industry, like products, constructed values, threat of injury, cumulative injury assessment, input or component versus final product dumping, the application of dumping in third markets, the use of price undertakings in antidumping proceedings, and revision and termination of undertakings. Legislation by some industrial countries to widen the coverage of antidumping duties has been a source of concern to other countries.

An important recent controversy pertains to the extension of antidumping measures to components of products in so-called screwdriver operations. On June 22, 1987 the EC adopted a new regulation that stipulates that to prevent circumvention of antidumping duties on finished products, antidumping duties may also be applied under certain conditions[106] to products assembled or produced in the Community, using imported parts or materials. Under this regulation, the EC initiated investigations during 1987–88 on electronic typewriters, electronic scales, excavators, and photocopiers, all of which were assembled or produced by Japanese-related companies in the EC. In April 1988 the European Council decided to impose antidumping duties on five companies.

Japan argued in the GATT Committee on Antidumping Practices that the Community's anticircumvention regulation was inconsistent with the GATT and the Antidumping Code because (i) no investigations took place to determine dumping and injury related to the imported components; (ii) the provision stipulated that duties may be imposed provided that the value of components originating in the country subject to the initial antidumping duty exceeded the value of all other parts by a specified proportion; in Japan's view, this provision was intended to operate like a local content requirement and was inconsistent with GATT; (iii) duties were imposed only on manufacturers associated with foreign companies already subject to antidumping duties and not on domestic manufacturers even if they used the same imported components; Japan considered that this amounted to a discriminatory internal tax in violation of GATT; and (iv) Japan did not accept the Community's contention that the new regulation had legal cover under GATT Article XX:D.[107] The EC contended that the legislation had been adopted after experience had shown that the opening of the antidumping investigation (on the final product) was often followed by the establishment of an assembly operation in the EC designed to circumvent eventual antidumping duties. The EC also argued that the legislation had been drafted with great care to define precisely the conditions under which the circumvention of antidumping duties was most obvious.

Other recent issues regarding the application of antidumping provisions include the following.

- Determination of the threat of material injury. In

[106] The conditions are that the "screwdriver" operation must be closely related to the firm on which antidumping duties have been imposed and must have been established, or substantially increased its operations, following imposition of antidumping duties on the finished product. In addition, the imported components from the country against which the initial duty was applied have to amount to at least 60 percent of the price of the finished product, that is, the local content (or content from third countries) of the finished product must be under 40 percent.

[107] Article XX:D states that nothing in the GATT shall prevent any contracting party from adopting measures necessary to secure compliance with laws or regulations that are not inconsistent with the GATT provisions.

1985, the committee adopted recommendations by the ad hoc group, which stressed that the totality of factors must be considered in such a determination.[108]

- Difficulties in determining constructed values or estimated production costs.[109]
- Prevention of dumping in third markets. A GATT panel set up at the request of the EC to investigate the Japan-U.S. agreement on semiconductors did not address the validity of prevention of dumping in third markets, but it did rule 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.
- The U.S. Court of International Trade made two new rulings that have the potential to encourage further aggressive use of antidumping petitions by U.S. producers: one makes it more difficult for the U.S. Commerce Department to suspend an antidumping order; the other says that the use of the concept of cumulation of imports for different countries does not violate GATT antidumping provisions.
- Under a new regulation, the EC has initiated, for the first time, an unfair practices investigation in a service industry (Korean shipping).

Issues related to the Antidumping Code are being discussed in the Uruguay Round Group on MTN Agreements and Arrangements. These discussions have generally revolved around the need to clarify definitions and conditions under which antidumping actions are taken and to avoid abuse of the antidumping instrument as a disguised form of protection and harassment of foreign exporters. Some question the relevance of the code in today's business world; others believe that varied interpretation of the code has given rise to arbitrary applications and unjustifiable impediments to trade. Considerable interest has been expressed in clarifying the application of the code to imported components, defining "like products," and determining constructed values (used when no sales of "like products" exist). Some countries are concerned that "recidivist dumping" (deliberate, repeated dumping) and "diversionary practices" (practices to evade an antidumping order) are being employed more often and in a manner that defeats the intent of the code.

Trade-Related Aspects of Intellectual Property Rights

The negotiations in the Uruguay Round Group on Trade-Related Aspects of Intellectual Property Rights (TRIPS) aim to identify GATT provisions that might apply to TRIPS, elaborate new disciplines, as appropriate, and develop a multilateral framework in counterfeit goods, building on the work already done in the GATT.[110] Industrial countries argue that inadequate or ineffective protection of intellectual property rights has trade-distorting or trade-restrictive effects and that new rules are therefore needed to protect such rights. They suggest the adoption of norms that could serve as a basis for enforcing such key GATT principles as nondiscrimination, transparency, and national treatment, and the establishment of adequate enforcement mechanisms in these areas, especially to protect copyrights, machinery trademarks, patents, semiconductor layout, trade secrets, and designs.

Many developing countries are concerned about going beyond the mandate of the group. They emphasize that the group's work should be confined to the trade-distorting or trade-restrictive aspects of intellectual property rights, and should not include the establishment of new regulatory regimes for intellectual property rights, per se, as these are matters in the competence of the World Intellectual Property Organization (WIPO). Some of these countries also believe that it would be wrong to design an intellectual property system based only on trade considerations; intellectual property owners have not only rights but also obligations to society, and dealing only with rights would entail a weakening of measures to protect the public interest.

Trade-Related Investment Measures

The Uruguay Round Group on Trade-Related Investment Measures (TRIMS) is identifying relevant TRIMS, such as local content and export requirements, and it is examining various GATT Articles to assess their rele-

[108] Article VI of the GATT recognizes that there are certain limited circumstances in which antidumping action is justified even before injury has materialized. Obviously, there is also a danger that that provision can be abused, especially if an authority accepts only a simple assertion of "threat." The Committee on Antidumping Practices has accepted that any administering authority should consider, among other things, a number of specific factors relating, for instance, to the rate of increase of dumped imports, the ability of the producer to increase his volume of dumped imports, the effect of dumped goods on domestic prices, and the state of inventories in the importing country. See GATT (1986).

[109] GATT rules permit the use of constructed values based on cost estimates as a basis for dumping charges if domestic prices in the exporting country are not representative of costs, for example, because of the existence of monopoly power. A technical difficulty that often arises is that costs in the start-up period of the product or process are very high; from the producer's viewpoint not all costs are allocated to pricing in the start-up period on the expectation that costs would decline as sales volume increased. This consideration is important in electronic products. Very few producers have the financial ability to dump long enough to eliminate all competition. Another technical difficulty arises with indirect taxes that have to be netted out of domestic prices in assessing whether dumping is occurring; in practice, it is difficult to assess the incidence of taxation.

[110] An expert group was established by the GATT in early 1985 to look into questions relating to trade in counterfeit goods.

vance for trade-distorting or trade-restrictive effects of investment measures.[111] Views diverge on whether further rules and regulations in this area are needed; some countries believe that existing GATT Articles are already relevant for many TRIMS. A key issue is whether the group should deal with all TRIMS or only those with direct effects on trade. Another is whether it is more appropriate to deal with TRIMS on a case-by-case basis or to seek to apply GATT disciplines to them across the board. Also being addressed are measurement questions, including the difficulties of determining the trade effects of combinations of investment measures and investment measures used in conjunction with trade measures. Some developing countries have emphasized that the group's mandate focuses only on the trade effects and that no attempt should be made to put in place a new system of international investment regulations.

Sectoral Issues

Agriculture

Agriculture has historically been considered special for socioeconomic and strategic reasons. As a result, it has remained largely outside GATT's normal disciplinary framework. GATT provisions on export subsidies for agriculture are vague (see above), and the growing budgetary and economic costs of high levels of protection and subsidization of agriculture, particularly in major industrial countries, have led to a widespread realization of the need for multilateral disciplines in this sector.

A breakthrough was achieved when the 1982 GATT ministerial meeting established the GATT Committee on Trade in Agriculture with a mandate to look into possible reform. This committee agreed in November 1984 on a series of recommendations aimed at achieving greater liberalization of trade in agriculture.[112] It also worked extensively on compiling information on non-tariff measures maintained in agriculture by GATT members.

The work of the committee proved to be a valuable input for the subsequent discussions in the negotiating Group on Agriculture under the Uruguay Round, which has a mandate to bring all measures affecting import access and export competition in agriculture under strengthened and more operationally effective GATT rules and disciplines. Discussions in the group have revolved around the scope of liberalization, various approaches to it, and the means of monitoring agriculture protection. An increasing number of countries are prepared to accept the use of production subsidy equivalents (PSEs) after suitable modification, for monitoring protection to agriculture (see Section V).

The basic differences in approach to agriculture are reflected in the proposals presented in the group, which vary in the recommended pace and extent of reform. The U.S. proposal calls for the complete phase-out over a ten-year period of all subsidies that directly or indirectly affect trade in agriculture and of all agricultural import barriers, as well as harmonization of health and sanitary regulations. Support to farmers need not be abolished, but it should not be linked to the type or amount of commodity produced; nor should such support distort trade, provide undue incentive to production, or shield farmers from market signals.

The EC views complete elimination of protection and subsidies for agriculture as unrealistic and politically unfeasible. It has proposed a two-stage approach. The first involves short-term measures to reduce agricultural imbalances by control of production and by emergency measures. The latter consist of (i) agreement on minimum export prices for cereals that would be linked to the stabilization of imports of cereal substitutes (used for animal feed) in the EC; (ii) compliance by all OECD countries with the minimum prices set under the International Dairy Agreement; and (iii) agreement on sugar by all OECD countries involving maintenance of the level of imports in a base year (1984). Other short-term measures include a commitment by all OECD countries to freeze their level of support relative to a base year (1984), as measured by some aggregate measure (perhaps the PSE with adjustments), particularly in sensitive areas such as cereals, beef, sugar, barley, and oilseeds. Basic reform involving a substantive reduction in support and protection is to be negotiated in the second stage over the long term.

The Cairns Group proposes a short-term reform program, to take ten years or less, after which a long-term framework to govern world trade would apply fully. The long-term framework envisages removal of all agricultural trade restrictions and subsidies and full integration of agricultural trade into GATT's surveillance and dispute settlement mechanism. The short-term program envisages a phase-down of government support for agri-

[111] Some 18 GATT Articles are being examined, including Article I (on nondiscrimination), Article II (schedules of concessions), Article III (national treatment), Article X (transparency), Article XI (quantitative restrictions), Articles XII, XIV, XV, XVIII:B (balance of payments provisions), Articles XXII and XXIII (consultation and dispute settlement), Article XXIV:12 (subnational entities), and Article XXIX (Havana Charter).

[112] The committee's recommendations called for the elaboration of conditions "under which substantially all measures affecting trade in agriculture would be brought under more operationally effective GATT rules and disciplines, with particular reference to improving terms of access to markets, to bringing export competition under greater discipline, to reinforcing the linkages under Article XI (quantitative restrictions) and Article XVI (subsidies) between national policies and trade measures in a manner which more clearly defines the limits to the impact of domestic agricultural policies on trade, and to more effectively implementing in relation to trade in agriculture the GATT provisions providing for differential and more favorable treatment for developing countries." (GATT (1986), p. 13.)

culture, as measured by a type of PSE to be developed for this purpose. While the precise pattern of phase-down would vary from country to country, priorities would be given to phasing out export subsidies and to reductions in tariff and nontariff measures. Given the urgent need to reduce agricultural trade distortions, early relief measures would be implemented by end-1988 and would involve (i) a freeze on subsidies, no reduction in market access, no new sanitary or phytosanitary measures, and nondisruptive release of stocks; and (ii) a cutback across the board of all subsidies and a commitment to increase access.

The merits of short-term measures versus long-term reform are under debate. The United States is concerned that adoption of short-term measures, including price fixing and market-sharing arrangements, may erode long-term discipline. Some countries have observed, however, that the pressures for compromise are considerable, partly because it may prove difficult to contain protectionist pressures if early progress in the Uruguay Round negotiations on agriculture is not achieved.

Although some developing countries are concerned about the impact of possible liberalization on their food import bill, most support comprehensive reform of agriculture. Developing countries have indicated that they would expect to receive differential and more favorable treatment under any agreed reform.

Textiles and Clothing

The Multifiber Arrangement (MFA) is managed by the Textiles Committee, which has established the Textiles Surveillance Body to supervise the detailed implementation of the MFA. The Textiles Committee has also established a Sub-Committee on Adjustment with responsibility for periodically reviewing developments in autonomous adjustment within the textiles and clothing industries, as well as the role of government policies and measures to facilitate industrial adjustment.

In discussions in the Uruguay Round Group on Textiles and Clothing, many developing countries are emphasizing the need to return to normal GATT rules for this sector, while most industrial countries consider it inopportune to do so in the near future as they fear the repercussions on their domestic producers. Indonesia has proposed, on behalf of developing country exporters of textiles and clothing, a multiple process consisting of a reversal of restrictive measures under the MFA: elimination of concepts and practices under the MFA that are incompatible with GATT; effective application of GATT principles relating to developing countries' trade in textiles and clothing; and termination of the MFA and all associated bilateral agreements. Industrial countries stress that while the position of their textile industries may have improved, they continue to face certain problems in their markets. Some industrial countries are more willing to consider trade liberalization of their textiles if developing countries also liberalize trade, especially their textile import regimes; others have linked the discussions of the group with progress in other areas in the Round.

Tropical Products

The Punta del Este Declaration recognizes that special attention should be given to liberalization in tropical products, since a number of developing countries largely depend on tropical products for their export earnings. In keeping with this understanding, the Uruguay Round Group on Tropical Products aims to seek the fullest possible liberalization of world trade in tropical products, with a view to achieving concrete results by the midterm review of the Round in December 1988. The group is examining detailed information on trade flows and trade barriers on selected tropical products.[113] Liberalization in these areas is expected to benefit a number of developing countries although some may face erosion of their preferences in certain markets. A number of developing countries have presented initial lists of specific tropical products of export interest to them. Some countries have enunciated general principles they would like to see operating in trade in tropical products; others have submitted concrete proposals.

Some developing countries are concerned that linkages and prior conditions may slow down the negotiations. For example, some industrial countries have linked liberalization of trade in tropical products to overall reform in the agricultural sector. Given existing obstacles to early comprehensive agricultural reform, this linkage might considerably delay progress. Furthermore, reciprocity by developing countries, particularly the more advanced, has also been raised as an issue in the discussions.

Natural Resource-Based Products

Market access for natural resource-based products (NRBP) (namely, nonferrous metals and minerals, forestry products, and fish and fisheries products) is affected by subsidies and other nontariff support pro-

[113] Products covered in the initial negotiations include tropical beverages (coffee, tea, and cocoa); species, flowers, and plants; certain oilseeds, vegetable oils, and oilcake; tobacco, rice, and tropical roots; tropical fruits and nuts; tropical wood and rubber; and jute and hard fibers.

grams, which are often interlinked. The lack of transparency serves to obscure a full appreciation of the costs to both implementing countries and their trading partners. In 1984, the GATT Council set up a Working Party on Problems of Trade in Certain NRBP, and in 1985 the Contracting Parties agreed to tackle the problems in this sector multilaterally.

Outstanding issues currently being discussed in the Uruguay Round Group on NRBP, on which wide differences of opinion exist, include (i) whether coverage of the negotiations should be limited to nonferrous metals and minerals, forestry products, and fishing products, or should extend to other products (iron ore, construction material, phosphates, salts, and energy and energy-based products); (ii) whether the negotiations should aim at liberalizing import trade barriers or should also deal with subsidies and export restrictions; and (iii) whether the group should limit itself to monitoring the impact on natural resource-based products of progress made in other groups of the Uruguay Round, or should negotiate on these products.

Services

The importance of services in the domestic economy and in foreign trade has increased considerably for major industrial countries, and is also rising for some developing countries. Even so, as yet no multilaterally agreed definitions of services and trade in services exist, as these comprise a variety of activities affected by different conditions. Partly as a result, measurement of services is also beset with difficulties. Furthermore, issues related to services are made more complex because trade in services affects other domestic policies in often sensitive areas such as immigration, investment priorities, foreign ownership, rights of establishment, and nationalized banking.

The inclusion of services in the Uruguay Round was subject to controversy, as many developing countries were initially opposed to their inclusion. Some believed that they had little or no comparative advantage in the services sector; others were concerned that the inclusion of services could direct attention away from much needed reform in trade in goods. Some feared they would be forced to open their markets in certain key and sensitive segments (such as banking and insurance) as a quid pro quo for preserving access to industrial country markets. Developing countries eventually agreed to the inclusion because of the legal separation of the entities negotiating goods and services and acceptance by all GATT members that inclusion of services in the Round did not imply recognition of services as part of GATT.

The Uruguay Round Group of Negotiations on Services aims to establish a multilateral framework of principles and rules for trade in services, with a view to a progressive liberalization, and respecting the policy objectives of national laws and regulations applying to services (see Appendix II). Discussion in this group has covered a variety of issues related to services, including appropriate definitions, measurement, coverage in the negotiations, and the merits of broad-based approaches on general principles versus sectoral approaches.

Thus far, there is no consensus in the group on a definition of trade in services and on whether an agreed definition is necessary for the group's work to progress. Some countries require agreed definitions to determine the scope of rules and disciplines in the negotiations; others feel that definitions can be dealt with in parallel with the ongoing negotiations. Approaches on definitions vary from generic approaches identifying the essential attributes of a transaction so that it might be considered as trade in services to one based on an understanding of which services are to be covered.

Another issue relates to the coverage of the negotiations and whether it should be limited only to cross-border sales of services, possibly including labor services, or should be broadened. The limited coverage is favored by those who wish to avoid bringing investment or rights of establishment into the negotiations. The proponents of the broader approach point out that firms are frequently required to establish themselves in a host country before they are permitted to sell certain services, and in some cases physical presence may be required to provide the service (e.g., consultancy).

The approaches to negotiations on services fall broadly into two categories: (i) development first of a multilateral framework of principles for all sectors, which could then be used for sectoral negotiations; or (ii) greater emphasis on sectoral discussions and less on the multilateral framework, because of the perceived difficulties of achieving consensus on comprehensive rules and principles. The features of a possible framework for trade in services under discussion include most-favored-nation (MFN) application, national treatment (i.e., same treatment to both domestic and foreign service producers), and transparency. Some industrial countries consider it opportune for the group to begin pulling together broadly agreed views on principles and negotiating mechanisms to move the discussions forward. Others feel that before this can be done, the group needs to pay greater attention to ensuring respect for national policy objectives, as many obstacles to market access in services are motivated by nontrade considerations.

Developing countries are concerned that the negotiations are not addressing the need to promote economic development. Many are interested in including labor services in the discussions, whereas industrial countries wish to avoid including immigration. Some developing countries are important service producers with a stake in the multilateral negotiations, but others feel that little is to be gained by opening the service sectors; still others

simply want to protect their own service sectors. Some have expressed concern about the trade-restricting practices of transnational corporations in the service area.

A few developing countries have presented proposals to the group that call for a framework agreement with relatively modest disciplines and negotiation of trade liberalization mainly in the context of sectoral agreements. The proposals emphasize the need to respect national policy objectives and suggest particular areas for special treatment of developing countries.

Trade Issues Affecting Developing Countries

Issues of Interest to Developing Countries

Issues of trade interest to developing countries are the responsibility of the Committee on Trade and Development, one of the principal standing committees of the GATT. In particular, the committee examines how member countries put into practice the provisions of Part IV of the General Agreement, which provides for differential and more favorable treatment for developing countries and includes an undertaking by industrial countries to reduce trade barriers affecting developing countries and not to impose new ones. The committee also has primary responsibility for overseeing implementation of the Enabling Clause that was agreed in the Tokyo Round and that also provides more favorable treatment for developing countries. The committee has two subcommittees: one dealing with the least developed countries, and the other with examining protective actions taken by industrial countries that affect imports from developing countries.

Developing countries are concerned about a number of issues pertaining to the international trading system; some were raised in the sixty-third session of the committee in April 1988 and reiterated in its sixty-fourth session in July 1988. First, priority was assigned to dismantling protectionist trade barriers by industrial countries that reduced market access for developing countries; tariff escalation was also a matter of concern. Second, the need to strengthen multilateralism in the face of trends toward bilateralism was emphasized. Third, the importance of tighter disciplines on recourse to safeguards by industrial countries was highlighted. Fourth, some developing countries felt that the Uruguay Round discussions had so far concentrated on the areas of interest to industrial countries, such as services and trade-related intellectual property rights, and not sufficiently on those of interest to developing countries. Finally, the principle of differential and more favorable treatment for developing countries was defended as essential for their growth, and concern was expressed about suggestions in some negotiating groups of the new Round about the possible erosion of such special treatment.

The issue of increased discrimination in the application of the Generalized System of Preferences (GSP) was raised in the committee. Developing countries were concerned that industrial countries appeared to be moving away from the basic principles, set out in decisions of the Contracting Parties of June 25, 1971 and November 28, 1979, whereby industrial countries acting individually had been authorized to grant preferential treatment to developing countries, provided that the preferential schemes were of a generalized, nondiscriminatory, and nonreciprocal nature.

The Group of 77 at the Fifteenth Session of the UNCTAD Special Committee on Preferences in May 1988 charged that the GSP was not working as well as it should.[114] It argued that the principle of nonreciprocity was compromised by the insistence of industrial countries on concessions in areas such as services and intellectual property in the Uruguay Round negotiations in return for continued GSP benefits. It also complained about the exclusion of certain developing countries from the benefits of GSP schemes on the basis of graduation. These views were criticized, however, by most industrial countries. The latter referred to the sharp rise in GSP imports in recent years and argued that the loss of preference for some beneficiary country suppliers was inevitable as these suppliers increased their competitiveness in the markets of the preference-giving countries.

Integration Issues

The Enabling Clause establishes the principle of integration of developing countries, but does not lay down the criteria for it. In the face of pressure by industrial countries for institutionalized graduation and integration and resistance by developing countries to these concepts, the language of the Enabling Clause was a compromise. Unable to incorporate graduation criteria officially into the GATT itself, some industrial countries have unilaterally incorporated aspects of graduation into their own trade laws, using varying criteria, and these attempts have met with criticism from developing countries.

For the Uruguay Round, integration and graduation

[114] The UNCTAD Secretariat report on the worldwide GSP situation in 1987 indicated that the GSP helps no more than one fourth of developing countries' exports of dutiable goods on average, and that enormous scope remains for liberalizing and harmonizing rules of origin. The report stated that denial of preferences to major beneficiaries had hurt their export performance, while failing to help the exports of smaller beneficiaries; it had, however, been of advantage to nonbeneficiary industrial countries. The conclusions of the report were criticized by industrial countries (UNCTAD (1987b) and (1988a)).

have not been explicitly included in the agenda of negotiations, but they undoubtedly form part of the discussions and cut across many groups. Many industrial countries view integration by developing countries into greater GATT disciplines as one of the Round's most important objectives, in part because they consider it the best possible means of encouraging trade liberalization by developing countries. Some industrial countries clearly expect greater reciprocity by the more advanced developing countries, particularly in areas of the latter's comparative advantage and where they have made substantive inroads in export markets.

Many developing countries view integration with concern, however, and are skeptical about the benefits they can gain from the new Round. Some have noted that a dismantling of the Multifiber Arrangement does not seem imminent; agreement on tropical products is important for some of them; and agreement on an MFN-based safeguards code is also important for them but progress thus far is slow. Liberalization of trade in agriculture may be the most important concrete outcome of the Round for developing countries in the Cairns Group. Developing countries have generally adopted defensive positions in the discussions in the "new" areas (services, TRIPS, and TRIMS) but a number also have an interest in these areas as potential exporters. Some developing countries with open trade regimes, or that have recently undertaken unilateral trade liberalization, believe that they should get credit for this in the negotiations.

With respect to the least developed countries, their share in world trade has declined; some rely mainly on exports of a few primary commodities; and they already receive preferential treatment in most industrial country markets. The export problems of many of them are related primarily to domestic policy and production conditions. The Sub-Committee for Least Developed Countries has indicated willingness to review these countries' problems and is accepting their proposals for presentation to the appropriate negotiating groups under the Uruguay Round. Bangladesh requested such a review, which indicated that Bangladesh's difficulties were primarily related to internal transportation and marketing, production bottlenecks, and insufficient export diversification.

Balance of Payments Provisions

The GATT Committee on Balance of Payments Restrictions exercises surveillance over the use of trade restrictions for balance of payments reasons by industrial countries (under Article XII) and by developing countries (under Article XVIII). Systematic recourse by industrial countries to Article XII has declined steadily and now only ad hoc, temporary use is made of this Article (Table A30). In contrast, Article XVIII:B has been frequently used by developing countries and represents the single, most widely applied exception to the prohibition contained in GATT Article XI on the application of quantitative restrictions (QRs). Some 85 percent of all QRs notified to GATT by developing countries are justified under Article XVIII:B. For many individual developing countries, restrictions on over 300 import items (and over 700 in the case of Argentina and Colombia) are currently justified on balance of payments grounds. A number of developing countries that appear to be applying restrictions for balance of payments purposes have not notified these to GATT and have thus remained outside GATT surveillance.[115] During the period 1974–87, 112 consultations were held with 19 developing countries by the GATT Committee on Balance of Payments Restrictions; of these, more than two thirds took the form of "simplified" consultations, and the remainder were "full" consultations.[116]

Recourse by developing countries to GATT Article XVIII:C, which allows them to maintain QRs for developmental or "infant industry" purposes, has been infrequent. Since 1970, Indonesia (in 1983) and Malaysia (in 1984) are the only two developing contracting parties to have notified certain import measures taken under Article XVIII:C.[117] This Article requires prior notification and non-disagreement by the Contracting Parties, involving a time delay before imposition of the restrictive measure. Also, it allows trading partners that are adversely affected by the measure to seek compensation. In comparison with Article XVIII:B, which excludes the possibility of retaliation by countries adversely affected by the balance of payments measures, Article XVIII:C has a built-in safeguard against its excessive use.

The discussions in the Uruguay Round on GATT's balance of payments provisions are being held in the Group on GATT Articles. Many industrial countries strongly argue for a review of GATT's balance of payments provisions with a view to strengthening surveillance over trade restrictions for balance of payments purposes. More fundamentally, they question the economic rationale for these provisions in view of flexible exchange rates and other changes in the international monetary system in the past two decades. Furthermore,

[115] See Anjaria (1987).

[116] Full consultations involve discussion of the consulting country's trade measures and balance of payments situation and conclusions and recommendations by the committee. The Fund provides background documentation as well as a statement on the consulting country, which generally includes an assessment of economic and financial trends and prospects, the balance of payments situation, and measures to deal with external imbalances. Simplified consultations involve no discussion on the consulting country; the committee determines only whether there is a need for a full consultation. The Fund provides background documentation for simplified consultations, but no Fund statement.

[117] Releases from GATT obligations under Article XVIII:C have been granted to Cuba (1949, 1955, 1960), Haiti (1950), India (1949), and Sri Lanka (1949, 1952, 1955, 1956, 1958, 1959, 1960, 1964).

they view reduced reliance by developing countries on GATT's balance of payments provisions as essential to meaningful integration of developing countries into the GATT. While their views differ on the need to modify Article XVIII:B, they wish to ensure that balance of payments restrictions are temporary and that they are used in a form that minimizes disruptive effects on trade. Industrial countries also believe that changes in procedures in the GATT balance of payments consultations are warranted to tighten the surveillance process. They suggest, for example, that consultations under the "simplified procedures" of Article XVIII:B may need to be reviewed.

Most developing countries oppose any revision of the balance of payments provisions under Article XVIII:B on the grounds that there have been no fundamental changes in the international financial system since these provisions were last reviewed in 1979. They maintain that the provisions contain explicit and detailed rules to ensure that restrictions are not invoked arbitrarily. While recognizing that trade restrictions are not a remedy for balance of payments problems, they believe that restrictions are often a necessary response to an adverse external environment.

Disputes, Articles, and Codes

Dispute Settlement

The prompt resolution of trade disputes under multilateral surveillance is of vital importance to the smooth functioning of the GATT. GATT members have been concerned about the less than effective working of the GATT's dispute settlement mechanism. While this may be due in part to inadequate procedures, many countries consider that the difficulties are due to other factors such as vague GATT provisions, differences in their interpretation, and nonobservance or abuse of the proceedings.

A marked increase has occurred in disputes brought for arbitration to GATT panels (Table A31 provides a list of panels established in the GATT). Also, delays in establishing the composition and terms of reference of the panels have become more serious. During the first half of 1988, the GATT Council established eight panels, more than in the whole of 1987. Some countries believe that the Uruguay Round negotiations should not be soured by excessive recourse to dispute settlement proceedings. Others view the increased recourse as a sign of growing confidence in the GATT.

Recent disputes reflect several characteristics. First, they have focused considerably, but not totally, on agricultural issues, partly reflecting intensifying problems facing world trade in agriculture. Recent disputes relate, for example, to quantitative restrictions on imports in the EC (apples), Japan (beef and citrus), Korea (beef), Norway and Sweden (apples and pears), and to payments and subsidies to producers in the EC (oilseeds and related animal feed protein), certain EC directives (third country meat directives and the growth hormone ban), and Argentina's differential export tariffs (soybeans and soybean products). Second, a number of disputes relate to newly emergent sectors such as electronics and high technology (e.g., Japan's semiconductors). Finally, the increase in the number of GATT panels might also represent attempts to use the dispute settlement mechanism to review and debate GATT regulations, with a view to clarifying these rules or establishing the need to revise them.

The Uruguay Round Group on Dispute Settlement is considering the strengthening of existing dispute settlement procedures. Discussions revolve around issues such as arbitration and consensus, time limits for establishing panels, use of standard terms of reference, and improved surveillance of the implementation of panel reports. A number of countries hope to reach some form of agreement on improved dispute settlement procedures by the midterm review of the Uruguay Round in December 1988.

GATT Articles

The Uruguay Round Group on GATT Articles is examining a number of Articles with a view to reviewing their applicability and relevance. In addition to the discussion (mentioned above) on GATT's balance of payments provisions under Articles XII, XIV, XV, and XVIII, the group has before it requests for examination of Article XXIV on customs unions and free trade areas. Some countries consider that increasing use (or abuse) of Article XXIV is eroding the MFN principle of the GATT and that appropriate means should be found to enable nonparticipating countries to enjoy some of the benefits of regional integration on an MFN basis.

Many trading nations (both industrial and developing) continue to call for revisions in Article XXVIII (on the renegotiation of tariff schedules) on the grounds that the present distribution of negotiating rights favors large suppliers and creates disincentives for small suppliers to enter into tariff-binding negotiations. Some countries wish to review the applicability of Article XVII on state trading, with a view to attaining stricter disciplines and greater transparency in operations of state trading. In this context, it has also been suggested that the use of countertrade, particularly government-mandated countertrade, must be addressed to clarify how Article XVII might contribute to creating an effective discipline on countertrade activities that could distort trade and infringe on GATT principles. Other Articles under discussion include those dealing with subsidies and with national security exemptions.

MTN Agreements and Arrangements

The Tokyo Round resulted in a number of codes and agreements covering subsidies, dumping, technical barriers to trade, import licensing, government procurement, and customs valuation, as well as sectoral agreements related to bovine meat, dairy products, and civil aircraft. The Uruguay Round Group on MTN Agreements and Arrangements is examining these codes and agreements to determine whether any changes are warranted. The codes on subsidies and dumping were discussed earlier in this section, and Section V discusses dairy products and bovine meat; this subsection focuses on the remaining codes and agreements.

The Tokyo Round Agreement on Technical Barriers to Trade, more commonly known as the "Standards Code," which entered into force on January 1, 1980, has now been signed or accepted by more countries than any other Tokyo Round code (Table A28). The code is designed to ensure that procedures related to standards, testing, and certification of products do not operate as unnecessary barriers to trade. The overseeing Committee on Technical Barriers to Trade has made available a list of products covered by notifications under the agreement for the use of national standards bodies.[118] It has examined the work of international and regional bodies in the fields of testing and inspection and the possibilities of improving understandings under the agreement. In this regard, difficulties arise in keeping up with standards in certain high-technology areas where technology changes rapidly; problems may also arise due to differences among countries in the extent of decentralization with respect to standards. The standards related to "process and production methods" are not covered under the code; disputes on such standards have increased (for example, EC standards on the use of hormones in beef).

In the Uruguay Round Group on MTN Agreements and Arrangements, further improvements have been suggested in the Standards Code, including better information and transparency on standards activities, clarification on processes and production methods, and possible expansion of the agreement to areas such as testing, inspection, and certification systems.

The Tokyo Round Agreement on Import Licensing is intended to ensure that licensing procedures do not in themselves act to restrict imports. The Committee on Import Licensing, to which notifications on national procedures are made, is examining possible improvements in notification procedures, clarification of definitions, and strengthened disciplines. These issues are also being discussed in the Uruguay Round Group on MTN Agreements and Arrangements. Some view the code as too limited in scope and feel that it needs clarification of definitions and discipline on the duration and trade coverage of licensing schemes and on the use of nonautomatic licensing, including increased transparency and institutionalized review proceedings.

The Government Procurement Code calls for open international bidding on government contracts exceeding a specified amount (from 1988, SDR 130,000). Discussions on the coverage of government entities included in the code are being carried out in an informal working group. Some countries would like to include in the code the postal and telephone services, water supply, and transportation. Another issue is how to deal with privatization: some participants insist that countries that have privatized state enterprises should include other government entities under the code to restore the balance among countries on the share of government procurement open to international bidding. Some countries have questioned whether the U.S. Buy American Act is in conformity with the obligations under the code; in response, the United States has indicated that the provisions of the Buy American Act do not cover the entities included in its commitments under the code. Only a few developing countries are signatories to the code, partly because it does not provide for differential and more favorable treatment for developing countries. Discussions about the Government Procurement Code in the Uruguay Round cover the need for better information and review, wider coverage, improvement in tendering procedures, and procedures for accession to the code.

The Agreement on Trade in Civil Aircraft was the only sectoral agreement covering manufactures negotiated during the Tokyo Round. The agreement eliminated import duties on civil aircraft and the bulk of aircraft parts. It also introduced disciplines on nontariff barriers to trade. The Committee on Civil Aircraft supervises the agreement. Signatories to the agreement account for all large civil aircraft production outside the Soviet Union. In 1986, the committee heard some complaints against the United States. One related to the proposed transitional provision for certain aircraft contained in the U.S. Tax Reform Bill. Another related to the U.S. Federal Aviation Administration's decision on a stricter interpretation of certain regulations: the United States said the move was for safety reasons, while the EC and other members expressed concern about possible harmful effects for trade and the servicing of civil aircraft. The committee has also considered the U.S.-EC dispute on Airbus subsidies (see Section VI).

Also under discussion in the Uruguay Round is the Customs Valuation Code, which aims at more uniform and transparent practices on valuation of imported goods for customs purposes among different countries.

[118] GATT (1986).

V Agricultural Trade Policies

Introduction and Summary

The agricultural support policies of major industrial countries have resulted in large imbalances and excess production. These policies have reduced market access for efficient agricultural exporters, many of which are developing countries, and the disposal of surplus production on world markets has had a depressing effect on world food prices. Between 1980 and 1987 the Fund's food commodities price index has fallen by one third in nominal terms and is almost half the 1980 level in real terms. Agricultural trade policies have led to an escalation of friction in the international trade of agricultural products during the 1980s, imposed a high cost on taxpayers and consumers in industrial countries, and adversely affected their macroeconomic performance. These factors underlie the prominence given to agricultural trade policy reform in the OECD and in the Uruguay Round negotiations.

The burden of agricultural support policies on taxpayers and consumers in major industrial countries is high, averaging $185 billion a year in 1984–86, a substantial increase from the early 1980s. This amount was about six times more than annual official development assistance by OECD countries in 1984–86. Although these support policies were originally undertaken for domestic reasons, they have been accompanied by trade restrictions and export subsidies that have adversely affected efficient agricultural exporters. Despite attempts to reform support policies in some industrial countries, significant action to reduce the adverse effects on international trade has not yet materialized.

Many of the policies in the 1985 Food Security Act of the United States substantially increased the taxpayer costs of agricultural support, particularly for grains. Using a broad measure of public spending, agricultural support increased from $24 billion in 1980 to $54 billion in 1986.[119] Most was used to increase income payments to farmers, while part was used to subsidize exports. Efficient exporters and U.S. consumers have also been adversely affected by the intensification of import restrictions, particularly for sugar.

The costs for the European Community (EC) have also increased as a result of surplus production and the increased U.S. subsidies. The intervention policies of the EC have led to large stockpiles of dairy products and beef, with stocks of butter peaking in 1986 at 92 percent of annual EC consumption. Spending on the Common Agricultural Policy (CAP) and by governments of EC members has increased by about 50 percent between 1979–81 and 1984–86 to $25 billion a year, and spending on the CAP will amount to over two thirds of EC budget expenditure in 1988. Measures have been introduced during the 1980s in an attempt to slow the increase in CAP costs, but their success to date has been limited. A package of measures was approved in February 1988 that could potentially reduce the rate of cost increases; however, these measures do not address the basic issue of high domestic prices nor do they include measures to improve market access for traditional exporters or reduce the extent of subsidized exports.

While budgetary spending on agriculture in Japan has remained fairly flat, the use of quantitative import restrictions has meant that the burden to the consumer more than doubled between the early 1980s and 1984–86, and the impact of the appreciation of the yen has been to increase quota rents (received by importers) rather than to lower consumer prices. The domestic prices of a number of basic farm products, including rice, are about ten times the level of world prices. Despite recent modest reductions across the board in producer prices and plans to liberalize the import of beef and citrus products, market access for the other major agricultural commodities is still an issue.

Other major agricultural exporters among industrial countries have responded in different ways to the crisis in agriculture. Canada has continued to provide substantial support for its agricultural sector and has introduced a special income support scheme for grain and oilseed producers to offset the impact of increased subsidies by the United States and the EC. Australia and New Zealand have reduced support for all sectors of the economy, including agriculture, as part of their structural reforms to improve their overall macroeconomic performance.

The situation in developing countries is substantially different from that in industrial countries. Despite recent policy reforms whereby an increasing number of

[119] Based on data in OECD (1988) and includes federal and state spending (Table A32).

developing countries now pay producer prices roughly equivalent to world prices, many other developing countries continue to have a bias against agricultural sectors, because of policies such as price controls, overvalued exchange rates, and state-marketing monopolies. Moreover, a large number of countries support the consumption of imported cereals (e.g., wheat) by providing additional consumer subsidies.

Similar patterns of extensive support and increased trade friction are evident across the major internationally traded food commodities. The dairy sector stands out as the sector that receives the highest level of support; in 1986 total support for the dairy industry in the United States amounted to $1,400 per cow (the EC was not far behind), which was greater than the per capita GDP of 64 countries accounting for half the world's population. The disposal of surplus stocks has necessitated sales at prices well below those set in the International Dairy Arrangement.

The costs of these support policies both to the countries initiating them and to other countries and, conversely, the gains from liberalization, can be substantial. The costs for an individual country are analyzed here in terms of the direct impact on producers, consumers, and taxpayers as well as in terms of the broader implications for structural adjustment and macroeconomic performance. Liberalization of support policies is likely to generate direct gains to consumers and taxpayers that substantially exceed losses to producers. These losses will not be completely at the expense of needy groups of farmers as most of the producer supports in the United States and the EC benefit large-scale farms. Since producer losses would be less under multilateral than under unilateral liberalization, great importance is attached to the opportunity provided for the former by the Uruguay Round. Nevertheless, the evidence suggests that unilateral liberalization by the major trading countries implies no lower (and possibly greater) benefits to the liberalizing country as a whole than does multilateral liberalization because of the much larger welfare gains to consumers.

Agricultural support policies also contribute to macroeconomic imbalances and structural rigidities. The cost of agricultural support forms a significant part of the budget deficit of the United States. Structural rigidities resulting from support for agriculture (which would otherwise have experienced a decline relative to other sectors) also impose costs on the economy because tax and consumer-financed support reduces the competitiveness of the unsupported sectors. Studies on the EC suggest that liberalization would result in substantial gains in overall employment, income, and exports of manufactured goods and services. Japan and Korea would also benefit similarly, although the final impact would depend on the extent of liberalization in other sectors of their economies, and by other countries for Japanese and Korean exports.

Overall, developing countries are likely to gain in terms of both net welfare and net earnings of foreign exchange from the liberalization by industrial countries of all agricultural products, including tropical products. These gains are likely to be unequally distributed, however, unless substantial changes are made in the policies of many countries with currently sizable cereal imports. Almost all countries in Asia and Latin America, many of which are highly indebted, are likely to benefit substantially from industrial country liberalization. However, evidence suggests that many countries in Africa (including North Africa) will suffer substantial foreign exchange and net welfare losses without changes in their own policies, primarily because of the higher cost of wheat and rice imports. Many of these countries hold producer and/or consumer prices well below world levels, discouraging production and increasing the consumption of imported food. Much of these losses could possibly be offset by expanding production of other cereals more suited to agronomic conditions in the region with more appropriate price and structural policies, although the long-run result has not been analyzed in comprehensive studies.

Developments in Individual Countries

The proliferation of institutional arrangements for support policies that have common features, while often reflecting the influence of a special political constituency, tends to reduce the transparency of the type and overall level of agricultural support. Table 7 sets out the main types of support policies classified in terms of their method of operation and summarizes their direct costs, while Table 8 summarizes the main policies used in selected countries and explains the main instruments.

Cross-country comparisons of support policies are difficult because many policies are not transparent. Producer subsidy equivalents (PSEs) can be used to overcome this problem as they provide a comprehensive measure of the gross value of the support policies. In essence, a PSE converts the full range of support policies to the equivalent subsidy that would be needed to provide the producer with the same income if the support policy was removed. This is particularly important for comparing nontariff measures and output restrictions, which are less transparent, with budgetary measures. A PSE is expressed as a monetary amount (Table A33) or as a percentage of the gross value of agricultural production to producers (Table A34).[120] Industrial countries make the heaviest use of market price-support policies and direct income support (Table A33). In percentage

[120] The gross value of production to producers includes not only the price received for sales of produce but also direct payments from the government as a result of farming, e.g., disaster and diversion payments. See OECD (1987b), for a full discussion of PSEs.

Table 7. A Summary of Common Agricultural Support Policies

Operation and Direct Costs	Instruments
1. *Market Price Support*	
Restricts quantities or increases price of commodities entering domestic market through domestic or border measures, or reduces price of exports to world levels. Domestic market measures raise domestic prices and discourage consumption. Cost is mainly borne by consumer, although a budgetary cost is incurred in set-asides, etc., and stockpiling. Border measures reduce market access for efficient exporters. Export subsidies have a budgetary cost and reduce prices received by other exporters.	*Domestic market* Domestic measures: production quotas, including limits on purchases by domestic marketing board monopolies. Set-asides, land diversion programs, dairy herd reductions. Price discrimination systems, price premiums on fluid milk. Domestic stockpiling, CCC inventory, and loan operations. Marketing board price stabilization policies at cost to government. Price control at below market level (negative support). Border measures: tariffs, import levies. Quantitative restrictions, import quotas, variable levies, restrictive state-trading operations. Restrictive sanitary requirements. *World market* Export subsidies, including restitutions and Export Enhancement Program. Export taxes (negative support).
2. *Direct Income Support*	
Raises the price and/or income received by producer leaving domestic price unaffected. Less distorting than market price support because consumption not reduced but can still lead to excess production. Cost is borne mainly by budget and some domestic supply control measures (see above) may also be used to limit budgetary exposure.	Deficiency payments (e.g., difference between a target or guide price and market price). Payments under income stabilization schemes. Payments under headage and acreage diversion schemes. Production levies (e.g., co-responsibility levies) (negative support).
3. *Indirect Income Support*	
Subsidies for inputs and related services. Reduce marginal cost of production to increase producer income. Generally these have a budgetary cost. May lead to excessive use of inputs, and administrative rationing to limit use of subsidized inputs may also lead to inefficiencies.	*Programs affecting variable costs of production* Fertilizer subsidies. Fuel tax exemptions. Concessional domestic credit for production loans. Irrigation subsidies. Subsidized crop insurance. Income tax concessions. *Programs affecting marketing of commodities* Transportation subsidies. Marketing and promotion programs. Inspection services.
4. *Long-Term Policies*	
Government spending on physical infrastructure and research and development. The extent to which this spending diverts such resources away from competitive industries may cause long-term problems. Resultant productivity increases have increased the costs of other forms of agricultural support policies.	Product-specific development and extension services. Conservation and environmental programs. Structural programs. Rural roads and other public works.
5. *Misaligned Exchange Rates*	
Exchange rates that do not produce a sustainable balance of payments outcome. Undervalued exchange rate reduces domestic price of competing imported food and price of exported commodities.	Undervalued or overvalued exchange rates. Multiple exchange rates.

terms, in 1984–86, PSEs ranged from 69 percent for Japan to 40 percent for the EC and 28 percent for the United States (Table A34). The interpretation of PSEs is more difficult for developing countries because the agricultural sector in many of these economies is subject to inflated input costs as a result of protection for other sectors, which can offset some or all of the agricultural support. A few of the developing countries shown in Table A34 have net taxes on their agricultural sector, while some are neutral and others provide substantial support (e.g., Korea has a PSE of 59 percent).

United States

During the 1980s there has been a major shift in U.S. farm policy. Prior to the 1985 Food Security Act the policy effectively supported the world price of grains at considerable budgetary cost. From 1985 this policy was changed, support prices were reduced, domestic farm incomes were supported by direct budgetary payments, and the subsidization of exports was introduced. Both policies have resulted in greater budgetary spending

Table 8. Main Agricultural Producer Support Policies for Selected Countries and Major Commodities, 1982–87

Commodity	United States	European Community	Japan	Canada	Australia
Grains	CCC inventory operations and commodity loans; deficiency payments; payments in kind entitlements; average reduction (set-asides); Export Enhancement Program	Price supports maintained by intervention purchases subject to guarantee threshold; variable levy; export refunds; co-responsibility levies (negative support); land set-aside (all products)	State trading, including the restriction of imports; deficiency payments	Tariff (corn); income stabilization (WGSP); deficiency payment (SCGP); CWB pool deficit; transport subsidies; crop insurance	AWB pool deficit; domestic price discrimination
Oilseeds	CCC inventory operations and commodity loans; Export Enhancement Program	Deficiency payments	Deficiency payments	As above	...
Dairy	Price supports maintained by tariffs, quotas, and government purchases; Dairy Herd Termination Program	Price supports maintained by intervention purchases; production quotas; variable import levies; export refunds; 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	Production quotas; import restrictions
Livestock	Beef: Tariff; quota; voluntary restraint agreements; Export Enhancement Program Other: General (research and development, inspection, etc.)	Price supports maintained by intervention purchases; variable import levies; export refunds	Beef: State trading by LIPC; quotas; tariff; domestic price stabilization Pork: Variable levy Poultry: Tariff	Beef: Tariff Pork: Tariff Poultry: Production and import quotas	...
Sugar	Price supports; import quotas	Price supports maintained by intervention purchases; variable import 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	Domestic price discrimination

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 of U.S., EC, and Japanese support policies is contained in Miller (1986). Details are contained in Organization for Economic Cooperation and Development, *National Policies and Agricultural Trade* (Paris, 1987b).

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. The interest rate is also below the market rate. CCC support purchases are also made for dairy products and, until 1985, for sugar.

A deficiency payment is used to raise the effective price a producer receives to the target price by making up the difference between the target price and the higher of the market price or the loan rate.

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 usually voluntary export restraint agreements are used.

European Community

A variable levy is a levy 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. Legally the European Community has argued that this is not a quantitative import restriction but a frequently adjusted tariff.

Guarantee thresholds 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.

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 acts both to stabilize the domestic price of beef and to manage the supply of imported beef by quotas. The domestic price stabilization operation is based on calculating the median price of the band using a formula that includes production costs and the average market price in the past seven years. During the year, the LIPC intervenes to keep the price of beef within the stabilization band.

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

than before. Import restrictions have been tightened, particularly for sugar. The United States has also made frequent use of GATT dispute settlement procedures and bilateral trade agreements. It has stated its willingness to completely liberalize its agricultural sector as part of its proposal in the Uruguay Round, which calls for the elimination of all distorting support programs by all major countries.

A characteristic of U.S. agricultural policy is that the major policy variables are mandated in the Food Security Acts (commonly known as Farm Bills) that cover four to five crop years. The 1981 Farm Bill, reflecting the optimistic outlook for prices at that time, fixed support prices (loan rates) at historically high levels and resulted in the large accumulation of surplus stocks by the Commodity Credit Corporation (CCC), particularly in grains and dairy products. This stock accumulation had the effect of a market price-support policy which, by virtue of the position of the United States in world trade in grains, bolstered their world price (at the expense of the U.S. budget) and permitted other countries with surplus production to expand their exports.

The Food Security Act of 1985 sought to redress the problems created by the previous Farm Bill by reducing the incentives for further CCC stock accumulation and providing subsidies for exports through the Export Enhancement Program (EEP) and the Targeted Export Assistance (TEA) program.[121] The incentives for CCC stock accumulation were reduced by bringing support prices of grains and dairy products closer to market prices and stipulating that programs for some other commodities were to be run without CCC acquisitions. Farmers' incomes were maintained by large deficiency payments. The EEP provided $2 billion to subsidize exports over the three-year period to September 1988 through a subsidy payable in cash or commodities, the latter entitling the exporter to additional commodities from CCC surplus stocks. In July 1987, additional funding for the EEP was authorized from other programs, and the 1988 Trade Bill has a provision to extend the EEP from 1990 until 1992 up to a limit of funding of $2 billion. As of end-June 1988, export sales of $5 billion had been assisted under the EEP, with the subsidy provided having a market value of $2.1 billion. The United States has defended the EEP as a means of countering unfair practices—including subsidies—by competitors and of encouraging exporters that subsidized to negotiate reform. However, the homogeneous nature of agricultural products means that the prices received by "fair" agricultural exporters are also affected. The inclusion of the TEA program in the 1985 Farm Bill aimed at countering the effects on U.S. agricultural exports of practices by foreign governments deemed unfair by the United States. However, the program has been administered as a market promotion fund rather than as a price-support policy. This combination of policies has contributed greatly to the decline in world prices for grains in 1985–87 and has increased U.S. budgetary costs. Budgetary spending on agricultural support rose from 0.3 percent of GNP in 1980 to 0.6 percent in 1987 (Table A35). The firming of world grain prices in late 1987 and 1988 has started to reduce the budgetary costs of these policies.

The United States has also continued to use and intensify a number of quantitative import restrictions. Under the 1955 GATT waiver for the products included in Section 22 of the 1933 Agricultural Adjustment Act, the United States maintains quantitative import restrictions on dairy products, peanuts, and cotton. This waiver was justified on the grounds that the United States needed time to adjust its agricultural policies although no specific time limit for doing so was included. The EC has requested a review of this waiver by a GATT panel. The quota on sugar is imposed under a "headnote" to the U.S. Tariff Schedule. Following successive reductions in the U.S. sugar import quotas, at the request of Australia, the GATT Council has agreed to establish a dispute settlement panel to review this situation. Quotas and voluntary export restraints are also used for beef and have not been approved by GATT. These restrictions are summarized in Table A36.

The long-running dispute in GATT over EC treatment of U.S. citrus exports and EC subsidies of pasta exports was settled in 1986 with a bilateral agreement for improved market access for U.S. citrus products and a limit on subsidies of EC pasta exported to the United States. Disputes and threats of retaliation have also arisen over U.S. access to the EC market for oilseeds and vegetable oils, over compensation for U.S. export markets for feedgrains to Spain and Portugal arising from the expan-

[121] A more detailed discussion is contained in Evans (1988).

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 to 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 high fructose corn syrup (HFCS) is also regulated by production quotas, variable levies, and surcharges.

Canada
The programs are the Western Grain Stabilization Program (WGSP) and the Special Canadian Grains Program (SCGP). The Canadian Wheat Board (CWB) runs a pool deficit if market prices fall below initial guaranteed prices and this deficit is made up by the Federal Government (these deficits have been infrequent).

Australia
The Australian Wheat Board (AWB) runs a pool deficit if the market price falls below the guaranteed minimum price, and this deficit is made up by the Federal Government. (A deficit has occurred only in 1986/87.) Domestic price discrimination entails charging a stable price on the domestic market that is generally, but not always, above world prices, and profits from this may assist the export industry. A price equalization levy was applied to domestic consumption to equalize returns of exported products. This policy was terminated in July 1986.

sion of the EC, and issues affecting U.S. beef exports. The United States has also brought Japan's restrictions of certain agricultural products before the GATT dispute settlement panel, which found them to be inconsistent with GATT. Japanese restrictions on beef and citrus products have been the subject of intensive negotiations resulting in new bilateral agreements for the liberalization of the markets. Complaints about Korea's restrictions of beef imports have been lodged under GATT Article XXIII separately by the United States and Australia.

European Community

In the European Community the Common Agricultural Policy (CAP) provides the main framework for agricultural support, although national spending is still important. The CAP aims to maintain a fair standard of living for farmers and reasonable prices for consumers and to stabilize markets. The combination of market price-support mechanisms and increases in productivity has led to increases in production that have boosted self-sufficiency in all major agricultural commodities to well beyond 100 percent (Table A40). Surplus production, together with imports permitted under special arrangements, has necessitated the export of surpluses, with substantial restitutions (subsidies), and the stockpiling of large amounts of certain products, notably butter and beef.[122] The use of these subsidies enabled the EC to become the largest exporter of food products in 1986. The EC was the largest net importer of food in the 1970s and is still a significant net importer. It has also used dispute settlement procedures to improve its market access.

In the period 1984–86 taxpayers in the EC are estimated to have paid an average of $18 billion a year for agricultural support through the European Agricultural Guarantee and Guidance Fund (EAGGF) (two thirds of the EC budget), and national and provincial expenditures are estimated to have provided an additional $8 billion (Tables A32 and A41 present these data in terms of ECUs). In 1988, EAGGF expenditures alone are estimated to be $30 billion, over two thirds of EC budget expenditure.

Proposals for the reform of the CAP have been made during much of its history. The most recent efforts came in the mid-1980s, reflecting the high costs of the CAP and the emergence of constraints on exporting surpluses because of their effect both on other industrial countries (particularly the United States) and on developing countries. The reform measures have taken the form of price restraint (including the use of guarantee thresholds), limits on the entitlement to support, and limits on the overall expenditures on price support from the EC budget. Some of these measures, including those agreed upon in February 1988, represent both a step to restrain the growth in the budgetary cost of the CAP and a first step on the path of reform. However, they do not include steps to increase market access for other exporters—and thereby reduce the cost of the CAP to consumers—or to reduce subsidized exports.

Price restraint has involved a freeze (and in some cases a slight reduction) in intervention prices in European currency units (ECUs) since 1983/84 (Table A42) and in the use of guarantee thresholds. However, these measures by themselves have not been effective in restraining production because of the initially high prices and productivity increases that have compensated for real reductions in prices. The effectiveness of guarantee thresholds depends on a realistic setting of the threshold level and the magnitude of price reductions. In July 1987, guarantee thresholds were introduced for soybeans and olive oil and renewed for oilseeds. Measures decided on in February 1988 set guarantee thresholds for cereals, oilseeds, tobacco, and sheep meat.

The impact of the above measures on price restraints has been partially offset in terms of prices in national currencies by the operation of monetary compensatory amounts (MCAs). Support prices for farm products are set in ECUs at the beginning of each marketing year and translated into the national currencies of the member states. MCAs have been introduced to enable member states to postpone some of the effect on agricultural prices of exchange rate changes within the Community. Countries that revalue their currencies adopt "positive" MCAs that serve as import taxes and export subsidies to mitigate reductions in support prices, whereas countries that devalue adopt "negative" MCAs that serve as import subsidies and export taxes to alleviate some of the inflationary impact of the devaluation. MCAs give rise to "green" currency rates that differ from actual exchange rates, and member states are obliged to phase out these differences over time.[123]

From 1984 price increases in ECU terms became so small that strong currency countries in need of dismantling positive MCAs faced the prospect of reducing agricultural prices in domestic currency terms. To avoid this, the system was changed by effectively linking prices in ECUs to the strongest currency in the European Monetary System (EMS). This system effectively put a floor under agricultural prices in domestic currency terms and placed upward pressure on support prices in the Community (Table A43). At the end of June 1987 the Euro-

[122] A more detailed discussion of the CAP, including its history, operational details, and impact on the European Community is contained in Rosenblatt and others (1988).

[123] Rosenblatt and others (1988) contains a further discussion of MCAs, including numerical examples of their calculation and proposals for reform.

pean Commission adopted a scheme for phasing out MCAs, including the use of Community-wide reductions in price levels expressed in ECUs. Member states in which prices would have to decline as a result of these measures are entitled to grant to farmers aid financed from their own budgets, provided it is not linked to output. While the negative MCAs could be phased out more rapidly by green rate depreciations, countries with strong currencies, which face price freezes or reductions, have resisted this measure to prevent devaluing countries from improving their competitive positions. In addition, raising national currency prices would increase the cost of the CAP.

Limits on the entitlements to support have come from restricting the period of intervention purchases during a marketing year and from production quotas. Production quotas have been in place on sugar since 1981 and on milk since 1984. The February 1988 measures also included a land set-aside program. Participation for farmers is voluntary but each member country must have a program. In return for setting aside at least 20 percent of his arable area for at least five years, a farmer receives certain payments and exemptions from levies on the remaining production.

Expenditure limits were introduced as part of the February 1988 measures. These limit the increase in spending on agricultural support to no more than 74 percent of the increase in Community GNP. Total EC expenditure would be limited to 1.2 percent of Community GNP. The limit on agricultural spending is to be achieved by the use of stabilizers, such as guarantee thresholds, production quotas, and intervention limits, applicable on most CAP products.

Japan

The institutional framework through which Japan's agricultural policies are implemented has remained much the same since the 1970s. Although its factor endowments would appear to favor other industries, Japan supports significant agricultural production. Despite recent reductions in the administered prices of all major products, import restrictions have raised the domestic prices of agricultural products to up to ten times world prices. A growing awareness of the high costs of Japan's agricultural policies to consumers has been tempered by an official stress on food security for basic farm products,[124] as well as the influence of farm groups on the political process, characteristic of many industrial countries. As a result significant pressure for reform has come from major agricultural exporting countries. This pressure, together with the Government's efforts to reduce food prices, has brought about some liberalization of several items, most recently beef and citrus products, and small reductions in producer prices over a range of products. Access to the Japanese market, however, remains a major issue.

Although Japan is the largest single net food importer, about 70 percent of food consumed in Japan is produced domestically (Table A44). Reflecting the special position of rice in Japanese agriculture, self-sufficiency in rice is over 100 percent. Since no rice is exported on commercial terms (some is exported as food aid), the disposal of excess production in rice has been a problem. Feedgrains have been the main source of import growth as the livestock industry has grown rapidly. With the inclusion of imported feedgrains in the measure of self-sufficiency (i.e., on a calorie basis), the rate is roughly 50 percent, which is lower than the rate in other industrial countries but about the same as in the United Kingdom before its entry into the EC.

Producer prices are shown in Table A45. Producer prices are generally set to encourage a certain level of production and, based on an estimate of input costs, to ensure that income from farming will be comparable to that of nonfarm jobs. In 1987 producer prices were reduced across the board, reflecting the lower costs of imported inputs as well as the need to improve farm sector efficiency and increase reliance on market prices. The 6 percent reduction in the price of rice was the first decrease in 30 years. In 1988, the producer price of rice is to be reduced by 4.6 percent. Despite these price reductions, the quantitative import restrictions coupled with the depressed world prices for agricultural commodities set in U.S. dollars and the appreciation of the yen against the U.S. dollar have meant that the ratios of the domestic producer prices to world prices (nominal protection coefficients) have risen to up to ten times the world price (Table A46).[125] This support is substantially financed by consumers (see Table A32) and was equivalent to a subsidy of 57 percent of the value of producers' income (the PSE ratio) in 1979–81 and 69 percent in 1984–86, the highest among OECD countries (Table A34).

Most of the budgetary spending on agriculture is for long-term assistance, such as structural policies and the development of rural infrastructure (see Table A47). Budgetary spending on price-support policies, estimated at ¥ 353 billion for 1988, has been declining steadily over the past decade, from ¥ 767 billion in 1980. State-trading entities use some of the proceeds from profits on imports (quota rents) for price-support policies. The total of budgetary and extrabudgetary price-support spending (about ¥ 858 billion in 1980) increased during the early 1980s but declined to ¥ 760 billion in 1987; this

[124] Japan, Ministry of Agriculture, Forestry and Fisheries (1987), quoting the Maekawa Report.

[125] The comparison of domestic and world prices is subject to a number of qualifications about transport costs and quality of product; see note to Table A46.

decline is much smaller than for budgetary spending only.

In October 1986, the United States lodged a complaint with the GATT over Japanese import restrictions on 12 agricultural products (which account for a relatively small proportion of trade). A dispute panel found that restrictions on 10 of the products were not justified under Article XI:2(c). In February 1988 Japan accepted the report and undertook to liberalize restrictions on 8 of the products and initiated bilateral discussions on compensation for the remaining 2 products—starches and processed dairy products. These discussions have not been concluded. In June 1988, on the expiration of bilateral agreements on citrus (with the United States) and beef (with the United States and Australia), Japan reached new bilateral agreements with these countries for the phased liberalization of these markets.

Canada

Canada's agricultural sector is largely export oriented and, despite its extensive land resources, has in recent years provided increased subsidies and support to agricultural producers, as evidenced by the increase in its PSEs from 24 percent in 1979–81 to 39 percent in 1984–86 (Table A34). Subsidies have increased substantially as a result of both the rapid decline in world prices and attempts by the Government to counter the impact of competitive export subsidization by the United States and the EC. Canada has also used countervailing duties to protect its producers from the subsidized exports of other countries; these included duties on beef imports from the EC and on corn imports from the United States. In 1986 a GATT panel found the former to be inconsistent with the GATT code (for details see Section IV).

Australia

Agriculture in Australia receives relatively little support from government programs. The average PSE for this sector was 15 percent in 1984–86 (Table A34). Relatively high levels of assistance are given to the dairy industry and minor products such as dried vine fruits and tobacco. In accordance with the general government policy of reducing assistance economy wide, all these schemes are under review. In particular, the dairy industry, which has by far the largest support in the Australian agricultural sector, is subject to the Australia New Zealand Closer Economic Relations Trade Agreement; under this agreement the Australian dairy industry is to be made competitive with the New Zealand industry by 1992. It was announced in May 1988 that assistance to the sugar, dried vine fruits, tobacco, and citrus industries would be reduced in line with tariffs on manufactured goods. The Government also undertook to eliminate the monopoly position of the Australian Wheat Board in the marketing of wheat.

New Zealand

The Government of New Zealand has embarked on an economy-wide program of reductions in assistance for industry, including agriculture. While New Zealand agriculture had a PSE of 23 percent in 1984–86, the elimination of subsidized credit, direct price supports, and some tax concession will eventually reduce it significantly. During the period 1985–87 assistance to agriculture remained high because of the write-off of certain types of loans made under previous policies. Although New Zealand is one of the most efficient producers of pastoral products, its rural incomes are very low as a result of low world prices, relatively higher interest rates on large loans made during the period of subsidized credit, a relatively strong New Zealand dollar, and the reduced but still high level of assistance to the manufacturing sector. While these factors led to a contraction of sheep flocks and lamb production, a diversification into more profitable nontraditional products and recent increases in wool prices have partially offset this situation. Although parts of the farm sector have faced problems in adjusting to the changed international circumstances, New Zealand has experienced an improved macroeconomic and structural performance.

European Free Trade Association

All members of the European Free Trade Association (EFTA) provide extensive support for their agricultural sectors mainly through quotas on domestic production and variable levies on imports. The dairy industry is an important sector in these countries, which typically have a fairly high level of self-sufficiency and surpluses in dairy products, some of which are exported. Meat production is also important in the Scandinavian countries. In Austria, in which high levels of support for grains and dairy products have led to excess production, the upward trend in PSEs has been dampened by the requirement that producers pay an increasing share of the high cost of disposal of surpluses, resulting in a slight decline in PSEs, from 36 percent in 1979–81 to 35 percent in 1984–85. Switzerland was granted a waiver for its agricultural policies at the time of its accession to the GATT. The Swiss Constitution incorporates the principles for its policies for agricultural support, with provisions for the preservation of farms and the maintenance of secure

food supplies. The OECD is currently updating PSE estimates for EFTA countries other than Austria.

Developing Countries

The agricultural policies of developing countries are much more diverse than those of the industrial countries and have been undergoing significant changes in recent years. A major review of their policies was presented in the World Bank's 1986 *World Development Report*,[126] which highlighted the bias against agriculture in many developing countries, particularly low-income countries, in the late 1970s and early 1980s. This bias is particularly significant because the agricultural sector tends to be the most important in these economies in terms of employment and output. Also, household incomes are lower in this sector. Higher-income developing countries, including Korea, were found to have more neutral policies or policies that favor agriculture.

The 1986 *World Development Report* noted several sources of bias: (1) industrial protection resulting from inward-looking strategies both raises the cost of inputs in the farm sector and results in a less depreciated exchange rate, which reduces the price of traded goods, primarily agricultural commodities; (2) the control of domestic food prices reduces the prices received by farmers; (3) an overvalued exchange rate may also be used to hold down the cost of food imports, which reduces demand for domestic production and the profitability of exports; (4) export taxes often fall on agricultural exports; and (5) statutory marketing boards often have a monopoly on farm output for export or for domestic use, or on the supply of farm inputs. Inefficiencies resulting from these arrangements, as well as implicit price control, may also introduce a bias against agriculture.

The ratio of producer or consumer prices to world prices provides some indication of the overall bias for or against agriculture, particularly if adjusted for overvalued exchange rates. For wheat (Table A48), while some developing countries promote agriculture and maintain producer prices at around world levels, many countries hold these prices and especially consumer prices at very low levels (with Egypt showing the greatest bias), discouraging domestic production and strongly encouraging consumption of wheat, which is often imported.

During the 1980s, and particularly in recent years, there has been increased recognition of the problems that result from such policies, including the development of severe food shortages. This has led to the reversal of policies that discriminate against agriculture in some developing countries. Large exchange rate changes in many African countries (for example, The Gambia, Ghana, and Nigeria) have led to improved producer prices for agricultural products and have stimulated production. The relaxation of price controls and the liberalization of grain marketing arrangements have occurred in other countries (e.g., Tanzania). In the face of low world prices for their exports, Argentina and Thailand have reduced their export taxes.

Some developing countries, particularly in Asia, have placed emphasis on achieving self-sufficiency in food, particularly cereals, for a number of years. Subsidized inputs for agricultural production are a common form of assistance to agriculture in developing countries (see Table A33). Input subsidies typically relate to credit, irrigation, and fertilizers. However, the extent of these benefits is not clear. India subsidizes fertilizer for farmers, but much of the subsidy goes to high-cost domestic producers of fertilizer, rather than to farmers. Subsidized credit has been one of the main forms of assistance to farmers in Brazil, but the subsidy element, arising from interest rate controls and high and variable inflation, and access to credit have varied greatly in recent years.

Information is also available on the tariffs and trade restrictions imposed by developing countries.[127] A study of 50 developing countries found that, with the exception of manufactured goods other than chemicals and machinery and equipment, food has the highest average tariffs and across all levels of per capita income except the highest group. Similarly, food has the largest number of nontariff measures including the largest number of multiple nontariff measures applying to the same tariff item.[128, 129] In addition, countries in lower-income groups tend to have higher average tariffs and frequency of nontariff measures than those in higher-income groups (Tables A22 and A23).

The apparent contradiction between the above finding, which indicates a greater incidence of border measures in low-income developing countries, and the earlier observation of a greater bias against agriculture in low-income developing countries compared with higher-income countries appears to be due to the heterogeneous nature of food items. A disaggregated analysis for Asian countries indicates that cereals typically have the lowest tariff rate, whereas meats, dairy products, beverages, and spices typically have higher tariff rates.[130] This analysis suggests that nonessential foods may be considered luxury goods and are more heavily taxed.

The presence of import licensing and state-trading monopolies is not necessarily associated with domestic

[126] World Bank (1986).

[127] In this section, tariffs are taken to include other government charges on imports.

[128] Refik Erzan and others (cited in footnote 58).

[129] This duplication is termed stacking and may reflect the incidence of inspections and standards on top of other import control measures.

[130] de Rosa (1988).

prices that are consistently above world levels. Many developing countries use licensing to gain more control over import flows rather than using more general macroeconomic instruments. In addition, imports may be controlled to limit the higher demand for imported subsidized cereals.

Developments in Trade in Individual Commodities

Tables A49 through A54 show data on agricultural production, trade, and stocks for a number of products. They show that, particularly in the case of dairy products and grains, high levels of support have been associated with large stock accumulation. For sugar, the growth in exports by temperate zone industrial countries has reduced the share of exports by developing countries.

Dairy Products

Within the agricultural sector, the dairy industry receives the highest level of assistance across OECD countries and within individual countries.[131] In 1986 this support is estimated to have amounted to $1,139 and $833 per cow in the United States and the EC, respectively. For comparison, in 1986, 64 countries accounting for about half the world's population had per capita GDP below the former level.[132] The incentives for production provided by this assistance have led to surplus production, necessitating large expenditures to accumulate and store stockpiles, particularly in the EC but also in the United States. In 1985–86 stocks were at record levels and had to be disposed of at very low prices, partly reflecting the deteriorated state of the stocks owing to extended storage.

The problems in the dairy industry have been recognized for some time. After protracted discussions during the Tokyo Round, the International Dairy Arrangement (IDA) was established under the auspices of GATT in 1980. The IDA set minimum export prices for various types of dairy products, which have been periodically changed in light of market conditions. Despite the general observance of the IDA, very high stocks have forced some producers to enter into sales at very low prices: in categories excluded from the IDA (e.g., stock feed); in new categories created outside of the IDA (e.g., 18-month-old butter); or by obtaining a derogation from some parts of the IDA.

In 1984 the EC announced sales to the U.S.S.R. of 200,000 tons of old and deteriorated butter stocks at about 40 percent below the IDA minimum price. The United States and Austria left the IDA in October 1985 in protest. At the same time, it was agreed that butter at least 18 months old was not subject to the IDA minimum prices. In 1986 the EC sold an additional 475,000 tons of old butter and butter oil to the U.S.S.R., also at very low prices. In 1987, it was determined that sales of fresh butter to the U.S.S.R. could not be made at the IDA minimum prices and a derogation from the IDA was obtained to permit traditional suppliers to that market to sell at prices below the minimum during 1987. Also in 1987, New Zealand sold 50,000 tons of butter oil to Brazil at about half the minimum export price under a separate derogation of the IDA. Sales of cheese below export quality have also been below the IDA minimum price and milk powder for stock feed, which is excluded from the IDA protocols, has generally been sold at about half the minimum price of that for human consumption.[133]

United States

The United States restricts imports of dairy products by quotas, permitted under the 1955 waiver for Section 22 of the 1933 Agricultural Adjustment Act. The quantities of imports permitted are shown in Table A36.

The dairy industry also benefits from support purchases by the CCC. Up to 1985, this support entailed the accumulation of large stocks of dairy products, mainly cheese and powdered milk (Table A37). The Food Security Act of 1985 contained a number of provisions for the dairy industry. First, support prices were reduced. Second, the Dairy Herd Termination Program was introduced to reduce production by buying whole herds of dairy cattle for slaughter, which cost $1.3 billion during 1986–88. However, improved productivity has offset most of the effect on milk production of less cattle. Third, to permit the CCC to reduce its butter stocks, exports of 100,000 tons of surplus butter were provided for in each of the fiscal years 1986–88.

A new Dairy Export Incentive Program was adopted in February 1987 in which some 140,000 tons of fresh butter were offered for sale to a large number of countries. No significant export sales have been reported under this program. The low stocks mean that the United States is unlikely to be a significant exporter in the near future.

European Community

The Community's stocks of surplus dairy products continued to accumulate until 1987, a tendency characteristic of the dairy sector since the earliest days of the

[131] OECD (1987b).

[132] Total support defined as PSE from OECD (1988) and per capita GDP from World Bank (1988).

[133] Information in this section is based on GATT (1987c).

CAP. EC stocks of butter exceeded 1,500,000 tons at the end of 1986, about 92 percent of EC consumption in that year; of this amount approximately 600,000 tons was older than 18 months and much of it was in very poor condition. There has been a long history of unsuccessful attempts to deal with this problem. In the early 1980s, guarantee thresholds were applied whereby the increase in the intervention price would be reduced by a few percentage points if certain production levels were exceeded. However, in the absence of a mechanism to prevent intervention prices being increased to offset this reduction in the next marketing year, this policy was abandoned.

Steps have been taken since 1984 to reduce the entitlement to support through production quotas and by measures to reduce the incentive for intervention sales. In 1984, quotas on milk production were established, but to give the system some flexibility, the overall Community quota had an allowance for 10 percent additional production. These additional quotas were quickly utilized and excess production continued. In December 1986, further steps to eliminate surplus production were taken. Milk quotas over the period 1987–89 were to be reduced in two steps by a total of 8.5 percent with 3 percent coming from the voluntary abandonment of milk production (with compensation), and a uniform 5.5 percent reduction in quotas. In December 1986, to make intervention purchases less attractive, the delay in payment for the purchase of such stocks was increased and the seller was made responsible for the first 240 days of storage. Intervention purchases of skimmed milk and butter were also limited to certain months of the year if intervention purchases exceeded specified quantities.

In February 1987 it was also decided to dispose of 1 million tons of old butter in 1987/88. These measures included special exports of 400,000–500,000 tons in 1987 (to the U.S.S.R.) at very low prices and sales of 300,000 tons for animal feed and industrial uses. The overall cost of the measures was about ECU 3.2 billion.

Despite having large surpluses of butter, the EC continues to provide access for New Zealand butter to the United Kingdom at intervention prices that are well above world prices. The quota has been reduced gradually, from 81,000 tons in 1985 to 74,000 tons in 1988. While this access was only intended as a transitional measure, New Zealand argues that it faces difficulties expanding its dairy export markets (e.g., to the U.S.S.R.), as these have become highly competitive with large subsidized sales by the EC at well below IDA prices.

Japan

Support for dairy producers in Japan has enabled self-sufficiency to be maintained at about 85 percent during the 1980s. The guarantee price for manufacturing milk, the basic price received by producers, remained relatively constant prior to 1986 but was subsequently reduced to reflect lower input costs (Table A45). Despite this small decline in real prices, increases in productivity have led to increased production and surpluses in some products, necessitating the introduction of some supply control measures. The supply of milk has been controlled by quotas on raw milk production that are allocated to individual producers. After increasing steadily up to 1985, the quotas were reduced in 1986. Production in excess of this quota results in a significant penalty.

Import quotas are used to maintain the domestic price (standard transaction price) of dairy products above world prices. However, as this price would still not provide typical producers with the desired income, the difference between the standard transaction price and the guarantee price to producers is made up by a deficiency payment from the Livestock Industry Promotion Corporation (LIPC). The payment is funded partly from the budget and partly from the LIPC's own revenue from the quota rents on beef imports.

Japanese import restrictions on processed dairy products were included among the agricultural products that were the subject of investigation by a GATT panel requested by the United States. Article XI:2(c)(i) of the GATT permits import restrictions on agricultural products that are necessary to support measures to restrict the production of a "like" domestic product. However, the panel report found that as the domestic production restrictions were on raw milk and the import restrictions were on processed dairy products, the latter were not consistent with Article XI because they did not meet the likeness condition with raw milk. Although Japan accepted the GATT panel report in February 1988, it noted that there was a domestic scheme to limit raw milk production and that, if this was not sufficient to justify import restrictions on processed dairy products, it would call into question the legality under GATT of similar restrictions in other countries.[134]

Grains

World production of grains for export (except rice) is concentrated in the temperate industrial countries. Developing countries, including China, which is the world's largest producer of wheat, grow large quantities of grain mainly for domestic consumption. Production of grain has grown strongly during the 1980s because of increases

[134] Relatively little raw milk is traded internationally and almost all industrial countries, including the United States and European countries, have import restrictions on processed dairy products without specifically limiting the production of processed dairy products. The U.S. restrictions on imports of processed dairy products are covered in its 1955 GATT waiver.

in yields and a number of favorable seasons. Trade volumes of grain declined during the 1980s as former large importers, such as China, India, and Indonesia, achieved a high degree of self-sufficiency. Stocks of grain, particularly those held in the United States, reached a peak in 1986/87 but have subsequently declined owing to conscious stock disposal policies. Reflecting changed intervention practices and the export subsidies of the United States and the EC, prices fell to very low levels in 1985/86 but appear to have bottomed out during 1986/87 owing to poor seasons in a number of countries and cutbacks in production.

United States

As the largest exporter of grains, the policies of the United States have a heavy influence on international markets. Under the 1981 Farm Bill, both target prices and support prices (i.e., loan rates) were set at levels that turned out to be excessively high relative to market prices.[135] Loan rates at well above market prices provided incentives for significant amounts of production to be surrendered to the CCC (that is, the crop was forfeited). This policy increased CCC stocks of grain substantially and, at the same time, reduced the quantities available for export. In effect, this policy supported world prices for grain while permitting other countries with surplus production, particularly the EC, to expand their exports. U.S. stocks of wheat and coarse grains peaked in 1986/87 at about 202 million tons, equal to 94 percent of U.S. consumption in that year.

The Food Security Act of 1985 sought to redress a number of problems created by the previous Farm Bill. To reduce the incentive to forfeit the crops to the CCC, loan rates were substantially reduced and based on a formula related to market prices. For wheat the loan rate was reduced from \$3.30 a bushel in 1985/86 to \$2.40 a bushel in 1986/87 (\$121 and \$88 a ton, respectively). This action sharply reduced CCC stock accumulation after 1986/87. However, target prices for wheat were frozen at \$4.38 a bushel, the level since 1984/85, for two years and were to decline thereafter to \$3.94 a bushel in 1990 (Table A39). This large gap between target price and loan rate or market price, which is made up by a deficiency payment, was, however, a continued incentive for overproduction, as well as a substantial budgetary cost. To limit budgetary exposure, land set-aside programs continued to be mandatory for receiving deficiency payments. However, the set-aside program has been only moderately effective in limiting production. The least productive land is set aside first and the high target prices give a strong incentive for more intensive cultivation of the remainder. In 1987, 27.5 percent of the base acreage was set aside, and only at this level was there a significant impact on production. The set-aside was reduced to 10 percent in 1988. As a result of these measures, budgetary expenditures on wheat and coarse grains rose sharply and accounted for most of the increase in budgetary spending on agriculture from \$18 billion in 1985 to \$26 billion in 1986. Grain exports have been the main beneficiary of the Export Enhancement Program (EEP) included in the 1985 Farm Bill and subsequently extended. Significant sales assisted by the EEP were made to the U.S.S.R. (13 million tons), China (7 million tons), and Egypt (6 million tons).

The support program for rice had an additional subsidy element. Since the loan rates for rice were not reduced to world market prices, the 1985 Farm Bill specified that the CCC loan could be repaid at the higher of the world market price or at 50 percent of the loan rate. This preferential rate was needed to allow U.S. export prices to match world market prices more closely and to minimize forfeitures. In addition, rice exporters were entitled to negotiable certificates for CCC commodity stocks equivalent to the difference between the world market price and the loan repayment rate, should the latter exceed the former.

Changes in U.S. grain policy contained in the 1985 Farm Bill have had a major impact on the international grain market. The removal of market price support in the form of CCC stock accumulation, the subsidization of exports through the disposal of CCC stocks under the EEP, together with the depreciation of the U.S. dollar vis-à-vis other major currencies since 1985, have meant that other exporters, particularly the EC, faced very strong competition. Between 1984 and 1987, wheat prices fell by 25 percent in U.S. dollars but by almost 50 percent in ECUs. The United States regained much of its share of world grain exports; in the case of wheat, this had fallen from 47 percent in 1980/81 to 29 percent in 1985/86 but increased to 41 percent in 1987/88. The EC has had to increase greatly its export restitutions (subsidies). At a substantial budgetary cost, Canada introduced an additional deficiency payment to offset the effect of increases in subsidies by the United States and the EC. In Australia the stabilization scheme required government payouts in 1986/87, but as producer prices follow market prices fairly closely, there was a large shift out of wheat production. Substantial subsidization of rice exports enabled the United States to increase its share of world exports but has also reduced world prices, with a detrimental effect on other rice exporters, including Thailand—the largest rice exporter—and other Asian countries.

While the stated aim of the EEP was to intensify competition with subsidizing exporters, the resultant decline in world prices affected all exporters. Australia has protested on a number of occasions against the EEP and considered its extension and changes in funding in June

[135] See Table 8 for a brief explanation of the institutional features of the U.S. support system.

1987 a breach of the standstill agreement in the Punta del Este Declaration. The United States considered the changes in funding to be a routine renewal of an established program.

European Community

As with many of the commodities supported by the CAP the high level of support has enabled the EC to change from being a net importer of cereals in the 1970s to a net exporter in the 1980s. As noted earlier, the EC's share of world wheat exports increased during the early 1980s, but declined in the face of strong competition. Intensified competition from the United States has greatly increased the cost of the support for the cereal sector. Export restitutions have increased from ECU 945 million in 1984 to an estimated ECU 3,615 million in 1988.

The budgetary cost of restitutions for surplus disposal and the resultant trade tensions have prompted continued efforts to restrain production. Guarantee thresholds were introduced in 1982/83 and, although these have produced slight price reductions, productivity increases have maintained the incentive for increased production. In February 1988 the guarantee threshold for 1988/89 was set at 160 million tons, compared with actual production in 1987/88 of 155 million tons. In addition, a co-responsibility levy of, at most, 3 percent was imposed (supplementing the basic levy of 3 percent), payable at the beginning of each marketing year 1988/89–1991/92. If production in the year exceeds the guarantee threshold by less than 3 percent, the supplementary levy is to be partially refunded. If production exceeds the guarantee threshold by more than 3 percent, the levy is not returned and intervention prices are reduced by 3 percent in the next marketing year.

The use of grains as animal feed is an alternative use of surplus production. Competition has been provided by the use of noncereal animal feeds (e.g., cassava (manioc), corn gluten feed, molasses, and brans) that enter the Community levy free and are subject to zero or very low tariffs; and, with the exception of brans and molasses, all are bound in GATT. As a result, the EC has negotiated VERs with Thailand on imports of cassava. Proposals have also been made for the increased subsidization of domestic grains for this purpose, but they have not been adopted.

Japan

Rice is the main agricultural product in Japan and is considered a basic food product in which a high degree of self-sufficiency is desired for food security, as well as for social-political-cultural reasons. Support for production of rice and other grains in Japan is provided mainly through quantitative restrictions on imports implemented through state trading by the Food Agency of the Ministry of Agriculture, Forestry and Fisheries (MAFF). Only very small amounts of special types of rice are imported. As a result of the restriction on supply and the sharp appreciation of the yen since 1985, domestic producers are able to receive ten times the world prices for grains, up from three times in 1980.

In addition to import restrictions, the producer prices of grains are supplemented by deficiency payments funded from the budget and by profits from state trading in wheat imports. Importers are paid world prices for wheat and the Food Agency sells this wheat to millers at a higher price, approximating the wholesale price of domestic wheat. The budgetary component of support has declined from ¥ 652 billion in 1980 to ¥ 262 billion in 1988 while the extrabudgetary component increased from ¥ 59 billion in 1980 to ¥ 183 billion in 1987 (Table A47).

The high producer price of rice has led to excess production despite the high cost of production on small farms. In 1986, self-sufficiency in rice was 108 percent (Table A44). To reduce excess production, diversion schemes for rice have been in operation for a number of years. These schemes divert paddy fields away from rice cultivation to other crops, mainly cereals and citrus products. In late 1986, a new six-year program of the Paddy Field Use Reorientation Program was adopted with an increase in the target acreage for diversion from 600,000 hectares to 770,000 hectares.

Canada

The Canadian Wheat Board has the monopoly on the export of western-grown wheat, barley, and oats. It regulates producer deliveries through quotas, sets producer prices, and controls access to the grain handling system. The main support programs for grains and oilseeds are the Western Grain Stabilization Program (WGSP), transportation subsidies, and the Special Canadian Grains Program (SCGP). The WGSP is a voluntary program that provides support for the income of western grain and oilseed producers. Producers and the Federal Government pay into a fund, and payments from the fund are made when either net cash flow or net cash flow per ton, whichever is larger, falls below the average of the previous five years. The WGSP is intended to reduce the impact of large declines in grain and oilseed prices on farm incomes but, through use of the moving average, force producers eventually to adjust to world prices. While payments from the fund were infrequent prior to 1984, they have been substantial in subsequent years owing to low world prices, reaching Can$1,364 million in 1986/87. Grain and oilseed producers in western provinces also benefit from subsidies under the Western Grain Transportation Act and despite attempts to have

producers pay a larger share, subsidy payments by the Government have risen from Can$324 million in 1980/81 to Can$1,090 million in 1986/87. The SCGP, first announced in December 1986, provides deficiency payments to grain and oilseed producers based on the seeded area and at rates proportional to the price decline attributed to the impact of increased subsidies by the United States and the EC. Expenditure for the 1986/87 crop was Can$923 million, and Can$1,100 million has been provided for the 1987/88 crop.

Australia

The Australian Wheat Board is the sole domestic seller of most domestic and all export wheat. It operates a price stabilization scheme underwritten by the Australian Government. This price stabilization scheme provides protection to producers against rapid price declines but quickly incorporates export prices into producer prices. The guaranteed minimum price is set at 95 percent of a three-year moving average (including the current season) of net grower returns, which is related to the export price. Owing to the rapid and substantial price decline in 1986/87, the guaranteed minimum price was above the export returns, and government funding of about $A 230 million was required to support the scheme, the first such support since its introduction in 1979. With increases in export prices in 1987/88 and the inclusion of the past low prices in the moving average, government funding is unlikely to be required in 1987/88. As a result of the low prices, wheat production in Australia declined from 16.2 million tons in 1986/87 to 12.1 million tons in 1987/88.

Meat

Most meat is consumed in the country of production. Beef and veal form the main components of the international trade in meat, and exports account for less than 10 percent of total consumption. Since 1970 major changes have occurred in the pattern of trade. The relative and absolute importance of Latin American exporters (Argentina, Brazil, and Uruguay), where production is not subsidized, has declined, especially with Argentina facing reduced markets in Europe as Spain and Portugal entered the EC. In 1984, the EC emerged as the largest exporter of beef through the use of export subsidies. The EC exports mainly processed beef products and its markets are primarily in Egypt, Saudi Arabia, and the U.S.S.R. Recently the market for beef has been affected by dairy herd liquidations in the United States and the EC.

As a result of the Tokyo Round, in 1980 producers and consumers of meat agreed to an arrangement regarding bovine meat and the establishment of the International Meat Council. The Council aims to liberalize and expand trade and operates primarily to gather data and make market assessments.

United States

Since 1985, U.S. trade in beef has been affected by two policies: the continued operation of the U.S. Meat Import Law and the impact of the Dairy Herd Termination Program.

Meat prices in the United States are maintained above world prices by the operation of the U.S. Meat Import Law, which provides for quotas (Tables 8 and A36), although these have not been applied since 1979. To avoid the imposition of quotas, which are not included under the 1955 GATT waiver, the United States enters into negotiations with exporters, generally Australia and New Zealand, for voluntary export restraint agreements if meat imports are expected to exceed the trigger level (110 percent of the quota). As a result, VERs were negotiated in 1982, 1983, 1987, and 1988. Quotas are only imposed if it is determined that the trigger level will be exceeded too late in the year to enter into negotiations. Exporters have an incentive to enter into a VER because the quantity under this arrangement will be 10 percent above the quota level.

The 1985 Food Security Act included the Dairy Herd Termination Program, whereby the CCC bought whole herds of dairy cattle for slaughter. To avoid disruption of the domestic market, more than half was exported at very low prices and the remainder used for domestic food aid and for the U.S. military in Europe. Of the 180,000 tons of meat purchased, half was exported to Brazil, which was experiencing a temporary meat shortage (see below), at about $0.33 a pound (about one third of the price of beef imported into the United States). Argentina, Australia, and New Zealand registered complaints at this sale.

U.S. exports are relatively small and are mainly of high-quality beef to Japan (see the section on the Japanese market for meat). U.S. exports of beef are assisted by two programs included in the 1985 Farm Bill, the Targeted Export Assistance program and the Export Enhancement Program. The amounts involved in both programs are relatively small, with allocations of $7 million and $5 million, respectively, as a subsidy element.

European Community

As with a number of other products, the operation of the CAP has changed the EC from being a net importer to being the largest exporter of beef. The EC continues to import beef largely as a result of international agreements, including some undertakings on market access

made during the Tokyo Round when the EC was a net beef importer. These undertakings remain in place despite the change in the EC's trading position. In addition, as a result of the EC enlargement in 1986, Argentina's quotas for high-quality beef and frozen boneless beef were raised by 7,500 tons to a total of 87,000 tons. Beef stocks in the EC reached a peak of 885,000 tons in 1985 (12 percent of EC consumption and 115 percent of exports in that year) but declined substantially in 1986 as a result of the special sale of 200,000 tons of beef to Brazil.

In December 1985 the EC farm ministers prohibited the use of all hormone and growth promoters used for beef cattle fattening as of January 1, 1988, with a subsequent postponement to January 1989. While supported by some consumer and health groups, the directive has been opposed both internally and by foreign beef exporters. In February 1988, the European Court of Justice overturned the directive on technical and procedural grounds, but as national legislation was already in place the directive was reissued and this is not expected to delay the January 1989 introduction. The United States has strongly objected to the hormone ban as it would exclude U.S. beef exports to Europe (worth more than $100 million annually) and has prepared a set of retaliatory measures.

The EC operates a Third Country Meat Directive under which only specified meat packing plants are able to export to the EC to ensure compliance with certain health and safety regulations. Although this directive has been applied to other non-EC countries for a number of years, it had not been applied to the United States and the EC announced that a list of plants in the United States would be publicized in January 1988. The U.S. meat industry considered this a protective device and filed a complaint under Section 301 of the 1974 Trade Act. As a result of bilateral discussions, the EC published a list of approved U.S. plants that covers the current trade flows.

Japan

Producer prices for Japanese beef are primarily supported by import quotas operated by the Livestock Industry Promotion Corporation (LIPC). Japan has remained about 70 percent self-sufficient in beef during the 1980s. The quotas for beef imports are divided into approximately 80 percent operated by the LIPC, 10 percent operated by private traders, and the remaining 10 percent for special categories (e.g., hotels, Okinawa, and meat processing).[136] The quantity and pattern of beef imports are influenced by separate bilateral agreements with the United States and Australia, most recently covering the four-year period from March 1984 to 1988. The agreement with the United States was for high-quality beef; the agreement with Australia was for total imports of beef; the growth rate in the former quota was set at a much higher rate than the global quota.[137] In addition, because quota rents on high-quality grain-fed beef were much higher than on the lower-quality grass-fed beef, the share of the former imported by private traders also increased dramatically. Both factors contributed to a substantial increase in the share of beef imports from the United States at the expense of Australia and New Zealand. A study by the Australian Bureau of Agricultural and Resource Economics of the demand for beef in Japan suggested that in the absence of quotas, the lower-cost grades of beef would have a much larger share of the market. The study also noted the very large quota rents and estimated that in 1986 the quota rents on beef imports by the LIPC and private traders alone were about ¥ 108 billion ($640 million) and ¥ 50 billion ($300 million), respectively, totaling 169 percent of the value of beef imports in that year.[138]

In June 1988 Japan entered into new bilateral agreements with the United States and Australia on the liberalization of beef imports. The agreements called for annual increases in the beef quota of 60,000 tons for each of the three years to 1990/91, giving a quota level of 394,000 tons, almost twice the level in 1987/88. During this period the role of the LIPC will be reduced and the proportion of beef imports handled by private traders will increase. From 1990/91, quotas will be eliminated and the tariff increased to 70 percent, declining to 50 percent in 1992/93. The agreement with Australia has a special provision that guarantees the growth of imports of chilled and aged beef that currently is almost entirely supplied by Australia.

Brazil

Brazil has traditionally been a large exporter of beef. However, in 1986/87, after a period of high inflation, beef and other prices were frozen under the Cruzado Plan and beef producers withheld cattle from the market. Production dropped by about 400,000 tons or 17 percent, and to satisfy demand, Brazil imported beef under the above-mentioned special sales from the United States and the EC at very low prices.

[136] Imports of diaphragm beef are outside the quota and come mainly from the United States; high-grade diaphragm beef can substitute for grass-fed beef, especially in hamburgers.

[137] The bilateral agreements with the United States and Australia allowed for increases in total beef imports from 134,800 tons in 1980 to 168,000 tons in 1986, and increases in high-quality beef imports from 20,800 tons in 1980 to 51,500 tons in 1986. The overall quota for 1987 was set at 214,000 tons.

[138] Teal and others (1987).

Sugar

The international price of sugar remains extremely depressed at about one fourth of its peak in 1980 despite having risen slightly in 1988 owing to the impact of weather on some producers. Sugar provides an important example of the extent to which protection in temperate industrial countries has fostered large increases in domestic production at the expense of low-cost producers in developing countries. Low-cost sugarcane is grown in tropical and subtropical climates, while higher-cost sugar beets are grown in temperate zones. The high cost of sugar in industrial countries has encouraged the production of nonsugar sweeteners in some countries. Brazil has large tax incentives and subsidies on the use of alcohol made from sugarcane as a petroleum substitute. The gains from a less protective environment are likely to be large for developing countries even though the loss of special access to industrial country markets by some developing countries may offset some of this gain. The last International Sugar Agreement with provisions to affect market prices was effective from 1978, and market support operations were abandoned in 1984 as the free market price was well below the agreed price range. The EC refused to sign the last agreement on the grounds that its export quota was too low; earlier the EC had changed from being a net importer to being a major net exporter of sugar.

United States

The 1985 Farm Bill mandates that raw sugar prices be supported at no less than 18 cents a pound through 1990 and that import quotas be set to minimize loan forfeitures to the CCC. With the world price of sugar at less than 7 cents a pound in 1987, the relatively high price of domestic sugar has encouraged U.S. production, which increased from 5.5 million tons in 1981/82 to 6.5 million tons in 1987/88. The high domestic price has also encouraged the production of high fructose corn syrup for use in processed foods as it is not controlled as in the EC and Japan. (The production of high fructose corn syrup would not be profitable at the current free market price of sugar.) This factor and the use of noncaloric sweeteners have led to a decline in U.S. sugar consumption. To balance demand and supply, import quotas have been steadily reduced to one fourth of their original level, from 2.6 million tons in 1982/83 to 0.7 million tons in 1988,[139] although shortfalls in U.S. production in 1988 have permitted a revision of the quota to 1.1 million tons. A continuation of the current sugar policy is highly likely to require zero quotas in a few years. The reduction in quotas has caused severe problems for sugar exporters, many of which are highly indebted developing countries, particularly in Latin America, the Caribbean, and the Philippines. For example, Caribbean basin countries, whose economies are highly dependent on sugar, have lost over $1 billion in foreign exchange earnings since 1984.[140] Thus, compared with the U.S. support policies for grain, the market price-support policy for sugar shifts the cost of the producer subsidy away from the budget and on to consumers and exporters.

European Community

The high levels of open-ended support encouraged domestic production and transformed the EC from a net sugar importer into one of the four largest sugar exporters in the late 1970s. The current EC sugar regime was introduced in 1981 in response to the high budgetary cost of support and friction with traditional exporters to the EC. The latter was caused by restrictions on market access to the EC for traditional suppliers and the use of export restitutions (subsidies) by the EC for disposal of surplus production. Domestic prices are maintained by production quotas and variable levies that effectively exclude all imports, except those under special market access for African, Caribbean, and Pacific (ACP) countries that were former colonies of EC members. Sugar from ACP countries under quota allocations receives the guaranteed domestic price as a form of aid, either as sales in the EC market or as an export restitution (on their own exports). Although the sugar regime was intended to be financed from co-responsibility levies, the very low world prices have meant that these levies, despite several increases, have at times not been sufficient to cover the cost of the restitutions.

Costs of Agricultural Support Policies

Agricultural support policies have a high cost, both for the country adopting the policies and for other countries. The most apparent are the direct budgetary costs and costs to consumers in terms of higher prices and inefficiencies in agricultural production fostered by protection. These direct costs are only first-round effects, because the financing of the support and the inappropriate relative prices resulting from support policies have a detrimental impact on overall macroeconomic performance. In addition, the insulation of one sector from the process of adjustment to changes in economic conditions, particularly exchange rate and relative price changes, increases the burden of adjustment on the other sectors. The cost of support policies is also trans-

[139] For details of country allocation see International Monetary Fund (1988b).

[140] Estimates by the U.S. Department of Agriculture.

mitted to the international market by import restrictions and export subsidies that result in lower and more unstable international prices for agricultural products.

The studies reviewed in this section conclude that, while the world economy can gain significantly from the complete liberalization of agriculture proposed by some participants in the Uruguay Round, the benefits from unilateral liberalization are no less and might even be greater for the liberalizing country.[141] Thus, it does not make economic sense to delay unilateral measures to obtain multilateral liberalization. Liberalization of agriculture by individual industrial countries is particularly important because this sector generally receives the highest levels of support, resulting in the net taxation of nonagricultural sectors. Industrial countries will gain from an expansion of their nonagricultural sectors, which can absorb increased employment. Most developing countries will gain from higher prices for their agricultural exports. To make full use of this opportunity, however, developing countries would also need to address the burdens on their agricultural sectors, including the net taxation imposed on them through the protection of their manufacturing sectors, and to ensure that consumer prices reflect economic costs and are not biased in favor of imported foods.

Direct Costs

The direct (or partial equilibrium) costs of agricultural support policies can be measured on a gross or a net basis. The gross costs to taxpayers and consumers have been used in the earlier part of this section, with the estimates by the OECD (Table A32) being among the most comprehensive.[142] Some of these payments by taxpayers and consumers are reflected in producer incomes and hence represent transfer payments. In addition to this transfer, support policies also result in a net welfare "deadweight" loss that represents the difference between the cost to consumers plus net payments by the government, and the increase in producer income.[143] Some studies have focused on the net welfare effects on the grounds that the simple transfer of income from one group to another does not have a welfare effect. While the results of these studies vary with the products covered and assumptions on price elasticities, they show that these welfare losses are not insignificant.[144] The results of Tyers and Anderson are of particular note because of their broad coverage of products and their use of recent estimates of elasticities and transmission of world prices into domestic prices. In this study, the net welfare losses of all industrial countries from protection in the early 1980s are estimated at about $20 billion (in 1985 U.S. dollars) (Table A55).[145]

More attention has been given to the gross value of the transfer in this section because the net welfare losses do not take account of distributional issues and are likely to underestimate significantly the effect on the economy, because the transfer to producers does not always reach the targeted group. The political decisions to support the agricultural sector are usually based on the goal of supporting small-scale farms. However, in the United States and the EC, the more efficient large farms have been able to capture most of the benefit, enabling them to compete with and take over small farms.[146] A farm sector based on very small farms, as in Japan, leads to inefficient production. Moreover, the benefit originally intended for actual producers is built into land or quota values, restricting new entrants, and generating pressure for support policies to preserve asset values. Also, financing this producer support by consumers through higher food prices places a relatively greater burden on lower-income groups. The consumer transfers, taxes, and deficits used to finance the transfers create additional problems: assistance to one sector has to be paid for by other sectors, with adverse effects on efficiency, competitiveness of the whole economy, and overall macroeconomic performance.

Macroeconomic Effects

Reflecting the above concerns, more recent studies of the costs of agricultural support policies have tended to focus on the macroeconomic effects. These studies, using general equilibrium models in which the agricultural sector is linked to the rest of the economy, show that the full costs of the support policies greatly overshadow the partial equilibrium net welfare losses.

The effect of the CAP on the European Community has been the set of policies most widely studied in this field. A study by Stoeckel and Breckling of France, the Federal Republic of Germany, Italy, and the United Kingdom has divided each economy into four sectors, including agriculture.[147] The study focuses on the gains from liberalization that are taken as the reverse of costs of the CAP, and examines the differential effects on the four countries in the study. Important assumptions of the model are use of an explicit consumption tax to finance

[141] Countries that liberalize will import more food, and, since world price increases are less under unilateral than under multilateral liberalization, consumers gain much more from the former.

[142] OECD (1988).

[143] In a simple partial equilibrium framework, this represents part of the loss of consumer surplus and losses owing to the stimulation of less efficient production.

[144] World Bank (1986) and Rosenblatt and others (1988) survey these studies.

[145] Tyers and Anderson (1987).

[146] OECD (1987b).

[147] Stoeckel and Breckling (1988).

the agricultural policies and rigid real wages. Thus, support policies reduce the competitiveness of manufacturing and service industries and, since the encouraged sector—agriculture—uses capital and land more intensively than labor, the unemployment resulting from the relative decline of the manufacturing and service sectors will not be fully absorbed by the agricultural sector. With liberalization, although jobs would be lost in agriculture, other sectors would gain, resulting in a net increase in employment of about two to three million depending on the actual flexibility of real wages. Liberalization is also likely to increase the share of agricultural output from small farms. Aggregate income increases by 1.6 percent on average; owing to their lower share of value added from agriculture, Germany and the United Kingdom would benefit the most from liberalization.

A study by Dicke and others on the Federal Republic of Germany reached similar conclusions about the employment and growth benefits from liberalization of the CAP.[148] While farmers lose, this loss would be reflected mainly in a fall in farm values. To overcome this loss, the authors note that farmers might be issued special bonds to compensate them for this one-time loss. The general equilibrium approach was also applied by Rosenblatt and others (1988), in measuring the effect of the CAP on the Federal Republic of Germany. They also assume rigid real wages and show that while an increase in agricultural prices from the CAP will increase agricultural employment and exports (if subsidized), these gains are more than offset by losses in other sectors. The authors suggest that the complete liberalization of agriculture would reduce consumer prices in Germany by 5 percent, increase employment by 4¾ percent, and raise GDP by 3 percent.

Studies on the impact of liberalization on the U.S. economy are less complete. The liberalization of agriculture would improve U.S. macroeconomic performance chiefly through the reduction in the budget deficit. As noted earlier, U.S. budgetary spending on agricultural support increased rapidly during the 1980s, to $27 billion in 1987/88 (Table A35). According to Feltenstein, the improvement in the current account deficit would be slightly more than the reduction in the budget deficit, although the actual result could vary depending on the response of interest rates and net private savings.[149] Hertel, Thompson, and Tsigas (1988) look at the efficiency gains from a transfer of labor and capital from the farm to the nonfarm sectors. While farmers bear the brunt of unilateral liberalization, the output of the manufacturing sector and overall GNP are significantly increased.

In a similar vein, two studies by Vincent show that support for agriculture is at the expense of manufactured exports and real wages in Japan and Korea.[150] Liberalization would also bring about a sharp drop in rural land prices, as the encouragement of agriculture places a large premium on land, which is relatively scarce in both countries. It is important to note that while these countries could gain from the liberalization of agriculture through the expansion of manufactured exports, this expansion is limited by quotas and VERs, or threats of such action, mainly by industrial countries.

Although Australia and New Zealand provide some support for their agricultural sector (currently much less than most OECD countries), it is offset to some extent by the higher protection for the manufacturing sector, which increases input costs to agriculture. As noted in Center for International Economics (1988, p. 45), the disadvantage with the use of PSEs is that they do not take into account the cost of inputs.[151] More important, the potential problems are noted for a country such as Australia (and by implication, some developing countries) in which agriculture is relatively lightly assisted compared with the manufacturing sector; in this case if agriculture is liberalized and the manufacturing sector remains heavily protected, resource allocation is likely to worsen. This suggests that the focus on global liberalization of agriculture, in isolation from protection in other sectors, is misplaced. The removal of support for agriculture is important for many OECD countries because it is their most heavily protected sector. Countries with more heavily protected industrial sectors should place greater emphasis on removing these distortions.

While all the countries studied are likely to gain significantly from the unilateral liberalization of their agricultural policies, it is a practical reality that the countries with poor economic performance have the greatest incentives to liberalize. The underlying economic performance of Australia and New Zealand was weaker than most other OECD countries in the early 1980s, and growth was sustained by substantial foreign borrowing. Although these countries are traditional and efficient agricultural exporters, they have chosen to remove most of their own agricultural support policies while simultaneously reducing industrial protection and regulation. This has occurred despite the continued use of subsidies by less efficient agricultural producers to expand their market share. The agricultural sectors in Australia and New Zealand have sustained some loss of income, but this loss has been partially offset by the incentives to produce nontraditional agricultural commodities. These policies have fostered structural adjustment and, particularly in New Zealand, have helped to improve its fiscal position and overall macroeconomic performance. Similarly, many developing countries, under programs sup-

[148] Dicke, and others (1988).

[149] Feltenstein (1988).

[150] Vincent (1988a and b).

[151] A measure such as the effective rate of assistance takes this into consideration and can more clearly show the extent to which support for one sector is a tax on another sector.

ported by the World Bank's structural adjustment loans and the Fund's structural adjustment facility and other facilities, have reduced the distortions faced by their agricultural sectors. Despite the great range of evidence supporting the view that the major trading countries can also gain from unilateral liberalization, they have not yet significantly reduced protection for agriculture.

International Effects

Impact on Commodity Prices

A variety of studies have shown the extent to which agricultural support policies in industrial countries have reduced world prices of commodities, reduced trade volumes, and, by stabilizing domestic prices, increased the instability of world prices. Recent major studies on the effect of the liberalization on agricultural prices have tended to be in the context of multicommodity, multicountry models of world agricultural production. While these models are partial equilibrium models and abstract from the effects of liberalization on nonagricultural sectors, they capture most of the salient effects of support policies on the market for agricultural products. In particular, these models take into account the linkages among agricultural products; the effects on support policies in one country of other countries' policies; and the impact of liberalization on a multilateral basis.

The use of these models is mainly to suggest the broad magnitude and direction of price changes resulting from liberalization because the interactions in commodity markets are so complex that the results are likely to have a significant margin of error. Table A56 compares the results from the two versions of the Tyers and Anderson model and the OECD Ministerial Trade Mandate model.[152] The two Tyers and Anderson models are included to illustrate the sensitivity of these models to changes in their specifications. All models are based on the levels of assistance prevailing in the early 1980s, but while the Tyers and Anderson models examine the consequences of complete liberalization by individual countries, as well as by all industrial countries, the OECD study focuses on an across-the-board 10 percent reduction in PSEs for all OECD countries.[153] Although there are significant differences in the actual values of the effect on the prices of agricultural products on world markets, the results show the general tendency for support policies to depress world food prices (or liberalization to increase them). The fall in grain prices resulting from the removal of support policies in the OECD model reflects the removal of production restrictions (set-asides) for wheat and coarse grains in the United States, which is projected to increase grain output. However, Tyers and Anderson and other studies by the International Institute for Applied Systems Analysis and the Economic Research Service of the U.S. Department of Agriculture suggest that grain prices would increase.[154] Also important is that the increase in world prices resulting from liberalization is likely to be greater as a result of multilateral action than of unilateral action.

Impact on Industrial Countries

The impact of liberalization by industrial countries on the volume of trade is shown in Table A57. The direction of the results generally shows a reduction in exports or an increase in imports by industrial countries across food products. As noted earlier, the exception is coarse grains, with increases in exports because of the removal of set-asides in the United States. The developing countries would respond by increasing their net exports, and centrally planned economies in Europe, by decreasing their imports.

The global welfare effects of liberalization can also be analyzed in these models in a partial equilibrium context as discussed in the subsection on direct costs. The results (Table A55) clearly show that the main beneficiaries of liberalization are the countries that liberalize themselves; in particular, the gains to the liberalizing industrial country are likely to be greater under unilateral liberalization than under multilateral liberalization. These countries will import more food, and consumer welfare will increase substantially under unilateral liberalization, because the domestic price decline will be greater than under multilateral liberalization. Under both multilateral and unilateral liberalization, agricultural producers in the EC and Japan lose heavily, but this loss is more than offset by gains to other groups in their own countries. The studies also show why multilateral liberalization in the Uruguay Round has advantages for agricultural producers: it reduces the price adjustment they face so that they would lose less than under unilateral liberalization. Of particular interest, U.S. producers, although heavily subsidized, would not lose from multilateral liberalization because the United States is a low-cost producer of certain agricultural products (including grains) and could be expected to increase

[152] Tyers and Anderson (1986); Tyers and Anderson (1987); and OECD (1987b).

[153] A number of changes were made to the model in Tyers and Anderson (1987) compared with the earlier version. The main reason for the significant change in the results for the EC is that the more recent version assumes a much lower degree of transmission of world market price changes to domestic prices for the EC. A fuller discussion of these models is contained in Rosenblatt and others (1988). Tyers and Anderson (1987) also attempt to adjust their model to include protection levels prevailing in the later 1980s by projecting 1980–82 levels of protection adjusted for major policy changes. The results in OECD (1987b) reflect only a 10 percent cut in assistance instead of complete liberalization. Although the model is nonlinear in a number of respects, the results have been multiplied by ten to maintain comparability.

[154] Quizon, Gardner, and Quin (1988).

exports to currently protected markets, particularly with the removal of the land set-aside scheme.

Impact on Developing Countries

The liberalization of agricultural support and trade-restricting policies by industrial countries on all commodities, including tropical products, can potentially yield substantial benefits to developing countries. Their gains from increased agricultural exports are likely to outweigh both the increased foreign exchange cost of food imports and the related welfare losses. The distribution of these gains, however, is likely to be quite uneven, with Asia and Latin America having overall net welfare gains, but Africa (including North Africa) suffering a substantial loss because of their large cereal imports.[155] The net welfare loss to developing countries shown in Table A55 probably results from the exclusion of tropical products, which are of great interest to developing countries. As noted in the 1986 *World Development Report,* the gains to developing countries could be greater if agricultural producers in developing countries could take full advantage of the increased world prices through reductions in the net taxation placed on them. If developing countries liberalized their own agricultural policies at the same time, there could be a substantial welfare gain of about $18 billion (in 1980 U.S. dollars).[156]

Despite the likelihood that developing countries overall will gain from liberalization of agricultural markets (as they are substantial exporters of cereals, beef, sugar, tropical products, and agricultural raw materials), there is need to focus on the special case of cereal-importing countries. Although these countries will receive higher prices for their agricultural exports, which may offset some of the higher prices of cereal imports, the price increases of the latter are likely to be greater than the price increases of tropical products and agricultural raw materials because industrial country support and protection is much less for these commodities than for cereals.

A study of cereal-importing countries suggests that the impact of liberalization by industrial countries on the former's foreign exchange position and overall cereal consumption depends on how much domestic prices are adjusted to encourage domestic production and on how much consumer prices are adjusted to reflect the relative costs of imported and domestically grown cereals, thereby redirecting demand to domestic cereals. Some evidence of this is provided in the study by Quizon, Gardner, and Quin (1988). They assumed that developing countries pass on all of the changes in world prices to producers and consumers but make no other policy changes. They found that, for wheat, Asian countries gained substantially in terms of foreign exchange and were about neutral in terms of net welfare, while Latin American and African countries lost in terms of both measures; Egypt was by far the largest loser, and large losses were also experienced by Peru and Sudan. The extent to which countries would actually incur losses depends on their policy responses. Many of the countries that incur the largest losses are those that hold producer and/or consumer prices well below world prices (Table A48); adjusting these would reduce both foreign exchange and welfare losses. A similar pattern exists for rice, where the main beneficiaries were Asian countries, with Latin American countries showing smaller gains but African countries, large losses. The situation is very different for maize, where there were no significant developing country losers, primarily because Latin American, and particularly African, countries are able to expand production. This is in contrast to wheat and rice, which are not well suited to conditions in many of these countries, particularly in Africa. Thus, increases in world prices for cereals will not necessarily reduce the cereal intake of the current cereal-importing countries, but the extent to which reductions are avoided depends on changes in domestic prices to encourage domestic production and to shift consumption to cereals suited to domestic agricultural conditions. The impact of industrial country liberalization has not been fully studied in multicountry, multicommodity models for developing countries.

Impact on Price Variability

Tyers and Anderson (1986 and 1987) and a number of other studies cited in World Bank (1986b) also show that the liberalization of agriculture would significantly reduce the variability of international prices. One mechanism is support policies that insulate domestic producers and consumers from market price and exchange rate disturbances. Under the support policies of many countries, there is no incentive to reduce production or increase consumption during times of increased supply, and vice versa for periods of reduced supply, which increases the burden of adjustment on unprotected markets. With liberalization, a larger number of producers and consumers would bear the adjustment for supply disturbance and, hence, overall price fluctuations would be less. An additional factor is important for sugar, one of the most volatile commodity markets. Studies suggest that the asymmetric response of policymakers, who rapidly adjust producer prices upward in response to a surge in world prices from a short-term supply problem (often

[155] Ibid. The study covered only countries supported by the U.S. Agency for International Development and so excluded China and many middle-income (and above) developing countries, many of which are large agricultural exporters. A caveat to the study is that it was based on a study of individual commodities and the supply and demand responses did not take into account any cross-elasticities.

[156] World Bank (1986), citing Tyers and Anderson (1986).

weather-related), and who are relatively slow to lower prices after the boom has passed, amplifies the sugar price cycle. Typically, because sugarcane production takes two to three years to respond to higher prices, most of the stimulated production will enter the market after the boom, amplifying the downturn in prices.[157]

[157] Sturgiss, Wong, and Borrell (1987) and International Monetary Fund (1988b).

VI Industrial Trade Policies

Recent Trends

A review of recent trade policy developments in selected sectors (steel, textiles and clothing, automobiles, shipbuilding, electronics, footwear, and civil aircraft) indicates that impediments to trade in most industrial sectors remain significant or have increased further.

Considerable structural adjustment has taken place in the 1980s in traditional industrial sectors of industrial countries, including steel, textiles, and shipbuilding, involving significant reductions in capacity and employment and adoption of more efficient production processes. Nevertheless, traditional industries continue to depend on a variety of trade restrictions and/or subsidies. At the same time, nontariff measures for newly emerging industries in the high-technology area are also on the rise.

For textiles and clothing, multilaterally agreed restrictions against developing countries have been in place for 27 years, and another extension of the Multifiber Arrangement (MFA) in July 1986 (MFA IV) further widened its coverage of products. A large part of world trade in steel is managed by bilateral export restraint arrangements outside GATT surveillance. Substantial subsidies are extended to the steel industry, though efforts are being made to contain such subsidies and channel them toward modernization and restructuring of the industry. The shipbuilding sector is characterized by overcapacity and heavy reliance on subsidies. As with steel, many industrial countries are undertaking programs to rationalize capacity and limit state aids in shipbuilding, against the background of depressed world market conditions and rising competition from developing countries. Protectionist pressures in the footwear sector remain strong; resort to restrictions has increased recently partly owing to competitive pressures arising from the appreciation of major European currencies vis-à-vis the currencies of the newly industrializing economies (NIEs). Protectionist pressures in the automobile sector, directed mainly at Japanese car exports, have also been influenced by the major shifts in exchange rates in the past several years. The electronics sector is affected by increasing protection against Japan and the NIEs, by national security concerns, and by bilateral approaches to dispute settlement and liberalization. Disputes over the use of subsidies have been common in many sectors including civil aircraft.

Numerous studies have demonstrated the significant costs of protection in most industrial sectors, in terms of both higher prices and welfare losses. The number of jobs saved in the protected sector is usually limited, whereas the cost per job saved is often three or four times the average wage in the economy. Protection has also resulted in trade diversion and has encouraged direct investment that might not have occurred in the absence of trade restrictions.

Steel

Recent Trade Trends

The world steel market has been under strain since the early 1970s owing to overcapacity and sluggish demand in industrial countries, reflecting in part a substitution of plastics for steel in the production of many products.[158] After a recovery in 1983–85, world consumption and production declined in 1986 (Table A58). In 1987 and 1988, however, the world market recovered somewhat because of buoyant demand in the United States, Japan, and Canada.

In the face of sluggish demand and increased competition from emerging developing country suppliers (Brazil, Korea, and Mexico), the steel industry in OECD countries has undergone considerable structural adjustment involving substantial reductions in both installed capacity and employment (Tables A58 and A59). Nevertheless, capacity utilization has remained low: it fell markedly in 1982, but improved somewhat thereafter; in 1987, capacity utilization rates were 67 percent and 65 percent in the EC and Japan, respectively, and 80 percent in the United States.

In contrast to developments in the OECD, installed capacity has increased in the rest of the world, particularly in Korea, where it rose by 75 percent during

[158] OECD (1985d).

1979–85. Capacity utilization rates have also been higher outside the OECD area. The increasing importance of developing country producers and exporters has resulted in a decline in the share of OECD countries in world exports, from 74 percent in 1980 to 62 percent in 1987 (Table A60). Korea's share has increased, and in 1985 Korea was ranked fifteenth and seventh, respectively, among world steel producers and exporters.

The volume of world steel exports increased significantly during 1983–85, but declined thereafter. The steel trade has become increasingly subject to quantitative restrictions, particularly voluntary export restraints (VERs); by May 1988 a total of 52 known VERs (or equivalent measures) affected the steel trade (compared with 38 in September 1987).[159] Most of these VERs protected the U.S. and EC markets and restrained exports from developing countries (20), Eastern European countries (11), the EC (6), and other industrial countries (15). Trade flows are also influenced by subsidies and dumping and measures to counteract their effects by the use of countervailing and antidumping duties. Indeed, many VERs in the steel sector, particularly in the United States, were negotiated following countervailing and antidumping investigations.

United States

Following the strong recovery in U.S. steel consumption during 1983–84, demand softened in 1985–86, as the declining trend in steel demand from the automotive and construction sectors was compounded by a drastic decline in tubular products caused by the curtailment of U.S. oil and drilling activity following the collapse of oil prices (Table A61). Demand for steel recovered in 1987: consumption increased by more than 7 percent at a time when imports, which continued to be constrained by VERs, decreased by 2 percent. Production thus rose by almost 10 percent and import penetration (ratio of imports to apparent consumption) dropped to 21 percent. Capacity utilization exceeded 80 percent and steel prices surged, resulting in a price level that was 20 to 40 percent higher at the end of 1987 than a year earlier. Indications are that the same trends continued in the first half of 1988, and some items were in short supply in North American markets.

Despite considerable structural adjustment, including a reduction in production capacity from 140 million tons in 1980 to 102 million tons in 1987, the U.S. steel industry has continued to rely on protective trade barriers; many of these were negotiated in lieu of countervailing measures to combat "unfair" competition from abroad. Under the President's steel program presented on September 18, 1984, U.S. steel imports are regulated by a series of bilateral arrangements aimed at reducing import penetration (to a working target of about 18.5 percent of domestic consumption) and allowing time for domestic producers to undertake further adjustment.[160] By early 1987, the United States had VERs with many steel exporting countries,[161] generally covering a period of five years ending September 1989, and restricting shares in the U.S. market to specified proportions. Sweden and Taiwan Province of China have resisted VERs; however, Taiwan Province of China imposed a unilateral restraint on steel exports to the United States effective September 1986, and the United States has a "consulting arrangement" with Sweden on the latter's exports of stainless steel to the United States. Quarterly consultations on steel trade developments have been held with Canada.

The new steel arrangements (1986–September 1989) agreed between the United States and the EC in December 1986 replaced the 1982–85 Carbon Steel Accord and the 1985–86 ad hoc Pipes and Tubes Accord. Under the new arrangements, overall limits on ten categories of products covered by the 1982 accord were expanded by 125,000 tons. Limits in place since August 1985 on the quantity of exports subject to "consultation" clauses were expanded by an extra 25,000 tons and some new products were added. Semifinished steel products were to be treated as "consultation products," that is, while not subject to limitation, the United States reserved the right to review the situation should there be any surge in imports. The existing pipes and tubes arrangement continued as a separate accord, but its duration was extended to September 30, 1989 so that its termination would coincide with that of other steel accords. In addition, the United States imposed an annual quota of 400,000 tons on imports of semifinished steel from the EC in January 1986, following the Community's refusal to incorporate this limit in the VERs. The EC retaliated with curbs on trade worth $43 million. A settlement of this dispute was reached in July 1986, whereby the United States agreed to raise the quota to 600,000 tons and the EC lifted its retaliatory measures.

Following agreements on VERs on steel imports into the United States, petitions for dumping and countervailing duty investigations (which were numerous before 1985) declined; however, a number of antidumping and/or countervailing duties remain in effect on imports from nonagreement countries (e.g., Saudi Arabia). As some products such as semifinished steel were in short supply at the beginning of 1988, requests for imports beyond specified limits were granted by the U.S. Department of Commerce.

[159] GATT (1987b and 1988c).

[160] See Anjaria, Kirmani, and Petersen (1985), pp. 37–38, for the background of the program.

[161] Argentina, Australia, Austria, Brazil, Bulgaria, Czechoslovakia, the EC, Finland, the German Democratic Republic, Hungary, Japan, Korea, Mexico, Poland, Portugal, Romania, South Africa, Spain, and Venezuela.

On July 16, 1987, the President granted a 27-month extension of the specialty steel tariff and quota protection introduced four years earlier under GATT Article XIX safeguard provisions. For flat-rolled products—stainless steel sheet, strip, and plate—the tariff will be decreased from 3 percent ad valorem in the first year to 1 percent by September 30, 1989, pursuant to findings by the U.S. International Trade Commission that this segment of the industry was becoming more competitive. The existing quota program was extended for stainless steel bar and wire rod and alloy tool steel, and by the end of October 1987 orderly marketing agreements on steel were negotiated with Canada, Japan, Korea, Poland, Spain, and Sweden; unilateral quotas were assigned to Mexico and Taiwan Province of China.

A number of studies have estimated the costs of protection for the U.S. steel industry and economy. In one such study, the impact of VERs on steel was estimated to lead to an increase in average prices of steel in the United States by 4.8 percent, and a reduction in steel imports by $2.8 billion.[162] However, in steel-consuming sectors, VERs were estimated to bring about higher import penetration and reduced exports, as U.S. firms forced to purchase steel at inflated prices became less competitive. Total imports were estimated to decline by $1–1.5 billion, while exports were estimated to fall by $0.5–1.0 billion. In terms of employment, the jobs saved were estimated at 27,000 man-years, but this would be largely offset by a decline of 24,000 man-years in other sectors.

Another study[163] estimated the costs to consumers of the restrictions on steel at $1.1 billion a year (in 1983 dollars) and the annual overall cost for the U.S. economy as a whole at $779 million; gains for domestic producers were estimated at $428 million a year and quota rents extracted by foreign producers at $557 million a year. Jobs protected in the steel industry were estimated at 9,000, and the cost to consumers of each job thus saved was estimated at $114,000 a year. For every dollar earned by workers who would have been displaced in the absence of protection, consumers and the U.S. economy were estimated to lose $35 and $25, respectively.

European Community

Since the late 1970s, the European steel industry has been in a generally depressed state and apparent consumption has declined (see Table A58). Partly reflecting restructuring efforts, installed capacity, production, and employment in the steel sector declined significantly in the 1980s. Even so, capacity utilization has remained below 70 percent. A limited improvement has been observed recently, but problems associated with excess capacity are likely to re-emerge in 1989, especially when investments in developing countries (e.g., Korea) come on stream and competition becomes tougher even in high-specialty steel segments.

Since 1980, the Community's steel industry has been declared in "manifest crisis." Internal and external measures are maintained to assist in an orderly reduction in production capacity. The internal measures consist of production quotas and target guide prices (supplemented by minimum prices) for a number of steel products and regulations on state aids to the steel industry. The latter were strengthened in 1981 and aimed at eliminating operational subsidies by the end of 1984 and general aids by the end of 1985. Although the objective for capacity reduction (by 30–35 million tons) during 1980–85 was met and subsidies were cut, at the end of 1985 the Commission estimated that excess capacity still amounted to 25 million tons, or 17 percent of existing capacity.

Under a new regime for the steel industry for the two-year period ended 1987, production quotas were lifted on steel products (coated sheet and reinforcing bar) accounting for 15 percent of output, and some flexibility provisions were built into the quotas to allow limited shifts between products;[164] in addition, the Commission was authorized to allocate supplementary quotas to firms that could prove hardship under the quota system.[165] Minimum prices were abolished, but the Commission continued to issue guide prices. State aids to companies that reduced capacity or closed plants[166] continued to be permitted, in addition to aid for research and development and environmental protection.

At the end of 1987, the Commission estimated that some 30 million tons of capacity was in excess of the level justified by market prospects. Hence, production quotas were continued for the first six months of 1988, albeit for products covering only about half of production.[167] Quotas for certain products were to be extended to the end of 1990 provided that undertakings were received by the Commission by June 1988 to close at least 75 percent of excess capacity. Social aid was increased for persons

[162] Mendez (1986).

[163] Tarr and Morkre (1984).

[164] Production quotas did not apply to Spain and Portugal. The Spanish industry was also permitted to continue government aids for longer than the rest of the EC industry.

[165] As in the past, the Commission would only allocate 97 percent of output each quarter in proportion to pre-established reference quantities. Previously, the 3 percent margin was used primarily to encourage firms to close capacity rapidly, by allocating such firms a larger quota and thereby allowing a more intensive use of existing capacity. Beginning in 1986, this margin could be allocated to firms that had returned to competitiveness after a period in which they had lost market shares.

[166] Aid to companies was permitted in an amount equivalent to 50 percent of their payments to employees laid off or that take early retirement.

[167] Steel makers with an output of less than 200,000 tons were excluded from the quota system. Products excluded from the quota regime were hot-rolled coil and coil-rolled sheet (categories Ia and Ib), reversing mill plates (category II), and heavy sections (category III).

losing jobs as a result of the restructuring, mainly in the form of early retirement and assistance for new employment and retraining, and was to be financed out of levies on steel output. A program (RESIDER) to stimulate new economic activities and investment in regions adversely affected by restructuring of the steel industry was also introduced; the program cost amounted to ECU 300 million for three years and was to be financed jointly by the European Regional Development Fund (i.e., the common budget of the EC) and the member states.

Notwithstanding proposals to extend quotas, production quotas were discontinued for all categories of steel in June 1988. This action was partly motivated by the belief that restructuring would occur more rapidly if left to market forces, and that quotas hindered competition (by allocating quotas to efficient and inefficient producers alike) and discouraged rationalization by means of cross-border mergers.[168] EC members with less efficient industries were in favor of continuing quotas while restructuring was underway; others were concerned that the elimination of quotas under conditions of continued subsidization by some members would distort trade within the EC.[169]

With regard to external measures, imports of steel from major suppliers have been regulated since 1978 through bilateral export restraint agreements. These agreements have been renewed annually with the majority of supplying countries, on the basis of expected domestic consumption and with reference to the 1980 import level. Under the arrangements, import volumes during 1981–85 were set 9–12.5 percent below the 1980 import level. In 1986, the arrangements aimed at limiting outside supplies to about 10 percent of internal consumption and permitting a 3 percent increase in import volume over the previous year.[170] The number of arrangements declined from 15 in 1984 to 12 at the end of April 1988 (including EFTA countries).[171]

Export restraint agreements have been complemented by a system of surveillance and import licenses and the basic import price system that is applicable to nonagreement countries. The basic import price system sets floor prices that, if not observed, can trigger antidumping actions against the foreign supplier. (Antidumping duties have been applied against Mexico on this basis.) The EC announced in 1987 a revision of its official basic import prices: for most products the prices were lowered to reflect changes in production costs (stemming from cheaper raw materials and energy) and the depreciation of the U.S. dollar.

It was originally intended to eliminate VERs and production quotas at the same time. Although production quotas have been eliminated, the VERs remain in place. The Commission has indicated that the EC is unlikely to dismantle VERs while world trade is essentially managed. In a market free of restrictions, the EC would likely encounter problems competing in the U.S. market with Argentina, Brazil, and Korea.

Canada

Canada's steel industry remains competitive in the world market as a result of major investment and plant modernization in the last two decades. A substantial recovery in apparent consumption and crude steel production began in 1983; following a pause in 1985–86, the recovery continued in 1987. Exports began to recover in 1984 and the trend continued until 1987. In recent years, Canada has shipped 60–70 percent of its steel exports to the United States, while the latter supplies the major share of Canada's imports.

Canada has been concerned that some third-country suppliers have attempted to circumvent restrictions on steel exports to the United States by channeling shipments via Canada. In view of U.S. industry pressure for protection against increasing imports from Canada, the latter introduced rules of origin in October 1986 on all imports of iron and steel pipes and tubes. To prevent circumvention and to minimize the "diversion" of steel to Canada following increased import restrictions in other markets, Canada progressively introduced an import/export monitoring system for carbon and specialty steel in 1986–87 that requires import and/or export permits before any shipment can be cleared for delivery in or from Canada. Such permits, however, have been granted freely on request. In addition, in 1986 the Canadian Import Tribunal began an investigation into the risks of diversion to Canada of foreign carbon steel and specialty steel products.

Australia

Faced with a sharp downturn in production, employment, and profitability in the domestic steel industry in

[168] A joint company of a Dutch and a German producer had in fact split because of difficulties in dealing with the two Governments and the EC quota administration.

[169] The Belgian, French, and Italian industries have made losses in recent years. In the United Kingdom, the industry is profitable but write-offs of large losses up to 1985 are considered a continuing subsidy by some observers.

[170] Steel imports from certain EFTA countries (Austria, Finland, Norway, and Sweden) are covered by an exchange of letters of understanding (consulting arrangements) that are aligned with the EC's free trade agreements with EFTA and contain no ceilings for export volumes.

[171] Export restraint agreements were negotiated with Austria, Brazil, Bulgaria, Czechoslovakia, Finland, Hungary, Korea, Norway, Poland, Romania, Sweden, and Venezuela. Venezuela was included for the first time in 1987. Japanese exports to the EC were regulated by an exchange of letters in 1986. Among the countries that had been included in previous annual negotiations, Australia was dropped from the list because of its few steel exports, and South Africa became, in any case, subject to economic sanctions by the EC.

the early 1980s, the Australian Government announced in August 1983 a five-year assistance package for the industry, commencing January 1, 1984. The main element was the introduction of sliding-scale bounties on four (later five) product categories produced and sold in the domestic market, representing about 26 percent of domestic production for this market. The ceiling on bounty payments was initially set at A$72 million a year, while that for individual bounties could be adjusted in line with domestic steel price movements. The bounties were complemented by a safety mechanism providing for a review of assistance needs when the local industry's share of the domestic market in eight (later ten) specified product categories fell below 80 percent or rose above 90 percent. The assistance package also introduced general limits on imports of steel products from developing countries at preferential rates of duty; imports from these countries, exceeding the average volume of imports during the five years ended June 30, 1983, would attract general rates of duty. Finally, the package provided for the introduction of a "fast track" antidumping mechanism for steel products.

The situation improved after 1983, but it is difficult to assess how much this improvement was related to the assistance package: it is probable that the main positive factor was the recovery of the Australian economy, combined with the sustained depreciation of the Australian dollar since the end of 1984. The bounties have contributed to the renewed profitability of the industry, as they have helped create a more stable environment for producers. In addition to the assistance provided by tariffs, the bounties were structured to provide up to 17–20 percent of the sales value of high alloy and steel mill products (in a period when tariffs on high alloy and stainless steel were phased from 25 percent in April 1984 to 15 percent by April 1988). The only change in the scheme owing to the triggering of the safety mechanism was the withdrawal of developing country preferential treatment for Brazil, Korea, and Taiwan Province of China for exports of hot-rolled steel strip and plates.

Textiles and Clothing

Recent Trade Trends

World output of textiles and clothing has generally increased since 1982. In the industrial countries, production of textiles rose by 1/2 of 1 percent and 3 percent in 1985 and 1986, respectively; clothing production was stable in 1985 and increased by 2 percent in 1986. Employment in both the textile and clothing sectors declined steadily in all industrial countries (Table A62). The decline was more pronounced in the textile sector, which has adopted more capital-intensive production methods.

In the developing countries, output of textiles rose by 3 percent and an estimated 6 percent in 1985 and 1986, respectively, while that of clothing was stable in 1985 and increased by an estimated 8 percent in 1986. Buoyant consumer demand in the industrial countries, particularly in the EC, contributed to the expansion in 1986.

World exports of textiles (in U.S. dollars) expanded by 21 percent in 1986, in marked contrast to the stagnation of the previous year. In part, this expansion reflected the depreciation of the dollar. The exports of both industrial and developing countries (including the centrally planned economies) grew roughly in line with world exports, resulting in unchanged market shares (65 percent for industrial countries).

World exports of clothing (in U.S. dollars) grew by about 4 percent in 1985 and 27 percent in 1986. Industrial countries' exports rose by 32 percent in 1986, with the result that their share in world exports increased to some 45 percent, compared with about 43 percent in 1985 (and about 56 percent in 1973). Their share in world imports of clothing rose in 1986 to about 85 percent. Clothing imports in 1986 rose strongly in the EC (45 percent), Japan (43 percent), EFTA (43 percent), Canada (19 percent), and the United States (15 percent) (Table A63).

Multifiber Arrangement

Over the past 27 years, trade in textiles and clothing has been regulated under international agreements. Following the Short-Term Arrangement Regarding International Trade in Textiles (October 1961–September 1962) and the Long-Term Arrangement Regarding International Trade in Cotton Textiles (October 1962–73), the Multifiber Arrangement (MFA) came into existence as a "temporary" departure from normal GATT rules. The MFA's stated objectives are to achieve the expansion and progressive liberalization of world trade in textile products, while at the same time avoiding disruptive effects in individual markets and in individual lines of production in both importing and exporting countries. The original MFA (1974–78) was followed by MFA II (1978–81), extended by MFA III (1982–July 1986), and extended again in July 1986 by MFA IV (August 1986–July 1991). By early 1988, 39 participants had officially accepted the corresponding protocol of extension.[172]

The MFA envisages essentially two types of restrictions: (1) those under its Article 3, which permits bilateral or unilateral restrictions as a result of market disruption, and (2) those under Article 4, which provides for bilateral agreements to eliminate the risks of market

[172] Including the 12 members of the EC as a single entity.

disruption. In effect, these Articles provide for a volume growth norm of at least 6 percent annually in export categories restricted under the MFA for more than one year. The MFA has "flexibility" provisions that permit switching between individual quota categories (swing), carryover of unutilized quota to the following year, or borrowing (carry forward) of next year's quota.

The 1986 protocol of extension of the MFA (MFA IV) was originally opposed by most developing countries, which favored a return to GATT rules after the expiry of MFA III. These countries finally agreed to the extension as they became more sensitive to the risk that, in its absence, developed countries would resort both to safeguard actions under GATT Article XIX and probably to strong unilateral actions. Also, some suppliers became concerned that they might lose market shares if the MFA was terminated.

MFA IV widened the coverage of the Arrangement. Besides products from cotton, wool, and man-made fibers, it now includes those from other vegetable fibers, such as ramie, sisal, and jute, and blends containing vegetable fibers and silk that are directly competitive with those already covered by the Arrangement. Further, under MFA IV, an importing country can prolong unilateral restrictions (previously limited to a maximum duration of 12 months) for an additional 12 months without a new finding of market disruption. In contrast to these more restrictive provisions, MFA IV includes an understanding that bilateral agreements should provide for increased market access to imports in overall terms, and that exports from least developed countries, small suppliers, and new entrants should not be made subject to restraints. It also recognized that the existence of serious injury to domestic producers, or its threat, should not be based solely on the level or growth of imports but should be substantiated by relevant information on an identifiable segment of the domestic industry. However, as in MFA III, paragraph 10 of the protocol stipulates that any "mutually acceptable agreement" can be made between importers and their dominant suppliers. Finally, MFA IV also contains the objective of eventually applying GATT rules to trade in textiles and clothing but does not specify a time limit for reaching it.

Restraints under the MFA have been applied almost exclusively to products from developing countries. Table A64 lists the bilateral agreements in effect in early 1988 under Article 4 of the MFA; most of these were negotiated under the 1986 protocol of extension.

Although it is difficult to assess the overall impact that MFA IV might have on world trade in textiles and clothing, some indications are provided by recently concluded bilaterals. In most of the agreements signed by the United States, product coverage was expanded to include textiles and/or apparel of silk blends and other vegetable fibers; these represent a minor share of U.S. imports of textiles, but a significant portion of imports of clothing (8.2 percent). Permissible import growth rates remained mostly unchanged with respect to previous agreements, but for dominant suppliers like Hong Kong and Korea, growth rates of less than 6 percent and more limited flexibility provisions compared with other suppliers were negotiated under paragraph 10 of the 1986 protocol.

In the European Community, product coverage in agreements concluded under MFA IV has remained unchanged, and several restraints were terminated. Total EC restraints, including national subquotas, have been reduced by about 30 percent relative to those maintained under MFA III. In the two-year period 1986–87, imports of textiles from MFA exporters rose by 54 percent in volume terms.

Japan has continued its past practice of not imposing quantitative limitations under the MFA; however, the Japanese market is protected by a number of non-MFA export restraint arrangements, notably with China and Korea. The GATT reports the existence of nine such arrangements in mid-1988.[173]

Evidence suggests that the MFA has acted to reduce imports considerably below the level that would have occurred without it, but that it has nevertheless permitted additional inflows in response to economic factors such as exchange rate changes, domestic growth, or increased competitiveness of exporters.[174] Thus, despite the MFA, developing countries have significantly increased their share of world exports of textiles and clothing over the last twenty-five years. A number of factors have contributed to this growth. First, numerous bilateral agreements under the aegis of the MFA have entailed monitoring rather than strict quota provisions; further, when quotas were in place, the "carryover" provisions permitted temporary flexibility in response to changes in demand. Second, because the MFA tends to operate on the volume rather than the value of imports, it introduces an incentive to upgrade product quality; hence, the unit value of U.S. imports of textiles and apparel appears to have rapidly adjusted upward in the initial years of MFA II, as well as at the beginning of MFA III. Third, quotas imposed on the major exporters have encouraged additional supplies from new entrants and nonrestrained producers.

Nevertheless, the MFA has a restrictive effect. Two main methods have been used to quantify this impact. Under the first, a number of studies have computed tariff equivalents of quotas. For the United States, the estimates range from 8.8 percent to 50 percent depending on product and country coverage, with a central value of 15–25 percent.[175] The tariff equivalent of German quotas on men's and boys' shirts has been estimated

[173] GATT (1988c).
[174] Cline (1987).
[175] Ibid.

at 54 percent.[176] For Canada, estimates indicate that without quotas, landed prices would have been lower by 17 percent for outerwear and 25 percent for shirts.[177] 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 5–10 percent.[178]

Under the second method, several studies have estimated import reductions and the associated welfare losses in importing countries owing to MFA quotas. In the United States, imports were 26–44 percent below levels that would have been attained without quotas in 1978,[179] while in Germany, the reduction in the 1980s was estimated at 30 percent.[180] In terms of welfare, studies of shirt imports indicate a loss equivalent to 14–20 percent of the import value of shirts in the United States, and of 19–27 percent of import value for Germany.[181] Part of these losses constitute "rents" received by the more advanced developing countries; it is estimated that the annual transfer from OECD countries to exporters of textiles and clothing in the newly industrializing economies of Asia is at least $2 billion.[182]

Other Protective Measures

Tariffs on textiles and clothing differ widely among industrial countries. In the EC market, most-favored-nation (MFN) duties are 15 percent or less, with half of the imports entering at a maximum rate of 10 percent. A similar situation exists in Sweden and Switzerland. In Japan, nearly 40 percent of textile and clothing imports in 1984 were duty free; the other 60 percent were covered by duties below 25 percent, for the most part less than 15 percent. Tariffs are somewhat higher in a number of other countries. More than half the tariff lines in Austria, Canada, Finland, Norway, and the United States carry duties in excess of 15 percent. The markets of the industrial country members of the MFA are also protected by a significant number of non-MFA voluntary export restraint arrangements. The GATT reports that these numbered 72 in mid-1988, compared with 28 in September 1977, directed exclusively against the exports of developing and Eastern European economies.[183]

Australia participated in MFA I, but not in subsequent MFAs, while New Zealand has never participated in the MFA. As in other developed countries, tariffs on textiles and clothing in Australia and New Zealand are significantly higher than on other goods and tend to escalate with the stage of production: tariffs are lower than 20 percent on fibers, yarns, and fabrics, but on clothing average 50 percent in Australia and 96 percent in New Zealand. Australia also maintains a system of tariff quotas, which are being gradually phased out and replaced with tariffs, while New Zealand's imports of textiles and clothing are subject to import licensing procedures, normally in the context of global quotas. Substantial tariff cuts were recently announced by Australia.

A detailed picture of protection levels in developing countries is not available. Partial information on textiles and clothing shows that protection in a number of these countries is fairly high in terms of tariffs as well as nontariff measures.[184] In the early 1980s, Brazil, Egypt, India, Morocco, and Pakistan applied average tariff rates in excess of 75 percent on their imports of textiles and clothing, while rates in Argentina, Korea, and Mexico were in the 30–40 percent range. However, Hong Kong, Macao, and Singapore (with the exception of a low tariff on clothing) allow imports free of duty.

With respect to nontariff measures, Singapore has no GATT-notified restrictions while Korea, Malaysia, Sri Lanka, and Thailand have only a few; however, other developing countries have relatively many. Nonautomatic import licensing is the most frequently used measure, particularly in Argentina, Bangladesh, Brazil, Columbia, Peru, and Tunisia. A number of developing countries maintain these restrictions under the GATT's balance of payments provisions, to which they have easier and more frequent resort than industrial countries.

A comparison of nontariff measures in industrial countries and in developing countries[185] shows that for clothing, their frequency in both groups of countries is in the 50–60 percent range. A number of industrial countries believe that it would be easier to liberalize trade in textiles and clothing, including the dismantling of the MFA, if their higher value-added products in this sector had improved access to developing country markets, and if greater protection of intellectual property rights was guaranteed by the latter countries.

Claims that protection of textiles and clothing is needed to provide time to adjust is questionable for a number of reasons. First, declining employment in these sectors in the industrial countries has been largely due to productivity growth, with imports playing a comparatively minor role. Second, these sectors are not submitted to pressures common to steel and shipbuilding, in which industrial country consumption has declined in

[176] Spinanger and Zietz (1986).
[177] Jenkins (1980).
[178] Silberston (1984).
[179] Tarr and Morkre (1984).
[180] Zietz (1985).
[181] Spinanger and Zietz (1986).
[182] OECD (1985a).
[183] GATT (1988c).

[184] GATT (1984b).
[185] UNCTAD (1988c), p.34.

real terms. Third, a number of industrial countries have become competitive in textiles, largely owing to the growing capital intensity of the sector. Thus, in 1986, the Federal Republic of Germany, Italy, and Japan were the world's largest exporters of textiles. Finally, in the clothing sector, with the exception of "high-fashion" goods in which some industrial countries hold a comparative advantage, comparative advantage has shifted away from industrial to developing economies. This shift reflects the fact that the clothing sector does not lend itself to automation and returns to scale. Trade protection hinders the adjustment necessary to adapt to this shift in market conditions. These factors also undercut claims by a number of developing countries that protection is required for "infant industry" reasons.

Claims that protection is required for social reasons have also lost force. Although production and employment in textiles and clothing are important in some regions, the sector has declined to such an extent that its evolution no longer significantly affects overall economic activity in industrial countries. In this context, regional problems can be better dealt with by other policies that do not distort trade.

Trade in textiles and clothing is an issue in the Uruguay Round of multilateral trade negotiations (see Section IV).

United States

Clothing imports, which account for some three fourths of total imports of textiles and clothing in the United States, increased in 1985 and 1986 by 11 percent and 15 percent, respectively, reflecting the continued strength of consumer demand. Similarly, imports of textiles grew by 8 percent and 18 percent in 1985 and 1986, respectively. The trade deficit for textiles and clothing rose to $18 billion in 1985, and to $21 billion in 1986; some 86 percent of these deficits were attributable to trade in clothing.

Pressures for protection have remained strong, in part owing to the increasing trade deficits. The President vetoed in 1985, and again in 1988, bills providing for comprehensive global quotas on imports of textiles, clothing, and footwear. The EC had threatened retaliation in the event the bills were enacted.

The United States maintains 30 bilateral agreements under Article 4 of the MFA (Table A64) and 12 agreements with nonsignatories of the MFA.

European Community

Following a strong increase in consumer demand, expenditure on clothing in the EC rose in real terms by 1.5 percent in 1985 and 3 percent in 1986. Although this was accompanied by modest increases in production, imports grew rapidly in nominal terms in 1986, with the result that the combined trade balance for textiles and clothing recorded a deficit of $850 million in 1986 after a surplus of almost $900 million in 1985. Protectionist pressures, which had abated in 1985, have resurfaced.

The EC maintains 20 bilateral agreements under Article 4 of the MFA. In addition, it has 8 export restraint agreements with Mediterranean developing countries in the context of overall cooperation agreements. It also has a consultation agreement with one signatory to the MFA and has negotiated export restraints with 8 nonsignatories of the MFA. Furthermore, the markets of both Germany and the United Kingdom are protected by Turkish export restraints.

Automobiles

Recent Trade Trends

World automobile production was virtually stagnant in 1986, compared with an average annual growth of some 7 percent during 1983–85. This slowdown was mainly due to a decrease in apparent automobile consumption in the United States and Canada (of 1.6 percent and 6.3 percent, respectively) that led to declines of 2.9 percent and 3.8 percent, respectively, in production in these two countries. Production remained stable in Japan in 1986, in contrast to the 3–7 percent growth recorded in 1984–85. Production rose by about 5 percent in the European Community in 1986, in response to a strong increase in apparent consumption (9 percent) (Table A65). Industrial countries account for more than 90 percent of world automobile production.

The volume of world trade in automobiles and automotive parts is estimated to have increased by 2.5 percent in 1986. The value of such trade (in U.S. dollar terms) rose by 23 percent in 1986, the strongest increase in the last ten years.

Industrial countries' exports of automobiles were stable in volume terms in 1986, with Japan and Canada both experiencing a 2 percent decline and the United States exporting approximately the same number of vehicles as in 1985. The European Community's exports rose by about 2 percent, mainly owing to a strong increase (22 percent) in Italian car exports.

In value terms, industrial countries' exports of automobiles and parts rose by about 24 percent to $200.5 billion in 1986 (Table A66). Exports by the Community (including EC intratrade) increased by close to 30 percent, and Japan's exports to the United States increased by 38 percent, mainly in categories not subject to export restraints. In contrast, U.S. exports decreased by 4 percent and Canadian exports increased by only 2 percent.

Japan, the world's largest exporter, expanded its share of industrial country exports from 24 percent in 1983 to 27 percent in 1986. Developing countries' exports rose by 3.5 percent as a rapid expansion of exports by Korea and Mexico (which grew by 133 percent and 37 percent, respectively) more than compensated for the 20 percent decline in Brazil's exports.

A prominent feature of the world automobile industry in recent years has been the strong and continuing expansion of foreign investment by Japanese motor companies, first in North America and in developing countries, and subsequently in Western Europe. Protection against Japanese exports as well as the appreciation of the yen since 1985 have played a role in stimulating such investments. These investments are likely to result in a decline in Japanese exports to the United States and Western Europe as Japanese production increases in those markets and as exports rise from Japanese companies in developing countries.

United States[186]

During the four-year period March 1981–March 1985, discriminatory trade restrictions were maintained in the automobile sector in the form of "voluntary" restraints (requested by the United States) on exports of passenger cars to the United States from Japan. The restraints were maintained against a background of severe difficulties faced by the U.S. automobile industry. In March 1985, following a turnaround in consumer demand and an improvement in the automobile industry's financial situation, the United States announced that it would not seek a further extension of the voluntary restraints. However, the Japanese Government decided to impose a ceiling of 2.3 million units (a 24 percent increase over the 1984 ceiling) for two more years to March 1987. The ceiling was subsequently extended for the fiscal years ending March 1988 and March 1989, even though it was not reached during 1987–88.

The financial position of the U.S. automobile industry has improved substantially in recent years. Owing to the voluntary export restraints, the Japanese share of the U.S. car market, which had peaked at 22.6 percent in 1982, decreased to 18.3 percent in 1984 and was contained to 20.1 percent and 20.7 percent in 1985 and 1986, respectively, after the ceiling was adjusted upward. The U.S. car industry was thus able to take advantage of the growth of consumer demand in 1983–85, with the result that there was an increase in domestic production, capacity utilization, and employment. Production of passenger cars reached 8.2 million units in 1985, and employment (which had fallen to 699,000 in 1982) recovered to 876,000 by 1985. Simultaneously, losses of the U.S. automobile industry on U.S. operations were replaced by profits that reached $10 billion in 1984 and about $6.8 billion in 1985.

Since 1986, however, the impact of the voluntary export restraints has declined. First, the Japanese authorities increased the ceiling by 24 percent in 1985. Second, penetration of non-Japanese foreign cars and foreign investment in the United States increased strongly in a period of stable consumer demand. Passenger car production declined by 4.9 percent to 7.8 million units in 1986, while the foreign share of the U.S. market rose to 28.3 percent (compared with 25.7 percent in 1985). Employment fell in 1986 to 843,000 and profits declined to $5.6 billion. Investment in automobile plants and equipment remained high in 1986 and was expected to increase in 1987.

The competitiveness of the U.S. automobile industry vis-à-vis foreign producers improved significantly in 1987 owing to the depreciation of the U.S. dollar. Prior to that, competitiveness was affected in part by relatively high labor costs in this sector; in 1986, hourly compensation in the U.S. motor vehicle industry was still more than twice that of Japan. The Japanese cost advantage in producing a subcompact model in 1984 was estimated at $1,500–2,500. One study[187] estimated that the cost differential should be eliminated at an exchange rate of about ¥ 150 to the U.S. dollar. The effects of exchange rate changes were only progressively incorporated in foreign car stickers, but are expected to be fully incorporated in 1988 in favor of domestic producers.

The decline of the dollar and the regular extension of the voluntary export restraints have encouraged investment by Japanese firms in the United States. In 1986, such plants accounted for some 5 percent of the total U.S. passenger car production, compared with only 2.7 percent in 1984. The total annual capacity of Japanese-owned assembly plants in the United States is projected to reach at least 1.4 million units in 1989,[188] or more than 10 percent of domestic production. Some analysts argue that this internationalization of the motor vehicle industry will be irreversible as the U.S.-based production of Japanese models will erode consumer brand preference for U.S. cars; they contend that from a long-term, competitive viewpoint, U.S. producers would have been in a more favorable position if trade restraints had not encouraged Japanese investment.[189]

European Community

Imports of automobiles from Japan into the EC are subject to formal or informal restrictions or equivalent

[186] The U.S.-Canada Automotive Agreement of 1965 and the effects of the U.S.-Canada Free Trade Agreement are covered in the subsection on Canada.

[187] Aizcorbe, Winston, and Friedländer (1987).

[188] Japan Economic Institute (1987).

[189] Mannering and Winston (1987b).

measures, at the individual member level, or the Community level, or both. These restrictions have prompted Japanese companies to move into the upscale European market—an effect similar to that observed in the United States—and to increase direct investment in the EC. This investment is likely to increase to take advantage of the single European market.[190] Such investments are subject to local content rules.

At the national level, Italy has imposed an annual quantitative limit on imports of Japanese passenger cars since 1956; the limit is currently fixed at 3,425 units (about 0.2 percent of total annual sales in Italy). Japanese imports have also been restrained in France at about 3 percent of the domestic market since the end of the 1970s, and in the United Kingdom (11 percent of the market) since 1980. Export restraints are also applied to exports to Spain and Portugal. Overall, 63 percent of the EC market (excluding Community-wide restraints in this sector) operates under quota restraints, whether voluntarily agreed or unilaterally imposed.

At the Community level, surveillance has been exercised on imports of certain motor vehicles originating in Japan since early 1981. In 1983, a three-year agreement called for moderation in the growth of Japanese automobile exports to the Community, without a specific limit. In 1987, following record passenger car shipments in the first five months of the year, Japan stated that it intended to hold the increase in car sales to the EC in 1987 to 10 percent of the 1986 level. Despite renewed pressure for Community-wide controls, the Commission announced that it would not impose additional external restraints. Japanese motor manufacturers indicated recently that their exports to the Community in 1988 would be limited to 1.21 million cars and commercial vehicles, representing a 3.2 percent increase over shipments in 1987.

State aids also provide some support to the EC automobile industry (see Appendix I). In principle, state aids are prohibited. The Commission has authority to grant certain exemptions, however, if such aid does not distort trade and production within the Community. Certain exemptions that have been granted may, in practice, distort trade within the EC and in relation to non-EC countries.

In recent years, the Commission has made greater use of existing competition rules to eliminate state aids and ensure that they are not substituted for technical and other barriers that will be eliminated by 1992. In the automobile industry, this policy resulted in reductions of U.K. aid for Leyland trucks and in regional assistance in Germany for Daimler-Benz. (Germany argued that its aid to Daimler-Benz had characteristics of regional aid.) In a recent case, however, the Commission agreed to an injection of F 12 billion (consisting of F 8 billion of equity and F 4 billion of debt write-offs) by the French Government in Renault, provided that Renault was transformed from a *Régie* (under which its debt is guaranteed by the Government) to a state-owned company subject to common commercial rules. A proposal by the United Kingdom to inject £800 million into Rover (which has received £3.8 billion of state aid since 1976) prior to its takeover by British Aerospace was initially blocked on the grounds that it contravened EC competition rules; it was subsequently accepted when the aid package was reduced to £470 million.

As part of the process to complete the internal market by 1992, the EC aims to create a single market for automobiles. Such a market will enable manufacturers to take greater advantage of economies of scale and will likely encourage greater foreign investment as well as some concentration of the sector. Several issues must be settled before the single market is completed. First, substantial differences in indirect taxes on motor vehicles exist across the Community. Currently, manufacturers attempt to offset these differences by applying lower prices in high-tax markets. This has provided incentives for the purchase of cars in high-tax countries for shipment elsewhere, with possible trade-distorting effects. While tax differentials have been narrowed to some extent in recent years, significant differences remain. Second, the harmonization of technical standards has not yet been completed because the standards proposed by the Commission for tires, safety glass, weight, and dimensions pose difficulties for France. Third, the elimination of national import restrictions is encountering strong resistance from producers and might be difficult to achieve, given disparities in national levels of protection and in competitiveness among EC members.

Resistance to the elimination of national restrictions has raised concerns that they might be replaced by tighter EC-wide restrictions. In this context, automobile producers in a number of EC members have stated that the lifting of restrictions was dependent on (i) a reduction of Japanese sales in the European market to their average level prevailing in 1985/86 (about 10 percent of the EC market), and (ii) an increase in access for the EC automobile industry to 5 percent of the Japanese market, compared with just over 2 percent in 1987. EC member countries believe that access to the Japanese market is restricted by the Japanese distribution system, by the indirect tax system that discriminates against large cars, and by technical barriers (standards, testing, and certification procedures). Some progress has been made in reducing technical barriers as a result of bilateral discussions between the EC and Japan in which Japan agreed to adopt international or EC-wide standards, where such standards exist. Further progress is

[190] Nissan currently has a factory in Northeast England that aims to produce 200,000 cars by 1992. In accordance with an agreement between the U.K. Government and Nissan, it was to increase local content to 60 percent by 1988 and to 80 percent by 1992. Mitsubishi and Toyota are also considering setting up operations in the EC.

impeded partly by lack of EC-wide standards in a number of areas. The Japanese Government has proposed a tax reform plan, which replaces the commodity excise tax system with a new consumption tax system that taxes all automobiles at the same rate. The new tax system, if adopted, will mitigate the criticism of the current tax system.

Canada

The Canadian automobile trade policy has the following five main elements.

First, under the U.S.-Canada Automotive Agreement of 1965, duty-free access is available to car manufacturers for new cars and parts for their production. The agreement requires manufacturers to produce finished automobiles in Canada that are at least equal in total value to the value of automobiles sold in Canada, thereby guaranteeing an important level of employment to Canadian workers. Also, under a "letter of intent," it is agreed that at least 60 percent by value of the parts in qualifying automobiles should be made in Canada. Currently, manufacturers from other countries can qualify for trade under this auto-pact; Volvo, for instance, currently operates in Canada under its terms. The U.S.-Canada Free Trade Agreement, if ratified, will limit the benefits of the auto-pact to foreign companies already benefiting from the scheme.[191]

Second, under the Free Trade Agreement the prohibition on the import of used vehicles (excluding cars of the current model year) will be abolished. This is likely to help reduce the incentive for differential pricing by manufacturers on cars sold domestically and across the border.

Third, between 1982 and 1985, export restraints limited Japanese car exports to about 18 percent of the Canadian market. These restraints were partly intended to avoid diversion of Japanese exports from the United States to the Canadian market. Since 1985, Japanese car exports to Canada are "monitored" by Japan and Canada. Since 1986, Korea has exercised "prudence" in its export of passenger cars to Canada; an indicative ceiling limits these exports to 10,000 units a year. Hyundai's share of the Canadian passenger car market declined from 7 percent in 1985 to 6.4 percent in 1986 and 1987.

Fourth, a tariff—9.9 percent in 1986—is levied on most car imports not qualifying under the U.S.-Canada auto-pact. The duty-free treatment applied in the past to imports from developing countries was replaced by a 7 percent levy applied on auto parts (in May 1985) and on automobiles (in January 1987). This tariff will be progressively phased out on trade between the United States and Canada under the Free Trade Agreement.

Fifth, to provide an incentive for automobile producers to locate investments in Canada, the Canadian authorities had established a program for export-based and production-based duty remissions. For export-based duty remissions, duty paid on imports of cars by foreign firms is refunded provided the same firm exports automotive parts from Canada to the United States or elsewhere. These remissions are considered by the United States to constitute export subsidies; under the Free Trade Agreement, they are expected to be eliminated beginning 1989. For production-based duty remissions, duty paid on imports of cars by foreign firms is refunded provided certain production targets are met. Under the Free Trade Agreement these will be eliminated by 1995.

Costs of Protection

Studies on the costs of restrictions imposed by countries on automobile imports from Japan include a special OECD (1987a) study covering Canada, France, the United Kingdom, and the United States, a study by the United States International Trade Commission (1985) on the United States, as well as other studies.

The results of the OECD study are summarized in Table A67. The study notes that the restrictive measures resulted in losses for consumers in the four countries, while the short-term benefits to domestic industry and employment were at best modest. The long-term effects on the protected economies were negative, owing to distortions in investment patterns and possible delays in structural adjustment by U.S. and European producers. Also, productivity increases in Europe and North America, although resulting largely from Japanese investments, might have been achieved faster if protection had not relieved competition. Furthermore, protection may have encouraged concentration in the protected markets, with the risk that cooperation may have replaced competition among firms in the protected sector.

Other studies also show that the VERs on Japanese exports to the United States had a significant impact on automobile prices, entailed major costs to the consumer, and saved a relatively limited number of jobs; but the estimated effects vary substantially owing to differences in assumptions. Estimates of the overall cost to consumers range from $6.6 billion (assuming a competitive domestic market) to $14 billion (assuming some degree of imperfect competition).[192] The estimates for the increase in profits in 1985 on account of VERs range from $550 million to $1,290 million in the OECD study; other

[191] It also provided for the phasing out or elimination of duty remission schemes that had previously augmented the benefits of the auto-pact to foreign manufacturers.

[192] Crandall (1987); Collyns and Dunaway (1987); and Mannering and Winston (1987a).

studies give substantially higher estimates for 1984. (The latter are more in line with profits of $8.9 billion made by domestic producers in 1984.) Estimates of employment gains on account of the VERs vary, ranging from 20,000-35,000 (OECD), 44,000 (USITC), and 40,000–75,000 (Fund staff studies). These figures do not include possible gains in employment in steel and other supply industries as a result of the VERs, but they also exclude possible losses in employment in other sectors of the economy.

In Canada too, VERs were estimated to have resulted in higher automobile prices, but these increases were mitigated to some extent by the availability of substantial import substitutes from Germany and Korea. Consequently, the increase in Japanese car import prices as a result of the restraints, although significant, was limited to between 8 percent and 14 percent in 1985. Under the assumption of a competitive domestic market, the OECD study estimated the gain in output to North American car producers at 22,000 cars, the cost to consumers at Can$199 million, and the increase in employment at 880 jobs; thus, the cost of each job to the consumer was close to Can$200,000. Assuming a strongly oligopolistic market, the estimated cost of the VER to Canadian consumers more than quadruples, to Can$913 million. In this respect, comments in the study concerning the effect of the auto-pact are noteworthy: the limitation of the auto-pact benefit to manufacturers is considered to be partly responsible for imperfect competition in the Canadian market, as evidenced by the fact that Canadian prices for automobiles are not directly related to their actual costs. The observed deviations between prices of similar products in Canada and in the United States result from differences in emission control equipment, limits on large-scale arbitration by retail and franchise contracts, and a prohibition of used-car imports into Canada.

In France, the impact of the VER was also estimated to be substantial, although it was limited by the substitution of cars imported without restriction from other EC members for Japanese vehicles. The OECD study assumed that the restraint had been binding since the early 1980s, but a more recent study,[193] found that the restraint only became binding in 1984. Thus, the increase in Japanese prices between 1981 and 1983 was apparently motivated by quality upgrading. From 1984 on, the prices of Japanese imports were higher than they would have been without the VER; the consumer loss was limited to F 320 million; the increase in French production owing to the restraint was 5,000 units to 10,000 units and only 300 jobs were saved.

In the United Kingdom, the OECD study found that the VER had effects similar to those reported for other countries. However, a number of other factors could have contributed to the high U.K. car prices.[194] Multinational producers have long had a large share in the U.K. industry, and their pricing behavior is not determined solely by their production costs in the United Kingdom. The penetration of European producers is significant, and the price increases observed in Japanese car imports are similar to those of their European competitors. The impact of the VER on the structure of the U.K. automobile industry may have been wider than indicated by the estimates in Table A67. According to the OECD study, the large inroads the Japanese would have made without the VER would probably have led to the bankruptcy of British Leyland; however, mismanagement and failure of the 1975 restructuring plan may well have been avoided had competitive pressures been maintained. The direct costs to consumers, while difficult to estimate, may have been substantial, given that several cash injections were necessary to support British Leyland and Chrysler U.K. between 1975 and 1986.

Shipbuilding

Recent Trade Trends

The shipbuilding sector has suffered from overcapacity since the second half of the 1970s. Although world trade volumes have recovered since the international recession following the oil shocks, this recovery was not accompanied by an increase in world seaborne trade. Hence, demand for new ships has remained low and the competition for orders available has been intense. World production and prices have been depressed in recent years. In 1987, production fell by 18 percent to 9.9 million gross register tons, equivalent to slightly over half the level of production in 1976 (Table A68). Total new orders also continued their declining trend in 1987 (Table A69).

As a result of shifts in comparative advantage, Japan, Korea, and other new suppliers from developing countries have improved their competitive positions compared with traditional producers in Western Europe. The share of the European Community in total world production has declined sharply, from about 31 percent in 1976 to 19 percent in 1987. The share of Japan, the world's leading producer, has fluctuated between 37 percent and 47 percent of world production during 1976–87, while that of non-OECD countries has more than doubled (from 13 percent in 1976 to 32 percent in 1987). Among the latter, Korea has witnessed a dramatic expansion in production over the past decade and is currently the second largest producer.

[193] de Melo and Messerlin (1988).

[194] Ashworth, Kay, and Sharpe (1982); Greenaway and Hindley (1985); and OECD (1985a).

The shipbuilding sector is characterized by extensive government subsidies and aid programs—the chief means of support for this sector—as there are few trade restrictions, considering the difficulty of implementing border measures.

Under the auspices of the OECD Working Party on Shipbuilding, industrial countries are coordinating their efforts to modernize operations, reduce installed capacity, promote structural adjustment, and reduce and rationalize government aids to this sector. OECD guidelines aim gradually to reduce aid measures that distort trade and discourage capacity adjustment (such as national aids, subsidized export credits, and discriminatory procurement practices).

Over the period 1976–86, physical capacities have been reduced by 50–60 percent in the EC and the Nordic countries, and by 35 percent in Japan (in compensated gross tons). Nevertheless, under current depressed market conditions, capacity in OECD countries remains excessive. In addition, overproduction of ships has depressed freight rates.

Although the short-term outlook for this sector is not bright, it is generally believed that demand for ships may revive in the early 1990s, as a number of commercial fleets are due for replacement. Even so, the world order book may rise to only slightly more than half the 1976 level. Moreover, given the volatility of the oil market, forecasts of market prospects are fraught with uncertainty.

European Community

The Community's shipbuilding sector has had to adapt to reduced demand, intense international competition, and changing technology. Despite the sharp fall in capacity and employment that has taken place over the past decade, the Community's shipbuilding industry continues to face severe problems. The Community recognizes that these problems are structural rather than conjunctural, and recognizes the need to reduce overcapacity further; however, because shipbuilding is the only industry in some regions, for social reasons the Community considers that this reduction cannot take place too rapidly. State aids are therefore permitted, subject to Community directives.

The European Commission has estimated that a further reduction in capacity (by one third from its 1985 level) is required, implying a greater than commensurate decline in employment as productivity improves. Such a reduction would enable the remaining installations to operate at 70 percent of available capacity during 1987–90, with the possibility of resuming an 80 percent capacity utilization rate thereafter. The Commission has forecast a loss of more than 30,000 jobs in the shipbuilding sector before the end of 1990.

The Community has also attempted to rationalize and reduce government aids to shipbuilding. The Fifth Directive on aid to shipbuilding (1981–86) established a Community discipline on direct and indirect state aids. It was aimed at preventing distortions in competition that may result from uncontrolled state intervention and ensuring that public aid supports restructuring. Implementation of this directive succeeded in rationalizing aids and making them digressive, but full transparency was not achieved, particularly for indirect aids such as aid to shipowners.

The Community's Sixth Directive (1987–90) on aid to shipbuilding uses a market-based approach to bring about the desired restructuring and reduction in capacity. This policy is designed to induce shipyards to adapt to market requirements and to bring about a concentration of shipbuilding in the most viable yards, with a production mix oriented toward specialty ships with an advanced technological and engineering content. Toward this end, government aid is limited to 28 percent of the contract value. The ceiling includes all direct and indirect aids but excludes development assistance (grants, loans, and mixed credits); for export credits, only the margin below the OECD consensus rate is counted against the ceiling. In determining the ceiling, account is taken of the extent of the gap between international prices and the costs of the most competitive firms in the Community. The ceiling is to be reviewed annually, and is expected to be reduced over time as Community shipyards become internationally competitive. State aid to investment may be granted only in support of restructuring plans that reduce capacity. Aid may be used to defray the cost of closure (such as payments to redundant workers or yard redevelopment), but it must be commensurate with the extent of restructuring. The Commission expects that shipyards that are lagging in adapting to market conditions cannot be maintained on heavy government subsidies under the new policy.

The Commission recognizes that the implementation of the new directive will cause substantial difficulties for areas that are heavily reliant on shipbuilding and that have already suffered shipyard closures; in July 1987 it proposed a program to help develop new job opportunities in these areas. It has also proposed Community financial support for national measures to benefit workers made redundant by restructuring; such assistance could take the form of early retirement or retraining.

The Community has emphasized that the success of its new approach on state aid will also depend on cooperation by Japan and Korea to contain capacity and refrain from expanding their shares in the world shipbuilding market. The Commission in March 1988 adopted the broad outline of an external policy for shipbuilding that aims at re-establishing a healthy international market by seeking, in conjunction with the main producing coun-

tries, to stabilize trade, reduce capacity equitably, maintain normal prices, as well as transparency in prices, support, and financing. The Commission is engaged in exploratory talks on these matters with Japan and Korea and will seek formal negotiating directives from the EC Council. The aim is to arrive at a "sectoral arrangement on production" by the end of 1988, which should be backed up by measures to restore prices to a level that will help cover the operating costs of Community shipyards and enable a reduction in aids and capacities.

If the proposed arrangements do not materialize, the Commission will consider introducing a mechanism for a levy on every loading or unloading in a Community port of a ship purchased from Japan or Korea, provided that the ship was sold at "abnormal" prices (i.e., on general conditions of sale that are prejudicial to Community shipyards).

Japan

Owing to the severe recession in this sector, 1987 was a difficult year for the Japanese shipbuilding industry. New orders dropped by 15 percent in 1987, following a steady decline in the past several years. The short-term prospects are not encouraging.

To rationalize the industry, Japanese shipbuilders adopted adjustment programs to reduce capacity from 9.8 million compensated gross register tons in 1972 to 7.2 million in 1985, and to monitor the operation of shipyards with the help of ceilings on production. Despite these efforts, the industry continues to suffer from a structural recession owing to the continued sluggish trend in seaborne traffic of main cargoes, a resultant decline in ship demand, the rise of new competitors (particularly Korea), and the decline in competitiveness as a result of the appreciation of the yen.

The Council for Rationalization of Shipping and Shipbuilding Industries, an advisory panel to Japan's Ministry of Transport, advocated closing surplus shipbuilding facilities and restructuring the industry, which is currently affected by fragmentation and overcompetition. The Council recommended reducing berths or docks by at least 20 percent of installed capacity and integrating businesses through capital, business, and other tie-ups. On the basis of these recommendations, the Government promulgated a management stabilization law in April 1987. Under this law, more than 20 percent of installed capacity was to be scrapped, and some medium-sized shipbuilding companies with only one berth or dock were to withdraw from the shipbuilding business. The Government supported these measures by providing loan guarantees and purchase facilities. As a result, a reduction in capacity by 24 percent (in compensated gross tons) was made within a year of promulgating the law.

In addition to 7 major builders, 44 firms in Japan are equipped with docks capable of constructing vessels of more than 5,000 tons. To encourage reorganization among shipbuilders and cuts in their surplus capacities, Japan's Fair Trade Commission authorized formation of a "cartel" of the 33 top-ranking Japanese yards. This cartel was intended to help limit production in fiscal year 1987 to 3.3 million compensated gross register tons and in fiscal year 1988 to 3.1 million tons (about half of construction capacity).

The appreciation of the yen and competition from Korea are exacting considerable pressures on Japanese builders. In the past, they had occasionally accepted foreign orders at very low profit margins or at below costs to keep their yards operating, but the appreciation of the yen has made it difficult to continue this practice. The Shipbuilders Association of Japan has estimated that the break-even point for its members is about ¥ 200 per U.S. dollar.

Korea

In the past decade, Korea has rapidly built up its shipbuilding sector and is currently the second largest shipbuilding country. Korea has enjoyed a significant price advantage owing to both low labor costs and an efficient steel industry. In the 1980s, Korea's shipbuilding industry, which is heavily dependent on export production, has suffered a slowdown as a result of the long-term recession in the world marine transportation industry. In 1986 the industry began to show signs of recovery as new orders increased substantially. The increase was due mainly to a shift in demand away from Japanese-made ships following the rapid appreciation of the yen. According to a study made by the Korean Development Board, the yen's appreciation has given Korean-made ships a 25 percent price advantage over ships built in Japan.[195] The expansion in orders is mainly for tankers; shipowners have recently been taking advantage of the very low shipbuilding prices to meet the rising demand.

In 1987 new orders declined somewhat, but they were still higher than in 1985, with some improvement in prices. Despite the upswing in the past two years, the Korean shipbuilding industry faces a number of problems: increasing labor disputes and a deterioration in the financial position of shipbuilding companies; at end-1986 debt stood at $105 million. A structural problem is the concentration of production on lower-value ships. Technologically, Korea remains far behind Japan, its main competitor, because technological transfers have been limited, and Korea's own research and develop-

[195] Korea Exchange Bank (1987).

ment activities have not been sufficient to fill the gap. Also, Korea's industry is heavily dependent on imported intermediate goods, and since most of these come from Japan, the appreciation of the yen has not been wholly beneficial. Moreover, lower-wage countries, such as Brazil, China, Taiwan Province of China, and perhaps India, may well become major competitors in the 1990s.

The EC has been concerned about possible subsidization and dumping by Korean shipbuilding firms. While little concrete evidence of such practices exists, the concern is related to a lack of transparency in the Korean shipbuilding industry owing partly to the industry's ownership structure. Some of Korea's shipyards are owned by conglomerates that also own banks and other manufacturing establishments. A breakdown of group turnover is not available in some cases. In an industry beset with international price wars, Korea's low prices have caused considerable competitive pressure for OECD members and have sometimes generated suspicions of dumping.

In November 1986, OECD Working Party No. 6 of the Council on Shipbuilding established a liaison arrangement with Korea for the exchange of information. The Community has increased contacts with Korea (and Japan) to evaluate market trends. Pursuant to an agreement made two years ago with Japan, Korea has undertaken to end installation of new capacity in exchange for receiving technological know-how.

Electronics

Recent Trade Trends

The share of electronic products in total world trade in manufactures has increased steadily, from 8 percent in 1980 to 11.5 percent in 1986. World exports of electronic products expanded by nearly 21 percent to $164 billion in 1986, owing in part to exchange rate and price developments. Led by continued growth in demand for automatic data processing equipment (which includes computers), the industrial countries' exports of electronic products increased in 1986 by almost 21 percent to $131.5 billion (Table A70). At this level they constituted 12 percent of their total exports of manufactures. Exports from the European Community and Japan grew by some 28 percent and 25 percent, respectively, while U.S. exports expanded by about 6 percent. The exports of the four major developing economies in Asia—Hong Kong, Korea, Singapore, and Taiwan Province of China—grew by 33 percent, and these countries gained significant market shares, especially in standardized consumer electronic products.

The imports of electronic products by industrial countries rose by about 21 percent in 1986 to almost $126 billion. Of these imports, the EC accounted for nearly half, the United States for about a third, and Japan for somewhat less than 4 percent. The EC share is large because its imports are concentrated in the fast growing area of automatic data processing equipment, whereas those of Japan and the United States are diversified. Imports by the four major Asian developing economies grew by about 31 percent, in part because of significant increases in imports of computers and electronic parts by Korea and Taiwan Province of China.

A characteristic of the sector is that many countries perceive elements of it, particularly microelectronics, to be of strategic importance to their economies, with the result that government intervention to support national producers has increased. Thus, the EC and the Governments of France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States have undertaken funding of projects in microelectronics; state support for the electronics industry is also important among such developing country producers as Brazil and Korea. Further, the use of export restraint arrangements has grown, notably in the areas of consumer electronics and numerically controlled machine tools.

Trade disputes in the electronics sector have increased. The most prominent of these disputes gave rise to a finding of dumping by the U.S. International Trade Commission (USITC) against a number of Japanese semiconductor producers. Antidumping duties were not imposed, with the matter being initially resolved by the conclusion of the Japan-U.S. Arrangement Concerning Trade in Semi-Conductor Products in September 1986.

Under the terms of the arrangement, Japan was to (a) improve access to its domestic market for foreign semiconductor producers on a most-favored-nation basis; and (b) prevent sales of Japanese semiconductors at less than fair value, both in the United States and in third countries. However, U.S. complaints continued, focusing on charges of Japanese dumping in third markets as well as on the perceived slow liberalization of the Japanese market. This led the U.S. Administration to impose, in April 1987, a 100 percent ad valorem tariff on $300 million of U.S. imports of certain electronic products from Japan. Subsequently, in June and November 1987, the duties were rescinded on $136 million of these imports because, in the U.S. view, Japanese companies had eliminated their "unfairly low pricing" of certain semiconductors in global markets.

The EC contested the conformity of elements of the arrangement with GATT rules. A GATT dispute panel was established in April 1987 to investigate the EC complaint and concluded, inter alia, that the arrangement entailed restrictions, through the Japanese implementation of price monitoring, on exports to non-U.S. markets that were inconsistent with the GATT. The GATT Council of Representatives adopted the panel's report in May 1988, and Japan has undertaken to implement its

recommendations concerning third-country market monitoring.

United States

In July 1987, Korea restricted shipments to the U.S. market of several electronic products, including videocassette recorders and color and black and white television sets. Korea announced that the measure was initiated in response to sensitivities in the United States resulting from the debate over trade legislation. With respect to machine tools, including numerically controlled machine centers and punching machines, Japan and Taiwan Province of China agreed to limit their exports to the United States for a five-year period beginning in January 1987. In the absence of similar agreements with the Federal Republic of Germany and Switzerland, the United States announced that it would monitor their machine tool exports to the United States, and that the President would be prepared to take unilateral action under U.S. trade law if exports are in excess of those consistent with national security.

In November 1987, the United States announced that it would retaliate against a wide range of Brazilian exports unless Brazil reconsidered its 1984 ban on foreign companies from the Brazilian computer market when the product has an equivalent manufacture in Brazil. Following proposed Brazilian regulations to liberalize access to its computer market, the U.S. decision on retaliation was postponed.

In 1988, the U.S. Congress included in the Department of Defense Authorization Bill a $100 million grant to a consortium to conduct research and development on advanced semiconductor manufacturing techniques. The consortium is expected to complete its work in 1993 and to receive annual aid of $100 million. Also in the area of semiconductors, a U.S. company recently concluded a licensing agreement with a Korean manufacturer of data storage chips, after the USITC had found patent infringement by the Korean firm and had proposed an import ban on its product. The President rejected the ban, partly on the grounds that it would have required all importers of items containing data storage chips to determine the type and source of the chips in the product; instead, he proposed a ban covering a narrower range of products.

The United States maintains, for national security reasons, certain restrictions on the exportation and transfer of high technology to certain destinations.

European Community

In 1984, the Community launched the ten-year European Strategic Program for Research and Development in Information Technology to promote increased cooperation in research and development between electronic industries, universities, and research laboratories in EC member states. The program has a first five-year budget of ECU 1.5 billion, half of which is provided by the Community. The EC also funds an ECU 0.5 billion project to set common EC standards for segments of the telecommunications industry. Several initiatives have been made by member states, including a French plan to strengthen research in its electronics sector, a German program on microelectronics application of DM 500 million, and an advanced information technology research plan in the United Kingdom.

In mid-1988, some 16 arrangements limited exports of electronic products, including certain machine tools, to the EC or its member states,[196] compared with 9 such arrangements in early 1985, suggesting that pressures for protection in the area remain high. Japan monitors its exports of numerically controlled lathes and machine centers as well as color television sets and tubes to the Community market, and it limits its exports of video tape recorders to that market to 1.7 million units a year. Korea restrains its exports of videocassette recorders to the EC to 1985 volume levels, or below, while the Community conducts a posteriori surveillance on its imports of Korean video tape recorders. In addition, a number of individual member states separately protect their markets; for example, imports of color television sets from Japan to France are limited to 84,000 units a year.

In April 1988, the EC imposed antidumping duties on certain electronic typewriters and scales made by Japanese-affiliated, EC-based companies substantially using parts imported from Japan. The duties were imposed under the June 1987 EC extension of its antidumping legislation to include the products of assembly (screwdriver) plants, which the EC claims were set up to circumvent existing antidumping duties. In this instance, the Community had imposed antidumping duties in 1985 on imports of some Japanese typewriters and scales. Japan has protested the duties in the GATT Committee on Antidumping Practices (see Section IV and Appendix I). The Community maintains antidumping duties on imports of certain Japanese photocopiers and has recently initiated antidumping investigations on some Japanese semiconductors, on certain cellular mobile radio telephones from Canada and Japan, and on Korean television sets and tubes, microwave ovens, and video tape recorders.

Japan

Recent government-funded initiatives to promote research and development in the Japanese electronics sec-

[196] GATT (1988c).

tor include (with the duration of the programs in parentheses) the Supercomputer Project (1982–90), the Optoelectronics Project (1980–91), and the New Function Elements Project (1982–89). Total funding for the projects by the Japanese Ministry of International Trade and Industry is estimated at ¥ 66 billion. The results of the projects, in which the leading Japanese manufacturers participate and cooperate, become the property of the Government and can be made available on a nondiscriminatory basis to other Japanese and foreign firms.[197] In addition to research funding, producers in Japan, including locally based foreign firms, are eligible for loans from the Japan Development Bank.

Some countries suggest that Japan has "targeted" the electronics sector, particularly by concentrating resources at the Government's direction, to gain dominance in certain markets, especially semiconductors. Japan's response is that the role of government is largely consultative, and limited mainly to fostering research and development (as is the practice in many other countries), and to creating an environment conducive to vigorous private sector activity. It is also sometimes thought that Japan prices its electronic products according to expected long-run costs; these costs, once economies of scale are in place, are likely to be lower than present costs. Partly as a result of this, a number of dumping investigations and duties have been made on Japanese products by the EC and the United States (as noted above).

Footwear

United States

Between 1983 and 1986, U.S. footwear consumption volume increased rapidly, by an average of 9 percent a year. This high growth rate was entirely accommodated by imports, which grew on average by more than 17 percent a year. Domestic production, faced with cost-efficient competition from developing countries, declined by more than 10 percent a year during the same period. In 1987, consumption and production decreased moderately, while imports remained stable in volume terms. Indications are that, owing to the depreciation of the dollar, imports will decline sharply in 1988 while domestic production will increase. Korea and Taiwan Province of China are the two largest suppliers, and since 1983 their share in total imports is close to 60 percent. Other important suppliers are Brazil and Italy. China increased its share from almost nil in 1981 to 5 percent in 1987.

The penetration of foreign producers in the U.S. market is mostly a result of the large, long-standing gap between costs of imported and domestic footwear. However, the vulnerability of the domestic industry increased in the first half of the 1980s owing to the appreciation of the dollar and to the removal of protection granted in the past. After the expiration of the orderly marketing arrangements with Korea and Taiwan Province of China in 1981, countervailing duty orders on imports from Brazil, India, and Spain were revoked in 1983. In that year, as well as in 1984, the industry's petitions for import relief were rejected. In 1985, following the 1984 Trade and Tariff Act modification of Section 201 of the 1974 Trade Act, the USITC instituted another escape clause investigation and subsequently recommended a five-year quota on imports of nonrubber footwear. The Federal Trade Commission estimated that the quota would save 26,000–30,000 jobs at a cost of $50,000–80,000 a job, while the average annual wage in the sector was about $14,000. On this basis, it recommended adjustment assistance rather than import restrictions. In addition, the European Community and other trading partners threatened to retaliate against the proposed quotas. In view of these factors, the President refused to impose quotas or other trade restraints on footwear, but instead authorized the development of an adjustment and retraining program for workers in the shoe manufacturing industry. In 1986 and 1987, the industry was unsuccessful in its efforts to obtain legislation aimed at a freeze on imports of nonrubber footwear. However, Korea is said to have applied a restraint on its exports to the United States in 1987.

European Community

The Community's apparent consumption of footwear grew slowly in volume terms during 1983–85, but production and exports increased, and import penetration was contained at about one third of the domestic market (Table A71). Employment decreased to 291,000 jobs in 1985 from 311,000 jobs in 1983.

Buoyant domestic demand and the depreciation of the U.S. dollar brought a reversal of these trends in 1986 and 1987. The increase in consumption (4 percent in 1986 and 6 percent in 1987) was entirely satisfied by imports that surged by 41 percent in the two-year period and brought the import penetration to over 42 percent in 1987. Production declined in 1986–87 owing to the reduced competitiveness of EC relative to East Asian manufacturers, and exports dropped by about 25 percent over the two years. Portugal and Spain were less adversely affected than other Community members because their producers were fairly competitive and were still benefiting from their new access to EC markets. In 1986, the main economies exporting footwear to the EC were China, Hong Kong, Korea, and Taiwan Province of China.

[197] OECD (1985c).

The deteriorating trade trends strongly increased protectionist pressures in the EC and led to a multiplication of requests for safeguard measures. France and Italy, soon followed by Greece and the United Kingdom, requested the Community's authorization to impose restrictions on footwear imports. In the EC's view, an undervalued Korean exchange rate was a major cause of the difficulties faced by the Community's footwear industry. The lack of homogeneity of the footwear industry within the EC was also a factor: Italy, for instance, has 9,000 medium- or small-sized companies presently operating in the leather and footwear industry. Although the Commission was attempting to encourage automation via its Strategic Program for Innovation and Technology Transfer and its Basic Research in Industrial Technologies for Europe research programs, the restructuring process was complicated. Consequently, the Community allowed Italy to impose quantitative restrictions on imports from Korea and Taiwan Province of China, conditional on the industry improving its structure by introducing new technologies. France was authorized to abstain from applying Community treatment (that is, free trade flows within the Community) to footwear originating from Taiwan Province of China. The legislation permitting retrospective control of imports of footwear into the Community from state-trading countries and China was extended at the end of 1987 for one more year.

A series of VERs were also agreed. Korea, with which some industry-to-industry arrangements had existed since 1982, agreed to limit its exports of shoes to Italy to 12.6 million pairs in 1988, with a 5 percent annual growth in its exports until June 1990. Taiwan Province of China entered into gentlemen's agreements with France and the United Kingdom for 1985–87. Previously, China had agreed to a voluntary limit of its exports of slippers and sandals to France. The European Commission expected that these national restrictions could be replaced by Community-wide safeguard measures as the internal market was opened.

The Community's exports face barriers in third countries: Japan, for example, imposes a tariff quota of 3 million pairs, with a within-quota duty of 20 percent. Counterfeiting of finished products and of the design of molds used in shoe manufacture is also frequently encountered by French, German, and Italian manufacturers. Competition in third markets, particularly the United States, is becoming fiercer with the development of EC manufacturers' investments in Indonesia, Korea, and Thailand, and with the increase of joint ventures with Asian competitors.

Canada

From 1977 to 1985, Canada maintained global quotas on imports of certain footwear. Following the recommendation of the Canadian Antidumping Tribunal, the Government ended import quotas effective November 30, 1985 on all categories of shoes, except women's and girls' dress shoes and casual footwear. On these items, quotas are being phased out over a three-year period that started December 1, 1985, by increasing the quota level by 6 percent, 8 percent, and 10 percent, respectively, a year. However, Korea and Taiwan Province of China are at present maintaining unilateral export restraints, which have probably contributed to averting a surge of imports in recent years. Italy and Spain rejected export restraints.

Australia

Since the beginning of the 1970s, Australian imports of footwear have been regulated by import licensing schemes. These were replaced in 1980 by tariff quotas sold, in part, by tender. In 1982, a seven-year assistance program for the textiles, clothing, and footwear sectors was introduced. It allowed for a modest amount of trade liberalization through an annual expansion of the quota that was larger than the market expansion.

In 1986, a new seven-year plan for textiles, clothing, and footwear, to begin March 1, 1989, was announced. It provided for the phasing out of the import quota system by 1996 through a gradual reduction in the rate of penalty applying to imports outside quota. The rate of duty applying to within-quota imports would be increased for footwear to 50 percent, for footwear components, 40 percent, and for clothing, 60 percent. These rates will apply once the plan makes quotas redundant in March 1996. At the same time, the plan provided for the progressive sale of quota by ad valorem tender so that by March 1, 1992, all quotas would be allocated in that manner. These measures will be accompanied by four programs at a total cost of $120 million over the period. They aim at developing the textiles, clothing, and footwear industries by encouraging raw material processing, raising industry efficiency, enhancing the skill base of workers, and promoting exports. Measures designed for retraining workers and for regional assistance are also included in the plan. However, owing to a decision made recently by the Australian Government to reduce tariffs across the board, the textile, clothing, and footwear plan will be modified, with lower tariff endpoints for clothing and footwear.

Civil Aircraft

Recent Trade Trends

World trade in civil aircraft is strongly cyclical: after increasing from 197 units in 1976 to 754 in 1979, orders for new commercial jet aircraft declined sharply until

1982, when they reached 87 units. New orders recovered during 1983–85 to about 300 units a year, and surged in 1986 to 724 orders. Trade was mostly concentrated in three companies: Boeing, whose market share has declined to 50–60 percent, from 70 percent on average during the period before 1980; McDonnell Douglas, which lost market share in the 1970s but regained about 30 percent in the 1980s; and Airbus Industrie, which only entered the market in the mid-1970s but quickly reached a 15–25 percent share (Table A72). Owing to the aging of several airline fleets, current orders for civil aircraft are large. The division of these orders among the three major producers will likely affect the industry for the next several years.

Airbus Industrie is a consortium formed in 1966 by France, the Federal Republic of Germany, Spain, and the United Kingdom, and involves one company from each country (namely, Aerospatiale, Messerschmitt-Boelkow-Blohm, Construcciones Aeronauticas, and British Aerospace). Its success, and later the pressures that its development implied for other market participants, generated a debate between the United States and the European Community concerning support provided by the European Governments, its funding, the subsidy element of its export credits, and, more generally, the rules that should govern trade in civil aircraft. These issues were abated after agreement on some guiding principles for trade in civil aircraft was reached in 1979 during the Tokyo Round negotiations. The debate was revived in 1987 with the development of new generations of commercial jetliners and greater pressure resulting from competition for new orders.

Institutional Framework

Trade in civil aircraft is governed by the Tokyo Round Agreement on Trade in Civil Aircraft. While recognizing the specific characteristics of trade in civil aircraft and its importance as a component of economic and industrial policy, the agreement aims to (i) achieve maximum freedom of trade in civil aircraft, parts, and related equipment, and (ii) eliminate the adverse trade effects of government support of such activities. The main provisions of the agreement are as follows. First, all customs duties and other charges levied on civil aircraft in the course of their manufacture, repair, maintenance, modification, or conversion are to be eliminated. Second, it attempts to lay the basis for the regulation of state intervention in the civil aircraft industry. Article 3 of the agreement states that the provisions of the Agreement on Technical Barriers to Trade apply to trade in civil aircraft. Article 4 stipulates that purchasers of civil aircraft should be free to select suppliers on the basis of commercial and technological factors.[198] Further, signatories are prohibited from applying "unreasonable pressures" on airlines or others engaged in the purchase of civil aircraft to purchase from any particular source that would discriminate against foreign suppliers. Article 6 states that while special factors should be taken into account in the aircraft sector, the provisions of the GATT Agreement on Subsidies and Countervailing Measures are applicable. Finally, Article 8 established a Committee on Trade in Civil Aircraft, which is responsible for reviewing the implementation and the operation of the agreement. In 1981, an addendum to the OECD consensus on export credits was signed by France, the Federal Republic of Germany, the United Kingdom, and the United States to raise the minimum interest rate charged for government loans in support of commercial aircraft exports to 12 percent and to limit loan terms to ten years.

The Airbus Dispute

In March 1987 the United States, after unsuccessful bilateral discussions with the European Community, filed a complaint to the GATT Committee on Trade in Civil Aircraft on the grounds that Airbus Industrie had since its creation received $10 billion in subsidies, and that these subsidies had allowed the company to sell below competitive prices. European countries argued that support had been provided to Airbus Industrie in the form of "reimbursable advances," repayment of which depended on the sales realized. However, figures for reimbursable advances were considered confidential. They also added that Airbus competitors had received indirect aid from the U.S. Government in the form of defense contracts and research and development support; the total subsidies received by U.S. companies were estimated by an Airbus Industrie study to be $23 billion. The United States, for its part, claimed that the EC also provided indirect support for Airbus.

Outside observers have made various comments on the role of subsidies in Airbus development and on the justification for such subsidies. It was pointed out[199] that Airbus's initial success was due in large measure to the fact that the original A300 series (aircraft designed specifically to fly medium to short hauls) had at the time of their launching filled a void and, in comparison with other models, involved limited exploitation costs. Moreover, the act of subsidizing Airbus was defended by some economists on the grounds of efficiency, because its existence was necessary to avoid the inefficiencies that might prevail if the market was reduced to a duopoly.

Multilateral discussions by the GATT Committee on Trade in Civil Aircraft failed to resolve the dispute be-

[198] GATT (1979).

[199] Majumdar (1987).

cause participants could not reach a common understanding of the 1979 Agreement, in particular concerning the appropriate use of subsidies. Discussions subsequently resumed among representatives of the United States, the European Community, and the four states, following a ministerial meeting in October 1987 that provided a mandate for the parties involved to define disciplines on the role of government support in aircraft production and to formulate rules concerning transparency to ensure that disciplines are enforced. Following a second ministerial meeting in March 1988, an agreement was close to being reached on the following: future government aid to Airbus would be granted only for research and development and not for production; negotiations should encompass direct and indirect aid; any final agreement would include a clause allowing governments to step in with assistance when companies faced unforeseeable financial troubles; a consultation method would be set up and other countries would be invited to adhere to the final U.S.-EC accord. The unresolved areas comprised the terms and conditions of government support, the degree of transparency for direct and indirect support, and the commercial business practices to be considered acceptable. Recently another major point of disagreement emerged. Owing to the depreciation of the U.S. dollar (in which aircraft are invoiced), a proposal referred to as the "dollar clause" has been made by the European Governments that would allow these Governments to compensate Airbus Industrie for losses resulting from exchange rate changes. The United States has opposed this proposal because it would, in effect, insulate Airbus Industrie from market forces.

Other developments may affect the outcome of the negotiations. The consortium partners have recently decided to restructure Airbus management and to improve the transparency in its operations by a holding company that will own the four European companies' facilities presently used by the consortium and that will have a supervisory board, a global accounting system, and an independent financial department. The possibility of collaboration between Airbus and McDonnell Douglas on a long-range airliner project is also being discussed. Such collaboration might defuse possible disputes between McDonnell Douglas and Airbus that could result from the small market in which the MD11 (presently being developed by McDonnell Douglas) and the A340 (presently being developed by Airbus) will soon compete. The European Commission also unveiled plans to spend ECU 60 million on subsidizing cross-border collaborative research in aircraft technology between 1989 and 1991. These plans, however, were met with reservations by some European countries, fearing that they may appear as new Airbus subsidies. Finally, discussions between the German Government and Daimler-Benz, which may buy Messerschmitt-Boelkow-Blohm if protection is provided against future Airbus losses related to exchange rate variations, have highlighted the importance of the "dollar clause."

Appendix I

The European Community: Aims and Instruments of Trade and Industrial Policies

Overview

The European Communities (EC) were established by the Treaty of Paris (1951) and the Treaties of Rome (1957).[1] The original six EC members[2] were later joined by the United Kingdom, Ireland, and Denmark in 1973, Greece in 1981, and Spain and Portugal in 1986. Excluding intra-area trade, the EC now accounts for almost one fifth of world exports and nearly as much of world imports. Its weight in world trade is thus somewhat less than that of the United States and Japan taken together (Table 9).

The institutional structure of the Community, organized along the lines of a national administration, consists of the EC Commission, the Council of Ministers, the European Parliament, and the European Court of Justice, which constitute the administrative, legislative, and judicial branches of the EC. The Commission implements Community policy, enforces EC treaties, and proposes legislation to the Council. The Council, which is primarily a forum for national interests, is the final decision-making body. The Presidency of the Council of Ministers rotates among EC member countries on a semiannual basis. The European Parliament, elected by popular vote, has advisory powers under which it delivers to the Council nonbinding opinions on Commission proposals and has supervisory powers over the Commission. The Parliament is also responsible for final approval of the EC budget, although it has limited power to amend it. The budget finances the EC's Common Agricultural Policy as well as EC regional and social programs using revenues from the common external tariff and contributions paid by Community members. More recently the Parliament acquired the power to reject or amend Council decisions pertaining to the unification of the EC market under the Single European Act. The Court of Justice interprets and applies EC treaties and enforces Community law. EC Heads of State or Government are referred to as the European Council and their meetings are often referred to as "EC Summit Conferences." Though not an official decision-making body under the EC Treaties, the European Council can reach politically important understandings or agreements, for instance, on the EC budget. Each member state of the EC, and the European Economic Community (EEC) as a separate entity, are members of the GATT. Within GATT they are represented by the Commission.

The EEC Treaty that took effect on January 1, 1958 provided for the elimination of trade barriers within the Community and the establishment of a common external tariff against the rest of the world. Besides establishing a customs union, the treaty provided for a common market permitting the free movement of capital and labor within the Community. Customs duties and quantitative restrictions on intra-area trade were progressively reduced and were eliminated in July 1968, one and a half years ahead of schedule. This contributed to an increase in intra-area trade, from 38 percent of total EC trade in 1960 to 58 percent in 1987, most of which occurred between 1960 and 1970 (Table 10). Progress in liberalizing factor movements within the Community, however, has been somewhat slower.

In addition to establishing a common market, the EEC Treaty provided for a common agricultural policy (CAP).[3] This was viewed as an essential step toward freeing intra-area trade in agriculture, given the diversity of existing support schemes in the six original EC member countries and the perceived need to protect the

[1] The EC comprises three Communities: the European Coal and Steel Community (ECSC), governed by the Treaty of Paris, and the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM), governed by the Treaties of Rome. The institutions of the three Communities were merged in 1965 and are henceforth referred to as the European Community (EC).

[2] Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands.

[3] The effects of the CAP are discussed in Rosenblatt and others (1988). See also Section V.

Table 9. European Community: Share in World Trade

	1960	1970	1980	1987 EC(10)	1987 EC(12)
	(In percent of world exports)				
Exports					
European Community (10)[1]	32.5	40.1	35.1	38.8	40.6
Intra-EC	*(12.2)*	*(19.8)*	*(18.1)*	*(21.1)*	*(23.8)*
To third countries	*(20.3)*	*(20.3)*	*(17.0)*	*(17.7)*	*(16.8)*
European Free Trade Association[2]	5.8	7.0	5.9	6.8	
United States	15.9	15.3	11.6	10.6	
Japan	3.1	6.8	6.9	9.8	
	(In percent of world imports)				
Imports					
European Community (10)[1]	32.8	39.9	37.4	36.9	39.5
Intra-EC	*(11.5)*	*(19.0)*	*(17.4)*	*(20.3)*	*(22.9)*
From third countries	*(21.3)*	*(20.9)*	*(20.0)*	*(16.6)*	*(16.6)*
European Free Trade Association[2]	6.6	7.9	6.6	6.9	
United States	10.8	14.4	13.2	17.5	
Japan	3.2	6.4	7.2	6.2	

Source: International Monetary Fund, *Direction of Trade Statistics*.
[1] Includes the original six EC members plus Denmark, Greece, Ireland, and the United Kingdom. The same group of countries is maintained throughout the period to avoid distortions arising from EC enlargement.
[2] Includes the present six EFTA members throughout the period.

agricultural sector. The CAP aimed to maintain a fair standard of living for farmers, reasonable prices for consumers, and to stabilize markets. These objectives have increasingly proved conflicting. Agricultural support has been provided at a high cost to consumers, taxpayers, and nonagricultural producers in the EC, and together with policies of other major industrial countries, has had adverse effects on efficient agricultural exporters.

With the exception of the common external tariff and the CAP, the Community's commercial policy relative to third countries was not clearly defined in the EEC Treaty. Article 113 governing EC commercial policy merely enumerated examples of commercial policy measures without spelling out the regime governing the exchange of goods and services and the movement of labor and capital between the EC and third countries. Common rules for all EC countries have not so far been established because of divergent views among member states on the desirable level of restrictiveness of the Community's external regime. Thus, EC countries generally maintain national quantitative restrictions on imports from third countries enforced through national import licensing systems, standards, and certification procedures. The Community nevertheless possesses a number of common commercial policy instruments in addition to the common external tariff. These include

Table 10. European Community: Level and Direction of Trade

	1960	1970	1980	1987 EC(10)	1987 EC(12)
	(In billions of U.S. dollars)				
Exports					
European Community (10)[1]	42.2	113.3	665.9	914.8	958.1
Intra-EC	*16.2*	*56.6*	*348.6*	*496.9*	*560.5*
To third countries	*26.0*	*56.7*	*317.3*	*417.9*	*397.6*
Of which:					
EFTA[2]	5.4	13.4	71.5	101.8	104.4
United States	3.5	9.3	37.0	79.6	82.9
Japan	0.3	1.4	6.4	15.3	15.8
Imports					
European Community (10)[1]	45.6	118.5	729.1	892.2	954.8
Intra-EC	*16.3*	*57.4*	*346.0*	*490.1*	*552.9*
From third countries	*29.3*	*61.1*	*383.1*	*401.5*	*401.9*
Of which:					
EFTA[2]	4.3	10.5	64.4	92.3	95.9
United States	5.8	12.4	60.8	58.7	63.1
Japan	0.4	1.9	18.6	38.9	41.6
	(In percent of EC exports)				
Exports					
European Community (10)[1]	100.0	100.0	100.0	100.0	100.0
Intra-EC	*38.4*	*50.0*	*52.4*	*54.3*	*58.5*
To third countries	*61.6*	*50.0*	*47.6*	*45.7*	*41.5*
Of which:					
EFTA[2]	12.8	11.8	10.7	11.1	10.9
United States	8.3	8.2	5.6	8.7	8.7
Japan	0.7	1.2	1.0	1.7	1.6
	(In percent of EC imports)				
Imports					
European Community (10)[1]	100.0	100.0	100.0	100.0	100.0
Intra-EC	*37.5*	*48.4*	*47.5*	*55.0*	*57.9*
From third countries	*64.3*	*51.6*	*52.5*	*45.0*	*42.1*
Of which:					
EFTA[2]	9.4	8.9	8.8	10.3	10.0
United States	12.7	10.5	8.3	6.6	6.6
Japan	0.8	1.6	2.6	4.4	4.4

Source: International Monetary Fund, *Direction of Trade Statistics*.
[1] Includes the original six EC members plus Denmark, Greece, Ireland, and the United Kingdom. The same group of countries is maintained throughout the period to avoid distortions arising from EC enlargement.
[2] Includes the present six EFTA members throughout the period.

EC-wide quantitative restrictions and legislation dealing with unfair trade practices abroad.

Industrial policies in the EC are regulated through the EC Treaties' provisions on competition,[4] which include those of the EEC Treaty on state aids and those of the ECSC Treaty provisions on the coal and steel sectors. The purpose of these provisions is to limit state aids and business practices that restrict competition within the Community. To the extent that state aids are permitted, they may substitute for tariff protection within the Community; they may also substitute for border measures in providing protection against non-EC members. The

[4] This Appendix covers trade-related aspects of Community-wide regulations on industrial policies and their implementation.

Commission has recently tightened its surveillance over state aids and has in some cases demanded that aids incompatible with the treaties be reimbursed.

The EC has concluded preferential arrangements with other countries and groups of countries, including free trade agreements with each country of the European Free Trade Association (EFTA),[5] and cooperation and association agreements with a number of Mediterranean countries. Discussions are under way to increase cooperation with the Gulf Cooperation Council (GCC). In addition, the EC provides nonreciprocal tariff preferences to a number of African, Caribbean, and Pacific (ACP) countries under the Lomé Convention and to all developing countries under the Community's Generalized System of Preferences (GSP) scheme. Preferences granted under bilateral agreements have given rise to complaints by developing countries that do not benefit from them.

Beyond the EEC Treaty provisions on free mobility of goods, services, and factors of production within the Community, the European Council agreed in The Hague in December 1969 progressively to establish a monetary union. This has so far proved unfeasible for economic and political reasons. Monetary integration requires coordination of monetary policies as well as a high degree of mobility of goods and factors of production.[6] However, the establishment of the European Monetary System (EMS) in March 1979 was a significant institutional development in this direction. The objective was to create a "zone of monetary stability in Europe" through a system of fixed but adjustable exchange rates among EC members. Although all EC countries have signed the EMS agreement, only eight actively participate in its exchange rate mechanism.[7] While there have been several currency realignments since its inception in 1979, the EMS is generally considered successful in promoting convergence of economic policies and developments in member countries.[8] More recently, proposals for progress toward the establishment of a European central bank and the adoption of a common EC currency have been advanced by France and were included on the agenda of the European Council summit in Hannover in June 1988. A high-level committee established by the European Council is to make recommendations in June 1989 on further concrete measures to accelerate monetary integration. Impetus to the discussions on monetary unification has been provided by the ongoing efforts to integrate further the Community's market.

The trade and industrial policies of the Community have evolved through compromise among its members. A consensus within the Community has not always emerged. Although the Community institutions were given the mandate to implement the EEC Treaty, national interests have often taken precedence over Community goals. Despite the elimination of internal tariffs and quantitative restrictions, a number of barriers to intra-area trade continue to exist, including government procurement policies, technical standards, and border formalities. In the area of services, which was also covered by the EEC Treaty, national regulations discriminate in favor of domestic suppliers. National regulations also limit labor mobility, and most EC countries maintain restrictions on capital movements.

The costs arising from the fragmentation of the EC market have been increasingly recognized by EC members as the initial trade-creating effects of the EC gave way to a virtual stagnation of intra-EC trade as a proportion of total trade. To integrate the internal market further, in June 1985 the EC Council adopted a White Paper that outlined a far-reaching program aimed at removing all remaining barriers to the free movement of goods, services, and factors of production by 1992. Progress in implementing the White Paper is reviewed below. Access by third countries to the benefits of the integrated internal market will depend to some extent on reciprocal market-opening measures by the EC's trading partners, and the EC is therefore pursuing multilateral and bilateral negotiations to liberalize trade on a reciprocal basis. The Uruguay Round provides a forum for an exchange of trade concessions, given that its agenda overlaps with the EC internal market program. While this approach has been criticized by some of the EC's trading partners as possibly fragmenting the world trading system, it might also contribute to faster progress in multilateral liberalization of trade.

Trade Policies

Common External Tariff

The Community's common external tariff was introduced in 1968 and lowered during the subsequent Tokyo Round of Multilateral Trade Negotiations. Post-Tokyo Round most-favored-nation tariff rates for major products for the EC, the United States, and Japan are set out in Table 11. At 7.8 percent, the unweighted average EC tariff rate is above the U.S. average but below Japan's average, which is raised by Japan's high average tariff on food products. Tariff peaks are less important in the EC than in the United States or Japan, as indicated by the coefficient of variation of EC tariff rates. Tariff escalation, however, is quite marked in the EC (as in other industrial countries), as indicated by the lower tariffs on

[5] Austria, Iceland, Norway, Sweden, Switzerland, and, since 1986, Finland. Denmark, Portugal, and the United Kingdom were EFTA members before joining the EC.

[6] See Mundell (1961).

[7] Belgium, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, and the Netherlands.

[8] See Ungerer, and others (1986).

Table 11. European Community, United States, and Japan: Average Tariff Rates[1]
(In percent)

	European Community	United States	Japan
Food	13.8	7.1	19.5
Agricultural raw materials	3.3	1.7	2.3
Mineral fuels	3.4	1.0	3.0
Ores and metals	4.0	3.8	3.9
Manufactures	7.0	6.7	6.7
Of which:			
Chemicals	4.2	5.9	6.0
Textiles and clothing	10.5	10.3	10.5
Machinery and transport equipment	4.7	3.5	4.6
Other manufactures	5.2	6.2	6.1
All sectors	7.8	6.2	8.0
(Coefficient of variation)[2]	*(0.92)*	*(1.06)*	*(2.09)*

Source: United Nations Conference on Trade and Development.
[1]Unweighted post-Tokyo Round most-favored-nation tariffs.
[2]Ratio of standard deviation of tariff rates to unweighted average rate.

raw materials, fuels, and metals compared with manufactured products.

The EC's applied tariff rates on imports of industrial products are lower than the GATT bound rates. By contrast, applied tariffs are equal to bound rates on agricultural products. Exceptions to the common external tariffs of the EC are made for imports entering under its GSP scheme and under the preferential trade agreements that it has negotiated with other countries or country groups.

Common Agricultural Policy

The Community's Common Agricultural Policy (CAP) consists of a set of measures designed to support farm incomes and improve productivity in the farm sector. The measures consist of price regulations enforced through government purchases and stockpiling of excess production, import levies and quotas, and export subsidies, referred to as restitutions. Starting in 1988, the CAP instruments also include a land set-aside scheme and ceilings on agricultural expenditure financed from the EC budget.

The support mechanism covers about 90 percent of EC agricultural production and varies somewhat among agricultural products. For most agricultural products, support takes the form of "target" prices that are the upper end of the range within which prices are permitted to fluctuate. At the lower end of this range is the "intervention" price at which specialized public entities are obliged to buy any quantities offered to them. Intervention prices exceed world prices by considerable margins in most cases. Protection against imports is provided through variable levies set at a level that equalizes import prices to a reference price (often referred to as "threshold" price) set at around the middle of the range between target and intervention prices. For exports, variable subsidies, referred to as restitutions, are provided to exporters to offset the difference between EC and world market prices. The variability of import levies and export subsidies insulates the EC farm sector from exchange rate movements between EC currencies and those of competing suppliers. Exchange rate movements among EC currencies are similarly offset through monetary compensatory amounts (MCAs), to ensure the equality of agricultural prices expressed in ECUs within the Community. Specifically, MCAs serve as import taxes and export subsidies for countries that revalue their currencies, and vice versa for countries that devalue. These amounts are being progressively phased out.

A number of recent studies have concluded that agricultural support in a number of countries, including the operations of the CAP, have depressed world prices by encouraging surplus production (see Section V). This effect is exacerbated by subsidized exports of surplus production to third countries. Agricultural protection in the Community has given rise to a number of trade disputes with the United States, which relies more heavily on acreage limitation incentives as a means of support. The EC has been the main target of the U.S. Export Enhancement Program (EEP), which provides subsidies to U.S. exporters to enable them to compete with heavily subsidized foreign exporters. This, in turn, has further depressed world prices of agricultural products.

The CAP also imposes heavy costs on taxpayers and consumers within the EC and has adverse effects on the overall macroeconomic performance of member countries (see Section V). Until recently, the budgetary cost of the CAP was borne entirely by the EC budget. Additional spending on agricultural support (at member countries' own initiative) occurs through the national budgets. National support is three times higher than spending through the EC budget in some EC countries. The rising budgetary cost of the CAP, which amounts to some $35 billion annually and accounts for two thirds of EC budget expenditures, has led in recent years to reform efforts. Past efforts mainly took the form of limits on entitlement to support, production quotas, and price restraints; measures agreed in February 1988 also included a land set-aside scheme and limits on spending from the EC budget on price support. However, barriers to access remain largely intact.

Quantitative Restrictions

The EC and its individual members maintain quantitative restrictions on imports of a number of industrial and agricultural products from selected third countries.

Table 12. European Community: Voluntary Export Restraint Arrangements, September 1987

Major Known VERs (Excluding the MFA)	World-wide	EC Total	EC-wide	National		Restrained Exporters
Total	135	69	49	20		Industrial countries (32); developing countries (25); Eastern European countries (12)
Steel	38	12	12	—		Industrial countries (4); developing countries (3); Eastern European countries (5)
Agricultural and food products	20	19	19	—		Industrial countries (8); developing countries (5); Eastern European countries (6)
Automobiles and transport equipment	14	11	2	9	(France, Italy, United Kingdom, Spain, Portugal)	Industrial countries (11)
Textiles and clothing	28	7	7	—		Developing countries (7)
Electronic products	11	8	5	3	(France, Italy, United Kingdom)	Industrial countries (5); developing countries (3)
Footwear	8	5	1[1]	4	(France, United Kingdom)	Developing countries (5)
Machine tools	7	3	2	1	(United Kingdom)	Industrial countries (3)
Other	9	4	1	3	(Benelux, Denmark, United Kingdom)	Industrial countries (1); developing countries (2); Eastern European countries (1)

Source: General Agreement on Tariffs and Trade, *Review of Developments in the Trading System* (Geneva), 1987.
[1] Industry-to-industry arrangement.

These restrictions include quotas on textiles and clothing under the Multifiber Arrangement (MFA), national "residual" restrictions that predate the EC (see below), and voluntary export restraints (VERs).[9] Preliminary data indicate that the EC accounted for 138 of 261 known VERs, excluding quotas concluded under the MFA, as of end-May 1988 (Tables 12 and 13). Between September 1987 and May 1988 the number of VERs doubled in the EC, compared with a 74 percent increase in the rest of the world.[10] These restrictions are increasingly directed against exports of developing countries: they rose to nearly one half of the total in May 1988 from one third in September 1987. Trade with state-trading countries is governed by separate, more restrictive EC regulations that permit the maintenance of national quotas.

The quantitative import restrictions maintained by the EC fall under two broad categories: EC-wide restrictions and national restrictions. The latter include some restrictions imposed by member governments that are recognized by the Community, and industry-to-industry export restraint arrangements that do not involve member governments and are not recognized by the Community.

EC-wide restrictions include those concluded under the MFA as well as a number of VERs. Import quotas negotiated under the MFA by the EC Commission are split into subquotas applying to individual member countries. As of May 1988, the EC had concluded 20 bilateral agreements on textiles and clothing under MFA IV. VERs are maintained on imports of steel, textiles, clothing, agricultural and food products, machine tools, automobiles, and electronic products. With one exception (footwear), these are government-to-government arrangements. Imports of steel are governed by bilateral quotas or minimum prices that, if not observed, can lead to dumping actions against foreign suppliers; these restrictions apply to a wide range of exporting countries including Japan and other industrial countries, newly industrializing economies and state-trading countries. Outside the MFA, the EC has 18 additional bilateral agreements on textiles and clothing, including bilateral agreements with Turkey under the safeguard provisions of Turkey's association agreement with the EC, and agreements with Bulgaria, Egypt, the Islamic Republic of Iran, Morocco, Tunisia, Yugoslavia, and a number of Latin American countries.

National restrictions include VERs and other gray-area measures as well as residual restrictions. Voluntary export restraints apply mainly on imports of automobiles and transport equipment, electronics, and footwear and are either government-to-government or industry-to-industry agreements. Most of these restrictions protect the markets of France, Italy, and the United Kingdom. Imports of automobiles from Japan are restricted in France, Italy, Portugal, Spain, and the United Kingdom.[11]

[9] VERs include bilateral quotas, unilateral monitoring, and minimum price undertakings. These measures are applied on a discriminatory basis and are referred to as gray-area measures because their conformity with GATT is unclear.

[10] Excluding arrangements that existed prior to 1988 but were reported by GATT only in 1988, the number of VERs increased by about 40 percent in the EC, compared with 65 percent in the rest of the world.

[11] The restrictions by France and the United Kingdom are industry-to-industry agreements and are not approved by the Commission. The restriction by Italy is approved by the Commission. It originated from a reciprocal self-restraint arrangement concluded in the 1950s and was initially intended to protect the Japanese market against imports of Italian cars. The restrictions limit imports to 3,425 units (Italy), 3 percent of estimated domestic demand (France), and 11 percent of estimated U.K. sales (United Kingdom).

Table 13. European Community: Voluntary Export Restraint Arrangements, May 1988

Major Known VERs (Excluding the MFA)	World-wide	EC Total	EC-wide	National		Restrained Exporters
Total	261	138	87	51		Industrial countries (50); developing countries (65); Eastern European countries (23)
Steel	52	15	14	1	(United Kingdom)	Industrial countries (7); developing countries (3); Eastern European countries (5)
Agricultural and food products	55	40	36	4	(France, Ireland, Italy)	Industrial countries (13); developing countries (16); Eastern European countries (11)
Automobiles and transport equipment	17	13	2	11	(France, Italy, United Kingdom, Spain, Portugal)	Industrial countries (13)
Textiles and clothing	72	21	18	3	(Germany, Fed. Rep. of, United Kingdom)	Developing countries (19); Eastern European countries (2)
Electronic products	19	16	5	11	(France, Italy, United Kingdom)	Industrial countries (7); developing countries (9)
Footwear	14	11	1[1]	10	(France, Italy, United Kingdom)	Developing countries (8); Eastern European countries (3)
Machine tools	7	3	2	1	(United Kingdom)	Industrial countries (3)
Other	25	19	10	10	(Benelux, Denmark, France, United Kingdom)	Industrial countries (7); developing countries (10); Eastern European countries (2)

Source: General Agreement on Tariffs and Trade, *Review of Developments in the Trading System* (Geneva), 1988.
[1]Industry-to-industry arrangement.

The so-called residual restrictions remained in place after most quantitative restrictions were lifted in the first 15 postwar years. In 1955, the GATT adopted a decision known as the "hard core waiver," which permitted the maintenance of certain restrictions for a specified time period. The residual restrictions remaining in force (after the waivers issued under the GATT's 1955 decision lapsed) are incompatible with the provisions of GATT Article XI, which calls for the general elimination of quantitative restrictions.[12] The EC has offered to abolish some of these residual restrictions, which constitute only a small proportion of national restrictions maintained by EC members, as part of its rollback commitment in the Uruguay Round.

Enforcement of Quantitative Restrictions

EC-wide restrictions are enforced through import licensing procedures applied at the Community level (see below). National restrictions on imports of goods from third countries that are in free circulation within the Community are enforced through Article 115 of the EEC Treaty or, if restrictions are not officially recognized by the EC, through national import licensing or standards and certification procedures.

Article 115 empowers the Commission to authorize a member country to apply protective measures against imports from third countries if such imports threaten the domestic production of the item concerned. An Article 115 authorization temporarily restricts free circulation of goods within the Community and prevents circumvention of national restrictions through imports from other member countries. Most of the existing Article 115 authorizations relate to imports of textiles and clothing under the MFA (Table 14), but have also been granted for imports of automobiles, footwear, and other industrial products as well as agricultural products. Since industry-to-industry restrictions on automobiles (e.g., those in France and the United Kingdom) are not approved by the Commission, they are not covered by Article 115. In principle, it would be possible to bypass the French restriction by importing Japanese automobiles from other EC members, but in practice, this is prevented by national automobile standards and certification procedures, which are scheduled to be eliminated by 1992.

The criteria for granting Article 115 authorizations were tightened in 1974 and 1979, and the trend since 1979 has been toward further tightening. Although the percentage granted of the total requested has increased, the number requested has been halved over the period 1980–87. In assessing members' requests, the Commission takes into consideration the evolution of total EC imports of the item concerned relative to the individual member's imports, past patterns of intra-EC trade, as well as the profit position and employment situation of the industry. In principle, recourse to Article 115 would no longer be possible once internal borders disappear upon completion of the internal market in 1992. This would have implications for the nature of bilateral agreements under the MFA if it were to be renewed after its

[12] Other major industrial countries also maintain residual restrictions.

Table 14. European Community: Authorization of Article 115 Actions,[1] 1980–87

	1980	1981	1982	1983	1984	1985	1986	1987
Benelux								
Acceptances	25	17	19	22	14	4	—	1
Of which: Textiles	19	16	17	16	12	2	—	1
Agricultural products	2	1	1	1	1	1	—	—
As percent of requests	73	74	100	100	100	100	—	100
Denmark								
Acceptances	4	—	—	—	—	—	—	2
Of which: Textiles	4	—	—	—	—	—	—	2
Agricultural products	—	—	—	—	—	—	—	—
As percent of requests	100	—	—	—	—	—	—	100
France								
Acceptances	105	80	85	57	39	66	67	62
Of which: Textiles	63	55	55	39	26	43	52	44
Agricultural products	2	—	1	2	—	4	—	1
As percent of requests	84	73	76	59	68	80	78	86
Germany, Federal Republic of								
Acceptances	1	2	2	4	—	—	—	—
Of which: Textiles	1	2	2	4	—	—	—	—
Agricultural products	—	—	—	—	—	—	—	—
As percent of requests	100	100	100	100	—	—	—	—
Greece								
Acceptances	...	—	—	—	—	—	—	—
Of which: Textiles	...	—	—	—	—	—	—	—
Agricultural products	...	—	—	—	—	—	—	—
As percent of requests	...	—	—	—	—	—	—	—
Ireland								
Acceptances	57	32	26	48	59	57	45	52
Of which: Textiles	57	28	26	47	57	55	43	49
Agricultural products	—	—	—	—	—	—	—	—
As percent of requests	49	56	79	91	84	89	68	87
Italy								
Acceptances	23	23	29	37	34	30	20	23
Of which: Textiles	14	11	7	9	11	7	3	8
Agricultural products	—	—	—	—	2	4	2	1
As percent of requests	52	58	53	65	69	86	91	96
United Kingdom								
Acceptances	7	12	13	20	19	19	5	3
Of which: Textiles	6	8	9	16	14	12	4	1
Agricultural products	1	2	2	2	4	3	1	1
As percent of requests	23	50	65	95	76	76	83	60
Total EC acceptances	222	166	174	188	165	176	141	157
Of which: Textiles	164	120	116	131	120	119	102	105
Agricultural products	5	3	6	8	8	12	3	3
Rejected and withdrawn	134	89	67	65	50	35	43	25
Total requests	356	255	241	253	215	211	184	182
Acceptances as percent of requests	62	65	72	74	77	83	77	86

Source: Data provided by the Commission of the European Communities.
[1]Temporary restrictions on free circulation of goods within the Community under Article 115 of the Treaty of Rome.

expiration in 1991; the Commission is reviewing these implications to ascertain the feasibility of replacing national restrictions with EC-wide restrictions.

Import Licensing

Import licensing procedures[13] are applied at the Community level as well by some individual members for import control purposes.[14] At the Community level licenses are required for imports of industrial or agricultural products that are subject to quantitative restrictions or monitoring. Separate regulations apply for imports of products originating in state-trading countries and for imports of textiles from third countries. Automatic licensing is granted to imports that are subject to surveillance. Surveillance is often, but not always, the precursor to restrictions (as it was with EC-wide restric-

[13] The EC is a signatory to the Tokyo Round Code on Import Licensing.

[14] Licensing systems applied by individual members of the EC are described in International Monetary Fund (1988a).

tions on Japanese automobiles). Imports subject to quotas require prior authorization, which is provided under nonautomatic licensing procedures. For products subject to export restraint arrangements, an import authorization is granted on the basis of the export permit issued by the exporting country. The Commission is authorized to require licenses for imports that cause or threaten to cause injury to Community producers or when "critical circumstances" make immediate action necessary. Licensing requirements, necessary to implement safeguard measures taken under Article XIX of GATT, are subject to EC Council confirmation.

Community-wide quotas are allocated among member countries on the basis of agreed shares. Member countries grant import authorizations within the limit of their quota shares. To ensure that the licenses issued are actually used, each member country must notify the Commission on a monthly basis of the amount of import authorizations and actual imports in the preceding month. Based on this information, the allocation of the quota among member countries may be modified.

Other Trade Instruments

The EC is a signatory to all codes and agreements adopted during previous multilateral trade negotiations. These include codes dealing with import licensing (discussed above); government procurement; technical barriers to trade; trade in civil aircraft (see Section VI); subsidies and countervailing duties; antidumping duties; customs valuation; and dairy and beef products.

As in other major industrial countries, government procurement policies and technical barriers protect the EC market from outside competition. It is difficult to gauge the importance of these barriers compared with tariffs, nontariff border measures, and subsidies. It is expected, however, that the reduction or removal of such barriers among EC members as part of the process to integrate the internal market would result in significant benefits for the Community.

Policies of the EC that deal with subsidies, dumping, and other unfair trade practices play an important role in EC trade relations with other countries. They include definitions of subsidies and dumping and outline the procedures governing the Commission's investigations. The definition of dumping under EC procedures is based on the price prevailing in the exporters' domestic market. If this price is not considered representative of costs because of market imperfections, the antidumping investigation is based on estimated production costs, which assume average cost pricing and may be subject to a considerable margin of error. In line with GATT provisions, the imposition of antidumping or countervailing duties requires a positive finding of injury.

In 1984, new regulations governing subsidies and dumping, which broadened and sharpened the scope of existing rules, came into effect. In 1986, the EC extended the concept of "unfair" trade practices to a service industry (shipping), which is not covered by GATT rules. The legislation allows the Commission to take offsetting measures against countries or shipping lines practicing "predatory" pricing. In June 1987, the concept of antidumping was extended to so-called screwdriver plants established by non-EC producers in the EC. The legislation aims at preventing circumvention of antidumping duties on finished products and allows duties to be imposed on products assembled in the Community if certain conditions are met. First, the screwdriver operation must be closely related to the firm on which dumping duties have been imposed and must have been established, or have substantially increased its operations, following the imposition of antidumping duties on the finished product. Second, components imported from the country against which the initial antidumping duty was levied have to amount to at least 60 percent of the price of the finished product. (To avoid an antidumping duty, therefore, at least 40 percent of the finished product must be produced locally or in a third country.) The EC justified the new legislation on the grounds that any action undertaken to enforce antidumping duties on the finished products, imposed on the basis of GATT Article XX, was legitimate. The alternative of initiating antidumping investigations on each of the imported components was considered impractical because of the large number of components involved. Japan, which is affected by the legislation, has questioned its conformity with GATT rules.

In 1984, the EC adopted the New Commercial Policy Instrument, intended to counter "unfair" trade practices abroad. This is analogous to Section 301 of the U.S. Trade Act of 1974. Unfair practices are defined as any measures incompatible with generally accepted practices or with international codes or rules agreed multilaterally in GATT, the OECD, or other international institutions and agreements. The New Commercial Policy Instrument applies to situations where an EC member believes that its access to the markets of another country may have been unfairly reduced as a result of trade practices that the importing country considers not inconsistent with GATT rules. Complaints may be presented to the Commission by member countries or by an association representing an industry throughout the Community. In the event of a positive determination, the Commission must decide on actions to be taken to defend the Community's interests. No actions were taken on the three cases that have been investigated under this legislation.

The EC has initiated very few countervailing investigations, in part because its antidumping provisions are easier to invoke and also because imports of some products that are subsidized directly in other countries, such

as steel and agricultural products, are subject to EC or national quantitative restrictions or to pricing disciplines.[15] Frequent use is made of its antidumping legislation. Antidumping investigations tended to decline in the first half of the 1980s when the U.S. dollar appreciated, but have recently increased. The number of antidumping investigations declined from 39 in 1984 to 36 in 1985 and to 24 in 1986, but rose to 34 in 1987.[16] Of a total of 68 antidumping investigations under way in 1986, 4 ended with the imposition of definitive duties, 25 were concluded with price undertakings by the exporters, and the remaining ended without penalties being imposed. In 1987, 4 countervailing duties and 15 antidumping duties were imposed on a number of products, including steel, chemicals, and electronics; most duties affected exports of developing and state-trading countries.[17]

An investigation was launched under new shipping legislation in November 1987 against a Korean shipping line on the rates charged on cargo lines between the Community and Australia. The Commission is investigating the complaint, initiated by the EC Association of Shipowners, and has invited information and comments from interested parties. EC exporters have opposed measures against Korea on the grounds that the low rates charged by the Korean shipping line permit them to be competitive on the Australian market.

Of a total of four investigations opened under the new legislation on screwdriver operations, three have been completed. Two of these have resulted in antidumping duties and one was dismissed because the 60 percent import content requirement was not reached. All the investigations were directed against Japanese manufacturers and involved electronic typewriters, weighing scales, photocopiers, and construction equipment.

Trade-Related Aspects of Industrial Policies

Industrial policies in the EC are regulated through the EEC Treaty's provisions on competition and through the ECSC Treaty that established the European Coal and Steel Community. These provisions regulate the provision of state aids and thus have a bearing on the extent to which such aid may distort trade. Competition provisions, which also cover restrictive business practices, aim at striking a balance between market forces and selective intervention by public authorities. The objective is to ensure that (a) resources are channeled to industries that contribute to growth and competitiveness; (b) state intervention does not permit a company or sector to gain an unfair advantage over its competitors in other member countries; (c) dominant positions arising from monopoly power are not abused; and (d) state aid policy is consistent with other policies, such as regional and research and development policies. In some cases state aids are permitted in such a form as to insulate essentially certain sectors from developments in world markets, including exchange rate changes.

Regulation of State Aids

The EEC Treaty's provisions on state aids are contained in Articles 77 and 90–94. In principle, state aids are prohibited by Article 92(1) insofar as they distort competition and affect intra-Community trade. The Treaty includes statutory exceptions and, in addition, the Commission has discretionary power under Article 92(3) to grant exemptions for state aid that meets specific criteria. Exemptions are granted with respect to the following:

(a) Regional development aid to benefit the relatively poorer regions of the Community: Greece, Portugal, Ireland, Northern Ireland, Italy's Mezzogiorno, and several regions of Spain. The Community contributes to the financing of regional aid through the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The objective of these funds is to help correct the most serious regional imbalances in the Community and contribute to the restructuring of declining industrial areas.

(b) Aid to develop economic activities or areas where the degree of distortion in trade and production within the EC would not be substantial. These aids relate mainly to regional programs in higher-income countries (e.g., the Federal Republic of Germany) and could include research and development expenditure.

(c) Schemes in the common European interest: projects with high start-up costs, including research and development costs, which may be financed jointly by some member countries (e.g., Airbus).[18]

Article 93(3) requires EC member governments to give prior notification to the Commission of all financial assistance. The Commission determines whether individual state aids fall within its jurisdiction under Article 93 and reviews their consistency with EC regulations.[19] Based on its review, the Commission may approve the state aids proposed, recommend modifica-

[15] The definition of subsidies in the EC's countervailing legislation is based on the existence of a direct financial contribution by governments, in contrast to the U.S. legislation, which is based on a broader definition.

[16] Data provided by GATT.

[17] International Monetary Fund (1988a). The report includes for the first time an Annex of measures taken by the EC in 1987.

[18] The Airbus Consortium is also affected by the GATT Code on Trade in Civil Aircraft. The dispute on the financing of aircraft construction between the United States and the EC is covered in Section VI.

[19] The reporting requirements on state aids cover areas exceeding the jurisdiction of the Commission.

tions, or forbid them. The Commission's decision may be appealed to the European Court of Justice by any of the interested parties. Alternatively, the Council of Ministers can, by unanimous vote, overturn the Commission's decision; the latter occurs in exceptional cases and in the past has mostly involved agricultural products. The Commission also has authority under Article 93(1) to review existing state aids for their continued consistency with EC rules, including schemes maintained by new members. In principle, competition laws apply to new members immediately on accession. In the case of Spain, however, special treatment was accorded to the steel sector, for which state aids that were inconsistent with EC rules were permitted during a transition period.

State Aids to Steel, Coal, and Shipbuilding

State aids to steel and coal are governed by Articles 4, 54, and 95 of the ECSC Treaty. The Treaty also allows the Commission to impose controls on production and prices and is stricter than the EEC Treaty in that it provides for the suspension of all subsidies at the end of a transition period.[20] Article 95 does provide, however, for "appropriate amendments" in case of unforeseen difficulties after the end of the transition period. The code on state aids to steel, adopted in 1980, called for the termination of operating subsidies by the end of 1984 and of most other aids by the end of 1985. Although state aids to steel are permitted only in connection with restructuring leading to capacity reductions, operating subsidies apparently continue to be provided to the steel sector in some member countries.

The Commission is less active in regulating state aids to the coal sector, partly because not all member states have coal mining industries and the likelihood of distortions in trade and production within the EC is consequently lower.[21] Prices in EC countries are maintained above world prices. Many enterprises operating at a loss are kept in operation with subsidies that would be incompatible with the rules for steel or shipbuilding. Under the ECSC Treaty, aid to the coal sector is subject to the Commission's approval, which is granted if the proposed aid does not distort the internal market for coal. In addition, the proposed aid must meet certain criteria set out in a Commission decision of July 1986. The aid must (i) strengthen the competitiveness of the coal industry, including improving security of national supply; (ii) create new capacity only if commercially viable; or (iii) address regional and social problems arising from pit closures.

The Commission interprets the lack of internal cross-border trade in coal as evidence that operating subsidies are not being used to lower prices artificially to an extent that distorts intra-EC trade, and therefore allows operating subsidies under criteria (i) and (iii). But it does not allow aid to be granted to such an extent that it amounts to indirect support to industrial users of coal, such as the steel industry. Aid to new capacity is allowed up to 50 percent of investment costs, but subject to case-by-case review by the Commission which must satisfy itself that the new installation will be economically viable.

Under these guidelines the Commission allows the Federal Republic of Germany to cover the difference between world prices and those paid by the German iron and steel industry for domestic coal and coke.[22] It also has approved an arrangement whereby the extra costs of burning German coal in power plants is passed on to consumers by raising electricity prices. This aid is justified by the German authorities as preventing premature pit closures that contribute to social and regional problems related to developments in the coal industry. This argument, which would not be acceptable to the Commission for steel or shipbuilding subsidies, is also used to justify operating aid provided by Belgium, France, and the United Kingdom.

Aids to shipbuilding are governed by a decision under Article 92(3)d of the EEC Treaty whereby the Commission may recommend to the Council that a particular sector be exempted from normal rules.[23] The Community's directive on aid to shipbuilding, adopted in early 1987, limits operating subsidies to 28 percent of the contract value. This limitation is intended to promote production in the most viable shipyards, by preventing a heavy concentration of state aids to the least competitive yards. The 28 percent limit is subject to annual review and is expected to fall over time as shipyards become more competitive. However, the limit does not apply to exports to developing countries financed by soft loans and grants, nor does it cover export credit subsidies, which are governed by the OECD Consensus Arrangement.[24] State aids may also be provided in support of restructuring plans that reduce capacity and in connection with payments to redundant workers, commensurate with the restructuring effort.

Difficulties in Enforcing EC Rules on State Aids

EC rules on state aids have not been enforced strictly because (i) member states do not fully comply with

[20] Remaining production quotas and guide prices applicable to steel were lifted following an EC Council decision in June 1988 (see Section VI).

[21] Belgium, France, the Federal Republic of Germany, Portugal, Spain, and the United Kingdom have coal mining industries.

[22] Last January, the Commission approved a package of subsidies to the German coal sector amounting to DM 4.2 billion in 1988.

[23] The EC provides information to the Organization for Economic Cooperation and Development (Working Party 6) that is used to monitor developments in shipbuilding.

[24] The margin of interest rate subsidy below that permitted in the Consensus Arrangement does count against the ceiling.

notification requirements to the Commission; (ii) state aids to specific sectors are sometimes provided under the guise of regional or social policy; and (iii) state ownership of enterprises in a number of member countries complicates the implementation of competition policy. EC rules on state ownership require governments to behave as commercial investors would in injecting additional equity into state-owned enterprises. Since it is not always clear how commercial investors might act, the Commission has encountered difficulties in assessing compliance.[25] Similar difficulties have arisen in connection with aids aimed at particular sectors but provided by member governments under the guise of regional or social aids. Such aid may in some cases be more than necessary to overcome locational or other disadvantages and may therefore provide an artificial competitive advantage.

Surveillance over State Aids

Surveillance over state aids by the Commission has been tightened since 1985, when the White Paper containing proposals for completing the EC internal market was approved by the Council. This approval reflected the recognition by both Community and national administrations of the need to enforce competition policy effectively to ensure that the removal of internal nontariff barriers is not replaced by other devices that limit competition. Acceptance of this principle by member governments was facilitated by budgetary considerations, pressures from some members for greater control over other members' activities, the fact that industry-specific subsidies are more likely to be countervailable, and a growing recognition that state aids are neither an efficient nor effective method of encouraging structural adjustment.

Developments in surveillance over state aids have occurred in three main areas since 1985. First, the effectiveness of surveillance was enhanced by a tightening of the procedures applied in cases of non-notified aids. Article 93(2) procedures, providing for the termination of state aids incompatible with EC rules, are now automatically opened if member states do not respond to a request for notification within a limited time. Moreover, the Commission now systematically demands that non-notified state aids that are illegal on either substantive or procedural grounds be reimbursed.[26] Demands for reimbursement increased from ECU 11 million in 1986 to ECU 747 million in 1987, and major investigations were initiated in 1988 involving France (automobiles and steel), the United Kingdom (automobiles), and Italy (steel). In some of these cases, however, governments have proved to have more power than the Commission.

Second, the transparency of EC procedures has increased through the publication in the *Official Journal of the European Communities* of all decisions on state aids issued by the Commission, whether positive or negative, to encourage the intervention of interested third parties.

Third, information on the level and type of state aids is to be improved. An internal task force has been formed to survey state aids in the Community. A preliminary draft was recently discussed by member governments to be published later in a White Paper on EC state aids. The published information may be aggregated across sectors or member countries and expressed as percentages of GDP to avoid possible application of countervailing duties by other countries.

Preferential Agreements with Other Countries

Aside from its GSP scheme, the EC has concluded a number of preferential trade agreements with other countries and country groups. These agreements provide for preferential access to the EC market in exchange for tariff and nontariff concessions on products of interest to the EC. They include a free trade agreement with the EFTA countries, association or cooperation agreements with a number of Mediterranean countries, and preferential access to the EC market on a nonreciprocal basis to 66 African, Caribbean, and Pacific countries.

Three factors provided the impetus for these bilateral trade agreements. First, with the departure of Denmark and the United Kingdom from EFTA to join the EC, the current EC members extended duty-free treatment to the remaining EFTA countries. Second, the Mediterranean countries that conduct a large part of their trade with the EC had a clear incentive to get inside the Community's common external tariff, especially because a number of their competitors in the Mediterranean area (Greece, Portugal, and Spain) have recently joined the Community. Third, the preferences granted by Belgium, France, and the United Kingdom to their former colonies in Africa, the Caribbean, and the Pacific were extended to the entire Community.

Some contracting parties have questioned the consistency of these agreements with GATT Article XXIV, which stipulates that the formation of customs unions and free trade areas is subject to certain requirements. These requirements include their formation "within a reasonable period of time" and their coverage of "substantially all trade" among the partner countries. For

[25] Recent examples involve Renault (France) and Rover (the United Kingdom). The case of Renault involved also loan writeoffs of F 12 billion, which were sanctioned by the Commission provided no further aid is granted, its restructuring program is fully implemented, and its status changed from a state agency (*Régie*), whose debts are guaranteed by the Government, to a normal commercial company.

[26] Article 93(2) permits the Commission to refer the matter directly to the European Court of Justice if the aids are not rolled back within the prescribed time.

their part, the EC and the other signatories of the agreements have argued that these agreements were fully consistent with Article XXIV and that in addition, when concluded with developing countries, they were covered by Part IV of the General Agreement and by the Tokyo Round decision of November 28, 1979 on differential and more favorable treatment, reciprocity, and further participation of developing countries (the Enabling Clause). The competent GATT working parties have taken note of these opposing views and have not ruled on the issue of the consistency of the agreements with the relevant provisions of the General Agreement and the Tokyo Round agreements.

EFTA Agreements

The free trade agreements between the EC and each of the EFTA countries were signed in 1972 and cover trade in industrial and processed agricultural products.[27] Trade in unprocessed agricultural products remains highly restricted. Since the conclusion of the free trade agreements, trade between the two country groupings has quadrupled and currently amounts to about $100 billion, equivalent to 70 percent of EFTA trade and one fourth of EC trade with third countries, excluding trade within the two groups (see Table 10).

By 1984, it was recognized that the scope for furthering trade in the context of the existing agreement was limited. Although cooperation was increasing in the areas of consumer policy, technology, and the environment, EFTA countries were apprehensive that the EC initiatives toward internal integration would reduce access for EFTA countries to the EC market. These factors led to a ministerial meeting between EFTA and the EC in November 1984 and the announcement of a program, contained in the Luxembourg Declaration. The declaration included commitments to reduce technical barriers to trade, eliminate quantitative export restrictions, revise rules of origin, and open up government procurement. Subsequent ministerial meetings expanded the scope of EC/EFTA cooperation to increase the transparency of state aids and simplify border formalities. Services, intellectual property, and capital movements were also included on the agenda.

In line with the above agreements, concrete steps have been taken in a number of areas. Border formalities have been simplified, and agreement in principle was reached to eliminate quantitative export restrictions in the EC that had been introduced for historical reasons.[28] On technical barriers, discussions are under way to develop alternative mechanisms for notification and harmonization of technical norms. Negotiations aimed at relaxing the rules of origin under which EFTA was granted duty-free access to the EC are under way with a view to extending the minimum value-added requirement to apply to EFTA countries as a group rather than individually.[29] On state aids, EFTA countries have agreed to introduce notification requirements to the EFTA Secretariat, similar to those that exist in the EC vis-à-vis the Commission. Further progress in harmonizing rules may be hampered by the fact that the EFTA Secretariat, in contrast to the EC Commission, is not empowered to enforce competition policy.

Association and Cooperation Agreements

The EC has concluded association and cooperation agreements with a number of Mediterranean countries. Association agreements have been concluded with Cyprus (1972), Malta (1970), and Turkey (1963), providing for reciprocal tariff preferences, aid, industrial cooperation, technical assistance, and full accession to the EC after a transition period. Under the agreements, concluded on the basis of Article 238 of the EEC Treaty, the Community grants duty-free access for industrial exports and tariff preferences for agricultural exports. The associate member countries have not, however, adhered to the timetable for granting reciprocal preferences to EC exports, nor have they adopted the EC common external tariff. A protocol that will complete the customs union with Cyprus was signed in 1987 and came into force on January 1, 1988. Under the agreement, Cyprus will remove customs duties on imports of industrial products from the EC and adopt the common external tariff over a ten-year period. The agreement also provides for reciprocal concessions on agricultural exports and the eventual liberalization of agricultural trade beyond the ten-year period.

Cooperation agreements have been signed with Israel (1975), and with Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, and Yugoslavia (1978). The agreement with Israel, concluded on the basis of Article 113 of the EEC Treaty, provides for a free trade area covering most trade in line with the provisions of GATT Article XXIV. While the EC had removed all tariffs and quantitative restrictions on Israel's industrial exports by 1977, Israel's deadline for granting the EC reciprocal treatment has been extended twice, to January 1989. Under the agreement, the EC also provides tariff preferences for Israel's agricultural exports. The EC has granted similar benefits to the other countries with

[27] The agreements allowed for a transition period until 1976 but were not fully implemented until 1984 because Finland had longer transition periods on a number of sensitive products.

[28] These affect a few products, including copper scrap, representing a negligible amount of EFTA/EC trade.

[29] Currently duty-free access is granted by the EC on products with value added of at least 60 percent in any individual EFTA country.

which it has signed cooperation agreements, in exchange for MFN treatment of EC exports to their markets. Trade between the EC and these countries as a group is a negligible portion of EC trade but a significant portion of these countries' trade.

GCC Cooperation Agreement

The Cooperation Council for the Arab States of the Gulf (Gulf Cooperation Council—GCC), which comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, has recently requested the negotiation of a trade and cooperation agreement with the EC providing for a free trade area covering all industrial products, including petrochemicals. In November 1987 the EC Council authorized the Commission to negotiate a two-stage agreement with the GCC. The first stage, concluded on June 15, 1988, includes agreements to increase cooperation in the areas of industry, energy, science, technology, and the environment;[30] a "standstill" clause preventing the introduction of new restrictions; and the mutual application of MFN treatment.[31] The second stage would include trade liberalization measures that fall short of a free trade area, reflecting both a desire by the EC to maintain sufficient petrochemical production capacity to provide security of supply and the concern of some EC member countries that complete elimination of EC tariffs on their petrochemical industries could harm restructuring efforts in the EC oil refining and petrochemical industries. In exchange, the EC would provide for an infant industry protection clause to benefit the GCC countries. To avoid a reduction in EC protection of its petrochemical industry not matched by similar reductions by the United States and Japan, both parties to the agreement have pledged to promote a multilateral reduction in customs duties on petrochemical products in the Uruguay Round.

Imports of petrochemicals from the GCC countries into the EC are presently governed by the Community's GSP scheme. The operation of the GSP scheme has been the focus of a dispute between the Community and the Gulf Cooperation Council and has hindered the negotiation of a cooperation agreement. Duty-free access of "sensitive" products, including petrochemicals, under the GSP scheme is subject to annual quantitative limits. Beyond these limits, duties of 13 percent on petrochemicals are applied automatically for some products, or at the request of the domestic industry for others. These limits are usually reached within the first few days of the year, giving rise to complaints by the GCC countries that the Community's GSP scheme is unhelpful to them. The EC Commission, in turn, views the substantial imports of petrochemicals from the GCC countries as evidence that the tariff does not appear to affect GCC exports adversely.

Lomé Convention (ACP Preferences)

The EC has extended duty-free access on a nonreciprocal basis to its market as well as financial and technical assistance to 66 African, Caribbean, and Pacific countries under the third Lomé Convention (Lomé III). The agreement came into force on March 1, 1985 for a five-year period and superseded previous agreements.[32] With the accession of Angola to the agreement, the signatories of Lomé III include all the sub-Saharan African countries. Lomé III contained broadly similar provisions and included an increase in EC financial assistance from ECU 5.5 billion under Lomé II to ECU 8.5 billion. A portion of the financial assistance is linked to developments in commodity export receipts of the ACP countries. In addition, the Community is committed to purchasing an agreed quantity of sugar exports at a guaranteed price. EC imports from ACP countries account for one fifth of its total imports from non-oil developing countries.

The EC is about to enter into a new round of negotiations with ACP countries to renew Lomé III after its expiry in February 1989. The EC Commission's draft negotiating mandate, subject to the Council's approval, includes a modification in the modalities of financial assistance to ACP countries to include loans in support of structural adjustment efforts. The negotiations are complicated by their coincidence with the Uruguay Round discussions on a possible elimination of tariffs on tropical products, which would eliminate the preferential treatment of ACP exports of such products on the EC market. Another complication is that certain ACP countries have higher per capita incomes than Greece, Ireland, and Portugal, yet rely on them for aid.

GSP Scheme

The EC's GSP scheme provides nonreciprocal tariff concessions to developing countries. The scheme, which operates at the Community level, was introduced in 1971

[30] The EC undertook to help GCC countries diversify their energy, industrial, and agricultural sectors through joint ventures, technology transfers, training, and joint surveys of markets for oil and gas and their derivatives.

[31] Most-favored-nation treatment presently does not apply to trade between the EC and the GCC countries that are not GATT members; Kuwait is the only GATT member.

[32] The Yaoundé Conventions I and II (1964 and 1971) with African countries were replaced by Lomé I (1976), which included 21 former Commonwealth countries that were invited to join following the United Kingdom's entry into the EC. A successor agreement, Lomé II, was signed in October 1979, a few months before Lomé I expired. Lomé II broadened the scope of the agreement to include provisions relating to payments and capital movements, direct investment, and services. Grants and loans were provided through the EC budget and the European Investment Bank.

and renewed in 1981 for another ten-year period. Though available to all developing countries, the GSP in practice mainly benefits Asian and Latin American countries. Developing countries in the African, Caribbean, and Pacific regions (ACP countries), while legally beneficiaries of the GSP, enjoy more generous tariff preferences under the Lomé Convention. Similarly, most countries bordering on the Mediterranean have more favorable access to the EC market under their EC agreements than under the GSP. The scheme provides for more generous preferences for the countries appearing on the United Nations list of least developed countries, including exemptions from all quantitative limitations. Of the 39 countries on this list, all but 9[33] have signed the Lomé Convention and hence receive these benefits anyway.

The Community's GSP covers all otherwise dutiable manufactured and semimanufactured products. More restrictive schemes apply to "sensitive" industrial products, including textiles and clothing. Whereas all industrial products are covered by the Community's GSP, coverage of agricultural products is more selective.

For industrial products, quantitative limits on duty-free access are imposed on sensitive items that compete with EC products. When the limit is reached, the EC's common external tariff is applied.[34] The limit applies uniformly to each beneficiary of the scheme, except for certain sensitive products for which individualized ceilings are imposed on "competitive" exporters that are generally lower than the ceilings applied on "noncompetitive" exporters.

A more restrictive scheme is in effect for textiles and clothing. Textile imports are classified among the sensitive products and are subject to limits on duty-free access. For products covered by the Multifiber Arrangement only countries that have concluded bilateral agreements with the Community in the context of the MFA, or have similar undertakings, are entitled to benefits. All developing countries qualify for preferences on their exports of textile products that are not covered by the MFA. Individual ceilings are applied to "competitive" exporters.

Duty-free entry of nonsensitive industrial products is not subject to ceilings. If preferential imports cause or threaten to cause economic difficulties in the Community, however, the Commission can reintroduce customs duties provided an indicative threshold has been exceeded and subject to consultation with member states.[35] This provision may have reduced the security of duty-free access to the EC market for GSP beneficiaries. The least developed countries are exempt from this provision.

With regard to agricultural imports, products that are subject to market arrangements under the Common Agricultural Policy and are protected by variable levies or similar devices are not covered. Obligations to ACP and Mediterranean countries also limit coverage. Concessions generally take the form of tariff reductions rather than exemptions; only one fifth of the 385 tariff lines covered enter duty free, and three products are subject to quantitative limits.

In the 1986 midterm review of the GSP, provisions were introduced to graduate country products from the EC's scheme. Starting in 1986, countries with a per capita income exceeding $2,000 and whose share of EC industrial imports from third countries of the product concerned exceeded 20 percent were graduated from the scheme for industrial products. This provision was applied to exports from Brazil, China, Hong Kong, Korea, and Singapore. More recently, GSP benefits on all products were withdrawn from Korea on the grounds that it provides discriminatory protection for U.S. intellectual property rights. Benefits are withdrawn over two years, and the benefits withdrawn from one beneficiary are redistributed to other beneficiaries of the scheme. Starting in 1988, countries with per capita income exceeding $2,000 and whose share of EC imports of the textile product concerned exceeds 10 percent are also graduated from the textiles scheme.

Single European Market

Despite the provisions for a common market embodied in the EEC Treaty, the markets of the 12 member states do not constitute a single market for any producer or seller. Market segmentation arises from different national standards, regulatory barriers to market entry and competition, national restrictions, time-consuming internal border formalities, and discriminatory government procurement practices. Evidence of market segmentation is provided by the different prices at which identical goods are sold in member countries. This segmentation raises the cost of goods and services by creating monopoly rents, imposing administrative costs, and preventing the achievement of economies of scale, and distorts the allocation of resources within the Community (Table 15 describes selected barriers). Restrictive practices are particularly widespread in the area of services. Air, sea, and road transport, which represents more than 7 percent of the Community's GDP, is subject to restrictions on nonresident carriers operating in member countries. In insurance, some EC members (Denmark, France, the Federal Republic of Germany, and Ireland) require that an insurance company maintain a

[33] Afghanistan, Bangladesh, Bhutan, Haiti, Laos, Maldives, Nepal, Yemen Arab Republic, and Yemen People's Democratic Republic.

[34] The limited duty-free access applied to imports of petrochemicals has given rise to a dispute between the EC and the GCC countries.

[35] The Commission has received an increasing number of requests to reintroduce duties on nonsensitive products in recent years. In 1987, duties were reimposed in 19 cases covering 18 products, 12 of which were chemical products.

Table 15. European Community: Internal Market Program—Selected Measures

	Existing Barriers	Impact	Proposed Measures	Date
Border formalities	Different customs regulations and forms maintained by each member country.	The costs arising from border formalities and other red tape are estimated at 1.8 percent of intra-EC trade.	Single Administrative Document (SAD) introduced in January 1988 superseded some 70 customs documents in several different languages.	Implemented January 1988
Road transport	Bilateral quotas limit the number of trips that trucks from one country can make to another and prohibit "cabotage," i.e., the transportation of merchandise within an EC country by a nonresident trucking company.	Existing restrictions force about one third of the trucks transporting merchandise across EC borders to return empty. Most intra-EC trade, amounting to more than $500 billion, is transported by trucks.	National and EC quotas and licenses governing more than half of the goods transported by trucks will be gradually phased out and lifted by end-1992. The small number of EC permits allowing trucks to enter any country will be increased by 40 percent as of July 1, 1988 and by a further 40 percent in 1989.	Adopted June 1988
Air transport	Traffic is regulated through bilateral government-to-government agreements allocating routes between any two national carriers. Traffic is divided fifty-fifty by the carriers, with fares subject to approval by both governments; "cabotage" not permitted.	Market-sharing agreements raise the cost of air transport by reducing the number of passengers per flight and creating monopoly rents for the airlines. Almost half of available seats are flown empty. The fare between Paris and London costs almost twice as much as the fare between Washington and New York, although the distance is the same.	Automatic approval of discount or deep discount fares; freedom to offer additional seats on a particular route provided one country's share does not fall below 40 percent; possibility to combine service to two or more points in another member state. However, the freedom to provide scheduled transport services within other member countries or from these to a third country would continue to be heavily restricted.	Adopted November 1987
Nonlife insurance	National regulations require that insurance companies maintain a physical presence in the country where risk is located. Market entry is restricted through licensing requirements.	Considerable cost savings could arise from a more competitive environment; regulatory barriers give rise to differences in insurance premiums across EC countries in excess of 200 percent.	After a transition period ending in 1992, large EC companies will be able to purchase insurance policies anywhere in the EC. Eligible companies constitute 70 percent of the market for company risk insurance. Greece, Ireland, and Portugal are exempt until 1999, Spain until 1998.	Adopted in principle November 1987 (formal adoption expected in 1989)
Capital controls	National regulations range from complete freedom of capital movements in the United Kingdom and the Netherlands to strict controls on capital outflows in Greece and Portugal; France and Italy have liberalized considerably in recent years but continue to prohibit residents from holding bank accounts abroad.	Gains would result from a more efficient allocation of Community savings.	Progressive removal of all remaining obstacles to capital mobility within the EC by 1990; Ireland and Spain by 1992; Greece and Portugal by 1995. A safeguard clause, subject to review in 1992, would permit the reimposition of controls. EC loan mechanism for countries with balance of payments difficulties raised to ECU 16 billion.	Adopted June 1988

Sources: Emerson, and others (1988); Commission of the European Communities, *Bulletin of the European Communities,* various issues; and Europe Information Service, *European Report,* various issues.

physical presence in the country where the risk is insured. Similar regulatory barriers exist in the provision of other financial services, including restrictions on foreign acquisitions or participation in resident banks. The integration of the services markets across the Community would have important effects on their efficiency as well as on the efficiency of other sectors using these services.

National legislation also impedes factor mobility within the Community. Licensing rules of professional associations limit the freedom of EC citizens to practice their professions in other EC states, and national educational standards have implied that diplomas are not always recognized in other member states. Similarly, most EC countries maintain capital restrictions despite a directive issued by the Commission in 1960 calling for their elimination, in line with the EEC Treaty provisions.

Single European Act

In recognition of the costs imposed by market fragmentation, the EC Council in 1985 adopted a White Paper[36] containing detailed proposals to remove all physical, technical, and fiscal barriers to free movement of goods, services, and factors of production within the Community by end-1992. The paper defines a sector-by-

[36] Commission of the European Communities (1985).

sector strategy and lists 300 proposals (later revised to 286) to unify the markets in member countries. These proposals were incorporated in the Single European Act that came into force on July 1, 1987.[37] The Act contains measures to complete the implementation of the EC Treaties but goes beyond them in certain areas.[38] It thus constitutes the first major revision of the Treaties.

The Act provides for a dismantling of internal frontiers to facilitate trade within the Community. Technical barriers to trade will be gradually eliminated by applying the principle of mutual recognition of standards. However, in health, safety, consumer protection, and the environment, standards will be harmonized. Barriers to trade in services and to the movement in factors of production will be removed. Far-reaching liberalization measures are proposed in banking, insurance, security transactions, and mortgage finance. The companies providing such services will be subject to control by the authorities of the home country rather than by the authorities of the country of operation. Mortgage credit institutions will be allowed to operate freely with other member countries and offer mortgages patterned on their home country regulations. The system of quotas in road and air transport will be gradually phased out. Public procurement will be open to Community-wide bidding. EC citizens will have freedom to engage in their professions throughout the Community, and all capital controls will be lifted.

Fiscal barriers would be removed "by approximation" (as opposed to equalization) of indirect taxes (value-added taxes) in member states. The system would resemble the U.S. system, in which interstate borders do not exist and variations in tax rates among states are limited within a band to avoid encouraging interstate trade based on differences in indirect tax rates.

An important companion measure to the internal market program was the doubling of the EC structural funds—the regional and the social funds—to compensate the Community's less prosperous regions for the intensified competition that would result from the single market. In the lower-income countries at the Community's periphery—Greece, Ireland, and Portugal—the entire territory is considered to be made up of less prosperous regions. The compensation was agreed to, notwithstanding some studies showing that these countries would benefit the most from the dismantling of internal barriers because their geographical location implied that they had more barriers to cross compared with more centrally located EC countries.[39] Greece and Spain would benefit from the Integrated Mediterranean Programs that are part of the planned increase in the EC's structural funds. The loans would finance infrastructure projects, professional training, productive investment, and productivity improvements in both the private and public sectors under a program (rather than project) approach designed to broaden regional objectives further. These loans would include a grant element.

[37] Commission of the European Communities (1984b).

[38] For instance, the Council's voting procedures.

[39] Data Resources, Inc. (1987/88).

Implementation of the Act

To facilitate the adoption by member states of the proposals contained in the White Paper, the Single European Act amended the EEC Treaty by extending the areas in which decisions could be adopted by simple or qualified majority in the EC Council. The adoption of most measures concerning the establishment of the single market therefore does not require unanimity.[40]

Implementation of the proposals contained in the White Paper was initially slow, but was accelerated under the German presidency of the EC Council in the first half of 1988. Reform has also acquired a momentum of its own as the proposed deregulation of certain sectors (e.g., the financial sector) has created pressures for deregulation in other areas (e.g., liberalization of capital movements). As of June 1988, about one third of the 286 proposals were fully adopted by member states, a few were partially adopted, and the remaining are pending. Most of the proposals adopted deal with the removal of physical and technical barriers, the liberalization of transport and financial services, the enhancement of labor mobility, and the lifting of capital controls. The remaining deal with the introduction of new technologies, company law, intellectual property rights, and fiscal barriers. Table 15 provides details of selected decisions and their impact.

The most significant progress has been made in removing capital controls,[41] enhancing labor mobility through mutual recognition of university diplomas, liberalizing road transport, harmonizing technical standards affecting pharmaceutical products, and reducing customs formalities. The introduction of the Single Administrative Document in January 1988 superseded some 70 customs documents in several different languages. Progress in air and sea transport, broadcasting, banking, and securities trading has been slower.

Studies of Effects

The potential economic impact of completing the internal market by 1992 was evaluated in a recent study.[42]

[40] Unanimity would still be required in decisions pertaining to harmonization of turnover taxes, excise duties, and other forms of indirect taxation.

[41] Discussions are under way to ensure that divergent tax rates do not distort the allocation of capital among member countries.

[42] Emerson, and others (1988).

Table 16. European Community: Macroeconomic Consequences of Completion of the Internal Market
(In percent unless otherwise indicated)

	GDP	Consumer Price Index	Employment[1]	Public Deficit[2]	External Balance[2]
Frontier controls	0.4	−1.0	200	0.2	0.2
Public procurement	0.5	−1.4	350	0.3	0.1
Financial services	1.5	−1.4	400	1.1	0.3
Supply effects	2.1	−2.3	850	0.6	1.0
Total gain without accompanying measures	4.5	−6.1	1,800	2.2	1.0
Total gain with accompanying measures					
Disinflation[3]	7.0	−4.5	5.0	0.4	−0.2
Public deficit[4]	7.5	−4.3	5.7	—	−0.5
External position[5]	6.5	−4.9	4.4	0.7	—

Source: Emerson, and others (1988).
[1]In thousands.
[2]In percent of GDP.
[3]This scenario assumes that accompanying macroeconomic policy measures exploit 30 percent of the room for maneuver created by the fall in consumer prices and the reduction in the fiscal deficit.
[4]Assumes budgetary expansion to exploit the entire room for maneuver created by the fall in prices and the reduction in the fiscal deficit.
[5]Assumes budgetary expansion up to the point where the Community's external balance is left unaffected by the creation of the single market.

The study assumed that barriers against the rest of the world do not increase and concluded that completion of the single market could provide gains of about ECU 200 billion, equivalent to 5 percent of Community GDP, and increase employment by 1.8 million over the medium term (Table 16). If EC governments used the room created by the release of productive resources to pursue expansionary policies simultaneously, GDP could increase by 7 percent and employment by 5 million. Broadly similar estimates of the potential gains from a single market were presented in a recent Data Resources, Inc. study.[43]

The assessment of the effects of completing the internal market was based on simulations using econometric models.[44] The simulations cover four aspects of market unification—removing internal frontiers, opening up public procurement, liberalizing financial services, and supply effects. The supply effects analyzed include the direct costs of technical and regulatory barriers that limit market entry and competition, whose removal would reduce monopoly rents and enable firms to achieve economies of scale. Supply effects were estimated to be the single most important source of gain from market unification. These effects may be underestimated because they do not take account of the effects of competition on innovation and technical change. In addition, completion of the internal market is expected to ease the macroeconomic constraints on the Community. The consequences of the internal market could thus be further magnified by accompanying macroeconomic policies that utilize the room created by the release of productive resources. The study explores three alternative scenarios involving budgetary expansion in the Community to exploit all or part of the easing in the external constraint caused by the fall in prices and the reduction in public deficits. The resulting increase in GDP ranges between 6½ percent and 7½ percent, depending on the amount of stimulus provided. In practice, these additional gains may arise from supply effects that raise investment demand by increasing the after-tax return on capital, dispensing with the need for fiscal expansion.

External Effects and Interaction With the Uruguay Round

In principle, the internal market program consists of a set of microeconomic supply-side measures intended to be neutral with respect to the rest of the world. In practice, adherence to the principle of neutrality is not automatic and, in some cases, is impossible. The completion of the internal market is thus likely to affect third countries.

The net impact on third countries will depend on the balance of the single market's trade-creating and trade-diverting effects, which, in turn, depends in part on the Community's external regime after 1992. In some cases, internal liberalization measures will become automatically available to third countries or will change the Community's regime with the rest of the world. In the latter, the Community would liberalize vis-à-vis the rest of the world unless it makes adjustments to its external regime. For the most part, decisions to determine the Community's external regime have not yet been taken.

Many of the measures to complete the internal market are in areas subject to negotiations within the Uruguay Round. These include "new areas," such as services, trade-related investment measures, and trade-related

[43]Data Resources, Inc. (1987/88). The DRI estimates are not strictly comparable with Emerson, and others (1988), insofar as they analyze only the short-term effects of harmonizing VAT and scrapping border controls.

[44]The Commission's Hermes model and the OECD's Interlink model.

aspects of intellectual property rights, as well as other areas such as government procurement and technical barriers to trade. Other areas in which decisions are necessary to determine the EC's external regime after 1992 are also subject to negotiation in the Uruguay Round. Most notable among these are gray-area measures maintained by individual EC members. The Uruguay Round thus offers scope to obtain parallel market-opening measures on a multilateral basis. The EC is also exploring opportunities for parallel market-opening measures on a bilateral basis with other countries or trading groups.

Measures contained in the White Paper can be divided into five groups to illustrate the options available to the EC as it completes the internal market:[45]

• The EC opens internally without any external impact. Indirect tax harmonization and the elimination of internal frontiers are examples of such measures.

• The EC opens "erga omnes," internally and externally in one and the same action. The liberalization of capital movements is an example of such a measure. Internal liberalization in this area is akin to a public good.

• The EC opens internally with possibilities for parallel opening measures multilaterally in GATT, or bilaterally with other countries or trading groups. Examples include government procurement, where the GATT code is under discussion in the Uruguay Round.

• The EC opens internally and, in doing so, necessarily changes its regime with the rest of the world. The existence of internal borders at present permits the enforcement of restrictions on imports of automobiles and other products and individual EC member country quotas agreed under the Multifiber Arrangement. With the removal of internal borders in 1992, national restrictions will need to be lifted or replaced by EC-wide restrictions.

• The completion of the internal market also raises the issue of "nationality" of EC and foreign firms with regard to establishment, mergers, and takeovers. Increased barriers in this area would result if regulations applying to non-EC firms were more restrictive than those applying to EC firms. It would be akin to an increase in trade-related investment barriers.

The external impact of internal liberalization clearly depends on decisions to be taken by the EC on the extent to which internal liberalization is extended to third countries, either unilaterally or through reciprocal market-opening measures. A liberal policy approach by the EC would benefit the EC as well as third countries. While the EC has stated that it does not intend to increase external restrictions, disparities in national levels of protection and competitiveness in particular sectors have given rise to pressures for the adoption of the most restrictive national regime by the EC as a whole. For example, automobile manufacturers in countries that maintain national VERs are resisting the possible elimination of these barriers. In particular, they argue that increased access to the Japanese market as measured by target market shares is a condition for the removal of these restrictions. More generally, the extent to which the benefits of the integrated market will be extended to third countries will depend on reciprocal market-opening measures by the EC's major trading partners. The EC is pursuing such market-opening measures both bilaterally and in the context of the Uruguay Round. Finally, the benefits to the EC of a liberal policy will act to counter protectionist pressures.

[45] This classification was suggested by the Commission.

Implications for Other European Countries

The recent initiatives toward integration of the EC internal market gave new impetus to bilateral discussions between the EC and EFTA countries and raised the issue of EFTA countries' membership in the EC.[46] Discussions on possible areas of increased EC/EFTA cooperation are progressing. As noted, EFTA countries are apprehensive that their access to the EC market will be reduced as a result of the internal market and that important decisions (for example, on EC standards) will be taken without their input.

Some EC members, and in particular the Mediterranean countries, have taken the view that the benefits of the internal market should not be extended to EFTA countries without "payment." The payment could take the form of EFTA contributions to the EC's structural funds, improved access to the EFTA markets for agricultural commodities of Mediterranean countries, or relaxing restrictions on labor mobility. These proposals are resisted by other EC countries that do not want the entire Community to bear the burden of concessions that benefit only the Mediterranean countries. Making the payment proposal workable would thus require finding ways to share the EFTA payment more equitably among EC members. A separate issue is whether the EC should negotiate access to the EC market with EFTA on a bilateral basis, or multilaterally in the Uruguay Round. The latter option would reduce the scope for further fragmenting the world trading system into regional trading blocs.

[46] One of the issues for certain EFTA members is whether joining the EC is compatible with maintenance of political neutrality, given the Community's common foreign policy.

Appendix II

Ministerial Declaration on the Uruguay Round[1]

Ministers, meeting on the occasion of the Special Session of CONTRACTING PARTIES at Punta del Este, have decided to launch Multilateral Trade Negotiations (The Uruguay Round). To this end, they have adopted the following Declaration. The multilateral trade negotiations (MTN) will be open to the participation of countries as indicated in Parts I and II of this Declaration. A Trade Negotiations Committee (TNC) is established to carry out the negotiations. The Trade Negotiations Committee shall hold its first meeting not later than 31 October 1986. It shall meet as appropriate at Ministerial level. The Multilateral Trade Negotiations will be concluded within four years.

PART I
NEGOTIATIONS ON TRADE IN GOODS

The CONTRACTING PARTIES meeting at Ministerial level

DETERMINED	to halt and reverse protectionism and to remove distortions to trade
DETERMINED	also to preserve the basic principles and to further the objectives of the GATT
DETERMINED	also to develop a more open, viable and durable multilateral trading system
CONVINCED	that such action would promote growth and development
MINDFUL	of the negative effects of prolonged financial and monetary instability in the world economy, the indebtedness of a large number of less developed contracting parties, and considering the linkage between trade, money, finance and development
DECIDE	to enter into Multilateral Trade Negotiations on trade in goods within the framework and under the aegis of the General Agreement on Tariffs and Trade.

A. OBJECTIVES

Negotiations shall aim to:

(i) bring about further liberalization and expansion of world trade to the benefit of all countries, especially less developed contracting parties, including the improvement of access to markets by the reduction and elimination of tariffs, quantitative restrictions and other nontariff measures and obstacles;

(ii) strengthen the role of GATT, improve the multilateral trading system based on the principles and rules of the GATT and bring about a wider coverage of world trade under agreed, effective and enforceable multilateral disciplines;

(iii) increase the responsiveness of the GATT system to the evolving international economic environment, through facilitating necessary structural adjustment, enhancing the relationship of the GATT with the relevant international organizations and taking account of changes in trade patterns and prospects, including the growing importance of trade in high-technology products, serious difficulties in commodity markets and the importance of an improved trading environment providing, *inter alia,* for the ability of indebted countries to meet their financial obligations;

(iv) foster concurrent cooperative action at the national and international levels to strengthen the interrelationship between trade policies and other economic policies affecting growth and development, and to contribute towards continued, effective and determined efforts to improve the functioning of the international monetary system and the flow of financial and real investment resources to developing countries.

[1] GATT Press Communiqué No. 1396 (Geneva), September 25, 1986.

B. GENERAL PRINCIPLES GOVERNING NEGOTIATIONS

(i) Negotiations shall be conducted in a transparent manner, and consistent with the objectives and commitments agreed in this Declaration and with the principles of the General Agreement in order to ensure mutual advantage and increased benefits to all participants.

(ii) The launching, the conduct and the implementation of the outcome of the negotiations shall be treated as parts of a single undertaking. However, agreements reached at an early stage may be implemented on a provisional or a definitive basis by agreement prior to the formal conclusion of the negotiations. Early agreements shall be taken into account in assessing the overall balance of the negotiations.

(iii) Balanced concessions should be sought within broad trading areas and subjects to be negotiated in order to avoid unwarranted cross-sectoral demands.

(iv) CONTRACTING PARTIES agree that the principle of differential and more favourable treatment embodied in Part IV and other relevant provisions of the General Agreement and in the Decision of the CONTRACTING PARTIES of 28 November 1979 on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries applies to the negotiations. In the implementation of standstill and rollback, particular care should be given to avoiding disruptive effects on the trade of less developed contracting parties.

(v) The developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries, i.e., the developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. Developed contracting parties shall therefore not seek, neither shall less developed contracting parties be required to make, concessions that are inconsistent with the latter's development, financial and trade needs.

(vi) Less developed contracting parties expect that their capacity to make contributions or negotiated concessions or take other mutually agreed action under the provisions and procedures of the General Agreement would improve with the progressive development of their economies and improvement in their trade situation and they would accordingly expect to participate more fully in the framework of rights and obligations under the General Agreement.

(vii) Special attention shall be given to the particular situation and problems of the least developed countries and to the need to encourage positive measures to facilitate expansion of their trading opportunities. Expeditious implementation of the relevant provisions of the 1982 Ministerial Declaration concerning the least developed countries shall also be given appropriate attention.

C. STANDSTILL AND ROLLBACK

Commencing immediately and continuing until the formal completion of the negotiations, each participant agrees to apply the following commitments:

Standstill

(i) not to take any trade restrictive or distorting measure inconsistent with the provisions of the General Agreement or the Instruments negotiated within the framework of GATT or under its auspices;

(ii) not to take any trade restrictive or distorting measure in the legitimate exercise of its GATT rights, that would go beyond that which is necessary to remedy specific situations, as provided for in the General Agreement and the Instruments referred to in (i) above;

(iii) not to take any trade measures in such a manner as to improve its negotiating positions.

Rollback

(i) that all trade restrictive or distorting measures inconsistent with the provisions of the General Agreement or Instruments negotiated within the framework of GATT or under its auspices, shall be phased out or brought into conformity within an agreed timeframe not later than by the date of the formal completion of the negotiations, taking into account multilateral agreements, undertakings and understandings, including strengthened rules and disciplines, reached in pursuance of the objectives of the negotiations;

(ii) there shall be progressive implementation of this commitment on an equitable basis in consultations among participants concerned, including all affected participants. This commitment shall take account of the concerns expressed by any participant about measures directly affecting its trade interests;

(iii) there shall be no GATT concessions requested for the elimination of these measures.

Surveillance of standstill and rollback

Each participant agrees that the implementation of these commitments on standstill and rollback shall be subject to multilateral surveillance so as to ensure that

these commitments are being met. The Trade Negotiations Committee will decide on the appropriate mechanisms to carry out the surveillance, including periodic reviews and evaluations. Any participant may bring to the attention of the appropriate surveillance mechanism any actions or omissions it believes to be relevant to the fulfilment of these commitments. These notifications should be addressed to the GATT secretariat which may also provide further relevant information.

D. SUBJECTS FOR NEGOTIATIONS

Tariffs

Negotiations shall aim, by appropriate methods, to reduce or, as appropriate, eliminate tariffs including the reduction or elimination of high tariffs and tariff escalation. Emphasis shall be given to the expansion of the scope of tariff concessions among all participants.

Nontariff measures

Negotiations shall aim to reduce or eliminate nontariff measures, including quantitative restrictions, without prejudice to any action to be taken in fulfilment of the rollback commitments.

Tropical products

Negotiations shall aim at the fullest liberalization of trade in tropical products, including in their processed and semiprocessed forms and shall cover both tariff and all nontariff measures affecting trade in these products.

CONTRACTING PARTIES recognize the importance of trade in tropical products to a large number of less developed contracting parties and agree that negotiations in this area shall receive special attention, including the timing of the negotiations and the implementation of the results as provided for in B(ii).

Natural resource-based products

Negotiations shall aim to achieve the fullest liberalization of trade in natural resource-based products, including in their processed and semiprocessed forms. The negotiations shall aim to reduce or eliminate tariff and nontariff measures, including tariff escalation.

Textiles and clothing

Negotiations in the area of textiles and clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade.

Agriculture

CONTRACTING PARTIES agree that there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions including those related to structural surpluses so as to reduce the uncertainty, imbalances and instability in world agricultural markets.

Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines, taking into account the general principles governing the negotiations, by:

(i) improving market access through, *inter alia*, the reduction of import barriers;
(ii) improving the competitive environment by increasing discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including the phased reduction of their negative effects and dealing with their causes;
(iii) minimizing the adverse effects that sanitary and phytosanitary regulations and barriers can have on trade in agriculture, taking into account the relevant international agreements.

In order to achieve the above objectives, the negotiating group having primary responsibility for all aspects of agriculture will use the Recommendations adopted by the CONTRACTING PARTIES at their Fortieth Session, which were developed in accordance with the GATT 1982 Ministerial Programme and take account of the approaches suggested in the work of the Committee on Trade in Agriculture without prejudice to other alternatives that might achieve the objectives of the negotiations.

GATT Articles

Participants shall review existing GATT Articles, provisions and disciplines as requested by interested contracting parties, and, as appropriate, undertake negotiations.

Safeguards

(i) A comprehensive agreement on safeguards is of particular importance to the strengthening of the GATT system and to progress in the MTNs.
(ii) The agreement on safeguards:
— shall be based on the basic principles of the General Agreement;
— shall contain, *inter alia*, the following elements: transparency, coverage, objective criteria for action including the concept of serious injury or threat thereof, temporary nature, degressivity and structural adjustment, compensation and retaliation, notifications, consultation, multilateral surveillance and dispute settlement; and

— shall clarify and reinforce the disciplines of the General Agreement and should apply to all contracting parties.

MTN Agreements and Arrangements

Negotiations shall aim to improve, clarify, or expand, as appropriate, agreements and arrangements negotiated in the Tokyo Round of Multilateral Negotiations.

Subsidies and countervailing measures

Negotiations on subsidies and countervailing measures shall be based on a review of Articles VI and XVI and the MTN agreement on subsidies and countervailing measures with the objective of improving GATT disciplines relating to all subsidies and countervailing measures that affect international trade. A negotiating group will be established to deal with these issues.

Dispute settlement

In order to ensure prompt and effective resolution of disputes to the benefit of all contracting parties, negotiations shall aim to improve and strengthen the rules and the procedures of the dispute settlement process, while recognizing the contribution that would be made by more effective and enforceable GATT rules and disciplines. Negotiations shall include the development of adequate arrangements for overseeing and monitoring of the procedures that would facilitate compliance with adopted recommendations.

Trade-related aspects of intellectual property rights, including trade in counterfeit goods

In order to reduce the distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade, the negotiations shall aim to clarify GATT provisions and elaborate as appropriate new rules and disciplines.

Negotiations shall aim to develop a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods, taking into account work already undertaken in the GATT.

These negotiations shall be without prejudice to other complementary initiatives that may be taken in the World Intellectual Property Organization and elsewhere to deal with these matters.

Trade-related investment measures

Following an examination of the operation of GATT Articles related to the trade restrictive and distorting effects of investment measures, negotiations should elaborate, as appropriate, further provisions that may be necessary to avoid such adverse effects on trade.

E. FUNCTIONING OF THE GATT SYSTEM

Negotiations shall aim to develop understandings and arrangements:

(i) to enhance the surveillance in the GATT to enable regular monitoring of trade policies and practices of contracting parties and their impact on the functioning of the multilateral trading system;

(ii) to improve the overall effectiveness and decision-making of the GATT as an institution, including, *inter alia,* through involvement of Ministers;

(iii) to increase the contribution of the GATT to achieving greater coherence in global economic policy making through strengthening its relationship with other international organizations responsible for monetary and financial matters.

F. PARTICIPATION

(a) Negotiations will be open to:
   (1) all contracting parties,
   (2) countries having acceded provisionally,
   (3) countries applying the GATT on a *de facto* basis having announced, not later than 30 April 1987, their intention to accede to the GATT and to participate in the negotiations,
   (4) countries that have already informed the CONTRACTING PARTIES, at a regular meeting of the Council of Representatives, of their intention to negotiate the terms of their membership as a contracting party, and
   (5) developing countries that have, by 30 April 1987, initiated procedures for accession to the GATT, with the intention of negotiating the terms of their accession during the course of the negotiations.

(b) Participation in negotiations relating to the amendment or application of GATT provisions or the negotiation of new provisions will, however, be open only to contracting parties.

G. ORGANIZATION OF THE NEGOTIATIONS

A Group of Negotiations on Goods (GNG) is established to carry out the programme of negotiations contained in this Part of the Declaration. The GNG shall, *inter alia:*

(i) elaborate and put into effect detailed trade negotiating plans prior to 19 December 1986;

(ii) designate the appropriate mechanism for surveillance of commitments to standstill and rollback;

(iii) establish negotiating groups as required. Because of the interrelationship of some issues and taking fully into account the general principles governing

the negotiations as stated in B(iii) above it is recognized that aspects of one issue may be discussed in more than one negotiating group. Therefore each negotiating group should as required take into account relevant aspects emerging in other groups;

(iv) also decide upon inclusion of additional subject matters in the negotiations;

(v) coordinate the work of the negotiating groups and supervise the progress of the negotiations. As a guideline not more than two negotiating groups should meet at the same time;

(vi) the GNG shall report to the Trade Negotiations Committee.

In order to ensure effective application of differential and more favourable treatment the GNG shall, before the formal completion of the negotiations, conduct an evaluation of the results attained therein in terms of the Objectives and the General Principles Governing Negotiations as set out in the Declaration, taking into account all issues of interest to less developed contracting parties.

PART II
NEGOTIATIONS ON TRADE IN SERVICES

Ministers, also decided, as part of the Multilateral Trade Negotiations, to launch negotiations on trade in services.

Negotiations in this area shall aim to establish a multilateral framework of principles and rules for trade in services, including elaboration of possible disciplines for individual sectors, with a view to expansion of such trade under conditions of transparency and progressive liberalization and as a means of promoting economic growth of all trading partners and the development of developing countries. Such framework shall respect the policy objectives of national laws and regulations applying to services and shall take into account the work of relevant international organizations.

GATT procedures and practices shall apply to these negotiations. A Group of Negotiations on Services is established to deal with these matters. Participation in the negotiations under this Part of the Declaration will be open to the same countries as under Part I. GATT secretariat support will be provided, with technical support from other organizations as decided by the Group of Negotiations on Services.

The Group of Negotiations on Services shall report to the Trade Negotiations Committee.

IMPLEMENTATION OF RESULTS UNDER PARTS I AND II

When the results of the Multilateral Trade Negotiations in all areas have been established, Ministers meeting also on the occasion of a Special Session of CONTRACTING PARTIES shall decide regarding the international implementation of the respective results.

Appendix III

Country Classifications

GATT Classifications

GATT publication *International Trade, 1986/87* divides the trading world into:

(*a*) *Developed countries*

North America (Canada and the United States); Western Europe (European Community (12), consisting of Belgium, Denmark, the Federal Republic of Germany, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom;[1] European Free Trade Association, consisting of Austria, Finland, Iceland, Norway, Sweden, and Switzerland; and Gibraltar, Malta, Turkey, Yugoslavia, and countries not elsewhere specified); and Japan, Australia, New Zealand, and South Africa.

GATT documents sometimes refer to the above group as "industrial countries."

(*b*) *Developing countries*

Latin America, Africa (excluding South Africa), Middle East, and Asia (excluding Japan, China, and other centrally planned economies in Asia).

The above group is also referred to as a "developing area" in GATT documents.

(*c*) *Eastern trading area*

Eastern Europe (Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, and the U.S.S.R.), China, and other centrally planned economies in Asia.

The above group is also referred to as "centrally planned economies" in GATT documents.

IMF Classifications

The *World Economic Outlook* (*WEO*) (April 1988) classifies countries as follows:

[1] References to the European Community (10) exclude Portugal and Spain.

(*a*) *Industrial countries*

Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

(*b*) *Developing countries*

All other Fund members, together with certain essentially autonomous dependent territories for which adequate statistics are available.

(*c*) *World*

Includes the U.S.S.R., the German Democratic Republic, Czechoslovakia, and Bulgaria in addition to (*a*) and (*b*).

The *WEO* also groups developing countries by predominant exports and by financial criteria as follows:

(*d*) *Oil exporting countries*

Algeria, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

(*e*) *Exporters of manufactures*

China, Hong Kong, Hungary, India, Israel, Korea, Poland, Romania, Singapore, Taiwan Province of China, Turkey, and Yugoslavia.

(*f*) *Fifteen heavily indebted countries*

Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela, and Yugoslavia.

(*g*) *Small low-income countries*

Afghanistan, Bangladesh, Benin, Bhutan, Burkina Faso, Burma, Burundi, Cape Verde, the Central African Republic, Chad, Comoros, Equatorial Guinea, Ethio-

pia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Democratic Kampuchea, Kenya, Lao People's Democratic Republic, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Nepal, Niger, Pakistan, Rwanda, Sao Tome and Principe, Sierra Leone, Somalia, Sri Lanka, Sudan, Tanzania, Togo, Uganda, Viet Nam, and Zaïre.

Appendix IV

Glossary of Terms

Administered protection: Use of administrative procedures (e.g., in antidumping and countervailing duty investigations) in a manner that impedes trade flows.

Antidumping duty: Duty levied on imports to offset the competitive advantage provided by dumping of imported goods. GATT Article VI and the Tokyo Round Antidumping Code permit antidumping duties on dumped imports of like products provided they cause or threaten to cause material injury to the domestic industry.

Contingent protection: See Administered protection.

Countertrade: Trade transaction committing the exporter to receive payment for the value of his exports, in whole or in part, by imports from his trading partner.

Countervailing duty: Duty levied on imports to offset the competitive advantage provided by subsidies on imported goods. GATT Article VI and the Tokyo Round Subsidies Code permit countervailing duties on subsidized imports provided they cause or threaten to cause injury to the domestic industry.

Customs Union: As defined in GATT Article XXIV, a group of countries forming a single customs territory in which (a) tariffs and other barriers are eliminated on substantially all trade among member countries, and (b) substantially the same measures are applied by each of the member countries to their trade with third countries, including a common external tariff.

Dumping: Price discrimination between exports and domestic sales of a given product. The dumping margin, which forms the basis of antidumping duties, may be determined according to GATT Article VI as the price difference between the price of the product exported from one country to another and (a) the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country or, in the absence of such domestic price, (b) the highest comparable price for the like product for export to any third country, or (c) the cost of production in the exporting country plus a reasonable addition for selling cost and profit.

Effective rate of assistance (ERA): The difference between the value added per unit of output in the domestic price and the value added in the world price, expressed as a percentage of the world price. This measure thus includes the effects of subsidies and other nonborder measures in addition to the effects of border measures.

Effective rate of protection (ERP): A measure of protection provided by an import restriction, calculated as a percentage of the value added of the product concerned. Effective protection is higher than nominal protection, which is expressed as a percentage of the gross value of the product concerned, if tariffs on imported inputs are lower than on the finished products (see Tariff escalation).

Enabling Clause: A 1979 Tokyo Round decision waiving the most-favored-nation provision of GATT Article I to accord differential and more favorable treatment to developing countries, without according such treatment to other contracting parties. See also Generalized System of Preferences.

Free trade area: As defined in GATT, a group of countries in which tariffs and other barriers are eliminated on substantially all trade between members on products originating in those countries. In contrast to a *customs union,* a free trade area does not involve the adoption of a common external tariff on imports from third countries. Members of a free trade area enforce their individual tariff schedules through *rules of origin* (see Origin rules).

Generalized System of Preferences (GSP): International agreement negotiated under the auspices of GATT, providing for temporary and nonreciprocal duty preferences accorded by the developed to the developing countries. A ten-year waiver from the GATT most-favored-nation provision was granted in 1971 to permit implementation of the GSP. The waiver was not renewed because of the 1979 GATT decision on "Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries" resulting from the Tokyo Round (the Enabling Clause).

Gray-area measures: Measures, such as voluntary export restraints, which are outside GATT surveillance and whose conformity with GATT is not determined.

Hard core waiver: Waiver provided under a GATT decision in 1955, which permitted certain quantitative restrictions to be maintained for a specified period of time. The intention was to enable domestic industries that had enjoyed such protection to adjust to its removal over a period of time. The residual restrictions remaining in place after the waivers issued under the GATT's decision lapsed are incompatible with the provisions of GATT Article XI, which calls for the general elimination of quantitative restrictions.

Harmonized tariff system: Nomenclature developed by the Customs Cooperation Council for customs tariffs and international trade statistics. It entered into effect, for countries that have adopted it in place of their existing nomenclature, on January 1, 1988.

Import licensing: Practice requiring approval by a designated government authority in the importing country, as a prior

condition to importing. Under automatic licensing, used for import monitoring, approval is freely granted. Under non-automatic licensing, the license may be subject to certain conditions, for example, the availability in the domestic market of the domestically produced like product.

Minimum price system: Minimum price for imports of certain products, such as steel, set by the importing country. Import prices below the minimum trigger protective actions, such as additional duties or quantitative restrictions. Minimum import prices are also referred to as basic price, reference price, and trigger price, depending on the importing country and product concerned.

Minimumprice undertaking: An undertaking by an exporter to sell his product at a price that does not fall below a level agreed with the importing country. Such undertakings are sometimes agreed to by the exporter as a condition for the lifting of antidumping or countervailing duties by the importing country.

Most-favored-nation clause (MFN): 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.

Multifiber Arrangement (MFA): An arrangement negotiated in 1973 as a temporary derogation from GATT rules. It was last renewed in 1986, when the MFA IV came into effect for a five-year period. The MFA regulates trade in several textile and apparel products by means of bilaterally agreed export restraint arrangements.

National treatment: Treatment of imports with respect to internal taxes, other charges, and regulations, equal to that afforded to like domestic products, as provided in GATT Article III.

Nontariff measures (NTMs): All government actions other than tariffs with a potential trade-distorting impact, including quantitative restrictions, subsidies, government procurement practices, and technical barriers to trade.

Origin rules: Rules that define the criteria for establishing the country of origin of a product for purposes of assessing tariffs or other import restrictions. Origin rules are used to enforce the individual tariff schedules of countries participating in a free trade area. They usually stipulate a minimum value-added requirement for duty-free access of partner country products to the domestic country.

Residual restrictions: Import restrictions imposed during the early post-World War II years for balance of payments purposes but no longer in accordance with GATT Article XI, which calls for their elimination. See also Hard core waiver.

Rollback commitment: A commitment included in the Ministerial Declaration launching the Uruguay Round to roll back unilaterally restrictions inconsistent with GATT Articles.

Safeguard measures: Temporary protective measures undertaken to (a) safeguard domestic producers of given goods from an import surge (GATT Article XIX permits such measures under certain conditions; it is generally understood that these should be applied according to GATT's fundamental principle of nondiscrimination); (b) protect the country's reserve and balance of payments position (GATT Articles XII and XVIII:B); and (c) protect infant industries in developing countries (GATT Article XVIII:C).

Special and differential treatment: See Enabling Clause.

Standstill commitment: A commitment included in the Ministerial Declaration launching the Uruguay Round not to take for the duration of the Round (a) any trade-restricting or distorting measure inconsistent with GATT provisions; or (b) any trade-restricting or distorting measure in the legitimate exercise of GATT rights that would go beyond what is necessary to remedy specific situations.

Subsidies: Government assistance to the development, production, or export of specific goods. Subsidies can take the form of either direct financial support or indirect support through tax exemptions, subsidized loans or loan writeoffs, government procurement practices, and subsidies to the production of inputs. Interpretations on the definition and use of subsidies vary among GATT contracting parties.

Tariff binding: Obligation undertaken in GATT not to raise tariff rates on specific products above a certain level without compensating reductions in other tariffs. Bindings are also referred to as tariff concessions in GATT terminology. Applied tariff rates may be lower than bound rates.

Tariff escalation: A tariff structure such that tariff rates rise with the stage of processing (for instance, higher tariff rates on clothing than on yarn).

Technical barriers to trade: Measures that impede or distort trade arising from technical standards, testing, labeling and certification requirements, and health and safety regulations.

Unfair trade: Trade on the basis of a competitive advantage not derived from "legitimate" sources. For example, GATT recognizes dumping and trade-distorting subsidies as unfair trade practices.

Variable levies: Import duties that are designed to fill the gap between a specified domestic price (e.g., the threshold price in the EC) and the international price.

Voluntary export restraint arrangements (VERs): Bilateral agreement between an exporter and an importer whereby the former agrees to limit exports of a given product. The agreement may be concluded at government or industry level. VERs are gray-area measures because their conformity with GATT rules is not determined.

Appendix V

Statistical Tables

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List of Tables

Table A1. Shares in World Merchandise Exports, 1963-86[1]
(In percent)

	1963	1973	1977	1981	1985	1986[2]
Total exports	100.0	100.0	100.0	100.0	100.0	100.0
Developed countries	67.6	70.8	64.6	63.0	66.3	69.6
European Community[3]	33.7	36.7	33.7	30.9	31.1	34.5
Intra-EC	15.2	19.8	17.1	15.8	17.0	19.7
Japan	3.5	6.4	7.2	7.8	9.1	9.9
United States	15.7	12.0	10.2	11.5	10.7	9.7
Other developed countries	14.6	15.8	13.5	12.8	15.3	15.6
Developing countries	20.3	19.2	25.7	27.6	22.9	19.5
Four Asian NIEs[4]	1.5	2.9	3.1	4.3	5.9	6.3
Other developing countries	18.8	16.4	22.6	23.4	17.0	13.3
Eastern trading area	12.1	10.0	9.7	9.4	10.8	10.8

Sources: GATT, IMF, UN, UNCTAD; and Fund staff estimates. Based on GATT classifications (see Appendix III).
[1] Based on nominal U.S. dollar values.
[2] The most recent year for which comprehensive data are available.
[3] EC (10): Belgium, Denmark, France, the Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.
[4] The newly industrializing economies of Hong Kong, Korea, Singapore, and Taiwan Province of China.

Table A2. Shares in World Exports of Manufactures,[1] 1963–86[2]
(In percent)

	1963	1973	1977	1981	1985	1986
Total exports	100.0	100.0	100.0	100.0	100.0	100.0
Developed countries	80.9	83.1	82.6	80.8	79.0	79.6
European Community[3]	44.0	46.5	45.0	40.1	39.9	42.6
Intra-EC	20.6	22.8	20.9	18.9	20.3	23.0
Japan	...	10.0	11.9	13.3	14.2	14.1
United States	...	12.3	12.0	13.9	12.0	10.3
Other developed countries	...	14.3	13.8	13.4	12.8	12.6
Developing countries	5.8	6.9	8.0	10.7	12.2	11.8
Four Asian NIEs[4]	...	3.7	4.2	6.2	7.9	7.9
Other developing countries	...	3.2	3.8	4.5	4.2	3.9
Eastern trading area	13.3	10.0	9.3	8.6	8.9	8.6

Sources: GATT, IMF, UN, UNCTAD; and Fund staff estimates. Based on GATT classifications (see Appendix III).
[1] Standard International Trade Classification (SITC) categories 5 through 8 minus 68.
[2] Based on nominal U.S. dollar values.
[3] EC (10): Belgium, Denmark, France, the Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.
[4] The newly industrializing economies of Hong Kong, Korea, Singapore, and Taiwan Province of China.

Table A3. Depth of Tariff Reductions and Post-Tokyo Round Tariff Averages
(In percent)

		All Industrial Products		Raw Materials		Semi-manufactures		Finished Manufactures	
		Depth of cut	Tariff average	Depth of cut	Tariff average	Depth of cut	Tariff average	Depth of cut	Tariff average
Average of nine countries[1]	Weighted	34	4.7	64	0.3	30	4.0	34	6.5
	Unweighted	39	6.4	37	1.6	36	6.2	40	7.1
United States	Weighted	31	4.4	77	0.2	33	3.0	29	5.7
	Unweighted	44	6.3	45	1.8	39	6.1	46	7.0
Canada	Weighted	38	7.9	69	0.5	30	8.3	39	8.3
	Unweighted	42	7.3	48	2.6	44	6.6	40	8.1
Japan	Weighted	49	2.8	67	0.5	30	4.6	52	6.0
	Unweighted	42	6.0	45	1.4	36	6.3	45	6.4
European Community	Weighted	29	4.7	15	0.2	27	4.2	29	6.9
	Unweighted	30	6.4	16	1.6	30	6.2	29	7.0
Austria	Weighted	13	7.8	9	0.8	19	4.7	13	16.1
	Unweighted	31	8.1	27	1.9	29	7.3	32	9.1
Finland	Weighted	21	5.5	60	0.3	13	5.9	22	6.1
	Unweighted	14	11.4	40	0.5	10	11.7	16	12.0
Norway	Weighted	25	3.2	39	0.0	21	1.4	25	4.2
	Unweighted	22	6.7	29	0.9	20	5.4	22	7.8
Sweden	Weighted	28	4.1	21	0.0	38	3.3	26	4.9
	Unweighted	20	4.8	27	0.4	15	5.1	22	5.1
Switzerland	Weighted	23	2.3	28	0.2	25	1.2	22	3.1
	Unweighted	24	2.9	15	1.5	23	2.8	25	3.0

Source: General Agreement on Tariffs and Trade (GATT) Secretariat.
[1] The standard deviation of the average tariff rates shown exceeds one in all the countries listed.

Table A4. 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 (OECD).

[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 A5. Regional Trading Groups: Share of Intra-Area Exports in World Exports, 1960–86[1]
(In percent of world exports)

	1960	1970	1980	1986
European Community (10)[2]	12.5	20.0	18.4	20.0
EFTA[3]	0.7	1.3	0.9	1.0
European Community (1)/ EFTA[4]	7.3	8.2	6.9	7.7
United States/Canada[5]	5.3	8.2	4.0	5.6
Australia/New Zealand[6]	0.1	0.2	0.1	0.1
Total intra-area trade	25.9	37.9	30.3	34.4[7]
Memorandum item:				
United States/Mexico[8]	3.2	3.5	1.3	2.8

Sources: International Monetary Fund, *Direction of Trade Statistics*; and Commission of the European Communities, *Eurostat*.

[1] Among industrial countries. Trade among developing countries subject to preferential arrangements amounts to only 1.2 percent of world exports. Trade between the EC and 66 African, Caribbean, and Pacific countries (ACP) subject to preferential arrangements under the Lomé Convention amounts to 1.8 percent of world exports. A negligible share of world trade occurs under association and cooperation agreements between the EC and Mediterranean countries.

[2]Includes the original six members plus Denmark, Greece, Ireland, and the United Kingdom. Internal trade barriers among the EC(6) were abolished and a common external tariff came into effect in 1968.

[3]The European Free Trade Association (EFTA) is a free trade area comprising Austria, Finland, Iceland, Sweden, Switzerland, and Norway. The United Kingdom and Denmark departed from EFTA in 1974 to join the EC.

[4]A free trade area for industrial products was progressively established between the EC and EFTA over the period 1972–84.

[5]The U.S.-Canada automotive pact, a sectoral free trade agreement covering automobiles and parts, was concluded in 1965. Trade under the pact accounts for one third of trade between the two countries. A free trade agreement covering all products is expected to come into effect in 1989, subject to ratification.

[6]Preferential trading arrangement under the South Pacific Regional Trade and Economic Agreement (SPARTECA), established in 1981 and including Fiji, Papua New Guinea, and other small Pacific countries. Preferential trading also occurs under the Australia-New Zealand Closer Economic Relations Agreement (ANZCERTA). In June 1988, the agreement was expanded to include services and the date of elimination of all trade barriers was brought forward to July 1990.

[7]This figure rises to 37.3 percent if Spain and Portugal are added to the EC(10).

[8]A framework trade agreement was signed in February 1988. The agreement does not contemplate a free trade area.

Table A6. Industrial Countries: Antidumping Investigations and Actions, 1981–87[1]

	1981		1982		1983		1984		1985		1986[2]		First Half 1987[2]	
	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions
Australia	**49**	**28**	**77**	**47**	**80**	**58**	**56**	**36**	**63**	**30**	**63**	**10**	**11**	—
Industrial countries	34	14	55	25	59	44	30	26	38	15	35	7	8	—
Developing countries	15	11	20	20	21	13	21	10	19	12	20	3	3	—
Centrally planned economies	—	3	2	2	—	1	5	—	6	3	8	—	—	—
Canada	**23**	**13**	**72**	**21**	**36**	**41**	**31**	**16**	**36**	**27**	**55**	**45**	**34**	**36**
Industrial countries	12	8	54	10	27	29	20	9	18	16	21	18	21	20
Developing countries	8	1	15	7	7	10	8	5	12	8	30	17	10	12
Centrally planned economies	3	4	3	4	2	2	3	2	6	3	4	10	3	4
European Community	**47**	**16**	**55**	**42**	**36**	**45**	**48**	**31**	**45**	**12**	**37**	**21**	**10**	**8**
Industrial countries	9	18	18	9	11	12	16	9	9	9	11	9	2	3
Developing countries	3	5	15	4	9	12	5	6	16	1	8	—	4	1
Centrally planned economies	35	3	22	29	16	21	27	16	20	2	8	12	4	4
United States	**14**	**4**	**61**	**45**	**47**	**15**	**71**	**25**	**65**	**53**	**70**	**50**	**47**	**43**
Industrial countries	7	3	47	41	27	9	32	8	19	19	30	15	32	25
Developing countries	4	—	13	3	19	6	23	17	41	20	34	32	13	10
Centrally planned economies	3	1	1	1	1	—	16	—	5	14	6	3	2	8
Total	**133**	**61**	**265**	**155**	**199**	**159**	**206**	**108**	**209**	**122**	**225**	**126**	**102**	**87**
Industrial countries	62	33	174	85	124	94	98	52	84	59	97	49	63	48
Developing countries	30	17	63	34	56	41	57	38	88	41	92	52	30	23
Centrally planned economies	41	17	28	36	19	24	51	18	37	22	26	25	9	16

Sources: Finger and Olechowski (1987); General Agreement on Tariffs and Trade, "Semi-Annual Reports Under Article 14:4 of the Agreement" (Geneva), various issues. Based on GATT classifications (see Appendix III).

[1] The countries listed have initiated virtually all the antidumping investigations undertaken worldwide. Actions taken include the imposition of definitive duties and minimum price undertakings by exporting countries. Investigations include those opened in the context of reviewing an existing antidumping duty or after allegations of breach of an undertaking.

[2] The data are based on actions reported by signatories to the GATT Committee on Antidumping Practices, which exclude the actions taken against nonsignatories.

Table A7. Industrial Countries: Countervailing Investigations and Actions, 1981–86[1]

	1981		1982		1983		1984		1985		First Half 1986[2]	
	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions
Australia	—	—	3	—	7	9	6	1	3	1	1	2
Industrial countries	—	—	3	—	7	9	5	1	3	1	1	2
Developing countries	—	—	—	—	—	—	1	—	—	—	—	—
Centrally planned economies	—	—	—	—	—	—	—	—	—	—	—	—
Canada	—	3	1	—	3	—	2	2	2	2	—	1
Industrial countries	—	3	1	—	3	—	2	2	1	1	—	1
Developing countries	—	—	—	—	—	—	—	—	1	1	—	—
Centrally planned economies	—	—	—	—	—	—	—	—	—	—	—	—
European Community	1	1	3	—	2	3	1	1	—	—	—	—
Industrial countries	—	—	1	—	1	1	—	1	—	—	—	—
Developing countries	1	1	2	—	1	2	1	—	—	—	—	—
Centrally planned economies	—	—	—	—	—	—	—	—	—	—	—	—
Japan (Industrial countries)	—	—	—	—	1	—	—	—	—	—	—	—
United States	10	6	124	80	21	21	50	18	40	24	28	28
Industrial countries	6	1	85	61	3	3	14	2	12	6	8	10
Developing countries	4	5	39	19	16	18	34	16	27	17	20	18
Centrally planned economies	—	—	—	—	2	—	2	—	1	1	—	—
Total	11	7	131	80	34	33	59	22	45	27	29	30
Industrial countries	6	1	90	61	15	13	21	6	16	8	9	12
Developing countries	5	6	41	19	17	20	36	16	28	18	20	18
Centrally planned economies	—	—	—	—	2	—	2	—	1	1	—	—

Sources: Finger and Olechowski (1987); and General Agreement on Tariffs and Trade. Based on GATT classifications (see Appendix III).

[1] The countries listed have initiated virtually all the countervailing investigations undertaken by individual countries. Actions taken include the imposition of definitive duties and minimum price undertakings by exporting countries. Investigations include those opened in the context of reviewing an existing countervailing duty or after allegations of breach of an undertaking.

[2] The data are based on actions reported by the signatories to the GATT Committee on Subsidies and Countervailing Measures, which exclude the actions taken against nonsignatories.

Table A8. Group of Five Countries: Imports Affected by Selected Nontariff Measures[1]
(In percent)

	End-1981		End-1986	
	Share of sectoral imports	Share of manufactured imports	Share of sectoral imports	Share of manufactured imports
France				
Agriculture	*43.3*	...	*44.7*	...
Manufactures	*11.2*	*11.2*	*15.4*	*15.4*
Of which:				
Textiles and apparel	42.9	4.3	43.0	4.3
Footwear	6.5	0.1	6.5	0.6
Iron and steel	28.9	1.1	34.3	1.3
Electrical machinery/electronics	13.0	0.9	31.3	2.3
Automobiles	11.9	0.8	19.1	1.3
Germany, Fed. Rep. of				
Agriculture	*32.7*	...	*33.3*	...
Manufactures	*15.0*	*15.0*	*17.9*	*17.9*
Of which:				
Textiles and apparel	55.2	7.9	55.2	7.8
Footwear	9.4	0.1	9.6	0.1
Iron and steel	45.2	2.4	49.9	2.7
Electrical machinery/electronics	6.3	0.6	10.0	0.9
Automobiles	39.3	1.9	50.5	2.4
Japan				
Agriculture	*49.8*	...	*49.8*	...
Manufactures	*10.2*	*10.2*	*10.2*	*10.2*
Of which:				
Textiles and apparel	16.7	2.1	16.7	2.1
Footwear	6.4	0.1	6.4	0.1
Iron and steel	...	...	...	...
Electrical machinery/electronics	...	...	...	...
Automobiles	...	...	...	...
United States				
Agriculture	*6.2*	...	*18.4*	...
Manufactures	*11.7*	*11.7*	*17.9*	*17.9*
Of which:				
Textiles and apparel	67.5	4.4	68.3	4.4
Footwear	0.1	...	...	...
Iron and steel	7.0	0.5	75.7	5.6
Electrical machinery/electronics	2.6	0.3	1.7	0.2
Automobiles	33.7	6.4	38.2	7.2
United Kingdom				
Agriculture	*53.6*	...	*54.1*	...
Manufactures	*10.2*	*10.2*	*12.8*	*12.8*
Of which:				
Textiles and apparel	52.2	4.8	44.2	4.1
Footwear	12.0	0.1	12.0	0.1
Iron and steel	32.7	0.7	33.2	0.8
Electrical machinery/electronics	3.1	0.2	11.5	0.8
Automobiles	32.9	1.6	43.9	2.2

Sources: Fund staff estimates based on World Bank/UNCTAD *Inventory of Trade Barriers;* Organization for Economic Cooperation and Development, *Costs and Benefits of Protection* (Paris, 1985); and Balassa and Balassa (1984).

[1] The nontariff measures (NTMs) included in this table are tariffs with quotas, variable import levies, total prohibitions, quotas, authorizations to control entry, minimum pricing, voluntary export restraints (VERs), and the Multifiber Arrangement (MFA). All ratios are based on 1981 trade data to avoid biases arising from the relative decline of restricted trade. The import coverage ratio is used as an indicator of the *extent* of NTMs. However, it does not measure the *severity* of such restrictions, since the measurement does not distinguish between NTMs that are more or less severe. In particular, more restrictive NTMs receive a lower weight than less restrictive ones because the former tend to reduce imports more.

Table A9. United States: Investigations of Unfair Trade Practices Abroad and Safeguard Petitions, 1980–87

Directed Against:	Dumping	Subsidies	Retaliation[1]	Safeguard Actions[2]	Total	Share in Total Cases (*in percent*)	U.S. Imports, 1987 (*in billions of U.S. dollars*)	Share in 1987 U.S. Imports (*in percent*)
Industrial countries								
Canada	34	13	6	6	58	9.8	71.5	21.5
European Community	—	6	16	2	24	4.1	84.9	25.6
France	20	16	1	5	42	7.1	11.2[3]	3.4[3]
Germany, Fed. Rep. of	23	5	—	8	36	6.1	28.0[3]	8.4[3]
Italy	22	20	1	6	49	8.2	11.7[3]	3.5[3]
Japan	71	3	8	9	90	15.1	88.1	26.6
Spain	10	20	—	5	35	5.9	3.1[3]	0.9[3]
United Kingdom	14	5	2	4	25	4.2	18.0[3]	5.4[3]
Developing countries								
Argentina	6	8	4	1	19	3.2	1.2	0.4
Brazil	22	24	4	2	52	8.8	8.4	2.5
China	15	1	—	3	19	3.2	6.9	2.1
Korea	22	12	6	7	47	7.9	18.0	5.4
Mexico	7	27	—	3	37	6.2	20.5	6.2
Taiwan Province of China	25	6	6	7	44	7.4	26.4	8.0
Venezuela	9	6	—	1	16	2.7	5.9	1.8
Total of above	301	172	54	69[4]	594	100.0	331.8	100.0
Other	110	111	6	...[4]	218	...	92.3	...
Total	411	283	60	60[4]	812	...	424.1	...

Sources: Office of the U.S. Trade Representative; U.S. International Trade Commission; U.S. General Accounting Office; and U.S. Department of Commerce.
[1] Under Section 301 of the U.S. Trade Act of 1974.
[2] Under Section 201 of the U.S. Trade Act of 1974.
[3] Excluded from the total to avoid double-counting.
[4] Since the U.S. Trade Act of 1974 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 A10. Japan: Geographical Composition of Foreign Direct Investment in Manufacturing by Sector, 1981 and 1988
(In percent)

	Share in Total[1]							
	All countries		North America		Europe		Other areas[2]	
	1981	1988	1981	1988	1981	1988	1981	1988
Manufacturing sector	100.0	100.0	19.3	40.9	6.7	9.2	74.0	49.9
Food	4.7	4.3	1.7	2.0	0.3	0.3	2.7	2.0
Textiles	13.0	6.5	1.4	1.1	1.1	0.7	10.5	4.7
Wood and paper	6.0	4.1	2.6	2.6	—	—	3.4	1.5
Chemicals	20.9	14.6	1.9	4.2	0.8	1.0	18.2	9.4
Metals	20.8	17.5	3.0	4.6	1.2	0.8	16.6	12.1
Nonelectrical machinery	7.1	9.1	1.7	4.8	1.0	1.0	4.4	3.3
Electrical machinery	12.6	19.9	5.3	12.4	1.0	2.0	6.3	5.5
Transport equipment	7.8	15.7	0.7	6.2	0.5	2.2	6.6	7.3
Other	7.1	8.3	0.9	3.2	0.8	1.3	5.4	3.8
Memorandum item:								
Direct investment in manufacturing (*in billions of dollars*)	12.6	36.0	2.4	14.7	0.8	3.3	9.4	18.0

Sources: Japan, Ministry of Finance; and Japan Economic Institute.
[1] End-March of the year shown.
[2] Mainly Asia and, to a lesser extent, Latin America.

Table A11. Subsidies as Percent of GDP[1,2]

Country	1952	1956	1960	1964	1968	1972	1976	1980	1982	1983	1984	1985
Italy	0.89	1.30	1.51	1.23	1.67	2.29	2.60	3.02	3.69	3.33	3.49	3.43
France	1.71	2.71	1.62	2.03	2.62	1.99	2.68	2.51	2.71	2.80	3.00	3.01
Canada	0.41	0.39	0.81	0.85	0.87	0.83	1.87	2.68	2.50	2.49	2.80	2.48
United Kingdom	2.68	1.76	1.93	1.56	2.06	1.82	2.72	2.50	2.15	2.13	2.44	2.22
Germany, Fed. Rep. of	0.65	0.20	0.79	0.99	1.44	1.48	1.97	2.06	1.84	1.90	2.07	2.01
Japan	0.79	0.26	0.34	0.65	1.11	1.12	1.31	1.50	1.40	1.42	1.28	1.15
United States	0.11	0.20	0.25	0.44	0.50	0.59	0.33	0.40	0.49	0.66	0.61	0.58

Source: Organization for Economic Cooperation and Development, *National Accounts*, Vol. 1, Main Aggregates (Paris), various issues.
[1] Countries listed in order of amount of subsidies as a percentage of GDP in 1985.
[2] The data do not include subsidies such as tax concessions. In Germany total tax concessions to enterprises averaged about 1.8 percent of GDP a year in 1975–85 while in the United States federal tax concessions to industry were about 1.5 percent of GDP a year during 1975–87; similar data are not available for other countries.

Table A12. Government Research and Development Funding of Manufacturing Industry

	United States	United Kingdom	France	Germany, Fed. Rep. of	Japan
Government funding as percentage of total research and development expenditure (1983)	31.6	31.8[1]	23.6	13.6[1]	1.5
Government funding as percentage of total research and development expenditure in high research and development intensity sectors[2] (1983)	42.7	44.0	36.2	19.0	0.9
Share of high research and development intensity sectors[2] in total government funding (1983)	94.8	96.3	91.3	67.0	25.7
Research and development expenditure on defense as percentage of total government funding (1983)	64.3	49.6	32.7	9.6	2.4
Share of government-funded research and development performed in the public sector (1983)	26.0	39.0	47.0	32.0	—

Source: Organization for Economic Cooperation and Development, *Structural Adjustment and Economic Performance* (Paris, 1987).
[1] 1981.
[2] Aerospace, computers, electronics (including telecommunications), pharmaceuticals, scientific instruments, and electrical engineering.

Table A13. OECD Countries: Subsidy Shares in Officially Supported Export Credits by Destination,[1] 1979–85
(In percent)

	1979	1980	1981	1982	1983	1984	1985
Total (all destinations)	14.2	19.2	27.5	22.2	15.8	25.4	12.0
OECD countries	6.7	13.4	9.9	10.5	4.0	9.5	2.2
Newly industrializing economies (NIEs)	35.4	31.4	26.6	20.8	21.8	28.3	10.3
Centrally planned economies	26.2	13.2	13.2	11.8	12.8	5.9	1.1
OPEC countries[2]	11.2	5.0	4.4	4.4	12.1	28.0	22.5
Developing countries	20.4	36.9	45.9	52.5	49.3	28.3	63.9

Source: Organization for Economic Cooperation and Development, *Structural Adjustment and Economic Performance* (Paris, 1987).
[1]Subsidies are calculated as the net present value of credits using actual credit terms and estimated market terms. Data pertain to officially supported credits of over three years' maturity. They do not include the aid component of tied aid credits. Thus, this table gives the subsidy element in officially supported nonaid export credits.
[2]Organization of the Petroleum Exporting Countries.

Table A14. Federal Republic of Germany: Nominal and Effective Protection in Industry
(In percent)

	Nominal Protection		Effective Protection		
	Tariffs	Tariffs and NTBs[1]	Tariffs and NTBs[1]	Subsidies	Total effective protection
Industry average	7.9	11.2	22.4	9.2	31.6
Standard deviation	(2.9)	(10.8)	(39.8)	(27.0)	(62.9)
Coefficient of variation	(0.4)	(1.0)	(1.8)	(2.9)	(2.0)
Of which:					
Coal	...	44.2	189.2	147.6	336.8
Iron and steel	6.4	20.0	43.1	14.9	58.0
Automobiles	10.3	10.3	9.9	1.0	10.9
Shipbuilding	2.7	2.7	−6.5	1.0	19.5
Aircraft	7.2	7.2	15.8	26.0	45.4
Electronics	7.0	7.0	6.0	29.6	9.6
Textiles	13.0	34.4	71.2	2.1	73.3
Clothing	15.3	44.7	120.0	2.9	122.9

Source: Witteler (1987).
[1]Includes tariff equivalent of nontariff barriers.

Table A15. Rates of Growth and Market Shares for World Exports by Areas and Commodity Groups, 1973–86
(In percent)

Destination	Industrial Countries						Developing Countries						World					
	Shares of total exports to area			Compound rate of growth			Shares of total exports to area			Compound rate of growth			Shares of total exports to area			Compound rate of growth		
Origin	1973	1981	1986	1973–81	1981–86	1973–86	1973	1981	1986	1973–81	1981–86	1973–86	1973	1981	1986	1973–81	1981–86	1973–86
Developing countries																		
Manufactures	6.8	9.9	11.6	19.0	13.2	16.8	10.4	14.4	15.1	26.7	−1.7	14.9	6.9	10.7	11.8	21.7	7.8	16.2
Primary products	39.5	51.0	35.9	21.1	−12.0	7.1	47.4	58.8	47.8	26.9	−8.6	11.8	39.4	50.6	37.7	22.3	−10.7	8.4
Oil	67.8	67.8	50.7	27.6	−17.5	7.9	87.6	85.8	...	32.8	...	...	68.5	69.1	...	28.7	...	...
Non-oil	26.9	25.4	25.5	8.6	2.2	6.1	31.5	29.9	...	16.9	...	...	27.4	27.0	...	11.5	...	...
Total exports	20.1	29.4	18.8	20.7	−5.3	10.0	21.7	29.6	25.7	26.8	−6.4	12.8	19.2	27.8	19.5	22.1	−5.4	10.7
Total non-oil exports	13.3	14.0	15.9	13.0	5.3	10.0	15.3	17.2	...	22.2	...	...	13.1	14.7	...	15.9	...	...
Industrial countries																		
Manufactures	90.3	86.6	86.1	12.9	9.5	11.6	81.0	78.6	76.6	21.1	−3.1	11.2	82.2	80.1	79.6	15.0	5.5	11.2
Primary products	48.9	39.2	56.1	14.1	1.4	9.0	41.2	30.4	38.9	18.9	−1.6	10.6	45.9	36.1	47.8	15.0	0.2	9.1
Oil	25.4	23.2	36.8	26.3	−4.2	13.6	8.3	8.1	...	32.7	−2.3	18.0	21.6	19.2	27.2	26.7	−4.0	13.9
Non-oil	59.3	63.4	69.7	10.4	4.0	7.9	54.2	54.2	...	17.6	−1.5	9.9	56.0	57.4	62.8	12.1	1.8	8.0
Total exports	73.2	64.2	77.2	13.3	7.5	11.0	66.7	61.1	64.0	20.6	−2.8	11.0	68.1	60.9	69.6	15.0	4.3	10.7
Total non-oil exports	80.1	80.6	82.9	12.4	8.5	10.9	72.4	72.7	...	20.4	−2.8	10.9	73.9	74.1	75.9	14.4	4.9	10.6
World																		
Manufactures	100.0	100.0	100.0	13.5	9.7	12.0	100.0	100.0	100.0	21.6	−2.7	11.6	100.0	100.0	100.0	15.4	5.6	11.5
Primary products	100.0	100.0	100.0	17.3	−5.7	7.9	100.0	100.0	100.0	23.6	−6.4	11.1	100.0	100.0	100.0	18.5	−2.1	8.7
Oil	100.0	100.0	100.0	27.7	−12.6	10.4	100.0	100.0	100.0	33.1	...	...	100.0	100.0	100.0	28.5	−10.5	11.8
Non-oil	100.0	100.0	100.0	9.4	2.0	6.5	100.0	100.0	100.0	17.6	...	...	100.0	100.0	100.0	11.7	...	7.0
Total exports	100.0	100.0	100.0	15.2	3.6	10.6	100.0	100.0	100.0	22.0	−3.7	11.4	100.0	100.0	100.0	16.6	1.5	10.6
Total non-oil exports	100.0	100.0	100.0	12.3	7.9	10.6	100.0	100.0	100.0	20.4	...	...	100.0	100.0	100.0	14.3	4.4	10.4

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

Table A16. Selected Developing Countries and Areas: Ratios of Imports and Exports to GDP, 1963–86[1]
(In percent)

	Imports					Exports				
	1963	1973	1981	1985	1986	1963	1973	1981	1985	1986
Oil exporting countries										
Kuwait	17.0	19.4	28.9	28.8	31.0	59.8	70.4	66.7	52.7	42.1
Nigeria	14.0	13.6	29.7	12.1	. . .	12.6	25.0	27.4	17.1	. . .
Oman	10.9[2]	24.0	33.3	33.6	34.6	4.5[2]	68.1	64.4	46.9	33.6
Saudi Arabia	16.6	18.0	22.9	24.9	23.6	53.1	71.3	73.7	33.3	28.5
Venezuela	12.9	16.5	19.7	16.6	18.6	24.4	28.7	30.3	25.3	19.4
Africa										
Burkina Faso	16.9	19.8	28.9	32.6	28.3	4.2	5.1	6.3	12.4	12.0
Burundi	7.9	10.2	16.3	16.4	15.7	8.4[3]	10.0	7.6	9.7	13.1
Côte d'Ivoire	21.4	27.8	24.5	21.7	17.4	29.0	33.7	28.9	39.2	34.2
Ghana	23.7	15.0	3.6	10.6	14.2	19.8	20.8	2.7	10.0	14.5
Kenya	25.7	27.3	30.5	25.0	23.8	22.0	21.6	17.5	16.7	17.6
Liberia	46.3	46.7	51.6	35.1	. . .	34.8	78.1	60.8	53.7	. . .
Malawi	21.0	31.5	27.7	23.9	20.1	16.3[2]	22.0	22.1	19.3	18.1
Mauritius	27.0	49.4	48.7	49.6	. . .	42.0	40.4	29.4	41.1	. . .
Morocco	19.1	18.8	29.6	32.4	25.8	16.4	15.0	16.1	18.2	16.6
Sierra Leone	27.4	32.3	27.9	20.8	34.1	26.5	26.9	12.0	17.1	32.9
Tunisia	21.4	24.4	45.6	33.1	32.7	12.1	15.2	30.2	20.5	20.0
Zaïre	15.4	26.5	12.5	26.8	25.5	18.0	34.3	12.0	32.2	32.2
Zambia	36.2	26.5	31.7	27.3	41.2	53.1	46.6	26.7	21.0	23.7
Asia										
Burma	14.7	4.8	6.3	4.3	3.8	16.9	4.7	8.1	5.0	3.8
Fiji	34.4	51.6	49.6	37.9	33.3	37.8	22.0	24.7	19.7	20.9
India	6.0	4.2	9.0	7.6	6.6	3.9	3.8	4.8	4.4	4.1
Korea	14.6	41.2	38.0	35.9	32.1	2.3	23.7	30.9	34.9	35.3
Malaysia	42.5	31.7	47.5	39.4	39.3	44.3	39.4	48.4	49.4	50.3
Philippines	13.5	16.9	21.9	16.6	17.0	12.8	17.7	14.6	13.9	15.4
Singapore	153.4	122.6	203.0	150.1	147.0	124.6	87.3	154.3	130.3	129.7
Thailand	18.8	19.5	27.6	24.1	22.0	14.2	14.9	19.5	18.6	21.0
Europe										
Hungary	. . .	34.4	40.3	39.7	40.4	. . .	38.3	38.4	39.7	38.6
Turkey	8.5	8.7	13.1	. . .	. . .	4.5	5.3	6.9	15.1	. . .
Yugoslavia	6.9	24.4	24.8	27.8	17.9	5.2	15.4	17.6	24.6	15.8
Middle East										
Egypt	23.6	9.9	36.6	20.4	21.1	13.5	12.1	13.5	7.6	5.4
Jordan	39.5	49.6	89.8	66.7	51.6	5.1	11.0	20.8	19.3	15.6
Pakistan	15.6	14.5	19.7	19.6	18.4	7.3	14.3	10.1	8.8	9.9
Syrian Arab Republic	22.6	23.5	29.7	19.6	18.7	10.9	13.5	12.4	7.7	5.3
Western Hemisphere										
Argentina	7.0	5.8	7.4	5.7	6.0	15.0	8.2	7.2	12.7	8.7
Barbados	64.6	68.9	61.9	50.0	44.1	45.6	21.7	21.0	28.9	20.6
Brazil	5.5	8.8	8.8	5.8	5.2	3.9	7.8	8.3	11.3	8.6
Chile	11.4	8.0	19.5	17.1	17.3	12.5	8.9	12.0	23.9	25.0
Colombia	10.5	10.3	14.3	18.7	11.2	8.0	9.9	8.1	10.2	14.8
Costa Rica	24.1	29.8	46.1	28.8	26.5	18.5	22.5	38.4	25.6	25.9
Dominican Republic	18.3	20.9	23.1	33.5	26.8	17.3	18.9	16.4	16.6	13.4
El Salvador	22.4	28.0	28.5	16.8	21.7	22.7	26.9	23.0	11.8	18.0
Guatemala	13.6	16.8	19.4	10.5	6.1	12.1	17.3	14.5	8.8	6.2
Honduras	23.2	27.7	35.9	25.6	23.4	20.3	27.6	28.7	22.0	22.9
Jamaica	28.8	35.8	49.5	55.2	39.6	25.8	20.6	32.7	27.0	24.5
Mexico	8.0	6.9	10.0	7.9	. . .	6.2	4.1	8.1	12.5	. . .
Panama	32.3	34.7	39.7	28.4	24.0	10.7	9.5	8.5	6.8	. . .
Paraguay	9.9	12.3	10.7	14.0	15.0	10.3	12.5	5.3	6.9	5.0
Peru	19.0	11.0	17.2	12.5	. . .	18.4	11.3	15.9	20.9	. . .

Source: International Monetary Fund, Data Fund.
[1] Some of the ratios shown are distorted by large fluctuations in the real exchange rates of the countries concerned. Calculations based on purchasing power parity would yield different results.
[2] 1964.
[3] Average 1962–64.

Table A17. Exports of Manufactures, Shares in Market Growth, and Growth Rates by Area and Sector, 1973 and 1985

	1973	1985	Increase	Share of Increase	Growth Rate
	(In millions of U.S. dollars)			*(In percent)*	
Total exports of manufactures					
World	347.50	1,190.75	843.25	100.0	10.8
Industrial countries	285.60	940.35	654.75	77.6	10.4
Developing countries	24.10	144.70	120.60	14.3	14.4
Clothing					
World	12.59	48.65	36.06	100.0	11.9
Industrial countries	6.92	21.20	14.28	39.6	9.8
Developing countries	3.82	21.05	17.23	47.8	15.3
Textiles					
World	23.35	54.55	31.20	100.0	7.3
Industrial countries	17.12	35.30	18.18	58.3	6.2
Developing countries	4.05	13.45	9.40	30.1	10.5
Other consumer goods					
World	24.26	91.25	66.99	100.0	11.7
Industrial countries	18.43	64.60	46.17	68.9	11.0
Developing countries	3.18	19.95	16.77	25.0	16.5
Other semimanufactures					
World	28.95	84.30	55.35	100.0	9.3
Industrial countries	23.31	67.60	44.29	80.0	9.3
Developing countries	3.39	12.20	8.81	15.9	11.3
Iron and steel					
World	28.46	69.20	40.74	100.0	7.7
Industrial countries	23.78	54.75	30.97	76.0	7.2
Developing countries	0.95	6.75	5.80	14.2	17.8
Chemicals					
World	41.87	163.05	121.18	100.0	12.0
Industrial countries	36.46	136.90	100.44	82.9	11.7
Developing countries	1.83	13.35	11.52	9.5	18.0
Engineering products					
World	187.97	679.75	491.78	100.0	11.3
Industrial countries	159.60	560.00	400.40	81.4	11.0
Developing countries	5.91	57.95	52.04	10.6	21.0

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

Table A18. Developing Countries: Selected Import Ratios, 1973–86
(In percent)

	1973	1981	1983	1985	1986
Developing countries' imports in relation to world imports by product					
Manufactures	19.0	29.0	25.9	21.4	19.3
Primary products	15.0	21.0	21.1	19.9	19.8
Oil	14.6	19.3	20.3	18.5	. . .
Non-oil	15.2	23.1	22.1	21.3	. . .
Total imports	18.0	25.8	24.4	21.2	19.8
Total non-oil imports	18.5	27.9	25.6	21.8	. . .
Shares of product categories in developing countries' imports					
Manufactures	63.7	62.3	62.2	62.7	65.7
Primary products	31.4	34.9	34.4	33.9	30.3
Oil	8.9	18.0	17.5	16.3	. . .
Non-oil	22.5	16.9	16.9	17.6	. . .
Total imports	100.0	100.0	100.0	100.0	100.0
Shares of suppliers in developing countries' imports					
Industrial countries	66.7	61.1	58.4	62.2	64.0
Developing countries	21.7	29.6	30.5	28.4	25.7
Other countries	11.6	9.3	11.1	9.4	10.3
Total	100.0	100.0	100.0	100.0	100.0

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

Table A19. Developing Countries: Trade with Industrial Countries as a Percent of Total Trade
(In percent of area trade)

	Imports				Exports			
	1973	1981	1986	1987	1973	1981	1986	1987
Developing countries	66.7	61.4	63.2	64.1	65.1	60.9	60.3	62.8
By region								
Africa	77.9	71.9	72.3	71.3	67.2	67.1	69.1	68.3
Asia	66.9	56.6	60.4	59.7	64.0	56.2	58.7	60.9
Europe	54.9	46.5	50.1	54.9	43.8	36.5	44.8	50.1
Middle East	65.5	69.3	68.1	70.5	74.3	66.9	59.2	61.0
Western Hemisphere	71.4	62.0	70.5	72.9	71.2	64.2	70.8	74.3
By major export								
Oil exporting countries	76.7	77.5	73.0	74.2	77.9	69.9	67.1	68.1
Of which:								
Indonesia	69.1	66.9	69.6	75.3	79.4	73.9	75.9	82.6
Saudi Arabia	64.3	80.6	76.0	77.7	69.9	72.2	66.8	65.1
Exporters of manufactures	58.4	51.4	57.5	59.6	53.4	47.7	55.5	59.4
Of which:								
China	76.9	74.4	66.8	70.7	43.8	44.0	40.1	47.5
Korea	81.2	62.5	72.3	73.7	85.9	62.5	73.7	75.9
By financial criteria								
Fifteen heavily indebted countries	76.4	67.6	69.2	72.3	71.0	61.3	68.1	71.9
Of which:								
Brazil	73.6	41.8	58.5	57.2	71.0	53.6	64.9	68.2
Mexico	90.4	87.6	93.0	95.6	77.0	83.4	88.5	91.6
Yugoslavia	61.1	52.1	47.2	56.3	52.9	30.8	34.4	47.2
Small low-income countries	64.3	53.3	59.6	57.2	57.0	51.3	63.5	64.4

Source: International Monetary Fund, Data Fund.

Table A20. Area Distribution of World Trade
(In percent of world trade)

	Imports				Exports			
	1973	1981	1986	1987	1973	1981	1986	1987
Industrial countries	75.2	67.5	74.2	74.7	74.1	65.7	73.4	72.9
Developing countries	24.1	31.4	24.7	23.9	25.1	33.1	24.6	24.8
By major export								
Oil exporting countries	3.6	8.1	4.5	...	7.1	14.7	5.9	...
Exporters of manufactures	9.4	10.7	11.7	12.1	8.2	9.1	11.6	12.5
By financial criteria								
Fifteen heavily indebted countries	5.5	7.4	4.0	3.6	5.5	6.9	4.9	4.4
Small low-income countries	1.7	1.5	1.3	...	1.3	0.8	0.7	0.6

Source: International Monetary Fund, Data Fund.

Table A21. Selected Developing Countries: Import Duties
(In percent)

	Import Duties/ Total Tax Revenue (1)[1]	Import Duties/ Total Imports (2)[1]	Statutory (3)[2]	Difference (3)-(2) (4)
Argentina	8.2	16.3	27.0	10.7
Barbados	17.7	7.7	17.0	9.3
Brazil	3.0	6.8	55.0	48.2
Colombia	14.9	11.4	38.0	26.6
Costa Rica	9.8	4.9	24.0	19.1
Cyprus	25.3	8.0	18.0	10.0
Ghana	16.5	16.8	30.0	13.2
Guyana	7.1	4.0	17.0	13.0
Korea	17.6	8.3	23.0	14.7
Mexico	5.5	9.4	30.0	20.6
Morocco	21.7	17.7	24.0	6.3
Nicaragua	15.9	9.3	22.0	12.7
Oman	5.1	1.9	3.0	1.1
Philippines	25.9	12.6	28.0	15.4
Singapore	9.0	0.9	...	...
Sri Lanka	21.1	10.3	29.0	18.7
Thailand	21.7	11.1	31.0	19.9
Tunisia	33.6	21.6	33.0	11.4
Venezuela	7.9	9.2	30.0	20.8
Zaïre	21.7	33.2	31.0	−2.2
Average	15.5	11.1	25.5	14.4

Sources: Columns (1) and (2), Farhadian-Lorie and Katz (1988), p. 6; column (3), Refik Erzan and others, *The Profile of Protection in Developing Countries*, UNCTAD Discussion Papers, No. 21 (Geneva), Annex II.

[1] Averages for 1978–84. Tax revenue data are derived from International Monetary Fund, *Government Finance Statistics*, and include revenue from the oil sector.

[2] Data are for 1985.

Table A22. Sectoral Average Tariffs by Income Groups[1]
(In percent)

Sectors	GDP Per Capita: Less than $500	$500–1,000	$1,001–1,500	$1,501–5,000	More than $5,000	All income groups
Food	70	42	54	35	2	30
Agricultural raw materials	49	28	43	24	2	21
Mineral fuels	35	19	36	16	4	16
Ores and metals	45	24	40	20	2	19
Manufactures	72	45	57	37	3	32
Chemical products	45	28	41	26	2	22
Other manufactures	96	59	72	46	4	41
Machinery and equipment	49	31	45	29	2	24
Others	49	33	49	31	2	26
Memorandum item:						
All sectors	66	41	54	34	3	30

Source: Refik Erzan and others, *The Profile of Protection in Developing Countries,* UNCTAD Discussion Papers, No. 21 (Geneva), Annex II.
[1]Countries in each group are weighted by import values. Data include tariffs and other import charges.

Table A23. Frequency of Use of Nontariff Measures by Sectors and Income Groups
(In percent)

Sectors	GDP Per Capita: Less than $500	$500–1,000	$1,001–1,500	$1,501–5,000	More than $5,000	All income groups
Food	78	83	93	43	14	48
Agricultural raw materials	65	78	81	34	1	37
Mineral fuels	85	78	85	41	1	42
Ores and metals	64	77	82	35	1	38
Iron, steel, and nonferrous metals	65	76	84	40	1	40
Manufactures	69	76	81	35	6	39
Chemical products	70	76	75	26	19	39
Other manufactures	74	77	85	40	2	36
Machinery and equipment	61	77	78	31	4	36
All sectors	70	77	83	36	6	40

Source: Refik Erzan and others, *The Profile of Protection in Developing Countries,* UNCTAD Discussion Papers, No. 21 (Geneva), Annex II
[1]Countries in each group are weighted by import values. Data relate to percentage of tariff positions affected by nontariff measures excluding the effect of stacking (i.e., if a product is affected by more than one nontariff measure, it is only counted once).

Table A24. Developing Countries: Summary of Trade Measures, October 1985–April 1988

	Tariffs			Nontariff Measures			
	Up	Down	Mixed	Tightened	Liberalized	Mixed	Memorandum[1]
Argentina			X			X	
Bangladesh			X		X		
Brazil		X		X			
Chile		X				X	
China			X	X			
Colombia					X		
Côte d'Ivoire	X						
Egypt		X			X		C
Gabon				X			
Ghana					X		
India			X		X		
Indonesia			X		X		S, C
Kenya			X				
Korea		X			X		
Malaysia		X					
Mexico		X				X	S, C
Morocco		X			X		
Nigeria			X		X		C
Pakistan			X		X		
Peru		X		X			
Philippines			X		X		S
Sri Lanka					X		
Taiwan Province of China		X			X		
Thailand		X			X		
Singapore		X					
Tunisia		X		X			
Turkey			X		X		
Uruguay		X					C
Yugoslavia				X			
Zaïre			X				C
Zambia					X		
Total	1	13	11	6	16	3	. . .

Source: General Agreement on Tariffs and Trade, *Review of Developments in the Trading System* (Geneva), various issues.
[1] C = Comprehensive tariff reform; S = Substitution of tariffs for quantitative restrictions.

Table A25. OECD Preference-Giving Countries' Imports from GSP Beneficiary Countries, 1972–86[1]
(In billions of U.S. dollars)

	Total Imports	Total Dutiable	Covered by GSP	Accorded GSP Treatment
1972	35.0	15.9	4.3	1.0
1973	43.2	24.0	6.6	2.2
1974	102.1	44.6	12.4	4.2
1975	100.7	43.9	12.0	4.5
1976	146.4	74.0	23.7	10.2
1977	160.7	82.4	26.8	12.4
1978	167.4	89.5	33.5	15.0
1979	224.5	124.0	42.4	20.3
1980	308.8	178.7	55.4	25.4
1981	314.4	179.4	54.2	26.5
1982	295.0	179.1	54.7	26.6
1983	275.4	177.5	56.7	27.9
1984	281.4	187.7	69.6	34.0
1985	284.1	189.1	73.2	35.6
1986[2]	269.0	179.0	81.6	35.9

Source: Organization for Economic Cooperation and Development, "OECD Imports from GSP Beneficiaries in 1986" (TC/WP(88)24) (Paris, March 30, 1988).

[1]The figures in this table represent totals for those OECD preference-giving countries that were operating GSP schemes in each year. The following countries are included beginning in the years indicated: 1972: Austria, EC, Finland, Japan, Norway, Sweden, Switzerland, and United Kingdom; 1975: Australia and Canada; 1976: New Zealand and United States.

[2]Preliminary.

Table A26. GSP Schemes in High Tariff and Other Items in the EC, Japan, and the United States, 1984[1]
(In percent)

Post-Tokyo MFN Tariff	Percentage of Tariff Lines Subject to GSP	Average GSP Rate[2]	Average Post-Tokyo MFN Tariff Rates: For tariff lines subject to GSP	For tariff lines not subject to GSP	For all tariff lines
European Community					
High tariff items (above 10 percent)	69.3	2.6	15.1	20.1	16.6
Lower tariff items (10 percent or less)	77.9	0.1	5.7	2.2	4.9
All[3]	67.5	0.7	7.8	7.6	7.8
Japan					
High tariff items (above 10 percent)	62.7	6.5	16.7	34.9	23.5
Lower tariff items (10 percent or less)	70.8	0.3	5.6	2.7	4.8
All[3]	69.4	1.2	7.4	9.4	8.0
United States					
High tariff items (above 10 percent)	23.6	—	17.7	17.8	17.8
Lower tariff items (10 percent or less)	75.0	—	4.7	3.2	4.0
All	51.2	—	5.7	6.7	6.2

Source: United Nations Conference on Trade and Development, "Protectionism and Structural Adjustment," TD/B/1160 and Add. 1 (Geneva, 1988).

[1]The Generalized System of Preferences (GSP) preferences presented pertain to 1984 and do not take into account deeper preferences granted to least developed countries.

[2]Arithmetic averages, excluding tariff lines for which rates were not available.

[3]Figures for "all" items in the first two columns include also those tariff lines for which post-Tokyo most-favored-nation (MFN) tariff rates were not available.

Table A27. GATT Membership[1]

A. *Contracting Parties to the GATT*

Antigua and Barbuda	Germany, Federal Republic of	Niger
Argentina	Ghana	Nigeria
Australia	Greece	Norway
Austria	Guyana	Pakistan
Bangladesh	Haiti	Peru
Barbados	Hong Kong	Philippines
Belgium	Hungary	Poland
Belize	Iceland	Portugal
Benin	India	Romania
Botswana	Indonesia	Rwanda
Brazil	Ireland	Senegal
Burkina Faso	Israel	Sierra Leone
Burma	Italy	Singapore
Burundi	Jamaica	South Africa
Cameroon	Japan	Spain
Canada	Kenya	Sri Lanka
Central African Republic	Korea	Suriname
Chad	Kuwait	Sweden
Chile	Lesotho	Switzerland
Colombia	Luxembourg	Tanzania
Congo	Madagascar	Thailand
Côte d'Ivoire	Malawi	Togo
Cuba	Malaysia	Trinidad and Tobago
Cyprus	Maldives	Turkey
Czechoslovakia	Malta	Uganda
Denmark	Mauritania	United Kingdom
Dominican Republic	Mauritius	United States
Egypt	Mexico	Uruguay
Finland	Morocco	Yugoslavia
France	Netherlands	Zaïre
Gabon	New Zealand	Zambia
Gambia, The	Nicaragua	Zimbabwe

B. *Acceded Provisionally*

Tunisia

C. *De Facto Application[2]*

Algeria	Guinea-Bissau	Sao Tome and Principe
Angola	Kampuchea, Democratic	Seychelles
Bahamas, The	Kiribati	Solomon Islands
Bahrain	Mali	Swaziland
Brunei	Mozambique	Tonga
Cape Verde	Papua New Guinea	Tuvalu
Dominica	Qatar	United Arab Emirates
Equatorial Guinea	St. Kitts and Nevis	Yemen, People's Democratic Republic of
Fiji	St. Lucia	
Grenada	St. Vincent	

Source: General Agreement on Tariffs and Trade (GATT).
[1]As of June 30, 1988.
[2]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.

Table A28. Multilateral Trade Negotiation Agreements: Status of Acceptances[1]

Agreement	Accepted by	Signed (Acceptances Pending) by	Signed, Subject to Reservation/ Condition/ Declaration by	Observer
Geneva (1979) Protocol to the General Agreement on Tariffs and Trade	Argentina, Austria, Belgium, Canada, Czechoslovakia, European Community, Finland, France, Hungary, Iceland, Ireland, Italy, Jamaica, Luxembourg, Netherlands, New Zealand, Norway, Poland, Romania, South Africa, Spain, Sweden, Switzerland, United Kingdom, United States, Yugoslavia	Israel	Denmark, Federal Republic of Germany, Japan	
Protocol Supplementary to the Geneva (1979) Protocol to the GATT	Australia, Belgium, Brazil, Canada, Chile, Côte d'Ivoire, Dominican Republic, Egypt, European Community, Haiti, India, Indonesia, Israel, Korea, Malaysia, Pakistan, Peru, Singapore, Spain, Uruguay, Zaïre	—	—	
Agreement on Technical Barriers to Trade	Austria, Belgium, Brazil, Canada, Chile, Egypt, European Community, Finland, France, Greece, Hong Kong, India, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, Philippines, Portugal, Romania, Singapore, Spain, Sweden, Switzerland, Tunisia, United States, Yugoslavia	Argentina, Rwanda	Czechoslovakia, Denmark, Federal Republic of Germany, Hungary, Mexico, United Kingdom	Australia, Bangladesh, Bulgaria, China, Colombia, Côte d'Ivoire, Cuba, Dominican Republic, Ecuador, Gabon, Ghana, Indonesia, Israel, Madagascar, Malaysia, Malta, Nicaragua, Nigeria, Peru, Poland, Senegal, Sri Lanka, Tanzania, Thailand, Trinidad and Tobago, Turkey, Zaïre, Zimbabwe
Agreement on Government Procurement	Austria, Canada, European Community, Finland, Hong Kong, Israel, Japan, Norway, Singapore, Sweden, Switzerland, United States	—	United Kingdom	Argentina, Bangladesh, Brazil, Cameroon, Chile, China, Côte d'Ivoire, Cuba, Czechoslovakia, Dominican Republic, Ecuador, Egypt, Gabon, Hungary, India, Indonesia, Jamaica, Kenya, Korea, Malaysia, Malta, New Zealand, Nicaragua, Nigeria, Peru, Philippines, Romania, South Africa, Thailand, Trinidad and Tobago, Turkey, Zaïre
Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the GATT[2]	Austria, Brazil, Canada, Chile, Egypt, European Community, Finland, Hong Kong, India, Japan, Korea, New Zealand, Norway, Pakistan, Spain, Sweden, Switzerland, Turkey, United States, Uruguay	Yugoslavia	Australia, Indonesia, Israel, Philippines	Argentina, Bangladesh, Bulgaria, Colombia, Côte d'Ivoire, Cuba, Czechoslovakia, Ecuador, Gabon, Ghana, Hungary, Jamaica, Malaysia, Malta, Mexico, Nicaragua, Nigeria, Peru, Poland, Romania, Senegal, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Venezuela, Zaïre
Agreement on Bovine Meat	Argentina, Australia, Austria, Brazil, Bulgaria, Canada, Colombia, Egypt, European Community, Finland, Hungary, Japan, New Zealand, Nigeria, Norway, Poland, Romania, South Africa, Sweden, Switzerland, Tunisia, United States, Uruguay, Yugoslavia	—	Guatemala, Paraguay	Bangladesh, Chile, Costa Rica, Côte d'Ivoire, Cuba, Gabon, India, Kenya, Madagascar, Malta, Mexico, Nicaragua, Panama, Thailand, Trinidad and Tobago, Turkey, Zaïre
International Dairy Agreement, April 12, 1979	Argentina, Australia, Bulgaria, Egypt, European Community, Finland, Hungary, Japan, New Zealand, Norway, Poland, Romania, South Africa, Sweden, Switzerland, Uruguay	—	—	Bangladesh, Brazil, Canada, Chile, Côte d'Ivoire, Cuba, Gabon, Haiti, India, Israel, Jamaica, Malta, Mexico, Nicaragua, Nigeria, Panama, Trinidad and Tobago, Tunisia, Turkey, Yugoslavia

Table A28 *(concluded)*. Multilateral Trade Negotiation Agreements: Status of Acceptances[1]

Agreement	Accepted by	Signed (Acceptances Pending) by	Signed, Subject to Reservation/ Condition/ Declaration by	Observer
Agreement on Implementation of Article VII of the GATT[3]	Australia, Austria, Czechoslovakia, European Community, Finland, Hong Kong, Hungary, Japan, Norway, Romania, South Africa, Sweden, Switzerland, United States, Yugoslavia	Turkey	Argentina, Botswana, Brazil, Canada, India, Korea, Malawi, Mexico, New Zealand, Spain, United Kingdom, Zambia	
Agreement on Import Licensing Procedures	Australia, Austria, Canada, Chile, Czechoslovakia, Egypt, European Community, Finland, Hong Kong, Hungary, India, Japan, New Zealand, Nigeria, Norway, Pakistan, Poland, Romania, Singapore, South Africa, Sweden, Switzerland, United States, Yugoslavia	Argentina	Mexico, Philippines, United Kingdom	Bangladesh, Brazil, Bulgaria, China, Colombia, Costa Rica, Côte d'Ivoire, Cuba, Dominican Republic, Gabon, Ghana, Indonesia, Israel, Jamaica, Korea, Malaysia, Malta, Nicaragua, Peru, Senegal, Sri Lanka, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Turkey, Venezuela, Zaïre
Agreement on Trade in Civil Aircraft	Austria, Belgium, Canada, European Community, France, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Portugal, Romania, Spain, Sweden, Switzerland, United States	Egypt, Greece	Denmark, Federal Republic of Germany, United Kingdom	Argentina, Bangladesh, Brazil, Cameroon, Czechoslovakia, Gabon, Ghana, India, Indonesia, Israel, Malta, Nigeria, Poland, Singapore, Trinidad and Tobago, Tunisia, Turkey, Yugoslavia
Agreement on Implementation of Article VI of the GATT[4]	Australia, Austria, Brazil, Canada, Czechoslovakia, Egypt, European Community, Finland, Hong Kong, Hungary, India, Japan, Korea, Norway, Pakistan, Poland, Romania, Singapore, Spain, Sweden, Switzerland, United States, Yugoslavia	—	Mexico, New Zealand, United Kingdom	Argentina, Bangladesh, Bulgaria, Chile, Colombia, Côte d'Ivoire, Cuba, Ecuador, Ghana, Indonesia, Israel, Malaysia, Malta, New Zealand, Nicaragua, Nigeria, Peru, Philippines, Senegal, South Africa, Sri Lanka, Tanzania, Thailand, Tunisia, Trinidad and Tobago, Turkey, Uruguay, Zaïre

Source: General Agreement on Tariffs and Trade (GATT).
[1] As of June 1, 1988.
[2] Code on Subsidies and Countervailing Duties.
[3] Customs Valuation Code, including Protocol.
[4] Amendments to the Anti-Dumping Code.

Table A29. Recourse to Article XIX of the General Agreement on Tariffs and Trade, 1978–87

Country	Product	Measure	Year Introduced (Terminated)
Australia	Wool worsted yarns	Tariff quota	1978
	Round blunt chainsaw files	Quantitative restriction	1978 (1978)
	Double-edged safety razor blades	Quantitative restriction	1978 (1982)
	Sheets and plates of iron and steel	Quantitative restriction	1978 (1980)
	Certain trucks and stackers	Quantitative restriction	1980 (1982)
	Files and rasps	Quantitative restriction	1976 (1978)
	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
Canada	Footwear other than canvas and rubber	Quantitative restriction	1977 (1981)
	Nonleather footwear	Quantitative restriction	1981[1]
	Leather footwear	Quantitative restriction	1982[1]
	Yellow onions	Specific surtax	1982 (1983)
	Fresh, chilled, and frozen beef and veal	Quantitative restriction	1985 (1985)
Chile	Sugar	Tariff surcharge	1984
	Wheat	Tariff increase	1984
	Edible vegetable oils	Tariff increase	1985
European Community	Preserved mushrooms	Quantitative restriction	1978 (1980)
	Yarn of synthetic fibers (United Kingdom only)	Quantitative restriction	1980 (1980)
	Cultivated mushrooms	Quantitative restriction	1980 (1984)
	Other cultivated mushrooms	Quantitative restriction	1980 (1980)
	Frozen cod fillets	Embargo	1981 (1981)
	Dried grapes	Compensatory tax	1982
	Certain tableware	Quantitative restriction	1983 (1983)[2]
	Certain electronic quartz watches (France)	Quantitative restriction	1984
	Morello cherries	Tariff	1985
	Preserved raspberries	Tariff	1986
	Sweet potatoes	Quantitative restriction	1986
	Certain steel products	Quantitative restriction	1987
Finland	Porous fiberboard	Tariff surcharge	1986 (1986)
Iceland	Furniture, cupboards, and cabinets; windows and doors	Import deposit	1979 (1980)
Norway	Various textile items	Quantitative restriction	1979 (1984)
Spain	Cheeses	Quantitative restriction	1980 (1980)[2]
South Africa	Certain footwear	Tariff increase	1984
	Malic acid	Tariff increase	1985
	Certain oil fatty acids, flasks, steel wire, plugs	Tariff increase	1986
Switzerland	Dessert grapes	Tariff increase	1982 (1982)
United States	CB radio receivers	Tariff	1978 (1981)
	High-carbon ferrochromium	Tariff	1978 (1982)
	Lag screws or bolts	Tariff	1979 (1982)
	Clothespins	Quantitative restriction	1979 (1984)
	Porcelain-on-steel cookware	Tariff	1980 (1984)
	Preserved mushrooms	Tariff	1980 (1983)
	Heavyweight motorcycles	Tariff increase	1983
	Certain specialty steels	Quantitative restriction	1983

Source: General Agreement on Tariffs and Trade (GATT).
[1] Partial termination in 1985.
[2] Replaced by export restraint arrangement.

Table A30. GATT Consultations on Balance of Payments Restrictions, 1978–June 1988

Country	Year of Consultation[1]										
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Argentina	X								X		
Bangladesh	X		X		X		X		X		X
Brazil	X		X	X		X		X		X	
Chile	X		[2]								
Colombia								X		X	
Egypt		X		X		X		X			X
Finland	X										
Ghana	X		X		X	X		X		X	
Greece	X		X	X			[2]		X	[2]	
Hungary						X	X	[2]			
India	X		X		X		X		X	X	
Indonesia		X	[2]								
Israel	X		X		X		X	X		X	
Italy				X	[2]						
Korea	X	X		X		X	X		X	X	
Nigeria							X		X		
Pakistan	X		X		X			X		X	
Peru		X		X		X			X	X	
Philippines			X		X		X		X		
Portugal	X	X	X	X	X	X	X	X	[2]		
Sri Lanka		X		X		X		X		X	
Tunisia	X	X		X		X		X			
Turkey	X	X		X		X		X		X	
Yugoslavia	X			X			X				

Source: General Agreement on Tariffs and Trade (GATT).
[1] Some countries consulted more than once in a calendar year.
[2] Balance of payments measures no longer applied.

Table A31. GATT Panels, 1978–June 1988

Requested by	Date Panel Established	Subject of Examination
	1978	
United States	October	Japanese import restrictions on leather
Australia	November	European Community (EC) sugar export refunds
Brazil	November	EC sugar export refunds
	1979	
Chile	July	EC restrictions on imports of apples from Chile
Hong Kong	July	Norway's Article XIX action on certain textile products
Canada	November	Japanese restrictions on imports of leather
	1980	
United States	January	Spanish measures concerning domestic sale of soybean oil
Canada	March	U.S. prohibition of imports of tuna and tuna products from Canada
United States	March	Japanese measures affecting imports of manufactured tobacco
Brazil	June	Spain's tariff treatment of unroasted coffee
Canada	June	Access of Canadian beef under EC tariff quota established as part of multilateral trade negotiations settlement
United States	October	U.K. practices affecting imports of poultry from the United States
India	December	U.S. imposition of countervailing duty without injury criterion on industrial fasteners imported from India
	1981	
EC	July	U.S. imposition of duty on imports of vitamin B12 of feedgrain quality
Canada	October	U.S. exclusion of imports of automotive spring assemblies from Canada
	1982	
United States	January	Subsidies maintained by the EC on the export of wheat flour
United States	March	Trade practices under Canadian Foreign Investment Review Act
United States	March	EC subsidies on canned fruit
United States	June	EC subsidies on the export of pasta products
Hong Kong	October	Quantitative import restrictions maintained by France over a range of products, including quartz watches
United States	November	EC tariff preferences on certain citrus products from Mediterranean countries
EC	November	Finland's internal regulations having an effect on imports of certain parts of footwear

Table A31 (*concluded*). GATT Panels, 1978–June 1988

Requested by	Date Panel Established	Subject of Examination
	1983	
United States	February	Treatment of value-added tax in EC government procurement contracts
United States	April	Japanese restraints on leather imports
EC	April	"Manufacturing Clause" in U.S. copyright legislation
EC	May	U.S. subsidies on exports of wheat flour to Egypt
Nicaragua	July	U.S. decision to reduce Nicaragua's sugar import quota
	1984	
Canada	March	EC reduction of its duty-free newsprint quota
Finland	October	Imposition of antidumping duties by New Zealand on electrical transformers from Finland
South Africa	November	Discriminatory application of retail sales tax on gold coins in Canada (Ontario)
	1985	
EC	February	Definition of industry concerning wine and grape products contained in the U.S. Trade and Tariff Act of 1984
EC	March	Import distribution and sale of alcoholic drinks by provincial market agencies in Canada
Canada	March	U.S. restrictions on imports of certain products containing sugar
Nicaragua	October	U.S. trade measures affecting Nicaragua
	1986	
Canada	August	Initiation by the United States of a countervailing duty investigation into softwood lumber products from Canada
United States	October	Japanese restrictions on imports of certain agricultural products
EC	October	Canada's countervailing duty investigation into manufacturing beef from the EC
	1987	
Canada, EC, Mexico	February	U.S. taxes on petroleum and certain imported substances
EC	February	Japanese customs duties, taxes, and labeling practices on imported wines and alcoholic beverages
Canada, EC	March	U.S. customs user fee
United States	March	Canada's restrictions on exports of unprocessed salmon and herring
EC	April	Japan's trade in semiconductors
EC	October	Section 337 of the U.S. Tariff Act of 1930
United States	November	India's import restrictions on almonds
	1988	
United States	March	Norway's restrictions on imports of apples and pears
Canada	March	Japanese imports of spruce-pine-fir (SPF) lumber
Chile	May	EC's restrictions on imports of apples
Australia	May	Korea's restrictions on imports of beef
United States	May	Korea's restrictions on imports of beef
Australia	May	Japanese import restrictions on beef
United States	May	Japanese import restrictions on beef and citrus
United States	June	EC payments and subsidies on oilseeds and related animal feed proteins

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

Table A32. Estimates of the Direct Budgetary and Consumer Cost of Agricultural Policy, Averages for 1979-81 and 1984-86
(In billions of ECUs)

	(1) Cost to the Taxpayer		(2) Cost to the Consumer		(3) Budget Revenues		(1) + (2) − (3) Total Cost	
	1979-81	1984-86	1979-81	1984-86	1979-81	1984-86	1979-81	1984-86
United States	19.4	59.4	9.6	20.3	0.3	1.2	28.7	78.5
Canada	1.6	3.7	1.5	3.2	—	0.1	3.1	6.8
Australia	0.5	0.7	0.2	0.8	—	—	0.7	1.5
New Zealand	0.2	0.5	—	0.1	—	—	0.2	0.6
Japan	10.2	13.7	17.3	41.3	3.1	4.9	24.4	50.1
Austria	0.5	0.7[1]	1.1	1.2[1]	—	—[1]	1.6	1.9[1]
EC (10)	21.1	30.4	36.7	49.8	0.8	0.6	57.0	79.6
Total							115.7	219.0

Source: Organization for Economic Cooperation and Development, *Report on Monitoring and Outlook of Agricultural Policies, Markets and Trade* (Paris, May 1988).
[1] Average 1984-85.
Notes: The cost to the taxpayer corresponds to public expenditures for agriculture under the following items: research, training, extension, inspection services and disease control, rationalization of production, structural improvement, rural development, processing, marketing, subsidies to consumers, and price and income support. It covers expenditure by the states, provinces, and Länder, respectively, for the United States, Australia, Canada, Austria, and the Federal Republic of Germany. For the EC, these expenditures cover not only Community expenses but also member states' expenses. For Australia, state expenditures refer to the 1984-85 crop year.
The cost to the consumer was estimated as the impact of these policies at the borders (customs duties or equivalent) on domestic prices; it was calculated for each product, applying the corresponding tariffs or the difference between the domestic and foreign prices to the respective levels of consumption and deducting consumer subsidies borne by taxpayers.
Budget revenues arising from price distortions should exist only for the products in which a country is not self-sufficient; they were estimated by multiplying the tariff or the price differential by the difference between the consumption and production levels of these products.
Average exchange rates of U.S. dollars for ECUs in 1979-81 and 1984-86 were 1.3168 and 0.8441, respectively.

Table A33. Producer Subsidy Equivalents (PSEs), Classified by Type of Support, 1982-86
(In millions of U.S. dollars)

	Market Price	Direct Income	Input Subsidy	Marketing	Long-Term	Exchange Rate	Total
Industrial countries							
EC (10)	33,628	2,965	—	152	309	—	43,404[1]
Japan	18,529	1,198	3,081	499	—	—	23,308
United States	11,758	8,230	3,599	671	3,108	—	27,276
Australia	422	132	46	36	48	—	684
Canada	2,054	2,172	426	638	242	—	5,533
New Zealand	273	35	145	55	39	—	546
Total	66,666	14,732	7,296	2,051	3,656	—	100,751
Developing countries							
Argentina	−969	—	—	—	—	—	−969
Brazil[2]	−1,138	—	1,906	—	5	—	772
India	−5,143	—	984	—	—	—	−4,159
Indonesia	359	—	583	—	—	—	942
Korea, Rep. of	4,492	—	180	17	198	—	4,887
Mexico	294	—	405	—	—	—	699
Nigeria	37	—	79	—	—	−1,136	−1,019
South Africa	360	—	129	2	—	−20	471
Taiwan Province of China	545	—	—	12	52	—	609
Thailand	−49	—	75	—	—	—	26
Total	−1,212	—	4,341	32	254	−1,156	2,259
Total	65,454	14,732	11,637	2,083	3,910	−1,156	103,010

Sources: U.S. Department of Agriculture (USDA), Economic Research Service, *Estimates of Producer and Consumer Subsidy Equivalents* (1988); and Organization for Economic Cooperation and Development, *National Policies on Agricultural Trade* (Paris, 1987).
[1] Includes national spending on agriculture by France, the Federal Republic of Germany, and the United Kingdom, not included in EC data. This amount is not included in the components because a classification of this spending by type of policy is not available.
[2] Data for Brazil do not cover subsidies for the production of sugarcane.
Note: The total value of support policies in this table is less than that shown in Table A32 because the coverage of policies and levels of government in this table are narrower. In addition, there are slight differences in the compilation of PSEs by the USDA compared with the OECD compilation. The product and policy coverage for developing countries is narrower and more varied than for industrial countries owing to data limitations.

Table A34. Producer Subsidy Equivalents (PSEs), Averages for 1979–81 and 1984–86[1]
(In percent)[2]

	1979-81	1984–86
Industrial countries		
EC (10)	37.5	40.1
Japan	57.2	68.9
United States	15.6	28.3
Australia	9.2	14.5
Austria	36.4	35.3[3]
Canada	24.3	39.1
New Zealand	17.8	22.5
Developing countries		
Argentina		−50.1
Brazil		4.2[3]
India		−16.2
Indonesia		38.3
Korea		58.5
Mexico		39.5[3]
Nigeria		−44.0
South Africa		33.0
Taiwan Province of China		21.3
Thailand		2.4

Sources: Industrial countries: Organization for Economic Cooperation and Development, *Report on Monitoring and Outlook of Agricultural Policies, Markets and Trade* (Paris, May 1988). Developing countries: U.S. Department of Agriculture (USDA), Economic Research Service, *Estimates of Producer and Consumer Subsidy Equivalents* (1988).

[1] See note to Table A33.

[2] As a percentage of the gross value to producers of agricultural production.

[3] 1984–85.

Table A35. United States: Agricultural Support, 1976–87

	Producer Subsidy Equivalent[2] (Crop Year)		Total Public Spending[2] (Fiscal Year)		Agricultural Budget Outlays[3] (Fiscal Year)	
Year[1]	Amount *(In billions of dollars)*	Percent of GNP	Amount *(In billions of dollars)*	Percent of GNP	Amount *(In billions of dollars)*	Percent of GNP
1976	...	...	...	...	3.2	0.2
1977	...	...	...	...	6.8	0.3
1978	...	...	...	...	11.4	0.5
1979	15.7	0.6	22.0	0.9	11.2	0.4
1980	16.0	0.6	23.7	0.9	8.8	0.3
1981	19.8	0.6	25.0	0.8	11.3	0.4
1982	19.2	0.6	34.9	1.1	15.9	0.5
1983	31.4	0.9	45.3	1.3	22.9	0.7
1984	26.0	0.7	36.6	1.0	13.6	0.4
1985	28.4	0.7	54.3	1.4	25.6	0.6
1986	37.7	0.9	53.7	1.3	31.4	0.7
1987	...	...	...	...	27.4	0.6

[1] Fiscal years.

[2] Organization for Economic Cooperation and Development, *Report on Monitoring and Outlook of Agricultural Policies, Markets and Trade* (Paris, May 1988). Total public spending includes all assistance to agriculture from federal and state governments. Some of this is excluded from the PSE as it could not be allocated across crops.

[3] From United States, Office of Management and Budget, *The United States Budget in Brief, FY 1989*, and previous issues. Includes outlays for farm income stabilization and for agricultural research services.

Table A36. United States: Quantitative Restrictions on Agricultural Imports

Commodity	1980	1981	1982	1983	1984	1985	1986	1987	1988	Imports/ Consumption Percent in 1987	Countries Directly Affected
Beef and veal *(in million tons)*[1] (VERs and unimposed quotas)	0.76	0.66	0.59	0.56	0.56	0.60	0.65	0.65	0.69	8	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	1.50	1.50	—	Canada, New Zealand
Cheese *(in million tons)* (Quota)[2]	0.11	0.11	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 tons)* (Quota)[2,3]	149	147	30	30	30	30	30	30	182	[4]	Egypt, Mexico, Peru
Sugar *(in million tons)* (Quota)[5]	...	...	0.64	2.89	3.17	2.68	1.85	1.00	0.76	12	Argentina, Australia, Brazil, Caribbean, Philippines, Thailand
Peanuts *(in thousand tons)*[2]	179.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	—	—

Source: Data provided by the U.S. Department of Agriculture.
[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 GATT waiver.
[3] Quota year does not correspond to calendar year.
[4] Less than 1 percent.
[5] 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 imposed under presidential authority as a "headnote" to U.S. Tariff Schedule.

Table A37. United States: Support Program for Dairy Products, 1980–87

	1980	1981	1982	1983	1984	1985	1986	1987
	(In billions of pounds)							
Total milk production	128.4	132.8	135.5	139.7	135.5	143.1	143.4	142.5
USDA net market removals[1]	8.8	12.9	14.3	16.8	8.6	13.2	10.6	6.7
Production per cow (In thousands of pounds)	11.9	12.2	12.3	12.6	12.5	13.0	13.3	13.8
	(In U.S. dollars per hundredweight)							
Average price of manufacturing milk	12.01	12.72	12.60	12.61	12.49	11.72	11.46	11.40
Support price[2]	13.10	13.49	13.10	13.10	12.60	11.60	11.60	11.10
	(In billions of U.S. dollars)							
Net expenditures on dairy support[3]	1,279.8	1,974.7	2,239.2	2,600.4	1,597.5	2,185.0	2,416.5	1,237.5
Of which:								
Net support purchases[4]	1,274.0	1,967.2	2,231.3	2,592.0	1,588.1	2,108.8	2,401.9	1,221.7
Net producer payments[5]	...	...	...	−253.8	−481.0	255.8	202.1	156.5

Source: U.S. Department of Agriculture, *Dairy Situation and Outlook Report* (Washington: USDA, Foreign Agricultural Service, April 1988).
[1] Commodity Credit Corporation support purchases in milk equivalent.
[2] Support prices at the start of the calendar year; they generally change during the year. Prices relate to milk with 3.5 percent fat content.
[3] Data on expenditures relate to fiscal years. Excludes expenditures on welfare-related programs.
[4] Commodity Credit Corporation support purchases of dairy products and related costs plus net payments to producers and net expenditures for Dairy Herd Termination Program.
[5] Milk diversion and/or termination payments less producer deductions.

Table A38. United States: Direct Payments to Wheat Farmers, 1980–87[1]
(In millions of U.S. dollars)

Item	1980	1981	1982	1983	1984	1985	1986	1987
Deficiency payments	—	414	476	770	1,044	1,555	3,670	3,201
Diversion payments	—	—	—	309	506	653	217	—
Reserve storage payments	88	151	289	147	174	158	168	126
Disaster payments	228	221	12	1	—	—	—	—
Payments in kind entitlements	—	—	—	1.940	—	—	—	—
Total	316	786	777	3,167	1,724	2,366	4,055	3,327

Source: Data provided by the U.S. Department of Agriculture.
[1] Crop years.

Table A39. United States: Domestic Support Program for Wheat, 1979–87

Crop Year	Production	National Average Support Prices: Target price	National Average Support Prices: Loan rate	Average Price to Farmers	Farm Value
	(In millions of bushels)		*(In U.S. dollars per bushel)*		*(In millions of U.S. dollars)*
1979	2,134	3.40	2.50	3.78	8,070
1980	2,381	2.08-3.63	3.00-3.30	3.99	9,500
1981	2,785	3.81	3.20-3.50	3.69	10.278
1982	2,765	4.05	3.55-4.00	3.45	9,539
1983	2.420	4.30	3.65	3.51	10,417
1984	2,595	4.38	3.30	3.39	9.129
1985	2,425	4.38	3.30	3.08	7.469
1986	2.092	4.38	2.40	2.42	5.062
1987	2,105	4.38	2.28	2.55	5,368

Source: U.S. Department of Agriculture, *Commodity Fact Sheets*.

Table A40. European Community: Average Degree of Self-Supply in Selected Agricultural Products, 1956–86[1]

	1956–60[2]	1968/69[3]	1978/79[4]	1980/81[5]	1981/82[6]	1983/84[7]	1984/85[8]
Product							
Total cereals (excluding rice)	85	86	97	103	109	116	110
Wheat	90	94	108	119	127	134	124
Rye	98	100	108	101	99	106	111
Barley	84	103	112	113	116	120	120
Oats	92	96	98	98	100	...	...
Grain maize	64	45	60	66	73	84	75
Sugar	104	82	124	136	144	100	123
Fresh vegetables	104	98	94	100	100	101	107
Fresh fruit (excluding citrus fruits)	90	80	77	83	85	84	87
Wine	89	97	99	102[9]	101[9]	103	104
Fresh milk products (excluding cream)	100	100	100[10]	101[11]	101[12]	101[13]	...
Cheese	100	98	103[10]	106[11]	107[12]	107[13]	...
Butter	101	91	111[10]	118[11]	122[12]	134[13]	...
Eggs	90	99	101	102[12]	102[12]	103[13]	102[14]
Total beef and veal	92	90	100	103[12]	103[12]	108[14]	108[15]
Poultry meat	93	101	105	110[12]	110[12]	107[14]	107[15]
Sheep meat and goat meat	...	56	67	74[12]	74[12]	76[14]	76[15]

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 1980/81, 1981/82, and 1982/83.

[7] Average of crop years 1982/83, 1983/84, and 1984/85.

[8] Average of crop years 1983/84, 1984/85, and 1985/86.

[9] Excluding Greece.

[10] Average of crop years 1976/77, 1977/78, and 1978/79.

[11] Average of 1979, 1980, and 1981.

[12] Average of crop years 1980, 1981, and 1982.

[13] Average of 1982, 1983, and 1984.

[14] Average of 1983, 1984, and 1985.

[15] Average of 1984, 1985, and 1986.

Table A41. European Community: European Agricultural Guarantee and Guidance Fund—Guarantee Section, Expenditures by Sector, 1976–88
(In millions of ECUs)

	1976	1978	1980	1981	1982	1983	1984	1985	1986	1987[1]	1988[2]
Cereals and rice	636	1,016	1,714	1,943	1,875	2,534	1,698	2,360	3,485	3,763	5,956
Export subsidy	407	761	1,219	1,224	1,106	1,593	753	1,113	1,804	2,780	3,615
Intervention	230	255	509	719	769	941	945	1,247	1,681	983	2,341
Milk and products	2,048	3,301	4,754	3,343	3,328	4,396	5,442	5,933	5,406	6,153	6,571
Export subsidy	697	1,313	2,746	1,896	1,521	1,327	1,943	2,028	2,155	2,647	2,718
Intervention	1,354	2,053	2,006	1,457	1,806	3,069	3,498	3,905	3,251	3,506	3,853
Oils and fats	309	334	687	1,025	1,214	1,621	1,752	1,803	2,632	3,056	4,044
Export subsidy	10	—	4	8	13	13	9	23	32	126	123
Intervention	299	334	683	1,017	1,201	1,608	1,743	1,780	2,600	2,930	3,921
Sugar	225	769	567	768	1,242	1,316	1,632	1,805	1,726	1,653	1,975
Export subsidy	56	557	286	409	744	758	1,190	1,353	1,238	1,135	1,414
Intervention	170	213	289	358	498	558	442	452	487	518	561
Beef, veal, pigmeat, and poultry	684	639	1,563	1,675	1,374	2,005	2,813	2,974	4,348	3,296	4,464
Export subsidy	171	182	893	1,042	844	1,072	1,620	1,504	1,387	1,661	1,746
Intervention	513	457	671	633	330	933	1,193	1,470	2,961	1,635	2,718
Fruits and vegetables	245	99	688	641	914	1,196	1,455	1,231	986	967	1,137
Export subsidy	57	47	41	43	60	58	59	75	77	73	74
Intervention	187	53	646	598	855	1,138	1,396	1,156	909	986	1,063
Other	553	553	1,023	1,508	2,146	2,363	3,204	3,411	3,014	3,889	4,372
All sectors	4,700	6,764	11,005	10,903	12,093	15,431	17,996	19,517	21,597	22,777	28,519
Accession compensatory amounts (ACAs)	360	23	—	—	—	—	—	—	6	38	30
Monetary compensatory amounts (MCAs)	505	717	298	238	313	488	376	190	476	324	613
All sectors, including ACAs and MCAs	5,569	7,517	11,314	11,141	12,406	15,920	18,372	19,707	22,079	23,139	29,162

Source: Commission of the European Communities, *The Agricultural Situation in the Community* (Brussels), various issues.
[1]Budget adopted in February 1987 and supplementary and amending budget No. 1 adopted in July 1987.
[2]Preliminary draft budget.

Table A42. European Community: Target Prices for Selected Commodities, 1980/81–1987/88[1]

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Cereals (*ECUs per ton*)								
Common wheat	214.01	230.55	250.61	261.41	259.08	254.98	256.16	256.10
Barley	194.32	210.00	228.27	238.17	236.30	232.61	233.81	233.80
Rye	197.31	210.00	228.27	238.17	238.37	234.61	233.86	233.80
Rice, husked (*ECUs per ton*)	408.16	450.50	496.69	523.16	539.49	548.37	548.37	548.37
Sugar, white[2] (*ECUs per ton*)	432.70	469.50	514.10	534.70	534.70	541.80	541.80	541.80
Olive oil (*ECUs per ton*)	2,479.70	2,727.70	3,027.70	3,194.20	3,162.30	3,225.60	3,225.60	3,225.60
Oilseeds (*ECUs per ton*)								
Sunflower	426.30	477.50	544.40	577.10	582.20	573.50	583.50	583.50
Colza and rapeseed	386.90	425.60	463.90	482.20	472.60	464.10	464.10	450.20
Wine, Type AI (*ECUs per hectoliter*)	55.69	61.26	68.00	71.74	71.02	71.02	71.02	71.02
Tobacco, #2 (*ECUs per kilogram*)	3.603	3.783	4.199	4.514	4.604	4.504	4.512	4.51
Fruits and vegetables (*ECUs per 100 kilogram*)								
Cauliflower	14.75	17.40	19.81	21.08	21.52	21.74	21.96	26.94
Tomatoes (open grown)	24.79	26.51/17.22	24.38/17.36	25.11/19.44	24.85/20.70	24.08/21.48	24.08/22.87	23.68
Oranges	32.14/19.38	35.53/26.28	38.27/30.87	40.75/35.49	40.97/38.32	39.74	39.74	38.74
Apples	20.42	22.54	28.49	29.49	29.63	29.63	29.63	29.63
Milk (3.7 percent fat content)	222.60	242.60	268.10	274.30	274.30	278.40	278.40	278.40
Beef animals (live)	1,607.60	1,728.20	1,918.70	2,070.90	2,050.20	2,050.20	2,050.20	2,050.20
Pork	1,587.21	1,761.80	1,946.80	2,053.90	2,033.30	2,033.30	2,033.30	2,033.30
Sheep and goat meat (*ECUs per 100 kilogram*)[3]	345.00	370.88	409.82	432.36	428.04	432.32	432.32	432.32

Sources: Commission of the European Communities, *The Agricultural Situation in the Community* (Brussels), various issues, and *Bulletin of the European Communities* (Brussels), various issues.

[1] Beginning of marketing year.

[2] Intervention price.

[3] Sheep meat and goat meat were not covered by the Common Agricultural Policy prior to 1980/81.

Table A43. European Community: Average Increase in Common Agricultural Prices, 1984/85–1987/88

(In percent)

	1984/85			1985/86			1986/87			1987/88		
	Common prices in			Common prices in			Common prices in			Common prices in		
	ECUs[1]	National currency[2]	Inflation 1984[3]	ECUs[1]	National currency[2]	Inflation 1985[3]	ECUs[1]	National currency[2]	Inflation 1986[3]	ECUs[1]	National currency[2]	Inflation 1987
Germany, Fed. Rep. of	−0.6	−0.6	1.9	0.3	0.3	2.2	−0.2	−0.2	3.1	—	—	1.9
France	−0.6	5.0	7.5	−0.1	1.7	6.1	−0.3	2.0	4.8	−0.2	4.1	3.3
Italy	−0.4	6.4	10.2	−0.2	3.3	8.9	−0.6	4.2	8.0	−0.6	3.3	5.5
Netherlands	−0.5	−0.5	2.5	0.5	0.5	1.5	—	—	0.8	—	−0.5	−1.0
Belgium	−0.6	3.9	5.5	0.2	0.2	5.2	−0.1	1.7	4.4	—	1.7	2.1
Luxembourg	−0.5	4.0	6.8	0.6	0.6	4.4	−0.1	1.7	4.1	—	1.6	2.5
United Kingdom	−0.6	−0.6	4.1	0.2	0.2	5.4	−0.5	1.9	3.5	—	6.3	4.0
Ireland	−0.6	3.9	7.6	0.4	0.4	5.6	−0.3	2.5	5.7	—	8.5	2.9
Denmark	−0.7	1.5	5.5	0.1	0.1	3.9	−0.7	1.2	4.9	—	2.3	4.6
Greece[4]	0.4	17.6	18.3	0.4	13.6	17.5	−0.5	13.5	19.0	−0.4	13.3	16.7
Spain	...	...	...	...	...	...	1.8	3.3	11.2	1.8[5]	7.2[5]	5.7
Portugal	...	...	...	...	...	...	0.3	1.7	18.0	0.5[5]	6.1[5]	11.2
Average	−0.5	3.3	4.7	0.1	1.8	5.3	−0.3[6]	2.2[6]	5.6	−0.2[6]	3.3[6]	3.9

Sources: Commission of the European Communities, *Notes Rapides de L'Europe Verte* (Brussels, March 1984); and data provided by the European Commission.

[1] Common price in European currency units (ECUs) (intervention price or equivalent price) weighted by national agricultural production.

[2] Common price in ECUs converted into national currency at "green" exchange rate, after adjustment in "green" rate by all measures taken.

[3] Rate of inflation measured by the GDP deflator (agricultural year) prior to 1986; from 1986, calendar-year basis.

[4] Including adjustments of Greek prices resulting from membership agreements.

[5] Including the impact of the alignment on common prices according to the accession agreements.

[6] These figures refer to the average of EC (10).

Table A44. Japan: Self-Sufficiency Rates of Major Agricultural Products[1]
(In percent)

	1975	1980	1981	1982	1983	1984	1985	1986
Rice	110	87	92	93	94	109	107	108
Wheat	4	10	10	12	11	12	14	14
Barley	10	15	15	16	15	16	15	15
Pulses	9	7	7	9	7	9	8	8
Soybeans	4	4	5	5	4	5	5	5
Vegetables	99	97	97	96	96	95	95	95
Fruits	84	81	77	79	81	74	77	73
Eggs	97	98	97	98	98	99	98	97
Milk and milk products	82	86	84	85	86	86	89	86
Meats	77	81	80	80	80	80	81	78
Beef	81	72	75	71	70	72	72	69
Pork	86	87	86	87	85	84	86	82
Poultry	97	94	92	92	92	93	92	89
Sugar	16	29	28	31	30	32	33	33
Fats and oils	23	29	29	28	30	37	32	32
Food total	74	72	72	72	71	71	71	70
Grains total	40	33	33	33	32	31	31	31
Food total (calorie basis)	55	53	53	53	54	53	52	51
Feed total (calorie basis)	34	28	30	32	30	28	27	28

Source: Japan. Ministry of Agriculture, Forestry and Fisheries, "Food Balance Sheet." 1986.
[1] Data relate to fiscal years.
Note: The self-sufficiency rates = production/available supply; available supply = production + change in stocks + imports − exports

Table A45. Japan: Administrative Prices of Major Agricultural Products
(In yen per kilogram)

	1970	1975	1979	1980	1981	1982	1983	1984	1985	1986	1987
Rice (husked)											
Government purchase price	138	260	288	295	296	299	304	311	311	311	293
Wheat											
Government purchase price	57	102	165	178	184	185	185	185	185	183	174
Barley											
Government purchase price	50	90	150	162	167	167	167	167	167	165	156
Sugar											
Government purchase price	...	...	236	246	255	250	250	243	241	235	213
Soybeans											
Standard price	84	161	261	280	287	287	287	287	287	282	266
Manufacturing milk											
Guarantee price	44	89	89	89	89	89	90	90	90	88	83
Butter											
Stabilization indicative price	647	999	1,253	1,253	1,253	1,253	1,302	1,302	1,276	1,225	1,100
Skimmed milk											
Stabilization indicative price	388	462	501	501	501	507	526	526	541	541	527
Wagyu steer beef											
Standard stabilization price	...	1,143	1,303	1,357	1,399	1,400	1,400	1,400	1,400	1,400	1,370
Dairy male calf beef											
Standard stabilization price	...	930	1,061	1,105	1,118	1,120	1,120	1,120	1,120	1,090	1,020
Pork											
Standard stabilization price	345	556	601	588	600	600	600	600	600	540	455

Source: Japan, Ministry of Agriculture, Forestry and Fisheries, *Statistical Yearbook of MAFF*, various years.

Table A46. Japan: Nominal Protection Coefficients, 1983–87
(In yen per kilogram)

	1983			1984			1985			1986			1987		
	Domestic Price *PD*	World Price *PW*	*PD*/*PW*	Domestic Price *PD*	World Price *PW*	*PD*/*PW*	Domestic Price *PD*	World Price *PW*	*PD*/*PW*	Domestic Price *PD*	World Price *PW*	*PD*/*PW*	Domestic Price *PD*	World Price *PW*	*PD*/*PW*
Grains															
Rice	338	66	5.14	311	60	5.20	311	52	6.01	311	35	8.79	293	33	8.81
Wheat	185	37	4.96	185	36	5.12	185	32	5.70	183	19	9.44	174	16	10.65
Meats															
Beef	1,121	582	1.93	1,120	540	2.07	1,256	516	2.43	1,220	353	3.45	1,029	345	2.98
Butter	1,382	584	2.37	1,368	493	2.78	1,323	534	2.48	1,206	428	2.82	1,079	404	2.67
Sugar	250	45	5.61	243	27	8.91	241	22	11.16	235	23	10.36	213	22	9.81

Sources: Japan, Ministry of Agriculture, Forestry and Fisheries, *Statistical Yearbook of MAFF*, 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. For grains the domestic price refers to the Government's purchase price. Beef, pork, and butter prices are wholesale prices. The sugar price is the Japanese Sugar Price Stabilization Agency purchase price.

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 A47. Japan: Expenditure on Agricultural Support, 1975–88[1]
(In billions of yen)

	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988[2]
Total Budgetary Expenditure	21,288.8	42,588.8	46,788.1	49,680.8	50,379.6	50,627.2	52,499.6	54,088.6	54,101.0	56,699.7
Agriculture, forestry and fishing	2,176.8	3,584.0	3,692.5	3,701.0	3,606.8	3,459.7	3,300.8	3,142.9	3,028.6	3,171.9
Agriculture	1,918.0	2,925.3	3,020.2	3,027.5	2,926.6	2,792.2	2,646.2	2,493.1	2,389.1	2,446.3
Price Policies	850.9	766.5	767.0	757.7	689.8	658.5	569.3	475.3	456.8	352.7
Food control	811.5	652.2	652.0	640.3	572.5	540.3	456.1	363.7	358.0	262.0
of which: Rice		*547.4*	*481.8*	*440.9*	*470.7*					
Milk and other livestock prod.	22.8	49.4	49.8	49.7	49.6	51.1	51.2	49.8	40.8	34.1
Vegetables	8.0	11.2	12.1	12.1	10.9	10.1	9.1	8.7	8.0	7.8
Fruits	0.7	1.6	0.8	1.6	0.6	0.7	0.7	1.7	0.9	1.1
Soybeans and rapeseeds	1.1	18.1	16.1	16.7	19.2	21.9	21.0	22.6	23.6	25.2
Sugar and sugar crops	6.8	34.0	36.2	37.3	37.0	34.4	31.2	28.8	25.5	22.5
Paddy field reorientation program	97.1	303.4	342.8	350.0	340.9	272.9	239.2	232.4	182.6	186.2
Kiban seibi (development of infrastructure)	359.5	897.5	899.7	897.7	900.0	891.9	878.9	868.0	850.2	1,002.2
Promotion, production, and marketing	192.5	205.89	212.5	188.1	169.2	139.2	132.9	111.4	101.3	99.6
Agricultural structural improvements	81.7	197.3	211.0	208.9	201.1	201.1	194.4	188.8	186.0	181.3
Agricultural insurance	80.7	142.3	151.5	158.5	159.9	160.9	157.6	149.5	146.3	141.1
Research extension	55.2	92.6	97.0	93.4	87.8	88.9	89.3	89.7	89.5	89.0
Concessional loans	48.5	107.7	115.0	147.7	154.3	156.8	160.4	162.6	161.7	160.2
Other	151.9	212.1	223.7	225.5	223.7	222.0	224.2	215.4	214.7	234.0
Extrabudgetary expenditure on price support										
Livestock Industry Promotion Corporation	...	31.1	28.9	24.6	20.5	28.5	19.4	66.7	50.4	...
Production support	...	23.6	23.5	19.7	15.8	23.7	13.5	56.8	32.6	...
Marketing and consumption	...	7.5	5.4	4.9	4.7	4.8	5.9	9.9	17.8	...
Grain	84.0	59.0	77.0	84.0	114.0	124.0	129.0	186.0	183.0	...
Japanese Sugar Price Stabilization Agency	1.0	1.0	32.0	60.0	55.0	64.0	67.0	67.0	70.0	...
Total price support	...	857.6	904.9	926.3	879.3	875.0	784.7	795.0	760.2	...

Source: Japan, Ministry of Agriculture, Forestry and Fisheries, *Explanation on Government Budget on Agriculture, Forestry and Fisheries,* various issues; and data provided by MAFF.
[1] Data relate to fiscal years.
[2] Estimates.

Table A48. Nominal Protection Coefficients (NPCs) for Wheat (Bread) in Selected Developing Countries[1]

	Producers' NPCs		Consumers' NPCs	
	Unadjusted	Adjusted[2]	Unadjusted	Adjusted[2]
Nigeria	2.60	1.43	1.46	0.80
Sudan	2.37	0.90	0.60	0.22
Burma	2.05	3.49	1.42	2.40
Colombia	1.67	1.40	2.01	1.68
Jordan	1.66	0.98	0.38	0.22
Algeria	1.50	1.52	...	...
Brazil	1.35	1.67	0.52	0.62
Morocco	1.35	1.55	0.33	0.37
Ethiopia	1.32	1.05	...	...
Ecuador	1.24	0.99	0.86	0.69
Bolivia	1.21	0.88	0.62	0.45
Cameroon	1.19	1.05	1.38	1.21
Paraguay	1.08	0.85	0.78	0.61
Chile	1.07	0.85	1.04	0.82
China	1.06	1.25	...	...
Lesotho	1.02	0.81	0.77	0.61
Syria	1.00	0.91	...	...
Bangladesh	1.00	0.96	0.77	0.74
Argentina	1.00	0.60	...	...
Kenya	0.89	0.86	1.06	1.02
Tunisia	0.84	1.06	0.30	0.38
Uruguay	0.80	0.59	0.87	0.63
Nepal	0.79	0.98	0.97	1.20
Mexico	0.76	0.66	0.41	0.34
Tanzania	0.73	0.50	0.95	0.66
Pakistan	0.71	0.62	0.61	0.53
Afghanistan	0.68	...	0.31	...
India	0.66	0.92	0.54	0.76
Turkey	0.65	0.79	0.39	0.48
Peru	0.51	0.58	0.70	0.78
Egypt	0.41	0.19	0.12	0.05

Source: Byerlee and Sain (1986).

[1] Ratios of producer or consumer prices to world prices. Prices are those prevailing in 1980–82. World prices are c.i.f. from Rotterdam (hard red winter wheat No. 2) with estimates for freight and transportation to largest city in country.

[2] Adjustment to official exchange rate has been made by taking differential in the growth rate of consumer price index and index for import prices for all developing countries from 1971 or a year in the 1970s when a significant devaluation took place.

Table A49. Butter: World Commodity Balance and Trade, 1981–88

(In thousands of metric tons)

	1981	1982	1983	1984	1985	1986	1987[1]	1988[2]
Production								
United States	557	570	589	500	566	545	495	500
South America	102	113	112	104	108	109	113	119
EC (12)[3]	1,936	2,075	2,285	2,115	2,013	2,175	1,904	1,792
Eastern Europe	771	754	835	879	862	853	86[illegible]	837
U.S.S.R.	1,318	1,403	1,562	1,588	1,596	1,700	1,650	1,680
India	620	650	670	690	700	720	660	690
Australia	113	76	88	111	114	105	104	98
New Zealand	251	248	252	287	293	299	248	285
Total	6,062	6,361	6,892	6,771	6,737	6,978	6,492	6,440
Imports								
EC (12)[3]	120	130	112	99	89	82	69	64
Eastern Europe	28	50	40	38	7	42	56	57
U.S.S.R	215	151	203	198	276	194	250	235
Exports								
EC (12)[3]	420	348	278	304	304	253	338	289
Australia	16	7	17	44	47	49	29	42
New Zealand	200	228	234	201	227	224	236	259
United States	54	68	34	51	82	25	25	15
Total trade	790	769	722	748	805	674	778	741
Consumption								
United States	447	486	541	536	529	506	516	517
South America	102	110	111	107	108	139	140	143
EC (12)[3]	1,750	1,6[illegible]6	1,580	1,641	1,679	1,715	1,792	1,776
Eastern Europe	773	706	804	807	796	825	826	820
U.S.S.R	1,520	1,539	1,748	1,769	1,855	1,878	1,883	1,898
Total	5,798	5,687	6,023	6,122	6,236	6,339	6,369	6,386
Ending stocks								
United States	195	212	227	141	98	114	70	40
EC (12)[3]	241	454	990	1,198	1,313	1,577	1,364	1,122
New Zealand	71	94	71	116	142	177	147	131
Total	601	946	1,462	1,673	1,765	2,077	1,792	1,475

Source: Production, imports, exports, and consumption from U.S. Department of Agriculture (USDA), *World Dairy Situation* (Washington), various issues.

[1] USDA preliminary estimate.

[2] USDA forecasts.

[3] Excluding intra-Community trade. The European Community intra-trade data excluded are for the EC (10) in 1981–85 and the EC (12) since 1986.

Table A50. Cheese: World Commodity Balance and Trade, 1981–88
(In thousands of metric tons)

	1981	1982	1983	1984	1985	1986	1987[1]	1988[2]
Production								
United States	1,940	2,060	2,186	2,120	2,305	2,363	2,385	2,500
EC (12)[3]	3,571	3,683	3,749	3,896	3,978	4,057	4,152	4,194
Australia	135	153	158	161	160	170	177	180
New Zealand	84	112	114	110	118	127	113	125
Total	8,284	8,713	9,012	9,163	9,476	9,801	10,023	10,267
Imports								
United States	112	122	130	139	137	134	135	135
EC (12)[3]	121	122	126	128	139	106	101	101
Japan	71	74	72	79	82	81	87	90
Exports								
EC (12)[3]	335	354	353	446	384	355	374	380
Australia	54	57	54	55	68	66	62	65
New Zealand	80	81	75	96	85	91	101	97
Total trade	721	757	754	872	845	809	829	827
Consumption								
United States	1,916	2,124	2,208	2,334	2,456	2,541	2,648	2,645
EC (12)[3]	3,162	3,300	3,541	3,583	3,645	3,751	3,868	3,924
U.S.S.R.	669	706	753	791	820	855	865	876
Total	7,952	8,425	8,614	8,855	9,095	9,514	9,801	9,937
Ending stocks								
United States	443	483	574	482	429	358	210	190
EC (12)[3]	560	592	613	609	719	809	839	820
Australia	53	57	71	85	80	81	85	83
Total	1,282	1,434	1,562	1,478	1,536	1,541	1,415	1,376

Source: Production, imports, exports, and consumption from U.S. Department of Agriculture (USDA), *World Dairy Situation* (Washington), various issues.
[1] USDA preliminary estimate.
[2] USDA forecasts.
[3] Excluding intra-Community trade. The European Community intra-trade data excluded are for the EC (10) in 1981–85 and the EC (12) since 1986.

Table A51. Wheat: World Commodity Balance and Trade,[1] 1981/82–1987/88[2]
(In millions of metric tons)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Production							
Canada	24.8	26.8	26.5	21.2	24.3	31.4	26.3
Australia	16.4	8.9	22.0	18.7	16.2	16.2	12.1
Argentina	8.3	15.0	12.8	13.2	8.5	8.9	10.0
EC (12)[3]	58.1	64.7	63.8	82.9	71.6	71.9	71.2
U.S.S.R.	81.1	84.3	77.5	68.6	78.1	92.3	83.3
China	59.6	68.4	81.4	87.8	85.8	90.0	87.7
India	36.3	37.5	42.8	45.5	44.1	47.1	45.6
United States	75.8	75.3	65.9	70.6	66.0	56.9	57.3
Total	449.5	477.3	489.4	511.8	499.8	529.7	504.8
Imports							
Egypt	5.9	5.5	6.7	6.6	6.3	6.5	6.7
China	13.2	13.0	9.6	7.4	6.6	8.5	13.5
Japan	5.6	5.8	5.9	5.6	5.5	5.8	5.4
U.S.S.R.	20.3	20.8	20.5	28.1	15.7	16.0	21.5
Exports							
Argentina	3.6	7.5	9.7	8.0	6.1	4.3	4.0
Australia	11.0	8.1	10.6	15.8	16.0	14.8	12.5
Canada	18.5	21.4	21.8	19.4	16.8	20.8	22.5
EC (12)[3]	15.7	16.3	15.5	18.5	15.6	16.4	14.5
United States	48.2	39.9	38.9	38.1	25.0	28.4	43.5
Total trade	101.3	98.7	102.0	107.0	85.0	90.7	103.8
Consumption							
United States	23.1	24.7	30.2	31.4	28.5	32.5	30.1
U.S.S.R.	102.0	105.7	93.0	91.2	91.6	102.8	100.5
China	72.8	81.4	91.0	92.2	100.4	101.5	104.2
Total	441.5	467.8	482.0	492.9	495.9	521.7	534.2
Ending stocks							
United States	31.5	41.2	38.1	38.8	51.8	49.6	33.6
Total	85.1	96.4	145.2	164.2	168.0	177.0	149.7

Source: U.S. Department of Agriculture, *Foreign Agriculture Circular: World Grain Literature and Outlook* (Washington), various issues.
[1] Includes wheat and wheat flour.
[2] July–June crop years.
[3] Excluding intra-Community trade. The European Community intra-trade data excluded are for the EC (10) in 1981–85 and the EC (12) since 1986.

Table A52. Beef and Veal: World Commodity Balance and Trade, 1981–88
(In thousands of metric tons carcass-weight-equivalent)

	1981	1982	1983	1984	1985	1986	1987[1]	1988[2]
Production								
Argentina	2,929	2,579	2,455	2,553	2,740	2,850	2,650	2,550
Australia	1,420	1,676	1,412	1,248	1,338	1,478	1,418	1,456
Brazil	2,250	2,400	2,400	2,300	2,400	2,000	2,300	2,400
EC (12)[3]	7,468	7,144	7,380	7,900	7,840	7,983	8,031	7,788
United States	10,353	10,425	10,748	10,929	10,997	11,292	10,802	10,330
U.S.S.R.	6,627	6,618	7,011	7,244	7,370	7,700	8,100	8,500
Total	41,526	41,588	41,509	42,271	43,415	43,979	43,855	43,827
Imports								
Brazil	...	21	20	20	48	430	90	40
Egypt	...	108	139	236	141	150	230	240
EC (12)[3]	330	451	366	338	464	452	445	482
Japan	174	174	196	208	216	256	300	330
United States	799	888	873	838	948	978	991	1,009
U.S.S.R.	452	439	529	541	320	335	342	347
Exports								
Argentina	486	522	415	250	260	251	300	300
Australia	703	942	767	616	690	809	780	808
Brazil	279	357	400	480	530	350	250	400
EC (12)[3]	586	419	498	755	772	1,164	1,028	1,016
New Zealand	347	366	372	287	332	340	407	378
United States	100	115	125	152	151	239	275	184
Total trade	3,368	3,547	3,399	3,299	3,570	4,009	3,797	3,834
Consumption								
Argentina	2,410	2,059	2,040	2,303	2,480	2,599	2,350	2,250
Brazil	1,920	2,060	2,074	1,800	1,928	2,160	2,050	2,100
EC (12)[3]	6,725	6,528	7,107	7,208	7,309	7,511	7,447	7,401
Japan	607	655	686	730	780	830	880	930
United States	11,084	11,182	11,481	11,597	11,814	12,036	11,511	11,155
U.S.S.R.	7,009	7,025	7,515	7,758	7,660	8,028	8,435	8,840
Total	39,877	39,831	40,659	41,210	42,170	43,418	42,957	43,258
Ending stocks								
Australia	...	...	28	24	30	31	...	...
Brazil	...	...	160	20	20	195	90	150
EC (12)[3]	...	...	432	830	885	686	750	550
United States	...	...	136	151	145	135	144	...

Sources: Production, imports, exports, and consumption from U.S. Department of Agriculture (USDA), *World Livestock and Poultry Situation* (Washington), various issues. Stocks from General Agreement on Tariffs and Trade (GATT), *The International Markets for Meat, 1987/88* (Geneva, 1988).

[1] USDA preliminary estimate.

[2] USDA forecasts.

[3] Excluding intra-Community trade. The European Community intra-trade data excluded are for the EC (10) in 1981–85 and the EC (12) since 1986.

Table A53. Sugar: World Commodity Balance, 1981/82–1987/88
(In millions of metric tons, raw value)

	September–August Crop Years						
	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87[1]	1987/88[2]
Commodity balance							
Production	**100.6**	**101.3**	**96.5**	**100.3**	**99.3**	**102.9**	**101.3**
Australia	3.4	3.5	3.4	3.5	3.4	3.8	3.4
Brazil	8.4	9.3	9.4	9.3	8.4	8.8	9.2
Cuba	8.2	7.2	8.3	8.1	7.1	7.2	7.3
European Community	17.1	16.0	13.3	14.4	14.4	14.9	13.4
United States	5.5	5.4	5.3	5.3	5.5	6.2	6.5
Consumption	**90.5**	**93.8**	**95.9**	**96.5**	**98.4**	**101.4**	**102.7**
Brazil	5.8	6.2	6.3	6.3	6.3	6.5	6.7
European Community	11.9	11.7	11.5	11.6	11.4	11.4	11.6
United States	8.4	8.0	7.9	7.2	7.3	7.4	7.4
U.S.S.R.	13.0	13.0	13.3	13.3	13.5	13.4	13.4
Reported closing stocks	**26.0**	**31.6**	**28.8**	**29.9**	**28.3**	**27.5**	**25.3**

Sources: Data for prices, Commodities Division, Fund Research Department. Data for world commodity balance, U.S. Department of Agriculture (USDA), *Foreign Agriculture Circular: Sugar, Molasses and Honey* (Washington), various issues.
[1] USDA revised estimates.
[2] USDA forecasts for production, and Commodities Division, Fund Research Department forecasts for consumption and stocks.

Table A54. Sugar: World Trade, 1984–87
(In millions of metric tons)

	Calendar Years			
	1984	1985	1986	1987[1]
Exports				
Industrial countries	8.3	8.1	8.8	9.3
France	(2.9)	(2.4)	(2.2)	(2.0)
Australia	(2.4)	(2.5)	(2.8)	(2.8)
Developing countries	13.1	12.6	11.6	11.1
Brazil	(3.2)	(2.7)	(2.4)	(2.3)
Non-Fund members	7.3	7.6	7.8	7.5
Cuba	(6.7)	(6.9)	(6.7)	(6.4)
Imports				
Industrial countries	9.3	8.5	8.0	7.4
United States	(3.1)	(2.6)	(1.9)	(1.5)
Japan	(1.8)	(1.9)	(1.8)	(1.7)
United Kingdom	(1.4)	(1.1)	(1.3)	(1.4)
Developing countries	12.0	12.8	12.5	11.9
Non-Fund members	6.8	6.1	6.3	5.8
U.S.S.R.	(5.8)	(4.5)	(5.2)	(4.7)
Other	(1.0)	(1.6)	(1.1)	(1.1)
Market prices (U.S. dollars a ton)				
Free market[2]	115	89	133	149
European Community[3]	353	355	410	462
United States[4]	479	449	462	481

Sources: For exports and imports, Food and Agriculture Organization of the United Nations, *1986 FAO Trade Yearbook* (Rome); for market prices, Commodities Division, Fund Research Department.
[1] Data on exports and imports are estimates of Commodities Division, Fund Research Department.
[2] 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.
[3] Unpacked sugar, c.i.f. European ports.
[4] U.S. future import price contract No. 14. Prior to June 1985, New York contract No. 12 spot price, c.i.f. Atlantic and Gulf of Mexico ports.

Table A55. Effects on Global Welfare of Liberalization by Industrial Countries
(In billions of 1985 U.S. dollars a year)

	Changes in Welfare[1]					
	Producer		Consumer/taxpayer		Net welfare	
European Community	−35.3	(−47.3)	42.8	(56.2)	7.5	(8.9)
Japan	−19.3	(−20.6)	24.8	(29.6)	5.5	(9.0)
United States	0.2	(−16.9)	2.5	(20.1)	2.7	(3.2)
Canada	−0.6		1.3		0.7	
Australia	2.3		−1.1		1.2	
New Zealand	1.7		−0.7		1.0	
Industrial countries	−58.0		78.3		20.3	
Centrally planned Europe	7.0		−8.8		−1.8	
Developing countries	26.3		−28.6		−2.3	
Worldwide	−24.7		40.9		16.2	

Source: Tyers and Anderson (1987).
[1] Figures in parentheses are the effect of unilateral liberalization on the country or group liberalizing.

Table A56. Effects on International Prices of Liberalization of Food Markets
(In percentage change)

Country or Group in Which Liberalization Takes Place	Wheat	Coarse Grains	Rice	Beef and Veal	Dairy	Sugar
European Community						
Tyers and Anderson (1986)	1	3	1	10	12	3
Tyers and Anderson (1987)	6	5	3	22	33	8
Japan						
Tyers and Anderson (1986)	—	—	4	4	12	3
Tyers and Anderson (1987)	1	1	6	5	11	2
United States						
Tyers and Anderson (1986)	1	−3	—	—	5	1
Tyers and Anderson (1987)	1	−4	—	3	28	3
Industrial countries: OECD						
Tyers and Anderson (1986)	2	1	5	16	27	5
Tyers and Anderson (1987)	10	3	11	27	61	11
OECD (1987b)[1]	−1	−3	1	15	44	10
Developing countries						
Tyers and Anderson (1986)	7	3	−12	—	36	3
All market economies						
Tyers and Anderson (1986)	9	4	−8	16	67	8

Sources: Tyers and Anderson (1986 and 1987); and OECD (1987b).
Note: The two Tyers and Anderson models are based on protection in 1980-82 and the OECD model is based on protection in 1979–81.
[1] OECD (1987b) modeled a 10 percent reduction in agricultural support. To maintain comparability with the other studies that simulate complete liberalization, the results of the OECD study have been multiplied by ten.

Table A57. Effects on Trade Flows of Liberalization by Industrial Countries[1]

(In millions of metric tons increase in net exports)

Country Group	Wheat	Coarse Grains	Rice	Beef and Veal	Dairy	Sugar
Industrial countries: OECD						
Tyers and Anderson (1986)	−0.7	8.5	−6.5	−5.5	−64.9	−5.1
Tyers and Anderson (1987)	−7.5	4.6	−4.0	−3.5	−28.4	−3.0
OECD (1987b)[1]	−0.5	3.4	−0.6	−0.6	−1.8	−1.9
Centrally planned Europe						
Tyers and Anderson (1986)	0.9	−5.5	0.2	1.1	23.8	0.4
Tyers and Anderson (1987)	2.6	−1.9	—	0.5	6.2	—
Developing countries						
Tyers and Anderson (1986)	−0.3	−3.0	6.3	4.4	41.0	4.7
Tyers and Anderson (1987)	4.9	−2.3	4.0	2.9	22.0	2.9

Sources: Tyers and Anderson (1986 and 1987); and OECD (1987b).

[1] OECD (1987b) modeled a 10 percent reduction in agricultural support. To maintain comparability with the other studies that simulate complete liberalization, the results of the OECD study have been multiplied by ten.

Table A58. Steel: Production, Apparent Consumption, and Employment in OECD Countries, 1973–88

	1973	1979	1982	1983	1984	1985	1986	1987	1988[1]
Crude steel production					*(In millions of tons)*				
OECD	456.6	433.6	330.0	336.6	367.8	365.6	342.9	351.9	361.3
United States	136.8	123.7	67.7	76.8	83.9	80.1	74.0	81.3	84.8
European Community (10)[2]	150.1	140.2	111.4	109.5	120.1	120.7	112.9	...	...
European Community (12)	...	...	...	...	...	135.5	125.6	126.2	127.1
Japan	119.3	111.7	99.6	97.2	105.6	105.3	98.3	98.5	101.6
Canada	13.4	16.1	11.9	12.8	14.7	14.6	14.1	15.7	15.0
Australia and New Zealand	7.9	8.4	6.6	5.9	6.6	6.8	7.0	6.5	6.8
Other OECD[3]	29.1	33.5	32.8	34.4	36.9	23.3	23.9	23.7	26.0
Developing countries	34.2	10.3	68.9	70.5	78.3	84.5	89.9	96.2	103.1
Others[4]	206.4	231.9	246.5	256.1	264.0	269.1	282.9	289.3	292.0
World	697.2	675.8	645.4	663.2	710.1	719.2	715.7	737.4	756.4
Apparent consumption[5]					*(In millions of ingot tons equivalent)*				
OECD	430.4	367.1	318.4	324.5	366.1	358.0	348.2	366.7	379.6
United States	151.0	136.1	88.1	99.2	118.8	113.3	103.9	111.7	116.2
European Community (10)[2]	129.3	110.0	101.2	99.6	106.4	105.5	105.2	...	...
European Community (12)	...	...	...	...	...	114.1	116.8	118.0	120.2
Japan	91.7	66.3	78.7	75.3	85.8	84.9	81.2	88.3	93.9
Canada	14.5	13.3	9.8	11.8	14.2	14.8	13.5	14.7	15.0
Australia and New Zealand	8.0	5.7	6.9	5.8	7.3	6.8	6.9	6.7	6.9
Other OECD[3]	35.9	35.7	33.7	32.8	33.6	32.7	25.8	27.3	27.4
Developing countries	64.9	89.3	110.0	104.8	108.0	114.5	114.0	121.1	126.7
Others[4]	212.0	240.3	256.4	274.8	284.5	301.7	310.1	309.6	313.0
World	707.3	696.7	684.8	704.1	758.6	774.2	772.3	797.4	819.3
Employment[6]					*(In thousands)*				
OECD	1,955.6	1,740.6	1,390.0	1,290.0	1,269.2	1,165.0	1,136.0	1,067.0	...
United States	521.4	478.5	323.6	275.3	268.1	237.5	218.4	210.0	...
European Community (10)	8[illegible].4	687.8	541.1	498.8	464.2	437.9	416.1	385.7	...
European Community (12)	...	...	...	...	...	...	474.4	439.0	...
Japan	323.9	281.5	268.5	270.3	264.8	259.4	251.3	232.3	...
Canada	52.5	53.0	40.3	48.0	47.6	...	...	...	...
Australia	43.2	42.6	40.4	31.7	30.5	29.7	29.7	29.1	...
Other OECD	214.2	197.2	176.1	165.9	194.0	...	...	...	...

Sources: Organization for Economic Cooperation and Development, *The Steel Market in 1986 and Outlook for 1987* (Paris, 1987); and data provided by the OECD.

[1] Projections by the OECD.

[2] Excludes Greece in 1973 and 1979.

[3] Includes Greece in 1973 and 1979. Excludes Spain and Portugal from 1985 on.

[4] Includes the U.S.S.R., other East European countries, China, and the Democratic People's Republic of Korea.

[5] Apparent consumption = production + net imports.

[6] Figures in the 1973 column on employment refer to 1974.

Table A59. Steel: Capacity Utilization and Import Penetration, 1978–88

	1978	1979	1980	1982	1983	1984	1985	1986	1987	1988[1]
Capacity					*(In millions of tons)*					
United States	143	140	140	140	137	123	121	116	102	102
European Community (10)[2]	202	204	205	198	191	177	171	166	167	...
European Community (12)	...	...	...	...	...	...	193	189	189	189
Japan	151	154	159	158	157	156	154	151	152	149
Total OECD	...	...	...	...	556	527	523	510	494	...
Rest of western world	...	...	...	...	104	112	114	117	121	...
Total of western world	...	...	...	...	660	639	637	627	615	...
Capacity utilization					*(In percent)*					
United States	87	88	73	48	56	68	66	64	80	83
European Community (10)[2]	66	69	63	56	57	68	70	68	...	...
European Community (12)	...	...	...	...	...	...	70	67	67	67
Japan	68	72	70	63	62	68	68	65	65	68
Total OECD	...	...	...	...	61	70	70	67	...	...
Rest of western world	...	...	...	...	68	70	74	76	77[3]	...
Total of western world	...	...	...	...	62	70	71	69	...	...
Import penetration					*(In percent)*					
United States	18	15	16	22	20	26	25	23	21	22
European Community (10)[2]	12	12	12	13	13	12	13	14	...	...
European Community (12)	...	...	...	...	...	...	11	12	12	12
Japan	1	2	2	3	5	6	5	5	7	8

Sources: Organization for Economic Cooperation and Development, *The Steel Market in 1986 and Outlook for 1987* (Paris, 1987), and previous issues; and data provided by the OECD.

[1] OECD projections.
[2] Excludes Greece in 1978 and 1979.
[3] OECD estimate.

Table A60. Steel: World Exports, Imports, and Trade Balance, 1980–88
(In millions of ingot tons equivalent)

	1980	1982	1983	1984	1985	1986	1987	1988[1]
Exports								
OECD	103.0	96.7	101.2	111.7	115.4	100.4	98.1	...
United States	4.8	2.3	1.5	1.1	1.1	1.2	1.4	1.5
European Community (10)	36.6	33.9	34.5	40.1	...	...	...	...
European Community (12)	...	...	...	...	50.0	39.7	39.9	40.0
Japan	38.6	37.2	40.1	41.2	41.0	37.3	32.8	31.8
Canada	...	4.6	3.5	4.0	4.1	4.5	5.2	...
Australia and New Zealand	...	1.8	1.7	1.3	2.0	2.0	2.1	...
Other OECD	23.0	16.9	19.9	24.0	17.2	15.7	16.7	...
Developing countries	36.9	19.4	23.2	23.3	25.3	24.3	26.2	...
Others[2]	...	23.2	27.4	28.3	33.1	35.8	34.2	...
World	139.9	139.3	151.8	163.3	173.8	160.4	158.5	...
Imports								
OECD	52.4	52.6	53.7	68.0	63.7	61.1	65.2	...
United States	17.9	19.3	19.7	30.3	28.1	23.9	23.5	24.0
European Community (10)	13.5	13.0	13.0	12.5	...	...	...	...
European Community (12)	...	...	...	...	12.1	14.2	13.7	14.2
Japan	1.5	2.6	3.6	5.2	3.8	4.3	6.5	7.5
Canada	...	1.4	1.6	2.5	3.1	2.8	3.9	...
Australia and New Zealand	...	1.7	1.4	1.8	1.7	1.6	1.8	...
Other OECD	19.5	14.5	14.4	15.7	14.9	14.3	15.8	...
Developing countries	84.9	57.2	54.6	51.4	52.6	45.6	46.7	...
Others[2]	...	30.0	39.4	41.3	56.6	52.7	44.7	...
World	137.3	139.8	147.7	160.7	172.8	159.4	156.6	...
Net exports								
OECD	50.6	44.1	47.5	43.7	51.7	39.3	32.9	31.5
United States	−13.1	−17.0	−18.2	−29.2	−27.0	−22.7	−22.1	−22.5
European Community (10)	23.1	20.9	21.5	27.6	—	—	...	—
European Community (12)	...	...	...	...	38.0	25.5	26.2	25.8
Japan	37.1	34.6	36.5	36.0	37.2	33.0	26.3	24.3
Canada	—	3.2	1.9	1.5	1.0	1.7	1.3	1.3
Australia and New Zealand	—	0.1	0.3	−0.5	0.3	0.4	0.3	0.4
Other OECD	3.5	2.4	5.5	8.3	2.3	1.4	0.9	2.2
Developing countries	−40.6	−37.8	−31.4	−28.1	−27.3	−21.3	−20.5	−18.4
Others[2,3]	−10.0	−6.3	−12.0	−13.0	−23.5	−17.0	−10.5	−11.1

Sources: Organization for Economic Cooperation and Development, *The Steel Market in 1986 and Outlook for 1987* (Paris, 1987), and previous issues; and data provided by the OECD.
[1]OECD projections.
[2]Includes South Africa, the U.S.S.R., other East European countries, China, and the Democratic People's Republic of Korea.
[3]Includes small amounts from unspecified sources for 1980 and 1982.

Table A61. Steel: United States—Apparent Supply of Steel Mill Products, 1977–86
(In thousands of tons)

	Net Shipments	Exports	Imports	Apparent Supply	Import Share[1]
Semifinished					
1986	4,955	65	3,442	8,332	41.3
1985	4,345	94	3,920	8,171	48.0
1984	4,407	82	3,106	7,431	41.8
1983	3,860	109	2,008	5,759	34.9
1982	3,694	387	1,658	4,965	33.4
1980	5,342	1,125	985	5,202	18.9
1977	3,994	332	1,639	5,301	30.9
Finished					
1986	65,308	864	17,250	81,694	21.1
1985	68,698	838	20,336	88,196	23.1
1984	69,332	898	23,057	91,491	25.2
1983	63,723	1,090	15,062	77,695	19.4
1982	57,873	1,455	15,005	71,423	21.0
1980	78,511	2,976	14,510	90,045	16.1
1977	87,153	1,671	17,667	103,150	17.1
Of which:					
Pipe and tubing					
1986	2,836	121	2,937	5,652	52.0
1985	4,096	199	4,464	8,361	53.4
1984	4,275	207	5,422	9,490	57.1
1983	3,244	258	2,862	5,848	48.9
1982	5,026	431	5,250	9,845	53.3
1980	9,096	470	3,777	12,403	30.5
1977	7,490	407	2,474	9,557	25.9
Total					
1986	70,263	929	20,692	90,026	23.0
1985	73,043	932	24,256	96,367	25.2
1984	73,739	980	26,163	98,922	26.4
1983	67,583	1,199	17,070	83,454	20.5
1982	61,567	1,842	16,663	76,388	21.8
1980	83,853	4,101	15,495	95,247	16.3
1977	91,147	2,003	19,307	108,451	17.8

Source: American Iron and Steel Institute, *Annual Statistical Report, 1986* (Washington: American Iron and Steel Institute, 1987).
[1] In percent.

Table A62. Textiles and Clothing: Employment in Industrial Countries, 1973–86
(Average annual percentage rate of change)

	1973–86	1980–86	1980	1981	1982	1983	1984	1985	1986
Textiles									
Developed countries	−3.0[1]	−2.0[1]	−3.5	−3.5	−4.5	−0.5	−3.0	−0.5	...
United States	−2.5	−2.5	−4.5	−2.0	−9.0	0.5	1.5	−5.0	1.0
Canada	−2.0	−2.5	−1.0	−1.0	−12.0	0.5	−0.5	−3.0	3.0
Japan	−4.5	−2.5	−3.0	−4.0	−2.0	−2.0	−2.5	−2.5	−3.0
European Community (10)	−5.0[1]	−4.0[1]	−6.5	−8.5	−6.0	−5.5	−2.5	−0.5	...
Clothing									
Developed countries	−1.5[1]	−1.5[1]	−3.0	−4.0	−2.5	−2.0	1.0	−0.5	...
United States	−2.0	−2.5	−3.0	−2.0	−6.5	−0.5	2.0	−5.5	−3.0
Canada	−1.0	−1.5	−4.0	—	−5.0	−2.0	−7.0	2.5	4.0
Japan	—	−0.5	−2.5	−1.5	1.0	−2.5	−2.0	0.5	2.0
European Community (10)	−4.5[1]	−5.0[1]	−5.5	−11.0	−5.0	−3.0	−3.0	−3.0	...

Sources: United Nations, *Yearbook of Industrial Statistics*, various issues; General Agreement on Tariffs and Trade, Statistical Reporting Scheme; and national statistics.
[1] Data are up to 1985 (instead of 1986).

Table A63. Textiles and Clothing: Imports of Selected Industrial Countries, 1973–86
(Change in value in percent per annum)

	Textiles								Clothing							
	1973–76	1980	1981	1982	1983	1984	1985	1986	1973–76	1980	1981	1982	1983	1984	1985	1986
Canada	**9.5**	**–5.0**	**10.2**	**–19.8**	**23.8**	**11.4**	**3.2**	**10.6**	**30.5**	**–2.5**	**18.3**	—	**22.6**	**26.2**	**–0.8**	**18.6**
Of which:																
Industrial countries	10.0	–5.5	8.7	–20.4	21.1	10.1	1.7	6.6	15.5	–9.5	5.0	–4.8	15.0	20.8	17.2	23.5
Developing countries	10.0	6.5	17.6	–20.0	50.0	21.7	7.1	26.7	42.0	2.5	27.9	1.8	23.2	24.6	–5.8	16.0
European Community	**10.5**	**6.5**	**–16.8**	**–4.2**	**–1.2**	**2.3**	**6.5**	**31.6**	**19.0**	**14.5**	**–11.5**	**–5.3**	**–3.8**	**2.8**	**4.4**	**45.3**
Of which:																
Southern Europe	17.0	3.0	–7.5	–12.2	6.4	10.2	5.6	22.8	23.5	12.5	–9.2	13.9	14.3	21.0	10.7	56.0
Other industrial countries	9.0	5.0	–17.3	–7.9	–5.5	1.8	7.2	33.2	14.0	11.5	–14.6	–18.0	–9.5	–0.2	7.7	43.8
Developing countries	15.5	12.0	–24.7	–6.9	–0.9	3.2	0.9	23.5	32.0	21.5	–2.4	–8.1	–8.6	4.2	–3.4	46.5
European Free Trade Association (EFTA)[1]	**8.5**	**12.5**	**–17.1**	**–6.6**	**–4.7**	**0.9**	**4.3**	**32.0**	**19.5**	**18.5**	**–11.0**	**–1.2**	**–3.8**	**4.8**	**8.4**	**43.0**
Of which:																
Southern Europe	—	12.5	–23.5	7.7	—	—	—	33.3	14.5	26.0	–9.2	7.7	7.1	—	14.3	–83.8
Other industrial countries	8.0	9.5	–17.1	–5.8	–4.0	0.7	5.3	32.8	16.0	17.0	–12.4	0.9	—	4.9	9.3	80.1
Developing countries	17.5	33.5	–20.0	–6.3	–10.0	7.4	–3.4	25.0	39.5	27.5	1.3	—	–10.0	9.7	–1.3	37.2
Japan	**–7.0**	**–18.5**	**–1.2**	**–1.8**	**–6.9**	**29.5**	**–2.1**	**14.7**	**11.5**	**–15.0**	**17.6**	**1.7**	**–18.0**	**30.0**	**2.6**	**42.5**
Of which:																
Industrial countries	–10.0	–8.4	–6.7	–1.8	–9.1	9.8	3.6	32.8	8.5	–3.7	–2.3	–2.4	–17.1	—	2.9	37.1
Developing countries	9.0	–29.0	2.7	–2.6	–14.9	33.3	–4.8	1.3	11.0	–27.0	32.9	0.9	–22.8	40.9	–4.8	53.4
United States	**1.5**	**12.5**	**20.9**	**–7.2**	**14.7**	**41.0**	**7.8**	**17.3**	**18.5**	**13.5**	**17.0**	**8.3**	**18.5**	**40.1**	**11.0**	**15.4**
Of which:																
Industrial countries	–3.5	8.0	18.3	–1.5	11.1	44.0	10.9	16.1	–1.0	—	10.7	2.4	30.6	77.9	26.9	11.8
Developing countries	7.5	10.5	17.5	–13.4	20.7	34.3	5.3	17.2	25.0	15.0	15.3	6.3	17.1	37.1	9.0	10.8
Total of above	**8.0**	**5.5**	**–12.1**	**–5.4**	**0.7**	**8.5**	**5.7**	**27.4**	**19.0**	**12.5**	**–3.7**	**–0.9**	**2.1**	**16.6**	**7.0**	**32.5**
Of which:																
Southern Europe	12.0	3.0	–9.9	11.0	6.9	15.1	9.8	23.9	20.5	12.5	–9.6	12.5	13.3	16.3	15.0	6.5
Other industrial countries	7.5	5.0	–13.1	–5.3	–0.1	5.3	6.8	30.0	12.5	11.0	–13.2	–2.1	—	7.0	10.3	44.5
Developing countries	9.0	4.5	–10.7	–8.5	3.5	17.7	1.6	18.3	27.5	13.5	1.4	–0.1	3.8	25.2	3.8	23.1

Source: General Agreement on Tariffs and Trade, *International Trade* (Geneva), various issues.
[1] Excluding Portugal.

Table A64. Textiles and Clothing: Bilateral Agreements Under Article 4 of the Multifiber Arrangement Maintained in Early 1988

Importing Country	Exporting Country or Area
Austria	China, Hong Kong, India, Korea, and Macao
Canada	Bangladesh, Brazil, China, Hong Kong, Hungary, India, Indonesia, Korea, Macao, Malaysia, Pakistan, Philippines, Poland, Singapore, Sri Lanka, Thailand, Turkey, and Uruguay.
European Community[1]	Argentina, Bangladesh, Brazil, China, Czechoslovakia, Hong Kong, Hungary, Indonesia, Korea, Macao, Malaysia, Pakistan, Peru, the Philippines, Poland, Romania, Singapore, Sri Lanka, Thailand, and Uruguay.
Finland	Hong Kong, India, Korea, Macao, Romania, Sri Lanka, and Thailand.
Norway	Czechoslovakia, Hong Kong, Hungary, India, Korea, and Poland.
Sweden	Yugoslavia, Korea, and Thailand.
United States	Bangladesh, Brazil, China, Colombia, Costa Rica, Czechoslovakia, the Dominican Republic, Egypt, Guatemala, Hong Kong, Hungary, India, Indonesia, Jamaica, Japan, Korea, Macao, Malaysia, Mexico, Pakistan, Peru, the Philippines, Poland, Romania, Singapore, Sri Lanka, Thailand, Turkey, Uruguay, and Yugoslavia.

Source: General Agreement on Tariffs and Trade (GATT).
[1]Not including agreements with countries granted preferential status.

Table A65. Motor Vehicles:[1] Production, Apparent Consumption, and Import Penetration in Selected Industrial Countries, 1980–86
(In thousands of units and in percent)

	Production[2]							Apparent Consumption[3]							Percentage Share of Imports in Apparent Consumption						
	1980	1981	1982	1983	1984	1985	1986	1980	1981	1982	1983	1984	1985	1986	1980	1981	1982	1983	1984	1985	1986
Canada	1,368	1,281	1,236	1,502	1,835	1,934	1,860	1,213	1,187	871	1,211	1,414	1,660	1,555	66.7	74.7	80.0	78.9	81.2	80.6	81.9
European Community[4]	12,555	11,676	12,172	12,920	12,291	13,019	13,722	11,148	10,641	10,862	11,662	11,208	11,694	12,767	45.0	47.5	48.5	48.1	50.5	51.2	50.9
Belgium	929	894	997	1,008	917	1,034	1,089	441	417	431	469	465	491	517	89.6	91.8	88.9	86.4	84.7	83.9	86.1
France	3,378	3,019	3,149	3,336	3,062	3,016	3,195	2,472	2,382	2,676	2,698	2,416	2,468	2,639	32.4	38.4	42.3	41.5	42.6	46.7	44.6
Germany, Fed. Rep. of	3,878	3,897	4,062	4,155	4,045	4,446	4,597	2,867	2,738	2,539	2,922	2,815	2,815	3,215	37.5	36.3	34.5	38.4	41.2	40.2	42.9
Italy	1,610	1,434	1,453	1,576	1,601	1,573	1,819	2,042	1,922	1,881	1,707	1,873	1,940	2,026	50.1	51.2	50.8	42.1	45.7	48.8	45.2
Spain	1,182	987	1,070	1,289	1,309	1,417	1,523	741	608	606	684	613	627	...	8.9	11.5	12.7	10.5	10.1	12.0	...
United Kingdom	1,313	1,185	1,157	1,290	1,134	1,311	1,248	1,762	1,657	1,770	2,104	1,959	2,202	2,211	52.8	53.7	57.5	56.1	57.6	53.7	54.6
Japan	11,043	11,180	10,732	11,112	11,465	12,272	12,260	5,124	5,164	5,178	5,481	5,400	5,594	5,729	0.9	0.6	0.7	0.7	0.8	0.9	1.3
Sweden	298	313	349	397	412	461	487	223	210	248	341	335	437	451	74.9	73.8	74.2	54.8	59.4	53.8	53.2
United States	8,010	7,941	6,985	9,226	10,939	11,654	11,317	10,838	11,078	10,530	12,943	15,417	17,287	17,013	33.1	34.6	38.2	34.1	34.0	37.7	38.7
All industrial countries	**34,507**	**33,721**	**32,759**	**36,361**	**38,260**	**40,567**	**40,866**	**31,362**	**31,310**	**30,330**	**34,161**	**36,617**	**39,482**	**40,334**	**36.1**	**37.6**	**38.6**	**37.1**	**38.2**	**40.4**	**41.0**

Source: General Agreement on Tariffs and Trade, *International Trade* (Geneva), various issues.
[1] Including passenger cars, trucks, and buses.
[2] Production includes assembly.
[3] Apparent consumption = production + imports − exports.
[4] Including intra-Community trade.

Table A66. Motor Vehicles: Industrial Countries' Exports of Automotive Products by Area, 1980–86
(In billions of U.S. dollars)

Year	Origin	Other North America	United States	Japan	Western Europe	European Community	Industrial Countries	Traditional Oil Exporters	Other Developing Countries	Developing Countries	Other Areas	World
	Industrial Countries											
1980		37.1	26.9	0.7	55.8	46.2	97.9	12.8	15.6	28.4	1.4	127.8
1981		40.2	28.7	0.6	48.4	39.8	94.5	17.0	15.9	32.9	1.4	128.8
1982		41.8	31.6	0.6	49.7	41.0	97.0	15.0	13.2	28.2	1.7	126.9
1983		52.8	39.4	0.7	50.6	41.8	108.0	11.0	12.0	22.9	1.4	132.3
1984		68.7	51.8	0.8	48.7	40.2	123.2	9.4	12.4	21.8	1.8	146.7
1985		78.7	59.6	0.9	53.8	43.9	137.9	8.0	12.7	20.7	3.2	161.7
1986		91.8	72.7	1.5	79.9	65.2	177.5	6.7	14.0	20.6	2.4	200.5
	Of which: North America											
1980		17.4	8.6	0.2	1.8	1.5	20.0	2.4	3.9	6.3	0.3	26.6
1981		20.1	10.2	0.2	1.8	1.5	23.0	3.3	4.1	7.4	0.3	30.6
1982		21.8	12.9	0.2	1.7	1.4	24.3	2.8	2.9	5.7	0.4	30.4
1983		28.9	17.1	0.2	1.5	1.2	30.9	1.6	2.1	3.6	0.3	34.9
1984		37.5	22.6	0.3	1.6	1.3	39.8	1.4	2.7	4.1	0.2	44.1
1985		41.1	24.4	0.3	1.6	1.3	43.4	1.1	3.0	4.1	0.3	47.8
1986		40.5	24.7	0.3	1.7	1.4	42.9	1.0	3.0	4.0	0.3	47.2
	Japan											
1980		12.1	11.4	—	4.3	3.3	18.0	3.8	4.8	8.7	0.3	27.0
1981		13.7	12.6	—	4.5	3.5	20.6	4.9	5.3	10.1	0.4	31.1
1982		13.3	12.4	—	4.0	3.0	19.4	4.7	4.4	9.1	0.5	29.0
1983		15.8	14.7	—	4.9	3.6	22.7	3.7	4.8	8.6	0.4	31.7
1984		20.3	18.9	—	4.9	3.8	27.9	3.4	5.0	8.4	0.7	37.0
1985		25.1	23.5	—	5.3	4.0	32.9	2.9	4.7	7.6	2.0	42.5
1986		34.8	32.5	—	8.9	6.6	46.1	2.5	5.2	7.7	1.1	54.8
	European Community											
1980		6.9	6.4	0.4	46.4	39.0	55.6	6.1	6.3	12.4	0.5	68.5
1981		5.6	5.2	0.3	38.9	32.7	46.9	8.1	6.0	14.0	0.4	61.3
1982		5.8	5.4	0.4	40.8	34.4	48.9	6.8	5.4	12.2	0.5	61.6
1983		6.9	6.5	0.5	40.8	34.5	49.5	5.2	4.7	9.9	0.4	59.8
1984		9.4	8.8	0.5	38.6	32.5	50.1	4.0	4.4	8.4	0.4	58.9
1985		10.9	10.2	0.6	42.8	35.7	55.5	3.6	4.7	8.2	0.6	64.4
1986		14.4	13.6	1.1	63.4	53.0	80.0	2.9	5.4	8.3	0.7	89.0

Source: General Agreement on Tariffs and Trade, *International Trade, 1986/87* (Geneva, 1987).

Table A67. Motor Vehicles: Impact of Trade Restraints on Japanese Cars in Four Countries

	United States	Canada	France	United Kingdom
Nature of restrictions	Voluntary export restraint	Voluntary export restraint	3 percent market share limitation	11 percent market share limitation
Overall cost to consumers	\$3.25–5 billion a year	Can\$199-913 million	F 625–1,800 million	Not available
Increase in transaction prices	\$1,300 for Japanese cars \$660 for domestic cars	Can\$900-1,500 for Japanese cars Up to Can\$750 on North American cars	6 percent on Japanese cars	10 percent on Japanese cars
Impact on Japanese car sales	Decrease of 1 million cars in 1985	Decrease of 44,000–55,000 cars	Decrease of 70,000 and 85,000 cars in 1983 and 1985, respectively[1]	Decrease by 123,000 cars a year
Additional sales to domestic producers	300,000–700,000 cars in 1985	39,000 cars at most	10,000 cars	23,000–25,000 cars[2]
Additional profits of domestic producers	\$550-1,290 million in 1985	Can\$44 million	F 35 million	Not available
Number of jobs saved in the automobile sector	20,000–30,000	880 at most	500–3,600	2,000–4,000
Cost to the consumer of each job saved	\$93,000–250,000	Can\$200,000	F 0.5–1.25 million	Not available

Source: Organization for Economic Cooperation and Development, *The Costs of Restricting Imports: The Automobile Industry* (Paris, 1987).
[1] Overall, only 30,000 cars would have been eliminated from the French market as a result of increased imports from EC partners.
[2] The additional sales to British Leyland do not take into account sales of 36,000 and 50,000 cars that have probably accrued to European producers and to U.S. multinational producers, respectively.

Table A68. Shipbuilding: World Production and Shares of Major Producers, 1976–87
(In thousands of gross register tons and in percent)

	1976		1980		1983		1984		1985		1986		1987	
	Production	Shares	Production	Shares	Production	Shares	Production	Shares	Production	Shares	Production	Shares	Production	Shares
OECD countries	**16,214**	**87.3**	**9,449**	**74.8**	**9,806**	**72.4**	**10,569**	**71.7**	**9,662**	**70.7**	**7,897**	**65.0**	**6,732**	**68.0**
European Community	5,734	30.9	2,944	23.3	3,358	24.8	2,829	19.2	2,560	18.7	1,901	15.6	1,882	19.0
Other Europe	1,977	10.6	1,099	8.7	1,043	7.7	682	4.6	684	5.0	710	5.8	414	4.2
North America	587	3.2	500	4.0	401	3.0	101	0.7	258	1.9	177	1.5	132	1.3
Japan	7,857	42.3	4,876	38.6	4,996	36.9	6,949	47.1	6,151	45.0	5,100	42.0	4,295	43.4
Other	59	0.3	30	0.2	8	0.1	8	0.1	9	0.1	9	0.1	9	0.1
Rest of the world	**2,367**	**12.7**	**3,186**	**25.2**	**3,746**	**27.6**	**4,176**	**28.3**	**4,009**	**29.3**	**4,252**	**35.0**	**3,175**	**32.0**
Total	**18,581**	**100.0**	**12,635**	**100.0**	**13,552**	**100.0**	**14,745**	**100.0**	**13,671**	**100.0**	**12,149**	**100.0**	**9,907**	**100.0**

Source: Organization for Economic Cooperation and Development, Press Release (Paris), various issues.

Table A69. Shipbuilding: New Orders, 1978 and 1984–87

(In thousands of compensated gross tons and in percent)

	1978		1984		1985		1986		1987	
	New orders[1]	Share	New orders	Share	New orders	Share	New orders	Share	New orders	Share
Europe[2]	2,292	...	3,026	30.7	3,014	36.0	2,311	31.9	2,766	39.4
Japan	3,189	...	5,638	57.3	4,548	54.3	3,836	52.9	3,265	46.5
Total OECD countries	5,481	...	8,664	88.0	7,562	90.4	6,147	84.8	6,031	85.9
Korea	...	...	1,180	12.0	806	9.6	1,105	15.2	993	14.1
Total	...	...	9,844	100.0	8,368	100.0	7,252	100.0	7,024	100.0

Sources: Organization for Economic Cooperation and Development, *Annual Statistics*, various issues, and Press Release, various issues.
[1]In thousands of gross register tons.
[2]European Community countries, and Finland, Norway, and Sweden.

Table A70. Electronic Products: Trade of Industrial Countries, 1980–86[1]

(In billions of U.S. dollars)

	Exports							Imports						
	1980	1981	1982	1983	1984	1985	1986	1980	1981	1982	1983	1984	1985	1986
Industrial countries														
ADP[2]	19.2	20.2	22.2	27.7	35.7	40.1	48.8	17.0	18.2	20.4	26.6	35.4	39.7	49.6
Telecommunications equipment	16.3	17.3	17.0	17.9	19.6	21.3	26.4	10.8	11.5	11.3	13.0	15.5	16.9	20.4
Consumer electronics	13.8	15.7	13.9	14.9	17.7	18.7	21.4	12.0	13.6	13.3	15.0	17.6	20.0	24.5
Electronic parts	10.3	10.3	10.5	12.6	17.3	15.7	19.3	11.1	10.6	11.1	13.1	18.9	16.9	18.8
Business electronics	10.5	10.9	10.8	11.3	12.6	13.4	15.6	8.0	7.9	7.8	8.4	9.5	10.2	12.4
Total	70.1	74.4	74.4	84.2	102.7	108.9	131.5	58.8	61.8	64.0	76.0	96.9	103.6	125.7
United States														
ADP[2]	7.8	8.7	9.2	10.6	13.5	13.9	14.5	1.4	1.8	2.6	4.8	8.1	8.5	11.5
Telecommunications equipment	2.7	3.0	3.2	3.3	3.4	3.7	3.9	3.2	4.1	4.4	5.5	7.6	8.1	8.9
Consumer electronics	0.8	0.8	0.6	0.5	0.5	0.5	0.5	3.7	5.1	4.9	6.1	8.8	11.1	12.3
Electronic parts	3.8	3.9	4.1	4.7	5.8	4.7	5.5	3.7	4.0	4.6	5.5	8.3	6.3	6.6
Business electronics	3.4	3.9	4.0	4.0	4.2	3.8	3.9	1.6	1.8	1.8	1.9	2.7	3.1	3.3
Total	18.5	20.3	21.1	23.1	27.3	26.5	28.2	13.5	16.8	18.2	23.8	35.5	37.0	42.6
Japan														
ADP[2]	0.9	1.3	1.9	3.7	5.7	6.0	9.4	1.0	1.0	0.9	1.0	1.3	1.5	1.6
Telecommunications equipment	3.8	4.9	4.4	5.2	6.6	7.3	10.1	0.3	0.4	0.4	0.4	0.4	0.4	0.6
Consumer electronics	8.5	11.2	9.8	11.1	13.7	14.2	14.8	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Electronic parts	2.3	2.7	2.7	3.7	5.8	4.8	6.3	0.7	0.8	0.8	0.9	1.3	1.0	1.2
Business electronics	2.5	2.8	2.6	3.1	3.7	4.1	4.7	0.5	0.5	0.5	0.6	0.6	0.7	0.8
Total	17.9	22.9	21.4	26.8	35.5	36.3	45.3	2.6	2.7	2.7	2.9	3.7	3.7	4.4
European Community														
ADP[2]	8.8	8.3	9.1	11.3	14.1	17.3	21.8	10.7	11.0	12.2	15.3	18.8	21.8	27.3
Telecommunications equipment	7.5	6.8	6.7	6.6	6.4	6.9	8.7	5.1	4.8	4.5	4.8	4.7	5.2	7.1
Consumer electronics	3.7	2.9	2.6	2.7	2.8	3.2	5.2	6.2	6.3	6.3	6.5	5.9	6.3	9.2
Electronic parts	3.7	3.1	3.2	3.6	4.9	5.3	6.3	5.3	4.4	4.4	5.1	6.9	7.2	8.6
Business electronics	4.3	4.0	4.0	4.2	4.6	5.4	6.9	5.0	4.6	4.6	5.0	5.2	5.6	7.3
Total	28.0	25.2	25.7	28.3	32.8	38.0	48.8	32.2	31.2	32.1	36.6	41.5	46.0	59.5

Source: General Agreement on Tariffs and Trade, *International Trade, 1986/87* (Geneva, 1987).
[1]Subgroups may not add because of rounding.
[2]Automatic data processing.

Table A71. Footwear: European Community[1]—Production, Trade, Apparent Consumption, and Employment, 1975–87

	1975	1977	1979	1980	1981	1982[1]	1983	1984	1985	1986	1987[2]
						(In millions of pairs)					
Production	890	886	797	903	928	972	963	962	988	958	893
Imports	186	257	265	313	321	315	351	384	380	430	537
Imports subject to surveillance	—	—	218	258	263	256	283	304	293	296	—
Exports	1,138	144	203	155	182	186	188	203	226	206	170
Apparent consumption[2]	938	999	1,041	1,060	1,067	1,101	1,126	1,140	1,141	1,186	1,260
						(In percent)					
Ratio of imports to apparent consumption	19.8	25.7	25.5	29.5	30.1	28.6	32.0	34.0	33.0	36.0	42.1
Ratio of imports subject to surveillance to total imports	—	—	82.3	82.4	81.9	81.3	80.6	79.2	77.1	89.9	
						(In thousands)					
Employment	349	333	347	331	343	328	311	295	291	295	

Source: Data supplied by the Commission of the European Communities.
[1] Excludes data for Spain and Portugal. From 1975 to 1981, data cover nine EC members; from 1982 on, they also cover Greece.
[2] Estimates.
[3] Apparent consumption = production + imports − exports.

Table A72. Commercial Jet Aircraft: Relative Market Shares, 1974–86
(In percent and in number ordered)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
							All aircraft[1]						
Airbus	1	4	5	5	14	15	6	29	13	—	22	9	25
Boeing	70	69	72	67	68	68	81	57	62	56	50	61	47
Lockheed	5	6	4	1	4	3	5	4	—	—	2	—	—
McDonnell Douglas	24	21	19	27	14	14	8	10	25	44	26	30	28
	100	100	100	100	100	100	100	100	100	100	100	100	100
Total number ordered	237	212	197	336	623	754	465	315	87	339	297	315	724
							Wide-bodied aircraft						
A300 and A310	1	19	23	19	28	37	19	53	30	0	29	33	11
747	38	50	29	38	27	25	38	15	47	68	29	45	61
767	—	—	—	—	26	14	26	9	6	29	4	7	12
L-1011	19	29	19	5	8	8	16	9	—	—	8	—	—
DC-10	42	2	29	38	11	16	1	14	17	3	30	15	16
	100	100	100	100	100	100	100	100	100	100	100	100	100
Total number ordered	67	42	42	91	303	307	137	127	36	34	70	73	152

Source: "World Airline Census," *Flight International* (London), various issues, presented in Majumdar (1987).
[1] The aircraft included in the first part of the table include Airbus Industrie's A300, A310, and A320; Boeing's 707, 727, 737, 747, 757, and 767; Lockheed's L-1011; and McDonnell Douglas's DC-9, DC-10, and MD-8.
Note: The data included in the table represent aircraft ordered rather than delivered. Deliveries usually closely parallel orders partly because of the potential loss of deposits for canceling firm orders.

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