

Casadio, Gian Paolo

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Multilateral Negotiations in the Gatt Framework, and Analysis of Trade Policy Changes Through the various Gatt Rounds

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MULTILATERAL NEGOTIATIONS IN THE
GATT FRAMEWORK, AN ANALYSIS OF
TRADE POLICY CHANGES THROUGH THE
VARIOUS GATT ROUNDS

Gian Paolo Casadio

September 1987

No. 36

FOREWORD

The purpose of this study, which continues a series of previous research works on GATT affairs ("Trans-Atlantic Trade, US-EEC Confrontation in the GATT Negotiations", D.C. Heath, Mass. Cambridge, 1973; "Neoprotectionism and Free Trade, The Role of Europe", carried out at the Brookings Institution, Washington DC, 1979; "Italy's Role in Multilateral Trade Negotiations", Italian Ministry of Foreign Affairs, Rome, February 1986), is twofold:

(a) to identify - through a comparable analysis of the various GATT rounds - the key elements needed to strengthen multilateral trade negotiations; (b) to provide the basic elements for a European strategy in the New GATT that will emerge from the current negotiations ("Uruguay Round").

In the preparation of this study at the GATT headquarters in Geneva and at the European University Centre, Luxembourg, while on leave from Bologna University, I would like to acknowledge the kind assistance of Dr. P. Barthel-Rosa, Director of the GATT Development Division, as well as of Professor O. Giarini (Geneva University), Professor P. Maillet (Paris University) and Professor Ph. Rollet (Havre University).

The patience and good nature of Mr. P. Stendardo, a GATT staff member, contributing to the excellency of "Ian Tumlir Library", is also gratefully appreciated.

Finally, a special thank to Mrs. O. Pirot, in charge of the Secretariat of the European University Centre, Luxembourg.

Needless to say, any omission or inaccuracies that may have occurred are due entirely to the author.

Gian P. Casadio
Department of Economics
University of Bologna, Italy
September 1987

CONTENTS

FOREWORD	
1. THE GATT AS THE MAJOR INSTITUTIONAL FRAMEWORK FOR GLOBAL TRADE LIBERALIZATION	1
2. THE REQUIREMENTS OF THE PARTICIPATING COUNTRIES AND OF MAJOR ECONOMIC ORGANIZATIONS, WITH SPECIAL EMPHASIS ON THE THREE MAJOR TRADING POWER (USA, EEC, JAPAN), SMALLER DEVELOPED ECONOMIES, EASTERN COUNTRIES AND KEY DEVELOPING NATIONS.	8
3. THE MAIN FEATURES OF GLOBAL TRADING ARRANGEMENTS	29
(A) REDUCTION AND HARMONIZATION OF CUSTOMS TARIFFS	29
(B) REMOVAL OF NON-TARIFF BARRIERS (NTBs)	32
(C) ORGANIZATION OF INTERNATIONAL AGRICULTURAL MARKETS	39
(D) SPECIAL TREATMENT TO SPECIFIC INDUSTRIAL SECTORS	51
4. CHANGES IN THE METHODS OF NEGOTIATION	60
CONCLUSIONS (The Prospects of Restoring a Functioning World Trading Order)	67
NOTES	72
SELECTED BIBLIOGRAPHY	89

1. THE GATT AS THE MAJOR INSTITUTIONAL FRAMEWORK FOR GLOBAL TRADE
LIBERALIZATION

The General Agreement on Tariffs and Trade (GATT) came about, as Gerard Curzon said, as the result of a historical accident.(1) In November 1947, the Economic and Social Council of the United Nations called a meeting in Havana, at America's instigation, to draw up a charter which was to regulate international trade on a new and original basis and which provided at the same time for the creation of the International Trade Organization (ITO). A text for the Havana Charter was duly prepared but it was never promulgated for want of ratification by the US Congress, which was apprehensive about the extent of the regulations it contained. And out of the ashes GATT was born. In fact, while the Havana Charter was already giving rise to serious misgivings twenty three countries assembled at the Geneva Conference of October 1947, worked out the General Agreement on Tariffs and Trade.

This General Agreement, signed on 30 October 1947, came into force on 1 January 1948, and as it had not been ratified by the signatory powers, it was applied in relation to them under the Protocol of Provisional Application. In 1948, therefore, everything suggested that GATT, in view of its provisional and uncertain nature and the fact that it had not been ratified by the countries concerned and was poorly constructed, was doomed before long, if not to extinction, to inaction and impotence.

This, however, did not happen. On the contrary, it has turned out to be 'the international institution which, with the most agile administrative apparatus, has produced the best results'.(2) In fact, GATT now involves 94 contracting parties and 30 associated countries, which together account for more than four-fifths of world trade, has become the natural centre for periodical negotiations aimed at lowering, on a multilateral basis, the barriers obstructing open trade. All the major conferences concerning tariffs and customs barriers since the end of the last war have been held under its auspices, that is to say those held in :

- Geneva in april-October 1947 ("Geneva Round");
- Annecy in 1949 ("Annecy Round");
- Torquay in 1950-51 ("Torquay Round");
- Geneva in 1955-56 ("Geneva Round");
- Geneva in 1961-62 ("Dillon Round");
- Geneva in 1963-67 ("Kennedy Round");
- Tokyo in 1973-79 ("Tokyo Round").

The success of GATT is to be ascribed to the fact that this contractual arrangement among the member countries - characterized by pragmatism and tolerance - has emerged as the central and indispensable instrument for the development and reinforcement of international open trade, to the point that "if it did not exist, it would be necessary to invent it".(3) In fact, on questions as important and politically sensitive as trade, countries need to be guided by common principles, by a "code of good conduct" and by a series of well-defined procedures. For this purpose, GATT provides a complex of rules and procedures relating primarily to:

- A. Non-discrimination between the contracting parties; the most-favoured nation clause forms the basis of the commercial system of GATT; exceptions to this fundamental principle are accepted however mainly to assist the developing countries (with the generalized system of preferences, the exchange of tariff preferences among themselves and preferential trade agreements) (4) and also to justify free trade areas and customs unions (EEC, Efta, as well as some attempts among developing countries).
- B. The principle that, when protection is necessary, recourse will be had solely to customs duties and not to quotas; tariff protection is, in fact, the simplest method of protection and the easiest one to administer, and the best way of guaranteeing non-discrimination to a commercial partner; where there are barriers of a non-tariff nature these must be modified or eliminated as quickly as possible; the only exceptions allowed are such as can be justified on the basis of obvious and serious disequilibria in the balance of payments, or in special cases, such as economic development or the existence of anomalous situations of a transitory nature. (5)
- C. The principle of consultation and compromise, GATT having the necessary mechanisms for consulting the contracting parties on potential commercial problems and settling trade disputes in a mutually satisfactory manner; trade wars are thus ruled out since any conflicts of interest are settled by discussion.(6) In fact, the GATT regulatory structure has never been very coercitive. The regulatory impact of GATT rules has rested on the normative force of organized community condemnation. The key to the force of such normative pressures is an underlying consensus among GATT member governments about what constitutes governmental behaviour.
- D. The principle of promoting open trade by negotiations based on the multilateral system, passing from strict reciprocity to non-reciprocity (in favour of developing countries).

GATT, on the other hand, has not only contributed to easing the flow of trade, but has also made it more difficult to introduce new trade restrictions. In fact, a concession negotiated within the framework of GATT is considerably more difficult to retract than a concession granted in the classic form of a bilateral agreement. Today, in fact, thanks to the existence and the authority of GATT, it is no longer open to the contracting parties to adopt unilateral tariff measures and so to withdraw concessions granted without adopting a complex procedure entailing the provision of compensation for the countries affected. (7)

In recent years, the GATT system has been threatened by a tangible drift of the world economy toward market sharing and managed trade coupled with progressively politicized commercial relations. (8) Thus, several GATT rules have become inoperative either because of tacit acceptance of widespread violations (9) or because voluntary restraints (VERs) and other types of quantitative restrictions have turned out to be especially contagious. (10)

However, Governments' awareness of the consequences of a serious fragmentation of world markets, as well as their desire (mainly on part of the developed countries) to explore the possibilities of writing multilateral rules for policies in "new areas" (such as traded services, intellectual property rights and trade-related investment measures), has fostered trade ministers to formally launch, with the ministerial declaration of Punta del Este, the "Uruguay Round", the eighth and most ambitious round of trade negotiations in GATT's history. (11)

GATT MEMBERSHIP IN 1947

Australia
Belgium
Birma
Brazil
Canada
Czechoslovakia
Ceylon (Sri Lanka)
Chile
The Republic of China (*)
Cuba
France
India
Lebanon (*)
Norway
New Zealand
The Netherlands
Pakistan
U.K.
South Rhodesia
Syria (*)
U.S.A.
South Africa

* countries which left the GATT

GATT MEMBERSHIP AS AT 24 JUNE 1987

Contracting Parties to the GATT (94)

Antigua and Barbuda	Germany, Fed. Rep. 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
Brazil	Indonesia	Rwanda
Burkina Faso	Ireland	Senegal
Burma	Israel	Sierra Leone
Burundi	Italy	Singapore
Cameroon	Jamaica	South Africa
Canada	Japan	Spain
Central African Republic	Kenya	Sri Lanka
Chad	Korea, Rep. of	Suriname
Chile	Kuwait	Sweden
Colombia	Luxembourg	Switzerland
Congo	Madagascar	Tanzania
Côte d'Ivoire	Malawi	Thailand
Cuba	Malaysia	Togo
Cyprus	Maldives	Trinidad and Tobago
Czechoslovakia	Malta	Turkey
Denmark	Mauritania	Uganda
Dominican Republic	Mauritius	United Kingdom
Egypt	Mexico	United States
Finland	Morocco	Uruguay
France	Netherlands	Yugoslavia
Gabon	New Zealand	Zaire
Gambia	Nicaragua	Zambia
		Zimbabwe
<u>Acceded provisionally (1)</u>	Tunisia	

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 (30)

Algeria	Dominica	Mali	Sao Tomé and Príncipe
Angola	Equatorial Guinea	Mozambique	Seychelles
Bahamas	Fiji	Papua New Guinea	Solomon Islands
Bahrain	Grenada	Qatar	Swaziland
Botswana	Guinea-Bissau	St. Christopher	Togo
Brunei	Kampuchea	and Nevis	Tuvalu
Darussalam	Kiribati	St. Lucia	United Arab Emirates
Cape Verde	Lesotho	St. Vincent	Yemen, Democratic

THE GATT ROUNDS, FROM GENEVA (1947) TO URUGUAY (1986)

The main negotiations have been as follows:

- April–October 1947** **The first multilateral negotiations—Geneva Round:** The 23 countries participating in the drafting of the Havana Charter negotiated at the same time tariff cuts covering a trade volume representing half of world trade. 45,000 tariff concessions were exchanged.
- 1949–1956** **Tariff negotiations** were held at **Annecy** (1949), **Torquay** (1950–51) and **Geneva** (1955–56). Only the Torquay Round yielded appreciable tariff reductions (of some 25 per cent in relation to the 1948 level).
- May 1961–March 1962** **Dillon Round.** Following the establishment of the European Economic Community in 1957, large-scale tariff negotiations were held between September 1960 and May 1961 under **Article XXIV:6** of the General Agreement. Under that Article, any customs union or free-trade area must be examined by GATT in order to ensure that its establishment does not result in a higher average level of protection of its members in relation to third countries.
- These Article XXIV:6 negotiations were supplemented by a round of tariff negotiations, proposed by Douglas Dillon, Under-Secretary of State of the United States. The Dillon Round yielded modest results: only 4,400 tariff concessions were exchanged, and agriculture and certain sensitive products were excluded from them.
- November 1963–May 1967** **Kennedy Round.** The adoption of new tariff negotiating methods (multilateral across-the-board reduction) for industrial products resulted in an average tariff reduction of 35 per cent in this area, staged over five years. Product-by-product reductions in the agricultural sector were much less substantial.
- With the Kennedy Round, the negotiations went beyond the subject of tariffs for the first time, leading in particular to the conclusion of the Anti-Dumping Code, the first multilateral GATT agreement on non-tariff measures. This Round was also the starting point for formal recognition of a preferential mechanism in favour of the developing countries (non-reciprocity; faster implementation of concessions on products of interest to them; food aid) which was subsequently embodied in Part IV of the General Agreement, adopted in November 1964.
- September 1973–November 1979** **Tokyo Round.** The Ministerial Meeting held at Tokyo from 12 to 14 September 1973 ended with unanimous adoption of the Tokyo Declaration by the 102 developed and developing countries represented there which were resolved to engage in trade negotiations of unprecedented scope. In February 1974 a work programme was adopted by the Trade Negotiations Committee (TNC) set up to oversee the negotiations. Ninety-nine countries, representing nine-tenths of world trade, took part. The results went far beyond the scope of previous negotiations, particularly in the non-tariff field and in agriculture, and included the preparation of a legal framework and the institution of an agreement on free trade in civil aircraft.
- Tariffs have been reduced on thousands of industrial and agricultural products, the cuts being implemented in stages up to January 1987 and ahead of schedule by several developed countries. The value of trade affected by these tariff cuts amounts to some US\$300 billion. The weighted average duty, i.e. the rate of duty weighted according to the volume of trade in the product concerned, of the nine principal industrial markets has been reduced from 7 to 4.7 per cent for industrial products, representing a cut of 34 per cent. By way of comparison, the weighted average duty was 35 per cent before the establishment of GATT and 15 per cent before the Dillon Round. Generally speaking, the biggest cuts have been applied to the highest duties, so that the tariffs of the principal countries have been brought closer together or “harmonised”. In the agricultural sector, on the other hand, the cuts have been less substantial.
- Furthermore tariff and non-tariff cuts have been granted on exports of tropical products from developing countries. Most of these were implemented in 1976 and 1977.

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Bangladesh	Haiti	Peru
Barbados	Hong Kong	Philippines
Belgium	Hungary	Poland
Belize	Iceland	Portugal
Benin	India	Romania
Brazil	Indonesia	Rwanda
Burkina Faso	Ireland	Senegal
Burma	Israel	Sierra Leone
Burundi	Italy	Singapore
Cameroon	Jamaica	South Africa
Canada	Japan	Spain
Central African Republic	Kenya	Sri Lanka
Chad	Korea, Rep. of	Suriname
Chile	Kuwait	Sweden
Colombia	Luxembourg	Switzerland
Congo	Madagascar	Tanzania
Côte d'Ivoire	Malawi	Thailand
Cuba	Malaysia	Togo
Cyprus	Maldives	Trinidad and Tobago
Czechoslovakia	Malta	Turkey
Denmark	Mauritania	Uganda
Dominican Republic	Mauritius	United Kingdom
Egypt	Mexico	United States
Finland	Morocco	Uruguay
France	Netherlands	Yugoslavia
Gabon	New Zealand	Zaire
Gambia	Nicaragua	Zambia
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- Furthermore tariff and non-tariff cuts have been granted on exports of tropical products from developing countries. Most of these were implemented in 1976 and 1977.

15-20 September
1986 to-date

The Ministerial Declaration at Punta del Este launches the "Uruguay Round": the eighth most ambitious and most complex round of trade negotiations in GATT's history (105 participating countries).

It embraces all the key-issues.

Standstill and roll-back provisions Surveillance Body.

Group of Negotiations on Goods, with 14 negotiating groups:

- Tariffs
- NTBs
- Natural resource-based products
- Textiles and Clothing
- Agriculture
- Tropical Products
- GATT articles
- MIN Agreements and Arrangements
- Safeguards
- Subsidies and Countervailing Measures
- Trade-related aspects of Intellectual Property Rights (TRIPs), including trade in counterfeit goods
- Trade-related investment measures (TRIMs)
- Dispute settlement
- Functioning of the GATT system

It is expected that four substantive issues will be at the heart of the negotiations:

- the problems not adequately treated in previous rounds (subsidies and safeguards)
- the liberalization of sectors (agriculture and textile and clothing) left aside in previous rounds
- the adoption of rules for "new" areas (trade-related aspects of intellectual property rights and trade-related investment measures)
- participation of developing countries in the GATT system

Group on Negotiations on Services:

- establishment of a conceptual framework ("Services Code") akin to that in place for trade in goods and commodities
- with three broad principles as guideposts for national policies:
 - (a) transparency;
 - (b) non-discrimination;
 - (c) the right to transact business.

Reaffirmation of two fundamental principles:

- (a) tariffs, as the only acceptable form of permanent protection;
- (b) non-discrimination, so as to depoliticize trading relationships.

Improvement of surveillance and dispute settlement:

because of increased request for openness and transparency, at both national and international level;
because of the necessity of effective and relatively speedy dispute settlement procedures.

2. THE REQUIREMENTS OF THE PARTICIPATING COUNTRIES AND OF MAJOR ECONOMIC ORGANIZATIONS, WITH SPECIAL EMPHASIS ON THE THREE MAJOR TRADING POWER (USA, EEC, JAPAN), SMALLER DEVELOPED ECONOMIES, EASTERN COUNTRIES AND KEY DEVELOPING NATIONS.

GATT membership covers nearly all countries of some importance in international trade except a few OPEC countries and a few socialist countries, notably the USSR. Originally, the centers of power were the United States of America, which had designed the legalist model of the GATT, and a fragmented collection of relatively small European and British Commonwealth states, for which a rule-oriented, legalist model of regulation, also made sense. The formation of the EEC and the economic resurgence of Japan transformed the GATT power structure into a triad of economic superpower (the EEC, the United States of America and Japan). However, ever since the start of the EEC, there has been something of a "bigemony" over activities in GATT, with the USA frequently in the role of initiator and the EEC as the responding party. Thus, although the launching of the most recent rounds (such as the Tokyo and Uruguay Rounds) was stimulated by Japan as well, the conduct of the GATT negotiations depended critically on US-EEC agreement. When such an agreement does not take place simple nothing happens, as in agriculture and in the GATT's dispute settlement procedure, no matter how much other contracting parties try.

Therefore, the reasonably satisfactory functioning of the world trade system has to be attributed primarily to the dominant position of the EEC and the USA with GATT as a mutually accepted and mild constraint.(12)

The erosion of the hegemonic economic position of the USA in the Western system has, however, led to endless harassments across the Atlantic. The two trading superpowers have thus been "bickering" in and outside the GATT, notably on highly contentious areas (such as agriculture, steel, spaghetti, wine, machine tools, extraterritoriality of the US law, compensation for the EEC enlargement).(13)

Moreover, more recently, the USA, increasingly frustrated by a horrendous and persistent merchandise trade deficit (US\$ 170 billion in 1986), have started to slouch aggressively towards protectionism, threatening for 1988, a presidential election year, an across-the-board import surcharge (permitted under GATT because it would be applied for balance of payment reasons), as well as an official auction market for the import quotas.

In fact, the U.S. Congress, as well as the American public, has decided that "everyone must begin playing by the rules that were agreed upon - or the USA will write a new rule book". Thus, even the GATT is accused of ineffectiveness. "Getting an answer from GATT to problem is like dropping a rose petal over the Grand Canyon and waiting for the echo" complains Senator Loyd Bensen who leads the political charge for protectionism in Congress and who, along with the so-called Texas mafia, whose voice is said to dominate matters of trade in Congress, bluntly underlines that "we have permitted foreign countries to use freely their advantages of lower wage rates, lower defense-spending burdens and domestic subsidies to bite off huge pieces of the U.S. market. They, in turn, have thrown up barriers to constrain many of our natural advantages, such as our low cost agriculture and advanced technology". (14)

Senator Robert Straus (formerly U.S. trade ambassador in the Carter Administration) adds "in recent years, the U.S. has borne almost exclusively the burden of keeping world trade flowing. In the 1982 through 1985 period, the U.S. absorbed 55% of the increase in non-oil LDC exports, while Japan took just 10% of the extra and the EEC 20%. Today, the U.S. buys 55% of the manufactured goods exported by the developing countries, while Western Europe takes half that much and Japan a measly 9%. Expanding their share to the same per capita level as the U.S. would add an estimated US\$ 250 billion a year to world trade. Yet, for all their pious talk about helping the poorer countries, Germany and Japan refuse to play their part, while U.S. resources have been stretched to the breaking point. This country is no longer rich enough to carry world trade and Free World defense unaided ". (15)

With the U.S.A. on the offensive, the EEC, in order not to remain on the defensive, has accepted as its own the themes of liberalization of the "Uruguay Round". (16) The European attitude, however, is quite different from the one culminated in the Kennedy Round. At that time, a strong and united EEC, dealing as an equal, directly attacked the U.S.A. with constructive proposals, proving to be less and less disposed to accept American leadership. (17) "We do not have any choice", underlined Willy de Clerq, in-charge for international relations of the EEC, "we are bound to succeed in the Uruguay Round".

The EEC, in fact, wants to defuse a trade war with the U.S.A., so as to seek accommodation in the GATT on important sources of trade friction, notably on agriculture. Will de Clerq, in fact, added: "We are ready to speak of agriculture in a global context". (18)

The EEC successfully resisted wording which would have singled out subsidies, something it claims is a discriminatory attack on the working - officially non-negotiable - of the common agricultural policy (CAP). But, the U.S. - supported by the increasing influential "Cairns Group" of 14 agricultural "fair-traders", (19) said that demand for a progressive reduction of export subsidies is clearly encompassed by phrases referring to the "phased reduction" of the negative effects of farm-support measures "and dealing with their causes".

The EEC, in fact, has been weakened by longstanding internal dissent between countries, such as France, determined to preserve the costly edifice of the CAP and those, such as Britain and the German Federal Republic, which want reform. (20)

The German minister for agriculture, Ignaz Kiechle, stated, "in fact, the time has come (for the first time in GATT history) to put an end to the massive subsidies, notably for the export of agricultural products". (21) With the difference, however, that the EEC will have to adapt more than the United States or Japan. Its system of farm support relies particularly upon using state spending to store, or export the surpluses encouraged by the high prices paid to farmers by consumers. America instead devotes part of its farm spending to taking land out of production. Japan robs its consumers more than any other country, but it does so through a system of institutionalized inefficiency which keeps Japan a net importer of food. (22)

The EEC weakness is, on the other hand, only partially compensated by a "standstill" on all protectionist measures and an active participation to the OECD "roll-backs" operation. Moreover, the recognition, even in the U.S.A., that trade and monetary negotiations have to proceed apace and that trade negotiations can yield important new export opportunities with successful developing countries (such as South Korea, Brazil, India) which could be persuaded to make reciprocal concessions. (23)

Like the U.S.A., Europe is, on the other hand, pressing Japan to liberalize trade in areas that would benefit European exporters. For instance, on such items as luxury automobiles, high quality textiles, spirits and tobacco products, and selected services, such as insurance, finance and management consulting. Indeed, for the EEC to liberalize many of its quantitative restrictions, largely directed against Japanese imports, Japan has to provide significant and reciprocal concessions in areas of interest to European exporters.

Japan occupies a special position in the GATT negotiations.

Although it is now an economic superpower (24), Japan - as a commercial, industrial and financial entity - is still not significantly integrated with the other countries. This is partly due to geographical distance. There are, however, other historical reasons: firstly, Japan is an inward-looking country which has tried to stay free of international entanglements; secondly, during its process of modernization, Japan adopted a strategy of protecting and promoting industries which would yield the best development and export performance (25). Thus, Japan has a structural current account surplus not only with the USA and the EEC, but also with a large number of countries in both the Third and First Worlds.

Japan's imports of manufactured goods remain at the lowest level, compared with America and Europe because, in order to feed its industrial machine, the Japanese need raw materials, not Western manufactured goods. Hence, their low propensity to import from other industrialized countries, and their concentration on the industrialized markets in their efforts to dispose of their surplus production.

Since the 1960s, the Japanese have repeatedly liberalized their overt barriers and procedures affecting foreign trade and investment. Moreover, the Japanese have also phased out the powerful export incentives which were offered to firms in the 1960s. However, none of these efforts have produced the desired results. Japan over-produces, and its consumers have no need of Western imports.

But this stark and elementary reality does not diminish the perception of Japan as an unfair trader in the eyes of foreigners. In fact, although Japan's average tariff is of the order of 3% and, therefore, among the lowest levels in the industrialized world, complaints have multiplied that the Japanese are today protecting their industries with less formal barriers, such as the exclusive nature of Japan's business-seller relationships, or the cost and complexity of the Japanese distribution system.

The current trade row has, thus, created an atmosphere of "unceasing acrimony" (an expression used by Ambassador Nobuhiko Ushiba) which may extend frictions in the political-security sphere.

In fact, for the USA, a major preoccupation is that Japan is beginning to monopolise some aspects of high technology thought to be vital to America's security. It was this that led to the blocking of a proposed takeover of Fairchild Semiconductor, which makes microchip for the defence industry, by Fujitsu, a Japanese firm. At the same time, many Americans believe that Japan's limited spending on defence means that it competes against an America that is hindered by having to carry so much of the free world's burden.

Thus, on the "world's most important bilateral relationship" - as Ambassador to Japan Mike Mansfield calls it - a shadow has been cast, which may produce a dangerous combination of options, evoking memories of the Greater East Asia Co-Prosperity Sphere.

There is, in fact, a growing feeling among Tokyo's trade negotiators that the USA (after having tried and failed to blame their inability to compete with the Japanese on Japan's cheap labour, export subsidies, strategic industrial policy, dumping, workaholism, invisible trade barriers, meagre social amenities, high savings ratio and, generally, the Japanese character and way of life) is now changing the very rules of trade it has fashioned for the world. Some Tokyo officials have, therefore, suggested that Japan (fed by psychological renaissance emphasizing the natural superiority of the Japanese intellect and character) could cut trade ties with the West and work on a North East Asia economic sphere, including the communist powers (26).

Objective constraints will hinder Japan from actually choosing such a policy in the near future, because the Japanese are well aware that no economic regionalism excluding the USA and Western Europe would match the existing trade pattern, centred as it is on the industrialized West, in benefitting Japan. Yet, regionalism remains a natural impulse whenever Japan feel rebuffed by the USA, or the West.

In this context, Japan's main goal in participating in the "Uruguay Round" is to preserve a liberal trade system and avoid a protectionist backlash. Japan, in fact, has more to gain from a negotiating process than from actual conclusion of agreements that would likely require Japan to make substantial concessions. In particular, the major Japanese priorities in the "Uruguay Round" refer to:

- (a) reversing the erosion of discipline of the GATT system, with a special emphasis on the issue of safeguards;
- (b) improving trade prospects for the debt-ridden developing nations;
- (c) reforming the GATT to meet the trade challenges of the 1990s, including reforms of GATT dispute settlement procedures and increased participation by developing countries in the GATT codes negotiated during the Tokyo Round.

Japan's participation in the "Uruguay Round", moreover, offers an opportunity to show the world that huge current account surpluses can be harnessed to the cause of trade liberalization. Thus, the Keidanren, the most powerful organization in Japan's corporate world, has argued that Japan must remove all tariffs on imports of industrial goods and the Maekawa Report of April 1986, on "economic structural adjustment for international harmony", personally commissioned and endorsed by the Prime Minister Nakasone, has called for higher Japanese growth rates through enhanced domestic demand and an increase in imports which would have macroeconomic consequences.

Thus, participation in the new round of GATT negotiations should lessen the risk of trade conflicts degenerating into total warfare, as well as more safely integrate Japan with the world economy through Germanization of its trading pattern (27), and more direct investment overseas (28).

In such an effort to become a "responsible" global partner, Japan needs the sympathy and understanding of its major Western allies. As stressed by U. Agnelli "With the Japanese we must learn to compete, as well as to cooperate. The real fundamental approach towards the Japanese is not to adopt a protectionist attitude, which would halt the internationalization process of the world economy, but to enhance our productivity, reduce our costs, guarantee the quality of our products and services, compete with them, in conditions of strength and cooperate with them, when this is useful and possible" (29).

Thus, in the "Uruguay Round", the West should avoid to exacerbate trade frictions especially on sensitive issues characterized by "unique cultural importance". (30)

JAPAN'S CHANGING EXPORTS

Industry	% change in export volume (Jan-Jun 1986 over Jan-Jun 1985)	Outlook for 1986 (Companies' own assessments as reported to MITI)
Colour TVs	- 51.6	Losses for manufacturers because of continuing collapse of China market and increasing production in America by Japanese subsidiaries
Cement	- 34.0	Output for full year down 6 %
Toys	- 24.0	-
Binoculars	- 23.0	Camera output to increase by 5 % mainly because of new models. Watchmaker's profits likely to halve for full year.
Watches	+ 25.8	
Cameras	+ 14.8	
Polyester fibre	- 20.5	Production cuts expected. Prices to remain at rock bottom. Cotton fibre producers to make losses.
Cotton fibre	+ 4.8	
Acrylic fibres	+ 16.2	
Tyres	- 5.3	Car exports to fall slightly in second half. Partsmakers to follow car manufacturers offshore.
Lorries	- 4.6	
Fork lifts	- 3.6	
Cars	+ 11.6	
Personal Computers	- 1.6	Still competitive at current yen levels. Will increase offshore production in South-East Asia.
Machine tools	- 1.4	Production likely to fall by 20 % in second half.
V T R s	+ 14.2	Output expected to grow steadily in second half. But difficult to raise export prices, so profits likely to be cut by half for full year.
Semiconductors	+ 16.0	Demand recovering, but industry will have to cope with US-Japan chip-trade agreement. More offshore local production expected.
Fax machines	+ 45.4	-
Bar steel	- 33.0	Overall output of crude steel to fall by 6-7 % in full year to below 100m tonnes.
Rolled steel products	- 3.5	

Source: Nihon Keizai Shimbun, Miti.

As it is the case in Japan's rice system, which, although supporting grossly inefficient farmers, keeps Japan self-sufficient in at least one staple, as well as providing political stability (31).

High consumer prices are hardly a problem when set against the stability that the food-control system and rice protection provide.

In fact, agricultural trade liberalization will not kill off Japan's agriculture, because there will always be a market in Japan, for high-quality products, which are not grown abroad, including high-quality rice. At best, US rice could only fill a niche in the Japanese market (32), although questioning policies that protect Japanese farmers will gradually favour, with more urban political leaders, a rollback in farm subsidies.

With the exception of the more diversified Australia, smaller developed countries have in common a heavy dependence on a market.

Canada depends on the USA for more than 75 per cent of its export earnings; the Scandinavian countries, Switzerland and Austria depend on the EEC for about 50% of their exports. Canada, in addition to support the "Uruguay Round", has started talks on a free-trade area with the USA to ensure that the USA market remains open (33). In fact, although 80 per cent of Canadian exports already enter the USA duty free, numerous barriers remain, including high tariffs on specific products, a series of domestic subsidies, and restrictive government procurement practices (34).

As with Canada, the primary goal for Switzerland, the Scandinavian countries and Austria is to seek open access to the large markets of their close neighbours. Swiss, Austrian and Nordic trade with the EEC is still hampered by a wide array of barriers, although the recent extension from the EEC to the EFTA area of the so-called "unique administrative document", as well as the adoption of a common customs procedure will facilitate trade relations (35).

In fact, a major EFTA countries' strategy, within the "Uruguay Round", will involve closer EFTA-EEC trade arrangements, which already contribute for more than one-fifth to the EEC foreign trade and are more important than the EEC-USA trade links (36).

Many of the concessions that the Scandinavian countries, Switzerland and Austria will be called on to make will fall in the agricultural area. Swiss agriculture is even more protected than EEC agriculture. The same can be said of vegetables and speciality crops in Sweden. Another important area of Swiss - and, to a lesser extent - Sweden and Norway protection in textiles and apparel industries.

With its efficient agricultural and mining sectors, Australia has a vital interest in the "Uruguay Round". In fact, Australia would be a leading beneficiary of a US-EEC agreement to reduce agricultural export subsidies and an international commitment to promote adjustment and respect the safeguard principles of Article XIX (37).

In previous negotiations, instead, Australia (along with New Zealand) has been deceived with GATT, all the more so that Australia has been the victim of several bilateral agreements on agricultural products. For instance, after the USA and Japan "liberalized" bilateral trade in beef, Australian exporters confronted lower import quotas in the Japanese market.

Within the "Uruguay Round", Australia (along with New Zealand) may also take the opportunity to explore the possibility of a free trade arrangement with the USA, as well as with the Asean countries, whereas already 20 per cent of Australian exports are sent by lowering and binding tariffs on a wide range of manufactures.

The gradual evolution of the planning methods and development strategies in the socialist countries of Eastern Europe has been associated with a change in attitude towards foreign trade and its role in the development process. With growing emphasis on technological progress and productivity, external trade is being regarded as an essential means for accelerating structural change and raising the efficiency of the national economy. Against this background, the hope for the socialist countries of Eastern Europe is that the new GATT negotiations can provide an opportunity for relaunching East-West relations negatively affected by: (a) rising protectionism; (b) the discrimination applied by many of the developed market-economy countries, mainly for non-economic reasons; (c) the increasing competition, from subsidiaries of trans-national corporations in some newly industrialized countries, for a widening range of manufactures. (38)

The keen interest of the socialist countries of Eastern Europe for the "Uruguay Round" has been enhanced by the Soviet Union's move to participate in the new negotiations, even as only an observer. But such a move has been rejected by the USA. Officially because it is difficult to implement trade liberalization measures with state-trading countries. In reality, because the United States wants to keep the GATT isolated from any political environment. (39)

In fact, six centrally-planned economies are already members of the GATT (Cuba, Czechoslovakia, Hungary, Poland, Romania and Yugoslavia). In addition, China and Bulgaria, already participating as observers, have initiated procedures for accession to the GATT.

Moreover, since Socialist countries' exports to the West have not grown sufficiently to finance those countries' import spending (only made possible by foreign credits), (40) it seems necessary to take concrete action in the GATT to expand East European exports to the West.

In fact, paradoxically (given the unwise East European strategy to participate in the GATT at very little cost in terms of commercial commitments), in previous GATT negotiations not much was granted to the East European countries in terms of better access to the Western markets.

Thus, the balance of cost and benefits, especially between Western Europe and the Socialist country members of the GATT, (41) must be re-established, if trade between the two groups is to develop along some dynamic path, especially by promoting new forms of trade expansion - such as joint-ventures, tripartite co-operation and other forms of industrial co-operation - to be considered in the "Uruguay Round" within the debate on the impact of "trade-related investments".

In fact, specialization and joint production in the framework of co-operation agreements have brought a new kind of intra-sectoral complementarity in several fields of industries of both groups of countries. This has had a positive impact on the diversification of their mutual trade and facilitated the expansion of co-operation to third countries.

Although previous rounds have extended some benefits to developing countries, particularly through MFN concessions, their problems have largely remained unattended, (42) in that:

- (a) tariff reductions have been mostly in sectors of interest to major trading partners;
- (b) non-MFN application of various Tokyo Round Codes has excluded most of the developing countries from the benefits;
- (c) area of crucial importance, such as agriculture, safeguards and tropical products are still unresolved, despite repeated pronouncements as to their priority status at various GATT Ministerial Meetings;
- (d) the textiles and clothing sector is still outside the normal GATT rules (i.e. the new MFA will be even longer than previous four-year agreements—running for five years — and it has been extended to cover some silk blends and vegetables fibres, such as ramie, sisal and jute);
- (e) the provisions relating to special and differential treatment have not yet found a fully enforceable position in GATT, while the handicap borne by weaker trading partners in GATT is becoming more acutely evident.

Developing countries in the "Uruguay Round" have, therefore, a great deal at stake. Since the Tokyo Round, their exports (still perilously dependent on primary commodities) have faced increasing barriers in developed country markets, especially for steel, textiles and apparel, footwear, and consumer electronics.

Moreover, developing countries — whose growth rates, except for Asia, have slowed down dramatically since the early 1970s — rightly worries that more doors will close if Japan's row with America (and Europe) continues. "Third World Countries need GATT to protect them from the big guys", a Latin American trade expert says. (43)

Thus, the overriding objective of all LDCs in the "Uruguay Round" is the maintenance and strengthening of the multilateral trading system. Although, as emphasized by a small but influential group led by India and Brazil, the new GATT negotiations should mainly be focused on reversing the protectionism of recent years and on ensuring that existing rules, particularly for trade in manufactures, are respected by all members. (44)

"Roll-back", tariff concessions, the reduction or elimination of tariff escalation, and liberalization in tropical products, natural-resource-based products, and textiles and clothing should, thus, be sought as a priority objective in the negotiations. In this context, the credibility of the negotiating process would seem to rest very much upon action in the area of tropical products, where commitments to provide unilateral duty-free treatment have been outstanding for almost 25 years and which has repeatedly been identified as a "priority sector" in successive GATT Ministerial declarations. (45)

The "Uruguay Round" could also provide an opportunity for the general revision of the Tokyo Round Codes and for the establishment of a separate group to deal with subsidies and countervailing duties. In fact, countervailing and anti-dumping investigation, as well as the actual imposition of related measures, have increased dramatically since the entry into force of the Tokyo Round Codes and more frequently directed against imports from developing countries.

As to greater liberalization of trade in agriculture, the new negotiations might lead to concrete results for the developing countries if they focus on specific problems and products of interest to them. Specific actions might involve:

- (a) tariff reductions and a wider range of bindings on agricultural products of interest to developing countries to restrict the scope and trade effect of para-tariff barriers (such as variable levies);
- (b) expansion of the GSP to cover a much wider range of agriculture products;
- (c) the elimination or substantial amendment of waivers and special protocols;
- (d) greater discipline on domestic and export subsidies, which could be achieved, as already mentioned, through the envisaged renegotiation of the Tokyo Round Code on Subsidies and Countervailing Duties;
- (e) the elimination of quantitative restrictions in context of an improved safeguard mechanism; and
- (f) improved discipline over health and sanitary regulations within the context of the GATT Code on Technical Barriers to Trade. (46)

Key-developing countries, especially the creditworthy NICs, that have the most to gain from the new trade talks, can influence the move towards freer trade by actively participating in the "Uruguay Round" (i.e. by eliminating their own trade restrictions and opening their own domestic markets). (47) Concessions from the NICs could take the form of conversion of quantitative restrictions to tariffs, followed by reduction of very high tariffs (i.e. over 100 per cent). In addition, the NICs could extensively bind tariffs, reduce trade-related investment restrictions, dismantle countertrade requirements, adopt a standstill on new restrictions, and, above all, graduate from the special provisions of PART IV of the GATT. (48)

Key-developing countries should equally participate in the clarification of existing GATT provisions relating to intellectual property and the elaboration of new rules and disciplines to promote effective and adequate protection of intellectual property rights, with the aim of developing a multilateral framework of principles, rules and disciplines with international trade in counterfeit goods.(49)

Moreover, key-developing countries should envisage the participation in the elaboration of further provisions in the GATT system that may be necessary to avoid trade-restrictive and distortive effects of investment measures imposed on foreign investors, for example, export-performance, local-content and technology-transfer requirements.

Hence, with a more responsible role in promoting trade liberalization (50), the Third World, in parallel with negotiations on development finance and debt, might also be able to contribute to an improved multilateral safeguard system (already envisaged in the Tokyo Declaration), so as to establish a more solid contractual barrier to the proliferation of discriminatory managed trade mechanisms (such as the voluntary export restraints and the orderly marketing arrangements).

Another contributing factor in the internazionalization of trade, especially among developed countries, is the increased participation by transnational corporations (TNCs). The TNCs have come to be major actors in world trade. According to some estimates, in 1982 the total revenue of the top 200 transnational corporations in the manufacturing of goods was US\$ 1,853 billion, compared to US\$ 1,192 billion for the services sector. (51) The TNCs, endowed with production facilities in many countries (especially in Western Europe and North America), have been a driving force behind the liberalization process under the GATT system. Tariff liberalization has, in fact, encouraged intra-industry specialization, especially where production of component parts takes place in several countries (as evidenced by the successful negotiations of the Agreement on Civil Aircraft). In addition, many developed countries have adopted a special import régime (52) permitting the TNCs to bypass restrictions by international sub-contracting so as to have resort to a worldwide integration of production based upon a global strategy.

However, the recognition of the role of TNCs in the development of new technologies in production innovation and in the penetration of export markets for goods and services has also led to being considered as "national champions", whose interest are increasingly seen to coincide with national goals. As a result, since increased participation by transnationals has implications for the structure of international trade (including the growing oligopolistic nature of world trade, transfer pricing and a greater impact of restrictive business practices), (53) the TNCs also resist trade liberalization, notably in "sensitive" sectors (such as textiles and steel), as well as vis-à-vis countries (such as Japan) not yet participating in intra-industry specialization.

In this respect, it is significant that in the renewal of the fourth MFA, the TNCs have kept a low profile, preferring to voice their concerns through Northern trade associations which also represent the interests of the small and medium firms. These firms were most vocal in calling for protectionism since they have been the hardest hit by the TNC outward processing and Third World imports. Indeed, Comitextil, Europe's textile industry organization, largely shaped the European position at the negotiations on the vital issue of the Asian "Big Three" - Taiwan, South Korea and Hong Kong - bilateral agreement and limitation of import growth to EEC consumption levels. (54)

On the other hand, the TNCs need for "cross-fertilization" through international alliances is producing new challenges. In particular, since between the USA and Japan there will not be a trade war (the two countries being forced to work together because of advanced economic and financial integration), the newly established American-Japanese TNCs (with Japanese ownership and management operating in the American system) are emerging as great competitors in many sectors. A blatant example is the US-Japanese agreement on semiconductor angrily contested by the EEC, because "it contradicts world rules on free trade and attempts to control the world market". (55) In fact, with the European industry vanquished, America and Japan between them make about 90 per cent of the world's semiconductor chips, though the customers are not entirely captive (the Republic of South Korea being poised to challenge the duopoly, at least in some kind of chips).

SHARES OF COUNTRY GROUPS IN WORLD MERCHANDISE TRADE,

1980, 1985 AND 1986

(Percentages)

<u>Importing area</u>	<u>Exporting area</u>	<u>1980</u>	<u>1985</u>	<u>1986</u>
Developed countries	Developed countries	45	50	54
	Developing areas	20	15	13
	Eastern trading area	3	3	3
Developing areas	Developed countries	15	13	13
	Developing areas	7	6	5
	Eastern trading area	2	2	2
Eastern trading area	Developed countries	3	3	3
	Developing areas	1	2	1
	Eastern trading area	4	6	6
		<u>100</u>	<u>100</u>	<u>100</u>

The above Table offers a convenient guide to the relative importance of each of the nine separate trade flows involving the developed countries, the developing areas and the Eastern trading area.

The share of each of the three groups of countries in world imports in a particular year is easily obtained by adding the three figures for the group in question. For example, in 1986, the respective shares in world imports were 70 per cent for the developed countries, 20 per cent for the developing area and 10 per cent for the Eastern trading area.

It is slightly more complicated to obtain their respective shares of world exports. For example, the developing areas' share of world exports in 1986 is obtained by adding the shares accounted for by their exports to the developed countries (13 per cent of world exports), their exports to one another (5 per cent), and their exports to the Eastern trading area (1 per cent), for a total share in world exports of 19 per cent.

SOURCE: GATT Secretariat estimates.

LEADING EXPORTERS AND IMPORTERS IN WORLD MERCHANDISE TRADE,

1985 and 1986

(Percentages)

		Exports (f.o.b.)		Imports (c.i.f.)					
Rank 1986	1985	share in world exports		Rank 1986	1985	share in world imports			
		1986	1985			1986	1985		
1	2	Germany, Fed. Rep.	11.5	9.6	1	1	United States	17.8	18.1
2	1	United States	10.3	11.1	2	2	Germany, Fed. Rep.	8.7	7.9
3	3	Japan	10.0	9.2	3	5	France	5.9	5.4
4	5	France	5.9	5.3	4	4	United Kingdom	5.8	5.4
5	4	United Kingdom	5.0	5.3	5	3	Japan	5.8	6.5
6	8	Italy	4.6	4.1	6	6	Italy	4.5	4.6
7	6	Canada	4.3	4.7	7	7	USSR	4.1	4.1
8	7	USSR	4.1	4.5	8	8	Canada	3.9	4.1
9	9	The Netherlands	3.8	3.6	9	9	The Netherlands	3.4	3.3
10	10	Belgium-Luxembourg	3.3	2.8	10	10	Belgium-Luxembourg	3.1	2.8

LEADING EXPORTERS AND IMPORTERS IN WORLD MERCHANDISE TRADE,

1985 and 1986

(Percentages)

		Exports (f.o.b.)		Imports (c.i.f.)	
		share in		share in	
		world exports		world imports	
		1986	1985	1986	1985
<u>Rank</u>				<u>Rank</u>	
1986	1985			1986	1985
11	Taiwan	1.9	1.6	11	China
12	Switzerland	1.8	1.4	12	Switzerland
13	Sweden	1.7	1.6	13	Hong Kong
14	Korea, Rep. of	1.7	1.6	14	Spain
15	Hong Kong	1.7	1.6	15	Sweden
16	China	1.5	1.4	16	Korea, Rep. of
17	Spain	1.3	1.3	17	German Dem. Rep.
18	German Dem. Rep.	1.3	1.3	18	Austria
19	Saudi Arabia	1.2	1.4	19	Australia
20	Austria	1.1	0.9	20	Singapore
	<u>Total</u>	<u>78.0</u>	<u>74.3</u>		<u>Total</u>
					<u>78.0</u>
					<u>76.6</u>

SOURCE: IMF, International Financial Statistics, and GATT Secretariat estimates.

INTERNATIONALIZATION BY MAIN ZONES IN 1983

(share of each zone in investments, imports and exports
of world market economies)

Country of Origin or Host Country	Investments carried out	Exports	Imports	Investments received	Share in the production
U.S.A.	34,6	13,6	16,3	18,5	33,1
Canada	3,0	4,2	4,9	10,4	3,0
Western Europe	47,7	53,8	45,5	38,5	32,7
of which: intra-Europe	17,3	31,2	32,3	17,3	
outside intra	30,4	22,6	13,2	21,2	
Japan	8,5	13,3	3,2	1,9	15,3
ANZUS (Australia, New Zealand and South Africa)	1,9	1,5	2,9	6,5	2,3
Middle East	1,2	1,1	9,9	1,1	1,4
Africa	0,4	0,2	2,2	2,3	0,5
Latin America	0,8	3,7	4,9	12,7	6,0
Asia	1,9	8,6	10,2	8,1	5,7
Total	100,0	100,0	100,0	100,0	100,0

SOURCE: C.E.P.I.I.

IMPORTS OF THE SEVEN MAJOR ADVANCED COUNTRIES,
CURRENT PRICES AND EXCHANGE-RATES

(absolute values and relative position of each country on total)

YEAR	Italy	German Fed. Rep.	France	U.K.	U.S.A.	Japan	Canada	Total
	Billion US\$ %	Billion US\$ %	Billion US\$ %	Billion US\$ %	Billion US\$ %	Billion US\$ %	Billion US\$ %	Billion US\$ %
1960	5.2 7.0	12.0 16.3	6.9 9.4	15.4 21.0	22.2 30.3	4.5 6.1	7.2 9.9	73.3 100
1970	16.7 8.7	35.4 18.5	21.3 11.1	26.6 13.9	54.3 28.4	19.6 10.2	17.6 9.2	191.5 100
1980	99.9 8.9	209.1 18.6	140.7 12.5	150.7 13.4	285.6 25.3	172.4 15.3	68.4 6.1	1126.8 100
1985	100.0 8.6	181.5 15.5	123.4 10.6	127.8 10.9	398.6 34.1	146.6 12.6	89.6 7.7	1167.8 100
1986	115.7 9.0	216.9 16.9	143.4 11.2	145.1 11.3	419.9 32.8	143.6 11.2	96.2 7.5	1280.7 100
1987	134.9 9.4	256.6 17.8	165.7 11.5	163.2 11.3	454.1 31.5	161.5 11.2	104.0 7.2	1440.0 100

SOURCE: WHARTON WORLD ECONOMIC SERVICE, HISTORICAL DATA, JANUARY 1985 & WHARTON WORLD ECONOMIC OUTLOOK DECEMBER 1986

EXPORTS OF THE SEVEN MAJOR ADVANCED COUNTRIES,
1975 CONSTANT PRICES AND EXCHANGE-RATES

(absolute values and relative position of each country on total)

YEAR	Italy	German Fed. Rep.	France	U.K.	U.S.A.	Japan	Canada	Total
	Billion US\$ %	Billion US\$ %	Billion US\$ %	Billion US\$ %	Billion US\$ %	Billion US\$ %	Billion US\$ %	Billion US\$ %
1960	9.7 6.3	22.4 14.5	15.1 9.8	36.7 23.8	48.9 31.7	7.5 4.9	14.2 9.2	154.5 100
1970	29.9 9.3	53.3 16.6	31.5 9.8	51.7 16.1	89.2 27.8	31.6 9.8	33.8 10.5	321.0 100
1980	39.2 5.2	172.3 22.8	83.5 11.1	79.4 10.5	181.8 24.1	154.7 20.5	44.3 5.9	755.2 100
1985	24.2 3.5	148.9 21.6	49.5 7.2	48.8 7.1	166.7 24.2	199.8 29.0	51.8 7.5	689.8 100
1986	32.4 3.8	206.5 24.2	64.5 7.6	55.9 6.5	169.6 19.9	271.9 31.8	53.1 6.2	853.8 100
1987	37.0 3.7	251.1 25.3	78.1 7.9	59.6 6.0	179.9 18.2	328.4 33.1	57.1 5.8	991.2 100

SOURCE: WHARTON WORLD ECONOMIC SERVICE, HISTORICAL DATA, JANUARY 1985 & WHARTON WORLD ECONOMIC OUTLOOK DECEMBER 1986

3. THE MAIN FEATURES OF GLOBAL TRADING ARRANGEMENTS

(A) REDUCTION AND HARMONIZATION OF CUSTOMS TARIFFS

The history of GATT is mostly bound up with that of the tariff rounds. In this context, until the early Sixties only the Torquay Round (1950-1951) yielded the most appreciable tariff reductions (of some 25 per cent in relation to the 1948 level). Then, with the Kennedy Round (November 1963 - May 1967), the adoption of new tariff negotiating methods (multilateral across-the-board reduction) for industrial products resulted in quite significant tariff cuts (i.e. an average tariff reduction of 35 per cent staged over five years). Much less substantial, instead, were the product-by-product reductions, notably in the agricultural sector.

With the Tokyo Round (September 1973 - November 1979) further tariffs were significantly reduced; the cuts being implemented in stages up to January 1987 and ahead of schedule by several developed countries. In particular, according to the GATT secretariat estimates, the value of trade affected by the Tokyo Round tariff cuts amounted to some US\$ 300 billion, although in the agricultural sector the cuts have been less substantial. (56)

In the developed countries, tariffs on manufactures have, therefore, been substantially reduced, under the various GATT negotiating rounds, dropping the nationally weighted average rates on dutiable raw materials and manufactures to as low as 4.7 per cent in the EEC, 2.8 per cent in Japan and 4.4 per cent in the USA.

Moreover, the adoption in the Tokyo Round of the "Swiss proposal" of a non-linear cut intermediate between the EEC and the USA formulae (57), has reduced the dispersion of nominal tariffs, thus harmonizing the structures of effective rates of tariff protection.

Although the seven rounds of trade negotiations held in GATT since 1947 have lowered the level of tariff protection in industrialized countries to a point where they are of minor significance in their trade effect, there are still remarkable differences. In particular:

- (a) there is still more dispersion among USA tariffs than among EEC tariffs;
- (b) smaller developed countries (such as Australia, New Zealand, and Austria) have higher tariffs than the three trading super-powers;
- (c) the developed countries' tariff concessions vis-à-vis the developing countries still remain small; the quantitative impact of the GSP system is limited since a range of products (textiles, footwear, electronic, steel, etc.) are excluded; (58) and nominal tariff rates continue to escalate with the stage of processing;
- (d) with only a few exceptions (Hong Kong, Singapore, Kuwait) the average level and the dispersion of tariffs of most developing countries remain relatively high, when compared to developed countries, (59) and the degree to which such duties are bound is much less. As a result, they can be raised at will and without engaging in the negotiations for the grant of compensation provided for in Article XXVIII.

Further on, the tariff cuts are limited to manufactures and raw materials. No substantial trade policy reductions have occurred for agricultural products. Hence, although tariff negotiations have been somewhat overshadowed by more recent interest in non-tariff measures, they are, nevertheless, expected to retain considerable importance in the "Uruguay Round".

The negotiation plans adopted by the "Group of Negotiations on Goods" (GNG) on 28 January 1987, in fact, already marked out the field of negotiation by identifying the main questions on which the negotiators will have to take decision.

Import Tariffs in Industrial Countries Before and After
the Tokyo Round Cuts (Import Weighted m.f.n. Averages)

Importers	Raw materials(a)		Semi-manufactures		Finished manufactures		All goods(a),(b)	
	before	after(c)	before	after(c)	before	after(c)	before	after(c)
Nine major industrial country markets(d)	0.8	0.3	5.7	4.0	9.8	6.5	7.1	4.7
of which:								
EEC	0.24	0.2	5.7	4.2	9.7	6.9	6.6	4.7
Japan	1.5	0.5	6.6	4.6	12.5	6.0	5.5	2.8
USA	0.9	0.2	4.5	3.0	8.0	5.7	6.4	4.4

(a) Petroleum and related products excluded. - (b) Agricultural products excluded. - (c) Effective on 1 January 1987. -
(d) The three trading superpowers plus Austria, Canada, Finland, Norway, Sweden, and Switzerland.

Source: GATT

The major question affecting the whole Round is expected to regard the treatment to be given to developing countries. If the developing countries should make tariff cuts, would they adopt the same technique as the developed countries, or one specific to themselves ?

On the other hand, some participants believe that one contribution the developing countries could make to the tariff negotiations would be to accept a higher degree of binding of their tariffs.

This situation in the tariff area of the new negotiations is complicated by the fact that a new commodity description and coding system, the so-called "Harmonized System", will take effect at the beginning of 1988. The transposition of tariffs into this new system entails in many cases renegotiating the existing lists of concessions in order to maintain the balance of concessions and levels of protection. These renegotiations, which are in progress, are being held under the terms of Article XXVIII of the General Agreement.

(B) REMOVAL OF NON-TARIFF BARRIERS (NTBs)

NTBs have been around as long as trade has, but they have become more evident, because of success in eliminating tariffs. NTBs have also become visible because they are proliferating.

Of the five categories that governments and researchers generally regard as truly constituting NTBs, quantitative import restrictions (ceilings on the value of quantity of imports, as well as conditional or discretionary import authorization) and monitoring (surveillance, anti-dumping measures, countervailing duties, and price and volume investigations) are the most prevalent. But voluntary restraints (i.e. agreements between exporting and importing countries on the maximum value or number of items to be exported during a set period) are rapidly catching up, because of their increasing use for manufactured goods.

In addition, decreed prices (enforced through variable levies, minimum prices, or voluntary export-price restraints) and tariff-type measures (i.e. tariff quotas frequently applied only one or two months of the year) have also been expanding.

These categories should, however, not imply that there are only a few kinds of NTBs. Importing countries have been showing amazing ingenuity in expanding the panoply of variations and in applying them in new ways. Thus, according to a World Bank Study, (60) which looked at the merchandise imports of 16 industrial countries, almost 2,500 more country-commodity trade flows joined the list between 1981 and 1983, swelling their number to 88,500 and covering US\$ 13 billion more in trade. Moreover, the same study shows that NTBs affected 16.1 per cent of total manufactured imports (in 1983), a share rising to 18.6 per cent if NTBs on agricultural imports are included, while trade restrictions on fuels increase the overall share to 27.1 per cent. In particular, the EEC (especially France) (61) and the USA seem to be more protectionist than average, Japan apparently less. Moreover, the incidence of NTBs of the EEC and the USA is more pronounced on manufactured imports from developing countries than on those from industrial countries, while the opposite apparently holds true for Japan.

With the Kennedy Round, the GATT negotiations went beyond the subject of tariffs for the first time, leading, in particular, to the conclusion of the Anti-Dumping Code. The Kennedy Round, in addition, also contributed to the abandonment of the American Selling Price (ASP) (62) and to the adjustment of the system of taxation of motor vehicles in Europe. But, as upon the conclusion of the Kennedy Round, the American Selling Prices was not abolished (and, consequently, the techniques of the automobile road taxes in Belgium, France and Italy were not adjusted) an agreement in principle was reached only on the harmonization of administrative procedures regarding anti-dumping legislation. Thus, the almost unexplored field of non-tariff and para-tariff barriers was left to the Tokyo Round.

INDUSTRIAL COUNTRY IMPORTS
SUBJECT TO "HARD-CORE" NTBs,
1981 AND 1986

(percent)

Importer	Source of imports			
	Industrial countries		Developing countries	
	1981	1986	1981	1986
EEC	10	13	22	23
Japan	29	29	22	22
United States	9	15	14	17
All industrial countries	13	16	19	21

Note: "Hard-core" NTBs represent a subgroup of all possible NTBs. They are the ones most likely to have significant restrictive effects. Hard-core NTBs include import prohibitions, quantitative restrictions, voluntary export restraints, variable levies, MFA restrictions, and nonautomatic licensing. Examples of other NTBs which are excluded include technical barriers (including health and safety restrictions and standards), minimum pricing regulations, and the use of price investigations (for example, for countervailing and antidumping purposes) and price surveillance. Percentage of imports subject to NTBs measures the sum of the value of a country's import group affected by NTBs, divided by the total value of its imports of that group. Data on imports affected in 1986 are based on 1981 trade weights. Variations between 1981 and 1986 can therefore occur only if NTBs affect a different set of products or trading partners.

SOURCE: The World Bank

Negotiations on NTBs were the most innovative element of the Tokyo Round. About 800 most important NTBs were identified and, since it was not possible to negotiate on all of them, for the NTBs with a major incidence on trade appropriate, Codes of Conduct were agreed upon. In particular, five major Agreements have covered:

(1) customs valuation, by adopting consistent valuation practices using a so-called transaction value, thus removing administered prices as basis for valuation; (63)

(2) government procurement, by securing greater international competition in the government procurement market in all trading areas, through more transparent laws, regulations, procedures and practices, as well as through open and competitive bidding by both domestic and foreign firms; (64)

(3) import-licensing procedures, by ensuring (through simplification and publication of rules and information) that import licences are administered in a "neutral and fair" way; (65)

(4) subsidies and countervailing duties, by pledging that domestic subsidies will not be administered so as to harm trading interests of other countries and that countervailing measures against subsidies in other countries will not be used as to "unjustifiably impede" international trade; (66)

(5) technical barriers to trade, by ensuring that, when governments or other bodies adopt technical regulations or standards, whether for reasons of safety, health, consumer or environmental protection, or other purposes, these should not create unnecessary obstacles to trade; (67)

Moreover, another sectoral non-tariff agreement has covered:

(6) trade in civil aircraft, by abolishing tariffs on most civil aircraft and parts, as well as some NTBs on civil aircraft and parts. (68)

In addition, amendments to the anti-dumping code, were made by bringing certain of its provisions into line with the relevant measures of the Code on Subsidies and Countervailing Duties. (69)

Despite criticism (mostly from virtually all of the developing countries participating in the Tokyo Round), (70) the adoption of the Codes of Conduct, in addition to provide a framework for successful liberalization of NTBs, has introduced important innovations in the existing GATT rules.

The "Standards Code", in particular, signed by a relatively large number of countries (that is 37 Contracting Parties including 14 developing countries for which entry does not pose insuperable problems), has succeeded in providing improved access to foreign technology through information on standards and through encouraging the provision of technical assistance in setting up modern standardizing systems.(71)

Equally beneficial is the Agreement on Customs Valuation, signed by 25 Contracting Parties, which gives greater precision to the provisions on customs valuations already found in the GATT and has led to widespread harmonization of valuation systems (along with much increased predictability in duties payable by traders).

The Agreement on Import Licensing has been signed by 24 Contracting Parties, which have already submitted details of their national procedures and laws.

The Agreement on Government Procurement also constitutes a significant first step to reducing protection for domestic products and suppliers, and to providing transparency in this area. It has been operating satisfactorily, although its commercial impact will materialise only gradually, as entities become familiar with the opportunities it opens in markets which had traditionally been closed to foreign competition.

The Agreement on Subsidies and Countervailing Duties, instead, is not up to the task of solving, or alleviating subsidy-related trade problems. Many interpretative difficulties, especially for production subsidies, (72) have made impossible for the Surveillance Committee to reach clear conclusions in dispute cases. Thus, in the "Uruguay Round", the Tokyo Round Subsidies Code, as well as the relevant articles of the General Agreement (VI and XVI) will be reviewed fundamentally "with the objective of improving GATT disciplines relating to all subsidies and countervailing measures that affect international trade".

Last but not least, two elements of the "Codes" need to be emphasized. First, several features only apply to signatories. Thus, the Agreement on Government Procurement requires national treatment only among its signatories. Also, under several of the codes, special technical assistance is provided only to signatories. Second, only signatories may participate on the committees (whose activities will determine in most cases the actual meaning and force of the codes), which are set up according to each code to monitor adherence and to help settle disputes.

Although the six multilateral Codes concluded in the Tokyo Round represent appreciable progress, GATT's member countries, in the context of continuing the process of trade liberalization, have decided to up-date the NTBs inventory affecting world trade in industrial products. Thus, an 800-page inventory (73) now lists more than 600 measures covering five main headings:

- (1) government participation in trade and restrictive practices tolerated by governments;
- (2) customs and administrative entry procedures;
- (3) technical barriers to trade;

- (4) specific limitations, such as quantitative restrictions, import licensing, embargoes, exchange control, discrimination resulting from bilateral agreements, export restraints, measures to regulate domestic prices, tariff quotas, export taxes, etc.;
- (5) charges on imports, such as prior deposits, surcharges, discriminatory taxes, discriminatory credit restrictions, border tax adjustments, etc.

Work is also progressing in up-dating a corresponding inventory for agricultural products. (74) Then, the Ministerial session of November 1982 established a new Group to continue GATT work on NTBs and to examine them together with quantitative restrictions. The Ministerial Declaration on the "Uruguay Round" has, thus, included NTBs as one of the principal subjects for the new negotiations. Nevertheless, some countries have already indicated that they could more readily envisage liberalizing NTBs measures than quantitative restrictions. In fact, while in its early years, notable progress was made in the GATT on the elimination of quantitative restrictions imposed for balance-of-payments reasons, relatively few results were obtained in the framework of the Kennedy Round. In 1970, the Council established the Joint Group on Import Restrictions, whose task was to improve the information in this sector and explore the scope for liberalizing such restrictions. Some progress was made during the Tokyo Round, and after those negotiations the work was continued as part of GATT's Work Programme on trade liberalization, more particularly on restrictions covering products of special interest to developing countries. In particular, quantitative restrictions were the subject of intensive bilateral and plurilateral consultation between developed and developing countries held in March 1982.

The developing countries called for a general approach to the elimination of quantitative restrictions inconsistent with the provisions of the General Agreement, and for restrictions affecting the interests of developing countries to be liberalized as a matter of priority. The developed countries, for their part, felt that appreciable progress had been made in that area during the Tokyo Round, particularly in respect of restrictions affecting tropical products.

(C) ORGANIZATION OF INTERNATIONAL AGRICULTURAL MARKETS

For reasons that may be described as social (to guarantee farmers a stable income), political (given the importance of the rural vote), economic (to overcome balance of payment difficulties) and sometimes strategic (to ensure the supply of foodstuffs), almost all industrial countries protect their own agricultural sector with a wide range of measures (import duties, minimum prices, farm levies, quantitative restrictions, obligations to use national products, etc). The priority accorded by governments in industrial countries to the pursuit of national objectives in the agricultural sector has had some negative effects in the international field. A reduction in demand by the major importing countries (in consequence of an increase in self-sufficiency and the erection of special barriers to reduce imports) has been matched by heavier pressure from suppliers. Internal policies of price support, combined with the effects of technological progress on production, have given rise to a build-up of costly surpluses which with the aid of subsidies are placed to a large extent in international markets at artificial prices (often below the cost of production of the most efficient producers) causing serious disequilibrium in world agricultural markets, ruinous price wars and, paradoxically, the economic development of the principal industrial competitors. As a result, the French ex-Minister of Agriculture, Edgar Pisani, observed, "the worldwide market is by no means a market in the objective meaning of the word; it does not tackle technological or economic capacity, it simply tackles political capacity. In actual fact only agricultural systems in countries which are capable of arranging subsidies can manage to make their way in a world market which has become a market with excess supplies involving public interventions". (75)

GATT has not succeeded in preventing a general reinforcement of agricultural protectionism. In the majority of cases, agricultural products have been excluded from tariff negotiations, and, to the extent that customs duties on certain farm products have been reduced, no significant impact has been felt in international trade, since other restrictive measures of considerable import have been introduced. The principal restrictions

on international trade in agricultural products do not take the form of customs tariffs but that of a range of non-tariff barriers which, though they contravene the rules of GATT to a large extent, the governments of the industrial countries have erected and maintained to satisfy the demands of their own farmers. In the early years of the post war period, an increase in agricultural protection by importing countries was encouraged by special measures legitimately introduced to meet balance of payments difficulties. Subsequently, however, once the balance of payments in the countries concerned had returned to a satisfactory position no significant liberalization of import policy was adopted. On the contrary, requests by the importing countries to regard agriculture as a special case (so as to justify special treatment) became more and more insistent. And in March 1962, the contracting parties, upon the conclusion of the EEC negotiations on the basis of Article XXIV, virtually accepting the economic union of the member countries of the Treaty of Rome (and consequently the Community agricultural system of variable levies), removed the agricultural policy of the European Community from any form of international discipline.

The intensification of agricultural protectionism is certainly to be ascribed to the incapacity and the inability of the governments of the industrial countries (under pressure from agricultural organizations) to apply to international trade in agricultural products the basic rules of the General Agreement. Moreover, even the GATT Charter itself, characterized as it is (as regards agricultural products) by exceptions and exemptions, allows the importing countries to resort to pretexts to circumvent the rules (without formally violating them) and the exporting countries to protect their own internal programmes of agricultural support and maintain their own exports (by means of import quotas and export subsidies). There are the provisions of Article XVII which, by permitting state trading, ensure the most complete protection for "sensitive" products. There is the Torquay Protocol, under which the contracting parties must conform to the General Agreement, while national legislation "inforce" on 21 April 1951 remains valid. There is Article XVI which sanctions the use, if only within certain limits and on certain conditions, of export subsidies for basic products. There is Article XXV, Section 5, which enables the consenting parties to obtain waivers from the

obligations imposed by the General Agreement, waivers that are granted more readily for agricultural products because most of the industrial countries are similarly subjected to pressure from their agricultural organizations. And there is Article XI, sub-paragraph 2(c), which permits as a permanent exception the adoption of quantitative restrictions on agricultural products imported in any form, provided it is a case of necessary restrictions for the application of governmental measures imposing limits on internal production or on sales, and provided that certain limits are not exceeded. Many countries have availed themselves of Article XI, which was originally couched in restrictive terms. The most striking case, which dealt a serious blow to the prestige of GATT, occurred in 1955 when the contracting parties, taking advantage of Article XXV, Section 5, granted the USA a substantial waiver in respect of its agricultural policy (permitting the introduction of quotas on the basis of Article 22 of the Agricultural Adjustment Act, for cotton, wheat, groundnuts, rye, barely, oats, dairy produce and certain other processed products) without any time limit and subject only to an obligation to produce an annual report. Such waiver, which is still in force even though the US quantitative restrictions only apply today to grain and its derivatives, cotton, groundnuts and dairy produce, was not an isolated case, however. In fact, various European countries used (and still use today, although to a declining extent) the transitional formula of the so-called "hard-core restrictions" instituted by GATT on the same day as the waiver concession to the USA to maintain a series of quotas no longer justified by balance of payments difficulties.

The efforts of GATT to remove non-tariff barriers in the agricultural sector (in relation of course to temperate zone products) were not unsuccessful. Within the orbit of the Programme for the Expansion of International Trade, a group of experts under the guidance of Professor Haberler, produced a report in 1958 in which it was acknowledged inter alia that "agricultural protectionism in the highly industrialized countries is now a major factor restricting the world trade in agricultural products". The Haberler Report provided a basis for setting up three special committees, one of which (Committee II) had the task of studying the application and the effect of non-tariff protective measures on agricultural trade in agricultural products. Consultations were held on the

subject in 1959-1961. In December 1961, moreover, the contracting parties decided to notify GATT regularly of any changes made in their agricultural policies. Committee II, in the final report presented to the Ministerial Meeting in November 1961, also cast doubts on GATT's ability to promote trade in the agricultural sector.

In view of the impossibility of applying the rules of free competition to agricultural products, the French Ministers Baumgartner and Pisani took the initiative in November 1961, in proposing in GATT and the FAO respectively that international agricultural markets should be organized on a planned overall basis. Under this plan, the international prices of the principal products would be raised to the level of those ruling in the biggest importing area (that is to say, the EEC level). In this way, both export subsidies (in the exporting country) and the system of levies (in the importing country) would be neutralized, while a single international price would obtain in all the markets. The exporting countries, even with a lower volume of trade, would obtain higher earnings, which would enable them to finance food aid programmes in favour of the less developed countries. In return for the advantage of securing higher prices for their exports, the exporting countries like Canada, Australia and Argentina would undertake not to increase their production, while another group of exporting countries (headed by the USA) which were already guaranteeing their own exporters relatively high prices, would have to intensify the control of their own production. Finally, any surpluses in the importing countries would be utilized to carry out a concerted international food aid programme to stimulate the consumption of products from the temperate zone by the emergent countries by suitable measures of technical assistance.

The new proposals submitted to GATT by the two French ministers, though they aroused considerable interest, were received with scepticism. In particular, the proposal (which was of basic importance to the entire plan) to align world prices at the level of Community prices gave rise to numerous criticisms. The contracting parties, therefore, confined themselves to setting up two working groups (one for cereals and the other for beef) to study the instruments best suited to avoiding agricultural surpluses and a price war in international markets. But, notwithstanding

its defects, the French plan, known from then on simply as the Pisani Plan, had the great merit of blazing a new trail that could be followed to create a true and proper organization of the markets at international level. In particular, the global approach so well mapped out in the Pisani Plan could not in the long run fail to have repercussions. It was destined to influence to a marked degree the EEC proposals for drawing up a general agreement on cereals in the Kennedy Round.

Among the American preoccupations, the question of foreign trade in cereals occupied a prominent position. It was obvious that the protectionist effects of the common agricultural policy would be felt principally in the cereals sector. Hence, the insistence of the US government on drawing up the Kennedy Round a general agreement on cereals providing not only for a quantitative guarantee of access, but also for an increase in the minimum prices laid down in the international agreement on wheat, and for an undertaking to be given by the principal producing countries that they would make a combined effort to preserve equilibrium between imports and internal production. In this connection, the model which inspired the USA was the cereal agreement concluded in April 1964 with the United Kingdom. On the basis of this agreement, the United Kingdom, in return for the right to fix minimum prices for the import of grain, grain flour and the other principal edible cereals, undertook to guarantee to the suppliers acceptable conditions of access to her market. In particular, the suppliers of cereals to the United Kingdom were given an assurance that their own flows of trade would be maintained at least at the level of British imports over the previous three years, and that they would have the opportunity to participate to a fair and reasonable extent in the development of the British market.

In face of the purely commercial objectives of the USA, the EEC presented a highly ambitious global project. In December 1963, Sicco Mansholt, author of the Community agricultural policy, after pointing out that it had not yet been possible to find adequate solutions to the commercial problems regarding agricultural products because "a purely commercial approach" had been followed, went on, "we hope to see the Kennedy Round as a beginning towards a true international agricultural policy. We must get a grip on the roots of world agricultural crisis. To do so, all elements should be put on the table, levies, sluicgate prices, producers, subsidies, quotas, export subsidies, state trading, monopolies,

all of them". On 18 February 1964, the EEC submitted to the contracting parties the "Mansholt Plan No. 2", in which it was proposed that the agricultural negotiations should aim at consolidating the maximum amount of support (montant de soutien), inclusive of any direct aid provided by the individual countries for their own agricultures. The EEC, in particular, suggested that the amount of support should be evaluated for all the products and all the partner countries of GATT, and that country should effect the consolidation at a specified maximum level for an initial period of three years. After such period, the commercial and agricultural policies, followed by the contracting parties, should be reviewed and compared with a view to modifying and if possible reducing the montants de soutien. This montant de soutien for a given product is defined as the difference between the price of the product in the world market and the price obtained for it by the farmer in a particular country (inclusive of any "direct" subsidy). The reference price could be either the price established on the basis of the average price on the world market during a reference period or the franco frontier price at a particular moment, or if a representative world price could not be established, a price negotiated between the contracting parties. If the montant de soutien came to nil, the contracting party concerned would have to undertake not to provide any support in future for the product in question. If, on the other hand, the price in the world market should fall below the reference price, the montant de soutien would be automatically increased by the difference between the two prices. If, on the other hand, the world market price should rise above the reference price, the montant de soutien would remain unchanged until consultation can take place between the contracting parties. A further element of flexibility in the Community proposal was provided for the case of a change in the exchange parities between two contracting parties. Any of the contracting parties would also be able at any time to renounce consolidation of the montants de soutien if this was found to be necessary for compelling reasons on condition that adequate compensation was offered to the other contracting parties. Finally, the undertaking in question would not entail harmonization of the montants de soutien, which could legitimately be set at different levels for the various member countries of GATT to take account of differences in their agricultural structures.

The USA criticised the EEC plan severely, underlining that the mere consolidation of the montant de soutien would allow a considerable gap to remain in the levels of protection without helping to close them (as the Kennedy Round was to propose), and that the system of variable levies would be extended to practically all farm products, isolating the agricultural production of the importing countries almost completely from external competition. The USA also made the point that the system proposed by the EEC would entail new restrictions on those products the duties on which had already been consolidated in GATT; that thanks to the escape clauses the level of protection could be increased in case of internal inflation or a slump in world markets; and that the exclusion of "indirect" farm aid from the computation of the montant de soutien left the member states of the EEC the maximum liberty to manipulate public expenditure in favour of their own farmers. Finally, the USA observed that the EEC plan, which had to be renegotiated every three years, prevented the exporting countries from adopting medium and long term programmes and that the practical implementation of the Community system would entail a mass of work (having to establish reference prices and identify internal prices not only for agricultural products, but also for thousands of processed products) still without achieving the principal object of reducing commercial barriers.

At the end of March 1964, the USA submitted to Committee No. 2 of GATT a set of counter proposals to Mansholt Plan No. 2, suggesting "a pragmatic rather than a dogmatic approach". In particular, the USA requested that the consolidation should be maintained at zero for certain products already negotiated (cotton, soya beans, etc.); that tariffs reduction should be granted for products subject only to tariff barriers (fresh and preserved fruit, etc.); and that guarantees of access and the possibility of participating in increases in consumption should be provided for certain products protected by "mixed" measures (customs duties and non-tariff barriers), as in the case of poultry, rice, etc. For certain products too (cereals, beef and some dairy produce), the USA said it was prepared to consider the "freezing" of protection levels provided it could maintain its own exports at the established level over a representative period of time, and would have the opportunity to participate to a fair and reasonable extent in the development of the Community market.

On 4 August 1964, the EEC replied forcefully to the criticisms framed by the USA. Rather than making for an extension of the system of levies, observed the representative of the European Commission to GATT, the montant de soutien method should "respect the particular character of the national systems and leave the contracting parties free to utilise the instruments they considered most suitable", provided they were in accordance with the rules laid down in the General Agreement. Observance of the reference price by the partner countries in the EEC, combined with the consolidation of the support margin, would moreover entail "smaller fluctuations in the variable levies in the common agricultural policy". The EEC's proposal did not imply the mere maintenance of the status quo, since with the new method of negotiation "the autonomy of the contracting parties in the agricultural sector would be reduced in the interests of getting international cooperation launched on a permanent basis". The fact that the support margin should be adjusted whenever the offer prices dropped below the reference price did not provide an escape clause, but "an obligation on importers and exporters to observe the reference price". Similarly, the adjustment of support margins to cope with changes in exchange rates was "purely for the purpose of maintaining the support at the same level". And in the event of selling prices moving above the reference prices, unless they could be justified by a drop in production, an increase in the margin of support could not be effected unilaterally but only "in consultations with the partner countries". As regards the inclusion in the montant de soutien of purely direct aids, the EEC wished "to simplify the calculation of such amount to avoid difficulties regarding the identification of forms of indirect aid and their correct allocation to the various products". The EEC representative added that there was no justification for including indirect aid of a social nature in the montant de soutien because such aid "contributes to the transformation of the agricultural structures and the reallocation of part of the active farm population". By the proposed method, the EEC did not intend to bring up for discussion again the consolidation already effected in GATT. If some de-consolidation were necessary, "this would arise for totally different reasons from those relating to the method of support and the EEC would grant the compensation provided for in the General Agreement". The EEC recognized, on the other hand, that the method of calculation and control of the montant de soutien had not yet been tested and announced that it was prepared "to indicate some

form of adjustment" and "to introduce an element of flexibility in the method suggested". The possibility of waivers being introduced for certain products was thus not excluded by the EEC, even if such a possibility should be "strictly limited". The pragmatic approach enjoined by the USA should not constitute "a pretext for failing to examine the Community method thoroughly". Approximately 53 per cent of agricultural imports was subject to non-tariff barriers, so that it was difficult to formulate for these products "a method of negotiation different from the montant de soutien". The three yearly revisions should be held within the framework of "permanent collaboration". In conclusion, it was necessary "to abandon the sterile discussions in favour of some effective collaboration and regular consultations" so that the contracting parties could decide "to accept reciprocal undertakings in the field of production policy and commercial policy".

The EEC's plan aroused keen interest. From the conflicting viewpoints of the Community and the USA, it emerged clearly that if world trade in agricultural products was to be seriously liberalized, the negotiations must move towards a "global approach", that is to say, towards a type of negotiation that would take account of all relevant factors, including national agricultural policies and their effects. The EEC, moreover, by confining itself to proposing the consolidation of the montant de soutien showed that it had grasped that to be valid even a global approach must start from the premise that the economic theory of the international division of labour based on comparative economic advantages is not applicable in the farm sector, without considerable amendments. "All we can work for is enlightened agricultural protectionism", wrote Roger Savary, Secretary General of the International Federation of Agricultural Producers, "and this in itself would represent immense progress, compared to the present state of chaos in world agricultural markets and to the fact that the industrialized countries have no intention of abandoning the agricultural policies they have been following for 50 to 80 years.

The debate on the EEC proposals proved inconclusive. The work of the Agricultural Committee, which had the task in the first place of examining and drawing up special rules for negotiations in the agricultural sector (on the basis of the resolution of the Ministerial Conference of GATT in 1963), produced no positive results. (76)

With the Tokyo Round, some progress was made to stabilize world markets in certain agricultural products. In May 1975, the Group "Agriculture" agreed that it would deal with tariffs and non-tariff measures relating to agricultural products. It also decided that some agricultural products which represented a large share of world trade and were widely traded, might lend themselves to multilateral solutions. With this in view, it agreed to address itself initially to grains, dairy products and meat, and decided to establish negotiating sub-groups dealing with allelements relevant to trade in these three products. The Group "Agriculture", furthermore, emphasized the importance of the application of differential measures to developing countries in ways which provide special and more favourable treatment for them, in accordance with the principles and objectives embodied in the Tokyo Declaration.

A Meat Sub-Group was, therefore, created to carry out the negotiations in this specific sector. It met for the first time on 16 June 1975. After four years of bilateral and plurilateral negotiations among major participants and a series of meetings of the sub-group itself to consider various proposals put forward by governments, the text of an "Arrangement regarding Bovine Meat" was finally agreed upon, which along with bilateral agreements, implicitly permits export restraints and establishes a system of managed trade in this sector, although not as explicitly as in the MFA.

The "Arrangement regarding Bovine Meat" (which with some 26 signatories accounting for about 90 per cent of the world's exports of fresh, chilled and frozen beef and veal, excluding intra-EEC trade) aims to promote expansion, liberalization and stabilization of trade in meat and livestock.

Although the Arrangement has no specific enforcement procedures, its main concrete result is the creation of the International Meat Council which has allowed a step forward in the process of strengthening the machinery of information, surveillance and consultation on meat. This Council meets twice a year, providing an opportunity for regular intergovernmental examination and monitoring of the world meat situation and for consultation on all matters affecting international trade in bovine meat. Government interventions in the meat market has, however, been on the rise in recent years.

Another achievement of the Tokyo Round has been the conclusion of the International Dairy Arrangement, overseen by the International Dairy Products Council, which relates to international trade in certain milk powders, milk fats, including butter, and certain cheeses. The objectives of the Arrangement, which has 16 members, is to achieve expansion and liberalization of world trade in dairy products. The Arrangement sets out minimum prices for sales on the world markets of dairy products.

Despite the Arrangement, the world dairy market has remained depressed.

Further on, agriculture was highlighted in the GATT Ministerial Declaration of 1982, which emphasized the "urgent need to find lasting solutions to the problems of trade in agricultural products". The Declaration also established the Agricultural Trade Committee open to all Contracting Parties, with the goal of carrying out a major two-year work programme and to make recommendations, with a view to increasing liberalization in trade in agricultural products.

The work was carried out in several stages. Firstly, it considered the organizational arrangements, including the format and procedures for the notification of measures affecting trade in agriculture and their status under the GATT. Secondly, it involved the examination of EEC and 41 other countries trade measures affecting access and supplies. This included measures maintained under the exceptions or derogations, and of the operation of the General Agreement as regards subsidies affecting agriculture, including export subsidies and other forms of export assistance. The Work Programme of the Committee on Trade in Agriculture was completed in early 1984, with recommendations designed to achieve greater liberalization in the agricultural sector and to bring substantially all measures affecting this trade under more operationally rules and disciplines.

In the Ministerial Declaration on the "Uruguay Round", agriculture is, once again, a high priority item for several countries, most notably the Cairns Group, led by Australia and Thailand. And, although domestic political considerations are still strong, for the first time in the history of GATT, something serious might be done because the budgetary costs of national farm-

support policies have got out of hand. In particular, once again, the "global" approach (i.e. a deal with all forms of agricultural protection and support) might be the winning card to be able to tackle agricultural protectionism. Differently from the Kennedy Round proposals, the basis for this approach is an OECD report in which governments have agreed on a method of turning various measures (variable import levies, tariffs, import quotas, domestic price-support programmes, etc.) into comparable producer-subsidy equivalents (PSE). The first step in this approach might be in 1988, an agreement to a standstill on existing farm-support measures. The next stage would be cooperation in programmes for the disposal of existing surpluses. The final stage would involve the negotiation of reduced levels of support to ensure that "unreasonable" surpluses are again not generated. (77)

(D) SPECIAL TREATMENT TO SPECIFIC INDUSTRIAL SECTORS

In response to the rapid changes in international competitiveness in specific industrial sectors, some restructuring has been undertaken since the mid-seventies in developed countries. In general, however, competitiveness in the production and trade of specific industrial sectors has changed far more rapidly than the pace at which many importing countries have been able, or willing to adjust.

The prime reaction to this situation has been to seek "breathing space" for the completion of appropriate restructuring. Thus, in the case of the textiles and clothing industry, successive Arrangements Regarding International Trade in Textiles (commonly known as the Multifibre Arrangement or the MFA) have been negotiated. (78)

However, "temporary" protection from cheap imports for the West's textiles industries has now lingered for at least a quarter of a century. In addition, while textiles have been "taken out" of the GATT, the successive MFAs have provided a framework under which trade has been "stabilized", barriers to trade increased and protection intensified.

Like agricultural products, textiles products have been characterized by very slow trade liberalization in respects of tariffs and the continued existence and, indeed, extension of NTBs, particularly, import quotas and "voluntary" export restraints. In the case of textiles, however, the various bilateral agreements concluded under the auspices of the successive multilateral arrangements have been explicitly directed almost exclusively against the developing countries in recent years.

And while quotas, within or outside the MFA framework, have been the heart of the issue in textile trade between industrial countries and the rest of the world, there have also been important developments in the tariff area, more relevant for intra-OECD trade. First, the successive rounds of GATT negotiations have reduced tariffs on textiles and clothing.

This reduction, however, was less marked than for most other manufactured products. It has also been relatively smaller for the more processed items and, as a result, the "effective protection" enjoyed by finished textile products and, in particular, by clothing, was not reduced. Second, the differences in nominal tariff levels between countries have persisted; notably the contrast between the low rates of the EEC (as well as Switzerland and Japan) and the relatively high rates applied by several other countries, especially Australia and New Zealand, but also the USA and Canada.

Of great importance is also the fact that the EEC and the EFTA have eliminated customs duties on trade in textile products between most European countries. Such a preferential zone has been furtherly extended by the arrangements between the EEC and the Mediterranean countries, as well as those under the Lomè Convention.

Thus, the fairly low tariffs in Europe are not the main instruments of protection applied to imports from the major textile exporting Ldcs and socialist countries. They are, however, virtually the only protective barrier against imports from North America. By contrast, in the USA and Canada, tariffs have remained sufficiently high to protect efficient producers against all but the really low-cost foreign competitors which, on the bulk of their production, have to face quotas under the MFA. (79)

The major consequences of the trade policies carried out has been the reinforcement of the competitive position of the lowest cost producers within each zone of protection. Thus, in the USA, the focus of production moved massively from the North-East to the South and into Mexico. Within the EEC, instead, the main beneficiary has been Italy. In Western Europe as a whole, the Southern countries, Finland and Ireland have benefitted from the combination of tariff and quota protection afforded by the broader free trade area and the MFA.

Import-Weighted Average Nominal Tariffs
on Textiles and Clothing after the
Tokyo Round

(percentage ad valorem)

Countries	Textiles & Clothing %	of which: textiles %	bound duties %
1. Advanced Countries with the MFA			
EEC	11,5	13,5	1,28
Japan	11,5	14,0	1,20
USA	19,0	22,5	1,28
Canada	21,5	24,0	1,28
2. Advanced Countries not with the MFA			
Australia	21,5	45,5	90,0
New Zealand	38,5	96,0	nil
3. Developing Countries			
Argentina	37,0	38,0	100,0
Brazil	79,0	102,0	100,0
Egypt	97,0	145,0	100,0
India	86,0	100,0	100,0
Republic of Korea	34,0	50,0	100,0
Pakistan	128,0	192,0	100,0
Thailand	53,0	90,0	100,0

Source: GATT, Textiles and Clothing in the World Economy,
Geneva, 1984.

The fact that within Western Europe, and, of course, within the EEC, governments could hardly apply trade protection (80) has, however, played an important role in shaping industrial policies in the broad sense. When the less competitive textile manufacturers (notably in the United Kingdom, Sweden, Norway, the Netherlands and France) came under heavy pressure on their domestic (and export) markets, they managed to obtain a considerable amount of public support. Some of it took the form of sectoral or regional investment programmes, some was disbursed by means of employment subsidies and quite a lot consisted of lame-duck rescue operations. Only Switzerland and, to a lesser extent, the German Federal Republic have refrained from direct or indirect government support, thus fully exposing their industries to adjustment pressures.

Thus, in the trans-Atlantic context, these developments have meant that the higher tariff protection of the American market tended to be more or less matched in Western Europe, by the effects of government support. In such a way, the conflict has shifted from a partial confrontation between the USA and the EEC to the more classical conflict between advanced industrial countries and low cost suppliers.

In the clothing industry, particularly developed countries now protect themselves against cheap clothing from developing countries, but trade freely between themselves (apart from a few restrictions on Japanese exports to America). The quotas have slashed the export growth rates of the target countries (Hong Kong, Taiwan and the Republic of Korea). But protectionism has not been able to cut total trade as was intended. Imports accounted for 2,5 per cent of the value of American garment sales in the early 1960s, 10 per cent in the mid-1970s, and 25 per cent in 1986. America's total garment imports were 84 per cent larger in dollar terms in 1985 - a big rise when measured against the MFA benchmark of a 6 per cent annual increase. The EEC's imports also went up, though more moderately.

Imports from other developed countries, which are unaffected by quotas, were partly responsible for this increase. The EEC's garment exports, for example, rose from US\$ 4.3 billion in 1981 to US\$ 5.4 billion in 1985, and its share of rich countries' imports rose from 12.1 % to 13.8 %.

The developing countries, however, are the ones producing the biggest export growth rates. In 1981-1985, four developing countries (Hong Kong, Taiwan, The Republic of Korea and China) (81) saw their clothing exports grow at an average of more than 50% a year.

Another sector which has played an important role in exacerbating a complex process of trade litigations is steel.

The crisis of the steel industry depends, to a large extent, from public and private management, which tends to have a similar philosophy, notably in Europe: tons matter more than profit. National self-sufficiency is the first goal in a believed strategic sector; companies are mainly oriented to domestic markets, treating export as a marginal activity. State intervention and protectionism are implicit in such an approach, and became more evident with the deepening of the crisis. (82)

Thus, although the steel industry also figured prominently in the Kennedy Round and in the Tokyo Round negotiations in a number of instances (in particular with respect to subsidies), it was clear that the only way of regulating the turbulence of international steel trade would be the growing utilization of some forms of market-sharing arrangement on the international level, along the lines of the MFA in textiles. (83)

Hence, the minimum price or reference price regimes established by the EEC and the USA in 1978, and Japanese implicit agreement to orderly marketing, had to be interpreted as a signal that such an international arrangement would emerge. In fact, the so-called trigger-price mechanism (TPM) was widely regarded as an interim device; a prelude to a broader international forced agreement on market shares.

The formation in the EEC of a steel producers' cartel, combined with increasing efforts to look for outlet in third countries (in particular, the USA), under the pressure of a continuous downturn in the world steel market, led the Reagan Administration to abolish the trigger-price mechanism and gradually give way to more protectionist actions. As a result, owing to numerous anti-dumping procedures and high countervailing duties (up to 47 per cent of the imports value) which blocked almost entirely the European exports, the EEC was forced to accept in October 1982 (until 1985), a self-restraint agreement in its exports related to fixed percentages of the American apparent consumption. (84)

The result of this development has been a considerable cut in the American outlet for the European steel industry without slowing down the protectionist pressure. A new steel policy was, thus, shaped by the USA in 1984 with the aim of keeping, until 1989, the import share at 18.5 per cent (recently revised to 20.5 per cent), which is below the levels reached since 1981. (85)

The range of goods affected by protection has increased prodigiously, having long outgrown the strictly labour-intensive sectors like steel and clothing (steel being labour-intensive if one looks at relative value-added per employee). It now includes more complex, highly-skilled and capital-intensive products such as automobiles and machine tools, so that the entire North Atlantic - Japanese trade flow is distinctly muddy.

Specific limited protection was present even during the heyday of trade liberalization in the 1950s and 1960s, but it was containable. It is instead today common ground. There is scarcely a single important trade flow which is not, in one way or another, affected by protection. In particular, considerable concern is expressed about the increased use of VERs, as "grey area" measures, all the more so that VERs are used in a selective manner against single trading partners or a group of trading partners, rather than being universally applied, as would be the case under Article XIX safeguard actions. (86)

Undoubtedly, the spread of VERs is due to the fact that they are often accepted by exporters under threat of the activation of universal restraints where quotas may be lower and the control of quotas will be in the hands of the importers. Besides, some studies have shown that the exporters are likely to capture the quota rents from the higher export prices associated with the restraint mechanisms, whereas when Article XIX safeguards are imposed the importer captures the quota rents. However, VERs undoubtedly have an adverse effect on the exporters in terms of unused capacity and uncertainties as to market growth. Importing countries also suffer in terms of higher prices and the discouragement of efficient industries. (87)

High-tech industries (88) constitute another "exceptional" sector where, as the old smokestack industries, new concepts are developed to justify a separate legal framework which tends toward some form of managed trade even in cases where additional liberalization occurs in the GATT, as in the Civil Aircraft Sector. (89) Increasing tension in high-tech trade seems, in fact, inevitable since the industrial countries, having fought rear-guard actions to protect employment in their declining industries, are determined to nurture what seem to be the job-providers of the future.

Thus, more and more countries have come to regard technological change as a variable that should be subjected to public policy and, therefore, to a great deal of public support, so that achieving open trade in high-tech products might prove even harder than in the products of the old, declining industries. (90) In particular, the cases to which governments pay increasing attention involve the predatory pricing of sophisticated products. Thus, America's International Trade Commission (ITC) has ruled that Japanese firms have caused serious injury to the semiconductor industry in the USA by dumping. Henceforth, Japanese 64k memory chips exported to America have been subject to dumping of up to 35%. Meanwhile, the EEC Commission has slapped dumping duties of 20-25% on Japanese exporters of photocopying machines,

and has started antidumping procedures against the Japanese exports of the so-called "drums" semiconductors, as well as of compact disc readers (also originating from the Republic of Korea). (91)

These exercises are perfectly just under the present rules of the GATT and they should spur Japanese industry to face the full consequences of the recent surge in the yen. Of course, antidumping duties against Japanese and other exporters in Europe will not and should not insulate local firms from Japanese competition, but they may force the Japanese to compete in a fairer and more constructive fashion.

In fact, the Japanese import surge into Europe has been exceptional. For photocopiers, about 40 per cent of the 2.1 million units exported from Japan go to Europe. Similarly, Japanese exports of 256 K drums have risen from 5 m. units in 1984 to almost 30 m. units in 1986, capturing 95% of the EEC market (as against 83% in 1984), and European imports of compact disc readers attained 1.5 m. units in 1986 (as against 96,400 units only in 1984).

In order to off-set predatory pricing practices, however, antidumping duties may, however, not prove adequate. Antidumping rules need, in fact, to be refined, since several competitors may seek to circumvent the antidumping duties by building more factories in Europe and then shipping key components from Japan. On the other hand, it would be wrong to view competition among the EEC, the USA and Japan as a high-tech race, with all resources devoted to win or take the lead. Thus, for instance, Europe's television makers would be better off using their technical skills to improve the existing high-definition Japanese system, rather than come up with their superduper and unique standard.

European manufacturers cannot resist a global standard, and therefore, a global market for high-definition television sets.

Voluntary export restraints (VERs) and Orderly Marketing Arrangements (OMAs)
in force in 1985/86 (excluding under MFA or other textile regimes)

<i>Imp.</i>	<i>Products covered</i>	<i>Exporters</i>	<i>Type of restriction</i>
EEC	numerical control machine tools	JPN	monitoring
EEC	video tape recorders	JPN	minimum price
EEC	motor lorries	JPN	monitoring
EEC	fork-lift trucks	JPN	monitoring
EEC	motor cycles	JPN	monitoring
EEC	hi-fi equipment	JPN	monitoring
EEC	television receivers	JPN	minimum price
EEC	tubes for TV receivers	JPN	monitoring
EEC	automobiles	JPN	monitoring
EEC	steel	AUS, AUT, BRA, BGR, CSK, HUN, JPN, POL, ROM, KOR, ZAF	export quota
EEC	steel	NOR, SWE, FIN	annual export quota
EEC	manioc	BRA, IDN, THA	consulation agreement
EEC	cheese	AUT, NOR, FIN	export quota
FRA	sheep and goat meat	AUT, BGR, HUN, ISL, POL, CSK, URY, YUG	discipline in reciprocal trade
FRA	automobiles	JPN	export quota
GBR	automobiles	JPN	export quota
GBR	video tape recorders	JPN	export quota
ITA	automobiles	JPN	export quota
IRL	sheep and goat meat	AUT, BGR, HUN, ISL, POL, CSK, URY, YUG	quota
NOR	footwear	KOR	export quota
AUT	cheese	EEC	discipline in reciprocal trade
CND	iron and steel	JPN	export quota
CND	footwear	KOR	export quota
CND	automobiles	JPN	export quota
CND	automobiles	KOR	export quota
USA	steel	AUT, AUS, BRA, JPN, KOR, MEX, ZAF, ESP, PRT, FIN, VEN, DDR, POL, HUN, ROM, CSK, YUG, ARG, BGR, ROM	export target
USA	finished steel	EEC	export quota
USA	steel products	EEC	export quota
USA	steel pipes and tubes	EEC	export quota
USA	colour TV receivers	KOR	export quota
USA	automobiles	JPN	export quota
USA	machine tools	JPN	export quota
USA	semiconductors	JPN	export moderation
			minimum export price

Source: UNCTAD Data Base on Trade Measures.

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EEC	automobiles	JPN	monitoring
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EEC	manioc	BRA, IDN, THA	consultation agreement
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AUT	cheese	EEC	export quota
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CND	footwear	KOR	export quota
CND	automobiles	JPN	export quota
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USA	steel products	EEC	export quota
USA	steel pipes and tubes	EEC	export quota
USA	colour TV receivers	KOR	export quota
USA	automobiles	JPN	export quota
USA	machine tools	JPN	export quota
USA	semiconductors	JPN	export moderation
			minimum export price

Source: UNCTAD Data Base on Trade Measures.

4. CHANGES IN THE METHODS OF NEGOTIATION

In earlier rounds the traditional method of negotiation employed in GATT consisted, for each contracting party, in negotiating each concession with the country that formed its principal supplier of the product in question. The concession granted by a contracting party was extended automatically to all the other parties under the most-favoured nation clause. The negotiations were thus conducted product by product. But this method proved to be increasingly unsatisfactory. And since the conference at Torquay it had become clear that various industrialised countries whose tariffs were originally lower than those of other countries were finding it difficult to effect tariff reductions beyond a certain point. It became evident that a particular rate of tariff reduction would have a different effect according to whether it was applied to a high tariff or a low one. And so arose the problem of tariff disparities, that is to say, the problem of disequilibrium in the tariff structures of the contracting parties.

The negotiations of 1960/62 (Dillon Round) were a first turning point in the methods of negotiation. The negotiations depended in fact on two essential premises: the power conferred on the executive authority in the USA by the law of 1958 to negotiate reductions of up to 20 per cent, and the EEC proposal to negotiate the reduction of 20 per cent which was calculated on the basis of the harmonisation of the national tariffs with the common external tariff. The community also proposed setting about the reduction of 20 per cent according to a linear method, but this proposal was only accepted by the United Kingdom, while the other contracting parties adhered to the method of negotiation product by product. The Dillon Round, however, put forward a compromise solution, partly negotiated product by product and partly by the linear method, which on this occasion had its first trial. The results of the Round, however, proved on the whole to be deceptive. Because of the disequilibrium between the tariff neutralisation policy such advantages for the products involved in their export trade as would ensure reciprocity.

It was found, however, that the method of negotiation product by product on the basis of the position of the principal supplier had outlived its real purpose. This method in part slowed down the negotiations to the point of paralysis; and on the other hand, confronted by the problem of the disparities, it finished up by side-stepping them, with the ultimate result that the concessions were confined to the tariff positions that offered the least resistance and that were therefore of least interest.

It was consequently recognised that new negotiations should be based on the principle of equal linear reductions, the reduction that is of all the tariffs by a uniform percentage. But the application of this principle carried the implication for GATT that the problem of the disparities had been faced and solved. If, in fact, at the negotiations product by product the problem of the disparities could be side-stepped, though at the cost of a considerable reduction in the scope of the negotiations, under the equal linear procedure it proved insuperable. It was obvious in fact that if the equal linear reductions were to ensure reciprocity they would have to be combined with a procedure for the harmonisation of the tariffs. Otherwise, the problem of the disequilibrium between the tariff systems would have ended by paralysing the method of linear reduction as well, since to evade the problem of tariff disparities would have led inevitably to extending the list of exceptions.

Thus, for industrial products, the linear method was adopted in the Kennedy Round by the linear countries (which were, consequently, negotiating on the basis of a working hypothesis that there would be a reduction on their customs duties by a maximum of 50 per cent, subject to certain exceptions). Such a tendency was consolidated in the Tokyo Round, whereas the problem of disequilibrium in the tariff structure was furtherly alleviated. Only the semi-industrialized countries (notably South-Africa, Australia and New Zealand) continued to negotiate on the basis of the product by product approach.

It is, thus, expected that the pattern of global approach in tariff cutting will again be adopted in the new negotiations where "emphasis shall be given to the expansion of the scope of tariff concessions among all participants", as well as "to reduce or eliminate high tariffs and tariff escalation". However, owing to the relatively low level of tariffs for most industrial products among developed countries, the "Uruguay Round" might also signify a return to the product by product approach, at least in key-industrial sectors.

On the other hand, it has become increasingly urgent at new negotiations to take some action in the agricultural sector, in which, despite tariff concessions exchanged on a number of products, the efforts at liberalisation undertaken in the GATT had proved to be ineffectual. In fact, as already stressed, in the vast majority of countries agricultural products are excluded from the laws of the market because of state intervention in support of agricultural prices. For this reason, up to now, trade in agricultural products has not been the subject of negotiations inspired by the notion of open trade, although the Kennedy Round and the Tokyo Round have had the merit to evidence that the negotiations must move towards a "global approach", that is, as already stressed, a type of negotiation that would take account of all relevant factors, as recognized by the Ministerial Declaration on the "Uruguay Round". The Contracting Parties have, in fact, agreed that "negotiations shall aim to bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines".

Another sector in which it was necessary to achieve some progress has been that of non-tariff barriers. Here, after an initial start with the Anti-Dumping Code in the Kennedy Round, GATT has been able to achieve more substantial success in the Tokyo Round, where - due to the difficulty of negotiating reciprocal reductions of NTBs, there was little choice but to attack the problem with new and better general rules in the form of Codes. (92)

It is, therefore, the objective of the "Uruguay Round" of improving GATT discipline of the Codes, notably of the subsidies and countervailing measures whose implementation has proved to be difficult.

As far as trade relations between industrial countries and the developing nations are concerned, the rules of free trade as codified by GATT proved to be increasingly unsuited to the needs and aspirations of the Third World. The developing countries regularly have abstained from an active participation in the GATT rounds and persistently have sought the benefit in the markets of OECD countries of favoured treatment for their exports of manufactures and semifinished goods - that is to say of a system of generalized non-reciprocal and non-discriminatory preferences treatment- which, however, the most favoured nation clause did not permit. The amendments introduced in the General Agreement in the form of three supplementary articles, the so-called Part IV, represented a measure of great legal importance to GATT. By this means, the developing countries were exempted from reciprocity requirement of the tariff negotiations. However, in practice, the action by GATT did not succeed in the least in solving the basic problems of the Third World. As underlined by the UNCTAD Secretariat "the overall results of the trade negotiations appear to be modest and wanting in many specific respects". (93)

The tariff reductions resulting from the MTN have eroded the preference margins that developing countries enjoy in many products of export interest, thus reducing whatever tariff advantages they now have. Also, many products of export interest to developing countries not enjoying preferences have been excepted from the tariff cuts, while the proposals by developing countries for the application in concrete terms of differential and more favourable treatment in the various Codes or Agreements have not been fully realized.

The failure to reach agreement on safeguards, an area of crucial importance, leaves, in addition, an element of uncertainty hanging over the the results of the negotiations.

From the point of view of the improvement of the international framework for the conduct of world trade, and the corresponding updating and reform of the fundamental provision of the General Agreement, the decisions adopted by the Framework Group in the Tokyo Round were also quite important. There is, in fact, a changing perspective on the decision on differential and more favourable treatment, reciprocity and fuller participation of developing countries in the GATT Rounds. Thus, the so-called "enabling clause" allows the Contracting Parties to accord differential and more favourable treatment to developing countries in four specific areas:

- (a) preferential tariff rates accorded by developed to developing countries under the GSP;
- (b) differential and more favourable treatment for developing countries under agreements concerning NTBs negotiated multilaterally in GATT;
- (c) regional or global arrangements among developing countries for the mutual reduction or removal of tariffs, and - subject to whatever conditions may be prescribed by the Contracting Parties - of NTBs;
- (d) special treatment for least developed countries.

The "enabling clause" is counterbalanced by the "graduation clause", which although restating the non-reciprocity principle - provides that the developing countries would accept greater obligations under GATT as their economic situation improves.

In other less diplomatic words, with the exception of the least developed countries, the developing nations, if they really want to improve their access to international markets, they will have "to participate more fully in the framework of rights and obligations under the General Agreement", as underlined by the Ministerial Declaration on the "Uruguay Round".

Finally, it was obvious to everyone that the liberal rules of the GATT charter and the efforts to reduce tariffs made under it could not be applied in relation to countries with planned economies whose trade is controlled by state negotiations and in which tariffs play only a revenue rôle. The complex of trade relations between industrialised countries in the Western world and countries in the East had not yet been studied and dealt with by GATT, while the commercial stimuli produced by the spirit of peaceful coexistence called at new negotiations for an initiative aimed at a revival of trade between East and West.

Not all of these considerable imperfections of a legal and institutional nature were wholly attributable to those who drafted the General Agreement. In 1947, the main preoccupation was the necessity for re-establishing a liberal economic régime in the aftermath of the suffocating dirigisme of the period of international economic crisis and the war period. But by the close of the Dillon Round in 1962 the international and political realities had changed profoundly. In 1947, when the General Agreement was signed, it was a question of re-establishing the trade relations existing in the period preceding the world crisis of 1929. Today, on the other hand, it is necessary to take account of the new elements that are emerging in the economic organization of the world, and in particular to consider closely the creation of economic blocs of a regional character, such as the EEC, and the acquisition of independence by the greater number of developing countries. It is consequently all the more urgent in these circumstances to undertake new negotiations extending beyond the confines of the market-trading link. In particular, an agreement on a new reciprocity formula would be needed if negotiation of concessions between the tariff-protected and target-protected economies were to take place. (94)

One should, finally, stress that all previous rounds have been concluded in "one fell swoop", (95) that is agreement on any given part of the agenda did not take effect until all agenda items had been considered. Such a principle has been confirmed for the "Uruguay Round" as well, since, according to the Ministerial Declaration, "the launching, the conduct and the implementation of the outcome of the (new) negotiations shall be treated as parts of a single undertaking". However, the Ministerial Declaration

on the "Uruguay Round" adds that "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", although the conclusion of "early agreements shall be taken into account in assessing the overall balance of the negotiations". It is thus very likely that, under pressure from the USA, the new negotiations will try to attain early results in a foremost area, such as agriculture, so that success in a critical sector can boost a most favourable outcome for the entire new round.

CONCLUSIONS

The Prospects of Restoring a Functioning
World Trading Order

Effective progress in international trade cooperation requires a rejuvenated GATT system which, in addition to permit a high degree of variety in approaches to different problems, should encourage the negotiation of new arrangements and commitments.

Four features are, in particular, essential for such a rejuvenated system:

First, it must allow a wider use of the conditional most-favoured-nation (MFN) approach.

Second, it must strengthen the effective implementation of actual GATT rules.

Third, it must link trade to other major economic themes.

Fourth, it must convert the GATT from an agreement to a formal treaty organization with additional staff members to monitor trade policies and adjustment programmes.

The conditional MFN approach - a pillar of the GATT system - is not as great a heresy as it might seem. The GATT itself is a conditional MFN agreement whose provisions apply only among signatories. There were only 23 founding countries in 1947, and even today the GATT excludes important trading nations such as Venezuela, Saudi Arabia and the Soviet Union. Moreover, the recent Codes adopted in the Tokyo Round have already caused a significant departure from the unconditional MFN approach, notably in the areas relating to subsidies and government procurement.

In fact, a wider use of the conditional MFN approach, by a group of (probably industrial) countries (moving further to more ambitious forms of trade liberalization and institutionalization, outside the strict GATT framework), is essential if bargains are to be struck in the new negotiations. It is hard to imagine a liberalization of steel or textiles trade that would accord unconditional MFN entry into the

three trading superpowers by some NICs (such as India, Brazil, the Republic of Korea), unless those countries also made very significant concessions of their own.

The strongest argument against the conditional MFN approach is that it might lead to fragmentation of the world trading system and to regionalization. These dangers, however, can be minimized if two important limits are respected in the use of a conditional MFN approach. First, tariffs should not be applied on a conditional MFN basis among GATT members. The GATT Article I principle of unconditional MFN tariff rates is a backbone that should not be discarded. Second, all conditional MFN Codes should be open to all countries. In addition, conditional MFN should not be used as a means of forming exclusive "inner clubs". Thus, the terms of admission should be no higher for new members than for founding members.

The second volet is an incremental improvement of the effective implementation of actual GATT rules, so as to increase openness and transparency - on both national and international level - in trade policy making. It could include a better implementation and judicial review of the Subsidy Code - a serious bone of contention, especially among the three trading superpowers - by improving surveillance and dispute settlement. In this context, the prototype for surveillance could be the Textiles Surveillance Body (TSB) - type of conciliation pressure, which has earned considerable respect for being able to apply the rather vague standards of the Textile Arrangement with authority.

GATT's dispute settlement procedures instead could be reinforced by building up a permanent roster of non-governmental experts to examine disputes and by improving the implementation of panel recommendations, as suggested by the Leutwiler report.

The effective implementation of present GATT rules also requires to discipline the use of safeguard measures, be they formal or informal, for sudden surges of imports of a particular product. At present, the GATT provision (Article XIX), permitting the introduction of emergency protection, is not invoked. There is a preference for "informal" export restraint agreements negotiated bilaterally. A new safeguards code, under discussion since the Tokyo Round, has yet to be agreed.

Selectivity (that is, discrimination) in the imposition of trade barriers is the main stumbling block, and it would be a particularly undesirable proposal to be incorporated into international trade law. "Time and again, underlines the Leutwiler report, the negotiation of voluntary export restraints with one supplier (the most "disruptive" and therefore by definition the most competitive), has been followed by a proliferation of bilateral deals with all efficient suppliers who are not in a position to refuse, leading to virtual cartelization of world markets".

In practice, selective trade restraints are directed against new suppliers or countries with little political power and are disproportionately applied to Japan and the NICs, although there is little evidence that Japan and the (East Asia) NICs are responsible for disproportionate share of disruptive imports.

However, a way out from the impasse is to view this issue not in isolation, but in the context of wider problems. Thus, as far as a more satisfactory approach towards the treatment of present and new NICs is concerned, the use of a selectivity (for access to developed countries' markets), firmly tied to specific criteria (such as temporariness and degressive stringency of protection), might be acceded to, subject to GATT surveillance and sanction possibilities. Similarly, criteria for "graduation" ought to be set and a timetable for implementing them should be established.

The interrelationships of trade, money and debt problems require close consultation between the international institution charged with responsibility for the maintenance of the global trade and financial system.

"To this end, the director-general of the GATT, A. Dunkel said, it is essential to strengthen further the cooperation, at national levels between the financial and trade authorities. In the same spirit we in the GATT secretariat welcome the suggestions made by the IMF Executive Board with a view to the reinforcement of the existing links between our two institutions". In fact, up to now, consultations between the GATT, the IMF and the World Bank have mainly been pro forma affairs with little impact on the decision-making process within each organization.

Increased attention should, therefore, be paid to GATT coordination with the IMF and the World Bank. In the past ten years, commercial life has been transformed by a financial revolution. New instruments have sprung up for financing trade and investment, and, above all, controls on the international movement of capital has been removed or bypassed. These changes, occurred when the main currencies have been floating, chiefly affected rich industrial economies, but others have not escaped.

The freeing of finance has not been matched by changes in the markets for goods and labour. In most countries those markets have become less flexible, and the combination of financial freedom and economic arthritis has been disastrous. A more active participation of the GATT secretariat in the preparation of IMF stabilization programmes and in the World Bank structural adjustment loans could, therefore, serve the goal of more flexible economies, open to international competition in goods and services.

The GATT was not designed to be an international organization. This is reflected in the relatively small size of the secretariat (compared with UNCTAD and OECD) and of the total budget (hardly US\$ 25 million in 1986).

To ensure continuous high-level attention to problems in international trade policy, and to encourage prompt negotiations of solutions of them, the GATT's role, as an institution, needs to be enhanced. In this regard, an idea is to

convert the GATT from an agreement to a formal treaty. But such a possibility could be viewed only in the medium- and long term.

More realistic, therefore, is the idea of a "super-GATT" to be led by the Group of 18 (which operating at the highest level of civil servants, would become a kind of political directory) or, as suggested by the Leutwiler report, by a GATT Ministerial - level body of limited membership, but representative, through a constituency system, of all member countries. Such a body should enable the Ministers who set the course of their countries' trade and economic policies to come together frequently to share views and information, to help each other to resist protectionist pressures at home, and to carry forward international co-operation in support for the multilateral trading system.

Whatever the formula that may be adopted to enhance the GATT as an institution, the increased budget, with little impact on the member countries, would allow the GATT secretariat to play a more significant role to monitor trade policies and adjustment programmes, as well as provide technical and legal support for the administration of new trade agreements.

NOTES

NOTES

- (1) Curzon G., Multilateral Commercial Diplomacy, The General Agreement on Tariffs and Trade and Its Impact on National Commercial Policies and Techniques, M. Joseph, London, 1965, P. 31.
- (2) Philip A., Le Kennedy Round, l'Europe et les Pays Tiers, "Bulletin de l'Association des Juristes Européens", No. 23-24, Paris, 1965, P. 87.
- (3) Hurmi B. Du bon usage du GATT, "Efta Bulletin", No. 1/1987.
- (4) Within the British Commonwealth; between the EEC and non-member countries of the Mediterranean Basin, as well as the ACP countries; between the United States and Israel, and, for automobiles, Canada; the US Caribbean Basin Initiative of 1983, etc. This type of discrimination has generally been legitimized by waivers and other authorizing decisions.
- (5) GATT Article XI (2) (c) allows, moreover, governments to impose quantitative import controls to protect the artificial agricultural markets created by domestic price-support programs.
- (6) There is, de facto, a continuous "free play" between the enforcement of juridical laws and the diplomatic process of compromise "through the bias of negotiations".
As a result, for instance, in the case of disputes settlement, the goal is not to decide who is wrong and who is right, but instead that, violations, although important, are only temporary and can be settled as soon as possible.
Long O., Law and Its Limitations in the GATT Multilateral Trade System, Martinus Nijhoff Publishers, Dordrecht/Boston/Lancaster, 1985, P. 108/109.
- (7) Long O., Law and Its Limitations in the GATT Multilateral Trade System, op. cit., P. 55.
- (8) According to some (but controversial) estimates, multilateral trade in line with GATT rules would represent 20 per cent only of world trade, because one-fourth of total trade is ruled by quotas or market-sharing agreements. Another one-fourth is under the network of the multinationals, while another one-fourth is carried out with compensation agreements.
Meschain J.-C. & Gandillot Th., A quoi sert le GATT?, "Science & Vie Economique" No. 28-May 1987.

- (9) The quasi-legitimization of discriminatory remedies began in the early 1960s with measures taken to control the international textile trade.
Footwear, steel, automobiles, machine tools and semi-conductors are other better known products that have been added to the list of trade flows distorted by discriminatory quantitative restrictions and subsidization.
Surprisingly, however, in spite of the growth of tariff quotas, exports (notably from developing countries) have not ceased when quotas have been exhausted and tariffs reimposed.
Davempfort M., Trade Policy, Protectionism and the Third World, Croom Helm, 1986.
- (10) According to data provided by the same GATT Secretariat in September 1986, there were already 141 of these agreements: 57 at the initiative of the EEC; 33 promoted by the U.S.A.; 51 promoted by Japan.
Article XIX does not appear to cover voluntary restraints since they involve no action by the importing country. One particular attraction of VERs is that they circumvent the right of nations affected by Article XIX actions to suspend "substantially equivalent concessions". See: GATT Art. XIX " (a).
- (11) Blackhurst R., Rejuvenating the Trading System, "EFTA Bulletin" No. 4, vol. XXVII, Oct.-Dec. 1986.

- (12) Pelkmans J., The Bickering Bigemony, GATT as an instrument in Atlantic trade policy, paper submitted at the Euro-American Colloquium, College of Europe, 13-15 September 1984, P. 21.
- (13) Scotto M., La Cee et les Etats-Unis sont plus que jamais divisés sur les questions commerciales, "Le Monde", 15 Dec. 1986.
- (14) Banks H., No More, Mr. Nice Guy, "Forbes", 9 Feb. 1987.
- (15) Friedland J., US Economy: Stand by for the Crash "South", Dec. 1986.
- (16) Sassoon E., Una crociata europea pro mercato, "Il Sole-24 Ore", 14 Feb. 1986.
- (17) Thus, the Kennedy design for economic partnership was superseded by the idea of a Europe, economically strong and possessed of objectives considerably different from those of the U.S.A. Casadio G.P., Trans-Atlantic Trade, USA-EEC Confrontation in the GATT Negotiations, Lexington Books, Cambridge, Mass., P.182.
- (18) Williams F., Uruguayan Trade-Off, GATT Ministers Agree to Talk on US Terms, "Far Eastern Economic Review", 2 Oct. 1986.
- (19) The Group, includes Australia, Indonesia, Malaysia, the Philippines, New Zealand and Thailand, along with Canada, Hungary and five South American farm exporters.
- (20) One should also emphasize the lack of European creativity in the new proposals for the new round of GATT negotiations ("Uruguay Round"). Thus, while in the Kennedy Round the EEC put forward the idea of a consolidation of the "montant de soutien", which, for the first time, indicated that, if world trade in agricultural products is to be seriously liberalized, the negotiations must move towards a "global approach". In the "Uruguay Round" the U.S.A. have the initiative in proposing "producer and consumer subsidy equivalents" as the levels of subsidies, which would be required to compensate producers and consumers for removing government programs. United States Department of Agriculture, Government Intervention in Agriculture, Measurement, Evaluation and Implications for Trade Negotiations, Washington D.C., Jan. 1987.

- (21) Galli Zugaro E., Il governo tedesco teme i dazi americani,
"Italia Oggi", 3 Jan. 1987.
- (22) The Economist, Agricultural Disarmament, 21 June 1986.
- (23) Cresson E., French Attitude to a New GATT Round,
"The World Economy", Vol. 8, Sept. 1985, No. 3.
- (24) In 1985, its Gross National Product exceeded US 1 trillion, placing Japan second only to the United States in the non-communist world, and while the United States became a net debtor nation, Japan became the world's largest creditor. The foreign trade surplus of US\$ 101.43 billion achieved during the fiscal year ending on 31 March 1987 was infinitely larger than any other country has ever earned on foreign trade in history.
Moreover, Japan's astonishing rise to global trade supremacy has occurred in the short space of little more than a single generation.
- (25) To a famous slogan ("wakon yasei", that is Japanese spirit, Western technique) encouraging industrialization in the late 19th century, should be added a post war one ("kokunsaka", that is substitute domestic production for foreign). Thus, foreign competition that threatened Japanese domestic industry was, and still is, wherever possible, systematically kept out.
Vogel E., Comeback, Simon and Schuster, New York, 1986.
- (26) Susumu Awanohara, The dangers of a frustrated Tokyo,
"Far Eastern Economic Review", 30 April 1987.
- (27) The more the soaring yen feels like the D-mark, the more Japan's economy must change to resemble the German Federal Republic. A consequence of the soaring yen is that Japan diversifies and upgrades its markets. Thus, its trade skirmishes with the USA should become as civilized as West Germany's.
Japan über Alles, "The Economist", 16 May 1987.

- (28) Circumventing protectionism is now-a-days the major reason for Japanese direct investment overseas. This means being where the markets are - primarily North America. By 1991, Japanese carmakers will be making more cars in America than they are exporting there today. Japanese steel companies, big suppliers to the carmakers, have already moved into America through a series of joint ventures and acquisitions. So far, only 3% of the production of Japanese companies is outside Japan, compared with 15-20% for American companies.
- Why America needs Japan as much as Japan needs America,
"The Economist", 2 May 1987.
- (29) Agnelli: va fermato l'import giapponese
"Il Sole - 24 Ore", 7 May 1987.
- (30) Japan, in fact, is happy to get on with being a successfully merchant nation. Thus, the USA should give up trying to nudge Japan into spending more on defence. Americans should humble themselves to the extent of raising their former enemy to an equal partnership, and in return Japan should use its surplus wealth to provide economic aid to the trouble spots of the world, an idea already suggested by the Prime Minister, Y. Nakasone, when he announced in Washington that Japan would recycle US\$ 30 billion over three years to developing countries.
- Meirion & Susie Harries, Sheathing the Sword, Hamish Hamilton, MacMillan, 1987.
- (31) Gibson D., Agriculture, Uniqueness stands in the way of Change "Far Eastern Economic Review", 11 June 1987.
- (32) Berger M., What could soup up Japan's economy? Land reform,
"Business Week", 23 March 1987.
- (33) Freer trade makes sense for North America, and the GATT,
"The Economist", 14 June 1986.

- (34) Exports of both countries are inhibited by the restrictive procurement policies of states and provinces, whose practices are not subject to the GATT Government Procurement Code.
- (35) Scambi più facili con due accordi CEE-EFTA, "Il Sole - 24 Ore", 22 May 1987.
- (36) Utne A., Importance de l'AELE comme partenaire commerciale de la CEE, "EFTA Bulletin", March 1987.
- (37) Farran A., New GATT Round vital to Australia, "The Australian Financial Review", 22 April 1985, p. 20.
- (38) East-West Trade Skids on oil into a bureaucratic wall, "The Economist", 5 April 1986.
- (39) The Soviet Union would have preferred to replace GATT by a comprehensive trade organization, responsive to political pressure, based on universal membership, and with a wider range of competence.
- Kostecki M.M., East-West Trade and the GATT System, MacMillan for the Trade Policy Centre, London, 1979, p. 7.
- (40) According to OECD data the net indebtedness of the socialist countries of Europe rose from US\$ 59 billion in 1984 to US\$ 69 billion in 1985 and to US\$ 89 in 1986.
- Troppi debiti per l'Europa dell'Est, "Il Sole - 24 Ore", Milan, 10 June 1986.
- (41) In 1985, the EEC responded positively to its implicit formal recognition by the COMECON. Thus, most likely within 1988, an umbrella framework agreement - supposed to regulate all aspects of trade, investment and monetary instruments between the two groups of countries - may be negotiated. This will have a favourable impact on the new GATT negotiations, because among the developed market-economy countries the most important trade partners of the socialist countries of Eastern Europe have traditionally been the leading members of the EEC, as well as Austria and Finland.
- N. Cutler R.M., Harmonizing EEC-CMEA relations: never the twin shall meet ?, "International Affairs", vol. 63, no. 2 - Spring 1987, P. 268.

- (42) UNCTAD, Revitalizing Development, Growth and International Trade: Assessment and Policy Options, TD/328/add.4,2 March 1987, P. 40.
- (43) Islam S., The Shape of Trade to Come, "South", Sept. 1986.
- (44) Despite India's and Brazil's attitude (against the inclusion of traded services in the new GATT negotiations), some other Asian and Latin American nations expressed their readiness to discuss services in the new round, provided there is no automatic transfer of GATT rules to the new sector. "We will have to discuss just what kind of rules are needed for services", a Latin American diplomat says.
If trade wars flare across Asia, "The Economist", 25 April 1987.
- (45) That is Tokyo 1973, Geneva 1982, Punta del Este 1986.
- (46) UNCTAD, Revitalizing Development, Growth and International Trade: Assessment and Policy Options, op.cit., P.42.
- (47) Many Ldcs still maintain complex and restrictive import regulations.
A recent study by the IMF shows that between 1978 and 1983 about one-third of developing countries increased restrictions, about two-fifths liberalized them, and no significant change occurred in the remainder.
- (48) Part IV, allowing exceptional import restrictions, access to the GSP and other special measures, might be better reserved for the least developed countries.
Whalley J., Trade Liberalization Among Major World Trading Areas, The MIT Press, Cambridge, Mass., London 1985, P. 36.
- (49) A text in this issue was negotiated in the Tokyo Round between the EEC and the USA.

- (50) Thus, for example, despite the worsening of the trade environment, South Korea has undertaken a comprehensive import-liberalization program. The number of Korean imports subject to quantitative restrictions declined to 12% in 1986 from 32% in 1977, while the average nominal tariff rate fell to 20% from 36% during the same period.
- Suh Sang-Mok, Stemming the Tide of New Protectionism, "The Wall Street Journal", 13 August 1986.
- Kim Kihwan, Trade Negotiations and Developing Countries in the Asian and Pacific Region, "Asian Development Review", Manila, Feb. 1987.
- (51) Clairmonte F. and Cavenagh J., Transnational Corporations and Services, The Final Frontier, "Trade and Development", 1984.
- (52) According to some estimates, with such a special import régime the USA permit entry to US\$ 80 billion.
- (53) Unlike firms dependent on a single market, TNCs meet in several markets that are often oligopolistic. Thus, companies may refrain from vigorous price competition, and adopt cartel agreements.
- (54) Cavenagh John, Northern Transnationals Can Use New MFA To Sew Up Markets, "South", May 1982.
- (55) Islam Sh., EEC says US and Japan want to control world micro-chip trade, "Far Eastern Economic Review", 23 October 1986.

- (56) Tariffs, GATT's traditional territory, "Focus", no. 44, March 1987.
- (57) There is more dispersion among USA tariffs than among EEC tariffs. Thus, for instance, tariffs on textiles are higher in the USA than in the EEC.
The difficulty in the way of harmonizing customs tariffs was also tackled in the Kennedy Round. The EEC, however, at that time, succeeded in invoking disparities in relation to the USA (applying the formula of the "double écart") only for just over 200 tariff lines of the common external tariff.
Casadio G.P., Trans-Atlantic Trade, USA-EEC Confrontation in the GATT Negotiations, Saxon House/
Lexington Books, 1973, P. 53.
- (58) Most developed countries furtherly restrict the coverage of the GSP. Thus, in the USA a "competitive need criterion" limits Ldc's imports to a market share of 50 per cent in any product line.
In addition, over 40 per cent of the benefits goes to only three beneficiaries (Hong Kong, the Republic of Korea and Taiwan).
Whalley J., Trade Liberalization among Major World Trading Areas, P. 12.
- (59) Donges J.D., Whither International Trade Policies ?, Institut für Weltwirtschaft, Kiel, October 1986, P. 5.
- (60) Nogues J., Olechowski A., Winters A., The extent of Non-tariff Barriers to Imports of Industrial Countries, World Bank Staff Working Papers no. 789, Washington D.C., February 1986.
- (61) However, even the German Federal Republic applies NTBs to a considerable extent. Klepper G., Weiss F.D. & Witteler D., Protection in Germany: Towards Industrial Selectivity, paper submitted at a Conference on free trade in the world economy held at the Kiel Institute of World Economics, 23-26 June 1986.

- (62) Introduced in 1922 to protect the American production of organic products derived from benzene. At that time rather vulnerable, the system of the ASP consisted in adopting as a basis for customs valuation (where competitive products were concerned) the price of a similar product manufactured in the USA; a price generally higher than that ruling in other countries, without taking any account of the value of the article imported. In this way, coupled as it was with relatively high duties, the ASP system provided an extraordinarily high level of protection. Casadio G.P., Trans-Atlantic Trade, P. 90.
- (63) Thus, the USA agreed to abandon the American Selling Price, as well as the list-price provisions, although tariffs on affected items were raised to compensate for the change. The Customs Valuation Code entered into force on 1 July 1980.
- (64) The agreement's provisions - entered into force on 1 January 1981 - applies to individual government contracts worth more than SDR 150,000 and to products rather than services (which are covered only to the extent that they are incidental to the supply of products and cost less than the products).
- (65) This agreement, entered into force on 1 January 1980, did not touch on liberalization of the quotas, import prohibitions and "voluntary" export restraints. These were dealt with mainly on a bilateral and plurilateral basis among the participants.
- (66) This agreement, entered into force on 1 January 1980, for the governments which have accepted or acceded to it by that date, has been one of the most difficult, sensitive and important of the Tokyo Round negotiations. Production and export subsidies have had a growing and distorting influence on international trade, often protecting inefficient production at the expense of competitive industries. The use of countervailing duties has grown proportionately and resort to both measures have been encouraged by increasing protectionist pressures over the past few years.
- GATT, The Tokyo Round, Statement by the Director-General, 12 April 1979, P. 20.

- (67) Also known as the Standards Code, it applies to agricultural, as well as to industrial products. Among its major provisions, the Code - which entered into force on 1 January 1980 - requires that national technical standards and regulations should be based on international standards, where these exist.
- (68) Canada, the EEC, Japan, Sweden and the USA are the committed signatory governments.
On 6 October 1983, the members of the GATT Committee on Trade in Civil Aircraft agreed to recommend to their respective governments that thirty-two new categories of civil aircraft products (expressed in Customs Cooperation Council Nomenclature (CCCN)) be added to the lists of duty-free or duty exempt products annexed to the Agreement. They also agreed to recommend that zero duty trade in these new products start on 1 January 1985.
- (69) This agreement has been agreed upon by ten of the participants in the Tokyo-Round (Australia, Austria, Canada, the EEC, Finland, Japan, Norway, Sweden, Switzerland and the USA).
- (70) Ldcs felt that the various agreements on NTBs affecting trade did not achieve the proposed objectives of the Tokyo Declaration, which were to give them "special and differential treatment".
Ginnan P.J., Pugel Th.A. & Walter I., Mixed Blessings for the Third World in Codes on NTBs, "The World Economy", vol. 3, Sept. 1980, no. 2, P. 217.
- (71) Nusbaumer J., The GATT Standards Code in Operation, "Journal of World Trade Law", vol. 18, no. 6, Nov/Dec 1982.
- (72) In fact, no major Government appears ready to renounce the use of production subsidies. Moreover, it is often very difficult to define a production subsidy and to reach agreement on the extent to which a particular subsidy is affecting trade.

- (73) The inventory, which remains open, is based on notifications received from GATT's member countries. In their notifications, many members report what they consider objectionable NTBs maintained by nearly all the other member countries. The latter are invited to comment on the notifications concerning them and these comments are included in the inventory. Where the contents of a notification or its inclusion in the inventory raised objections, bilateral consultations were held to verify the existence of the measure in question, or to draft an accurate and detailed description of it.

More than 600 Hurdles to Trade in Industrial Products Cited, "Focus", February 1982, P. 2.

- (74) In the agricultural area, a differentiation is made between measures affecting imports and exports, but, although classified differently, they are more or less of the same types as in the industrial area, with the exception of sanitary and phytosanitary regulations which are specific to agriculture.
- (75) Yeats A.J., Agricultural Protectionism: An Analysis of its International Economic Effects and Options for Institutional Reform, "Trade and Development", no. 3, Winter 1981.

Rieder P., Produits agricoles et protectionisme, "EFTA Bulletin", no. I/87.

- (76) Casadio G.P., Trans-Atlantic Trade, Saxon House/Lexington Books, 1973.
- (77) An essential element in this approach would be a system for assigning weights to the producer support measures in terms of their impact on international trade.

Greenwald J.A., Dealing with the Agricultural Trade Crisis in the Uruguay Round Negotiations", "The World Economy", vol. 10, June 1987, no. 2.

Agricultural Disarmament, "The Economist", 21 June 1986.

- (78) The Arrangement was originally negotiated in late 1973, and entered into force for a four-year period on 1 January 1974. It was subsequently renewed for a period of four years in late 1977 and for a period of four years and seven months from 1 January 1982. The actual Arrangement has been extended for a further period of five years from 1 August 1986 until 31 July 1991.

There are currently 43 MFA signatories representing 54 countries. In 1984, trade in textiles and clothing between MFA members amounted to US\$ 48.1 billion, or 48% of the US\$ 100.8 billion world exports of textiles and clothing. Textiles account for 10% of all world trade in manufactures and 25% of manufactured exports from the developing countries. Textile products are instead a rather small part of trade for developed countries, taken as a group.

However, the developed countries continue to generate the bulk of the world's exports of textiles, all textiles products, and even of clothing. Developed countries collectively enjoy a large and sustained surplus in textile trade, offset by a larger and growing deficit in clothing. The world's biggest textile exporters are now West Germany and Italy.

Keesing D.B. and Worlf M., Questions on International Trade in Textiles and Clothing, "The World Economy", Vol. 4, March 1981, no. 1.

- (79) Not surprisingly, the MFA system has given rise to a thriving trade in quotas and attempts to by-pass the restrictions illegally through entrepôt trading.

Curzon G., Neo-protectionism, the MFA and the EEC, "The World Economy", Vol. 4, September 1981, no. 3.

- (80) Characteristically, trade protection within the EEC took the form of a more or less strict application of MFA restrictions by individual member countries, which led, in turn, to attempts to prevent re-exports of low-cost imports.
- See: Plessz N., Textiles and Trans-Atlantic Trade, lecture submitted at the European University Institute, Florence, 1982.
- (81) China, in particular, has been allowed extraordinary expansion because OECD countries are keen not to invite restrictions on their exports of capital goods to such a large market.
- On the road to Mandalay, "The Economist", 27 June 1987.
- (82) The crisis can be defined as one of adjustment, or rather lack of adjustment.
- Jones K., Forgetfulness of Things Past: Europe and the Steel Cartel, "The World Economy", vol. 2, no. 2, May 1979, P. 152.
- (83) Walter I., Protection of Industries in Trouble - the Case of Iron and Steel, "The World Economy", May 1979, vol. 2, no. 2, P. 182.
- (84) Leodari G., Protezionismo e sviluppo industriale: la siderurgia, "L'industria" no. 3, July/Sept. 1984, P. 354.
- (85) Donges J.B., Whither International Trade Policies ? Worriers about Continuing Protectionism, "Institut für Weltwirtschaft", Kiel, Oct. 1986, P. 14.
- Mueller H. and Van Der Ven H., Perils in the Brussels-Washington Steel Pact of 1982, "The World Economy", November 1982, vol. 5, no. 3.

- (86) Over twenty of the mostly known VERs, covering a range of products, involve exports from Japan affecting no less than 33 per cent of imports from Japan by other developed countries in 1986 (1981 trade coverage). EEC exports are affected by three VERs' involving exports of steel products to the USA. No VERs involve USA exports.

UNCTAD, Protectionism and Structural Adjustment,
Part I: Restriction on Trade, TD/B/1126, Geneva,
23 January 1987, P. 20.

- (87) On the basis of the value of trade involved, VERs have been the most rapidly increasing form of protectionist actions in the 1980s. The number of VERs known to the secretariat increased from around 60 in 1981 to over 80 in 1986, in spite of the fact that during this period some 20 VERs were not renewed after their expiration date. The amount of trade covered by VERs (excluding MFA agreements) - according to UNCTAD estimates - increased from 3 per cent in 1981 to 4.8 per cent in 1986 (all products except fuels) on the basis of 1981 trade flows. The value of trade affected by VERs increased by 62 per cent between 1981 and 1986 and represented more than half of the increase of all forms of governmental trade intervention. VERs are imposed principally by the USA, EEC and Canada. They are heavily concentrated in steel and automobiles, affecting respectively 45 and 30 per cent of the value of all corresponding imports into selected developed countries in 1986.

UNCTAD, Protectionism and Structural Adjustment,
Part I: Restriction on Trade, TD/B/1126, Geneva,
23 January 1987, p. 20.

- (88) The OECD has compiled a list that includes computers, electronic and telecommunications equipment, pharmaceuticals, scientific instruments, and certain electrical and non-electrical machinery. The list is constantly evolving. Computers and electronic equipment contribute to the fastest export growth since 1970. The USA, the UK and Switzerland each account for more than 20% of OECD exports of high-tech products. Japan, the German Federal Republic and France account for most of the rest. The USA has also been the largest importer of high-tech products. Almost half of American imports originate from Japan; Canada supplies almost 20%; the German Federal Republic, the UK and France provide most of the rest. US officials cite the "openness" of the American market, compared to other countries as an important reason why the USA trade surplus in high-tech products fell.

Tariff remain a significant trade barrier in the high-tech sector, although tariff profiles differ significantly across products and countries. Tariffs are particularly high in the telecommunications sector, especially for those products with high R & D Costs. Of considerable subsidies, services and intellectual property are also very effective trade barriers.

Hufbauer G.C. & Schott J.J., Trading for Growth: The Next Round of Trade Negotiations, Institute for International Economics, Washington D.C., September 1985, P. 60.

- (89) Thus, American officials already allege that France, the German Federal Republic and Britain are breaching the GATT's Code on Civil Aircraft because of state aid for Airbus. The Europeans retort that Airbus cash, which takes the form of repayable loans, is wholly in line with GATT rules. Far from distorting trade, the Europeans argue, their system ensures healthy rivalry for the giant American aircraft manufacturers, Boeing and Mc-Donnell Douglas, which have 80% of the world market between them.

Trade Wars, America Turns Up The Heat On Airbus, "The Economist", 5 July 1986.

- (90) Yesterday's Fair Trade Rules Cannot Govern Tomorrow's Industries, "The Economist", 7 June 1986.
- (91) CEE attacca Tokio su chip e compact, "Il Sole-24 Ore", 7 July 1987.
- (92) The text of the General Agreement is essentially a comprehensive code of general rules limiting or prohibiting conventional NTBs such as quotas, internal taxes and restrictions, state trading, subsidies, and administrative formalities. Over the years, collateral decisions and reports have amplified these rules and have added clarifying detail.
- The most ambitious codification effort prior to the Tokyo Round was the 1967 Anti-Dumping Code, which became the model for the Tokyo Round Codes.
- (93) UNCTAD, Assessment of the results of the multilateral trade negotiations, TD/B/778/Rev. 1, New York, 1982, P. 7.
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