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AGENDA

SM/88/36
Correction 1

March 1, 1988

To: Members of the Executive Board
From: The Secretary
Subject: The Uruguay Round - Issues of Particular Relevance to the Fund

The following correction has been made in SM/88/36 (2/5/88):

Page 18, 1st full para., last line: for "notify and implement."
read "ratify and implement."

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

The "broad concepts" on which a framework agreement might be based have been extensively discussed, but a convergence of views has not yet emerged. Most industrial countries agree that the basic GATT principles of nondiscrimination, national treatment (or similar treatment for like domestic and imported products), and transparency are the best basis for an eventual agreement. Many developing countries, including Brazil and India, emphasize that economic development, and not trade, should be viewed as the ultimate objective of a services agreement. Therefore, in their view the "GATT paradigm" for trade in goods cannot be appropriately applied in the case of services. In addition, the European Community has doubts that national treatment can be wholly applied to trade in services.

The coverage of a multilateral framework has come under discussion also. A few developing countries, including India, have said that any agreement must cover the free access of labor and labor-intensive services. Many participants believe that further work is necessary before agreement on the terms of a general framework can be reached. Others disagree; they are of the view that the question of coverage can be clarified only after agreement on "broad principles" is reached.

The above elements as well as an examination of (i) existing international disciplines and (ii) measures and practices limiting the expansion of trade in services will be the focus of discussions in early 1988. The Fund staff has indicated to the GATT Secretariat a willingness to explain the Fund's jurisdiction on service payments, under its Articles of Agreement, and to provide information on restrictions on service flows, which is collected for the Annual Report on Exchange Arrangements and Exchange Restrictions.

As is evident from the discussions on "broad concepts," there are deep divisions within the GNS, mainly but not exclusively along developing-industrial country lines. It would seem that prospects for achieving rapid progress in this group are more uncertain than in most other groups of the Round.

b. Trade-related investment measures

Under the "initial phase" of its work, the group on trade-related investment measures was to identify and examine the operation of GATT Articles as they relate to trade-restricting and -distorting effects of investment measures. There is disagreement in the group as to whether this mandate has been fulfilled.

A number of participants, mainly from industrial countries, have identified a significant number of investment measures that could have adverse effects on trade, including export-performance and trade-balancing requirements, local content rules, and remittance restrictions. These have been related to some 18 GATT Articles. Thus, for example, it is thought that the use of trade-balancing requirements could be considered to be limited or prohibited under GATT Article XI

(on the prohibition of quantitative restrictions). In the opinion of many industrial countries the group now should focus its discussions on adverse trade effects of investment measures and elaborate further GATT provisions, if necessary, to avoid such effects. A number of developing countries strongly disagree. In their view, far more precision is required on the trade effects of the identified investment measures, whether these effects are sufficiently direct, significant, restrictive, and distorting to warrant consideration and whether they can be related directly to the operation of GATT Articles. Also, the group should give consideration to finding a balance between adverse trade effects and the objectives of national development policies; these latter factors might rule out some identified measures, such as local equity requirements, from further consideration by the group. In the view of a number of major developing countries, these matters will need to be settled before the group can turn to an examination of whether and what further GATT provisions are required in the area.

In 1988, the group will explore further how GATT Articles address adverse trade effects of investment measures and whether in this regard further GATT provisions may be necessary. Despite existing divisions in the group, its industrial members seem to agree about the need to develop a "code of behavior" which would be open to all contracting parties but which initially only a select number of countries would ratify and implement.

V. The Role of the Committee on Liaison with
the CONTRACTING PARTIES to the GATT (CGATT)

In July 1948, the Executive Board established the Committee on Liaison with the International Trade Organization (ITO) with the following terms of reference:

The Committee on Liaison with the ITO shall assist in the establishment of temporary arrangements with the ITO and the CONTRACTING PARTIES of the General Agreement on Tariffs and Trade. It shall also examine and make recommendations to the Executive Board on all problems relating to the ITO and the CONTRACTING PARTIES of the General Agreement on Tariffs and Trade, which are involved in the Fund's relationship with the two organizations.

Subsequently, negotiations to establish an ITO ran into difficulties and, in September 1948, the Executive Board approved proposals by the Chairman of the CONTRACTING PARTIES for cooperation between the GATT and the Fund. Administrative arrangements for cooperation and consultation were agreed and continue to be in effect.