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Supplement 2
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

August 24, 1988

To: Members of the Executive Board
From: The Secretary
Subject: Trade Policy Issues and Developments - Annexes

The following corrections have been made in SM/88/166,
Supplement 2 (8/10/88):

Page 2, Table 1, line 2, last column: for "VI.2" read "VI.3"

Page 4, last para., line 3: for "(Attachment I)"
read "(Attachment)"

Page 25, para. 2, line 5: for "(see Attachment I)"
read "(see Attachment)"

Page 26, last line: for "in the latest (63rd)"
read "in the (63rd)"

Corrected pages are attached.

Att: (4)

Other Distribution:
Department Heads

Evolving Framework for International Trade 1/

I. Introduction

This Annex reviews selected GATT activities and developments under the Uruguay Round. Reference is also made to the work of the OECD and of UNCTAD in selected areas. Section II describes recent multilateral trade initiatives, including an overview of progress thus far under the Uruguay Round, and the outcome in the trade area of the recent OECD ministerial meeting and the Economic Summit. Section III identifies the existing GATT mechanisms for multilateral surveillance in the trade area and discussions in the new Round to improve trade surveillance and other aspects of the functioning of the GATT system. Sections IV and V deal, respectively, with protection issues by type of instrument (tariffs, nontariff barriers, safeguards, subsidies, and dumping) and by sector (agriculture, textiles and clothing, tropical products, natural resource-based products, and services). Section VI looks at issues concerning developing countries, including the work of the Committee on Trade and Development, integration issues, and the utilization of GATT provisions on trade restrictions for balance of payments purposes. Section VII describes issues under the Uruguay Round related to dispute settlement and operation of selected GATT articles and Tokyo Round codes. Table 1 presents a list of selected issues considered by GATT bodies and under the Uruguay Round, and identifies the section in this Annex dealing with these issues.

II. Overview of Multilateral Trade Initiatives

1. The Uruguay Round

The General Agreement on Tariffs and Trade (GATT) celebrated its fortieth anniversary in 1987. In its four decades of operation, the GATT has had many accomplishments. As a result of seven successive rounds of multilateral trade negotiations, average tariffs in industrial countries on industrial products have declined sharply, from over 40 percent in 1947 to around 5 percent today. World trade has expanded markedly, including a twentyfold increase in the volume of trade in manufactured goods. GATT's membership has quadrupled to cover 96 countries accounting for over 85 percent of world trade 2/ (Table 2).

1/ This paper contains three annexes which provide background information for the main paper "Trade Policy Issues and Developments," SM/88/166 (8/3/88), and Supplement 1 "Trade Policy Issues and Developments: Industrial and Developing Countries." References are made in this paper to Annex Tables contained in Supplement 3, "Trade Policy Issues and Developments: Statistical Material."

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

Table 1. Discussion Forums in GATT and the Uruguay Round

Sector/Issue	Tokyo Round Code/GATT Committee or Overseeing Body ^{1/}	Uruguay Round Negotiating Group	Reference in Annex I (Section)
Agriculture	Committee on Trade in Agriculture	Agriculture	V.1.
Balance of payments restrictions	Committee on Balance of Payments Restrictions	GATT Articles	VI.3
Bovine meat	Arrangement Regarding Bovine Meat/International Meat Council	MIN Agreements and Arrangements	VII.3
Civil Aircraft	Agreement on Trade in Civil Aircraft/Committee on Civil Aircraft	MIN Agreements and Arrangements	VII.3
Customs valuation	Agreement on Customs Valuation/Committee on Customs Valuation	MIN Agreement and Arrangements	VII.3
Counterfeit goods	Expert Group on Trade in Counterfeit Goods	TRIPS	IV.5
Dairy products	International Dairy Arrangement/International Dairy Products Council	MIN Agreements and Arrangements	VII.3
Developing country matters, Part IV, Enabling Clause	Committee on Trade and Development		VI
Developments in the trading system	GATT Council	FOGS	III
Dispute settlement	Relevant Committee, GATT Council	Dispute Settlement	VII.1
Dumping	Agreement on Anti-dumping Practices/Committee on Anti-dumping Practices	MIN Agreements and Arrangements	IV.4b
Government procurement	Agreement on Government Procurement/Committee on Government Procurement	MIN Agreement and Arrangements	VII.3
Import licensing	Agreement on Import Licensing/Committee on Import Licensing	MIN Agreements and Arrangements	VII.3
Natural resource products	Working Party on Problems of Trade in Natural Resource Products	NREP	V.4
Nontariff Measures	Group on Quantitative Restrictions and Other Nontariff Measures	Nontariff Measures	IV.2
Regional arrangements	Specific working parties	GATT Articles	VII.2
Safeguards		Safeguards	IV.3
Services		Services	V.5
Subsidies and countervailing measures	Agreement on Interpretation and Application of Articles VI, XV and XXIII ("Subsidies Code")/Committee on Subsidies and Countervailing Measures	Subsidies and Countervailing Measures	IV.4a
Surveillance	GATT Council, relevant Committees	FOGS	III
Tariffs	Committee on Tariff Concessions	Tariffs	IV.1
Technical barriers	Agreement on Technical Barriers to Trade ("Standards Code")/Committee on Technical Barriers to Trade	MIN Agreement and Arrangements	VII.3
Textiles	Textiles Committee (also supervises Textiles Surveillance Body), Working Party on Textiles and Clothing (1983-86)	Textiles and Clothing	V.2
Trade-related intellectual property rights		TRIPS	IV.5
Trade-related investment measures		TRIMS	IV.6
Tropical products		Tropical Products	V.3

^{1/} The GATT Council of Representatives considers matters placed before it. Working parties may be established to investigate specific issues (e.g., accession, waivers, etc.).

Note: FOGS = Functioning of the GATT System; TRIPS = Trade-related Intellectual Property Rights; TRIMS = Trade-related Investment Measures; NREP = Natural Resource-based Products.

Table 2. GATT Membership 1/

A. Contracting Parties to the GATT

Antigua and Barbuda	Germany	Nigeria
Argentina	Ghana	Norway
Australia	Greece	Pakistan
Austria	Guyana	Peru
Bangladesh	Haiti	Philippines
Barbados	Hong Kong	Poland
Belgium	Hungary	Portugal
Belize	Iceland	Romania
Benin	India	Rwanda
Botswana	Indonesia	Senegal
Brazil	Ireland	Sierra Leone
Burkina Faso	Israel	Singapore
Burma	Italy	South Africa
Burundi	Jamaica	Spain
Cameroon	Japan	Sri Lanka
Canada	Kenya	Suriname
Cent. African Republic	Korea, Republic of	Sweden
Chad	Kuwait	Switzerland
Chile	Lesotho	Tanzania
Colombia	Luxembourg	Thailand
Congo	Madagascar	Togo
Côte d'Ivoire	Malawi	Trinidad and Tobago
Cuba	Malaysia	Turkey
Cyprus	Maldives	Uganda
Czechoslovakia	Malta	United Kingdom
Denmark	Mauritania	United States
Dominican Republic	Mauritius	Uruguay
Egypt	Mexico	Yugoslavia
EEC	Morocco	Zaire
Finland	Netherlands	Zambia
France	New Zealand	Zimbabwe
Gabon	Nicaragua	
Gambia, The	Niger	

B. Acceded Provisionally

Tunisia

C. De Facto Application 2/

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

Source: GATT

1/ As of June 30, 1988.

2/ Countries to whose territories the GATT has been applied and which now, as independent states, maintain a de facto application of the GATT pending final decisions as to their future commercial policy.

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

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

The Ministerial Declaration launching the new Round spells out the overall and specific objectives of the MTN and establishes a time frame of four years for its completion (Attachment). The Round aims, inter alia, to further liberalize trade, to strengthen the role of the GATT, to increase GATT's responsiveness to the evolving international economic environment, and to foster cooperative action to strengthen the inter-relationship between trade and other economic policies affecting growth and development. To conduct the negotiations, a Trade Negotiations Committee (TNC) was established with two subsidiary bodies, the Group of Negotiations in Goods (GNG) and the Group of Negotiations in Services (GNS). ^{1/} GATT members also committed themselves to observing a "standstill" and "rollback" of trade restrictive measures that are inconsistent with GATT.

^{1/} The GNG was further divided into fourteen negotiating subgroups covering tariffs, nontariff measures, tropical products, natural resource-based products (NRBP), textiles and clothing, agriculture, safeguards, GATT articles, MTN agreements and arrangements, subsidies and countervailing measures, dispute settlement, trade-related intellectual property rights (TRIPS), trade-related investment measures (TRIMS), and the functioning of the GATT system (FOGS).

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

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

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

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

The approaches to negotiations on services fall broadly in two categories: (i) development first of a multilateral framework of principles for all sectors, which could then be used for sectoral negotiations; (ii) the alternative is to place greater emphasis on sectoral discussions and less on the multilateral framework, because of the perceived difficulties of achieving consensus on comprehensive rules and principles. Features under discussion of a possible framework for trade

in services include most-favored-nation (MFN) application, national treatment (i.e., same treatment to both domestic and foreign service producers), and transparency. Some industrial countries consider it opportune for the group to begin pulling together broadly agreed views on principles and negotiating mechanisms to move the discussions forward. Others feel that before this can be done, the group would need to pay greater attention to ensuring respect for national policy objectives, as many existing obstacles to market access in services are motivated by nontrade considerations.

Developing countries are concerned that the negotiations are not addressing the need to promote economic development. Many of them are interested in inclusion of labor services in the discussions, whereas industrial countries wish to avoid bringing immigration into the negotiations. Some developing countries are important service producers with a stake in the multilateral negotiations, but others feel that there is little to be gained by opening the services sector, while still others simply want to protect their own services sectors. Some developing countries have expressed concern about the trade-restricting practices of transnational corporations in the service area.

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

VI. Trade Issues Affecting Developing Countries

1. Issues of interest to developing countries

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

Developing countries are concerned about a number of issues pertaining to the international trading system, some of which were raised in the (63rd) session of the committee in April 1988. First,