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August 3, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Trade Policy Issues and Developments

The attached paper on trade policy issues and developments, together with a paper on the industrial policies of industrial countries and their effects on developing countries (SM/88/167, 8/4/88), has been tentatively scheduled for consideration by the Executive Board on Wednesday, August 24, 1988. Issues for discussion appear on pages 19-21. The three supplements referred to in this paper will be issued shortly.

Ms. Kelly (ext. 8374) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Trade Policy Issues and Developments

Prepared by the Exchange and Trade Relations Department

(In consultation with other Departments)

Approved by H.B. Junz

August 3, 1988

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I. Introduction

This paper reviews major issues in the trade area and outlines the problems in the multilateral trading system that governments face as they seek to liberalize trade in the Uruguay Round of trade negotiations. Supplements 1, 2, and 3 to this paper provide extensive background and statistical information. A companion paper, "Industrial Policies of Industrial Countries and their Effects on Developing Countries," SM/88/167 (8/4/88), has been prepared at the request of the Development Committee. A separate paper "Industrial Policies of Developed Countries: Impact on Developing Countries," has been prepared by the World Bank. These papers will be discussed by the Development Committee during its forthcoming meeting in Berlin.

The last comprehensive trade survey was considered by the Board in 1985. 1/ In preparation for the current comprehensive trade survey, the staff held discussions with various national authorities and official agencies. Staff teams held discussions with trade officials in Australia, Canada, France, Germany, Japan, Korea, Mexico, New Zealand, the United Kingdom, and the United States. In addition a staff team visited Brussels for discussions with the European Commission and the African, Caribbean and Pacific Group of States (ACP) Secretariat; Paris for discussions with the Organization for Economic Co-operation and Development (OECD), and Geneva for discussions with the Secretariats of the General Agreement on Tariffs and Trade (GATT), the United Nations Conference on Trade and Development (UNCTAD), and the European Free Trade Association (EFTA). The paper has also relied extensively on published and unpublished material available in the Fund and elsewhere.

1/ The comprehensive trade survey, "Trade Policy Issues and Developments" SM/85/60 (2/19/85), was considered by the Board in March 1985 and published as IMF Occasional Paper No. 38. A paper on, "Protection and Liberalization--A review of Analytical Issues," SM/87/43 (2/3/87), was considered by the Board in early 1987. An update of trade developments, "Recent Developments and Issues in Trade Policies," SM/87/191 (8/4/87), was discussed by the Board in September 1987. Subsequently, a paper reviewing developments in the Uruguay Round, "The Uruguay Round - Issues of Particular Relevance to the Fund," SM/88/36 (2/5/88), was discussed by the Board in March 1988. The Chairman's summings up of the latter two discussions are contained in Buff 87/137 and Buff 88/49, respectively. Directors have also discussed trade issues in the context of the World Economic Outlook exercise. A recent information note prepared for the meeting on May 31, 1988 between the Committee on Liaison with the Contracting Parties to the GATT (CGATT) with Mr. Dunkel summarized issues related to collaboration between the Fund and GATT, EB/88/3 (5/24/88).

This paper provides an overview of major trade issues (Section II) and prospects for liberalization (Section III). It also describes coverage of trade issues in Article IV consultations and in Fund-supported programs (Section IV). The final section suggests issues for discussion. Supplement 1 to this paper reviews trade policy instruments and trade-related industrial policies of industrial countries; the causes and costs of protection; and trade policies of developing countries. In response to requests made by Executive Directors during the discussions of recent trade papers, as well as in the context of Article IV discussions of members, of the European Community (EC), Supplement 1 examines trade and industrial policy instruments of the EC in detail. Supplement 2 contains three annexes providing detailed information on the evolving framework for international trade including developments in the Uruguay Round (Annex I); a comprehensive discussion of institutional features and recent developments in agricultural trade (Annex II); and trade measures affecting selected industrial sectors (steel, textiles and clothing, automobiles, shipbuilding, electronics, footwear, and civil aircraft) (Annex III). 1/ Supplement 3 presents statistical information related to Annexes I to III.

II. Issues in International Trade

Growth in the volume of world trade once again has begun to outstrip that of output and has averaged some 5 percent per annum during 1984-87, compared with an average of less than one percent per annum during the world recession of 1980-83. However, the resumption of expansion in world trade has not been accompanied by an abatement of protectionist pressures. Trade policy developments continue to be a matter of concern. Instances of trade liberalization have been limited, while resort to restrictive trade measures has increased. Consequently, there appears to be little evidence to suggest that the stance of trade policies is contributing to the correction of underlying disequilibria among industrial countries and the resolution of the debt and balance of payments problems of developing countries--indeed, trade policies (along with other policies) may well be hindering such correction. Given these developments, it needs to be considered whether unilateral liberalization can play a greater role in structural adjustment.

1. Industrial countries

In industrial countries protectionist pressures remain high and in some cases have resulted in an increase in trade-restricting measures (Supplement 1). Nonfuel imports of industrial countries subject to nontariff measures (NTMs) rose from about 19 percent of their total

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1/ As in past trade surveys, this paper places emphasis on policy developments in major trading nations as they relate to trade in selected industrial and agricultural products. This selectivity was necessary to keep the paper manageable.

nonfuel imports in 1981 to about 23 percent in 1987. 1/ Since then there has been a sharp increase in export restraint arrangements: based on preliminary data, such arrangements rose from 135 in September 1987 to 253 in May 1988 (Table 1). The increase in such arrangements has intensified restrictions in sectors that are already subject to quantitative measures, such as, textiles, clothing and agriculture. In terms of protected markets, the increase is most prominent in the EC; and it affects exports of both developing and industrial countries. Although it is difficult to quantify the impact, the recent increase in voluntary export restraints (VERs) and similar arrangements has undoubtedly further widened the country and product coverage of trade restrictions.

a. Agricultural trade

Developments in agricultural trade policies give great cause for concern, particularly as they affect an already highly protected sector (Annex II). Between 1981 and 1986, support provided to the farm sector through domestic measures and export subsidies has further increased, as evidenced by the increase in producer subsidy equivalents (PSEs) in all major industrial countries (e.g., according to the OECD, PSEs rose from 24 percent to 39 percent of gross agriculture production value in Canada; from 37 percent to 40 percent in the EC; from 57 percent to 69 percent in Japan; and from 16 percent to 28 percent in the United States). 2/ The costs to consumers and taxpayers in terms of higher prices and budgetary expenditure have increased sharply; the OECD estimates such costs to have averaged US$185 billion per year in 1984-86. Growth and employment are being adversely affected by the misallocation of resources implied by such policies and access to the markets of major industrial countries has been curtailed. For example, one study estimates that, notwithstanding its positive effects on agricultural employment, the EC's agricultural policies have reduced overall employment in the economies of France, Germany, Italy, and the United Kingdom, by a net 2-3 million jobs. 3/ Export subsidies have depressed world commodity prices with adverse consequences for export earnings of efficient agricultural exporters, including some of the highly indebted countries. As a consequence, trade conflicts have increased markedly (e.g., U.S. disputes on beef and citrus products with Japan, and on wheat flour, pasta, oilseeds, and apples with the EC; EC's dispute on beef with Canada).

1/ UNCTAD, "Protectionism and Structural Adjustment," TD/B/1160/Add.1, Geneva, 1988.

2/ PSEs are a comprehensive measure of the gross value of support provided by government support policies to producers. For details, see Annex II.

3/ Stoeckel, A., (ed.), Agricultural Policies and the Non-Farm Economy, Center for International Economics, 1988.

Table 1. Export Restraint Arrangements, 1/ 1987-88

(By number of arrangements)

	September 1987	May 1988	Increase Between September 1987 and May 1988
Total export restraint arrangements 1/	135	253	118
By sectoral composition			
Steel	38	47	9
Agricultural and food products	20	54	34
Automobiles and transport equipment	14	17	3
Textiles and clothing 2/	28	71	43
Electronic products	11	19	8
Footwear	8	14	6
Machine tools	7	7	--
Other	9	24	15
By protected markets			
European Community	69 3/	137 4/	68
United States	48	60	12
Japan	6	12	6
Other industrial countries	12	43	31
Eastern Europe	--	1	1
By restrained exporters			
Japan	25	35	10
Eastern Europe	20	44	24
Korea	24	32	8
Other industrial countries	23	54	31
Other developing countries	43	88	45

Source: GATT, "Review of developments in the Trading System," L/6289 and C/W/548, Geneva, 1987 and 1988.

1/ Includes voluntary export restraints, orderly marketing arrangements, export forecasts, basic price systems, industry-to-industry arrangements, and discriminatory import systems. Excludes restrictions under the Multifibre Arrangement (MFA) The data in this table are preliminary.

2/ Excluding restrictions under the Multifibre Arrangement (MFA).

3/ Including 20 arrangements involving individual EC member states.

4/ Including 50 arrangements involving individual EC member states.

Although certain elements of the U.S. Farm Bill of 1985 reduced agricultural support, this bill led to an increase in overall budgetary spending and included agricultural export subsidies (under the Export Enhancement Program (EEP)), and import quotas for sugar were made more restrictive. In Japan, recent market-opening measures, in response to bilateral negotiations and rulings of GATT dispute panels, though important, do not address access to Japan's market for most basic farm products. Import controls that limit access to the Japanese market have reduced the effects of the appreciation of the yen on domestic prices. 1/ In the EC, measures agreed in February 1988 to reform the Common Agricultural Policy (CAP) included a ceiling on expenditures on agriculture in the EC budget; a widening of the coverage of guarantee thresholds; 2/ and the introduction of a land set-aside program. These measures represent a change in direction of policy and will help contain EC budgetary expenditures on agriculture. However, they are not expected to contribute to increased access to the EC market or to significantly reduce subsidized exports which, in the view of EC member countries, depend on negotiations in the Uruguay Round.

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

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

1/ In this respect it might be noted that the Japanese Economic Planning Agency recently has recommended deregulation of the distribution and pricing systems.

2/ Guarantee thresholds are limits on production which, if exceeded, result in a support price reduction in the subsequent year.

In addition to the above arguments, the view that free trade (or freer trade) is politically feasible only if all major agricultural producers act together is widely accepted; this is particularly so when multilateral trade negotiations are underway as these are based on a mutual exchange of concessions. 1/ While the benefits of unilateral liberalization are recognized, it is argued that unilateral liberalization reduces pressure for others to act and that the short-term costs of adjustment are reduced if liberalization is undertaken on a multilateral basis. In this context, recent studies have estimated that the direct welfare (income) gains of unilateral liberalization would range from US$3 billion (in terms of 1985 dollars) in the United States to US$9 billion in the EC and in Japan; although producers would lose more under unilateral liberalization, the economy as a whole would not be worse off under unilateral liberalization compared with multilateral liberalization. 2/ In addition, for some major agricultural producers (e.g., Australia and New Zealand), where agriculture is taxed in relative terms, a reduction in support for agriculture, in the absence of measures to reduce support for their more highly protected manufacturing sectors, would likely result in a less efficient allocation of resources. 3/

b. Industrial sectors

In the industrial sector, quantitative restrictions (QRs) have increased. Trade disputes have risen reflecting the difficult trading environment, differences in interpretation or lack of multilateral rules (e.g., the U.S.-EC dispute on civil aircraft), and unresolved issues in new areas not covered by GATT (e.g., intellectual property rights (IPRs)). Resort to antidumping and countervailing duty petitions to combat unfair competition has become more widespread (Supplement 1). Although sector-specific subsidies may have declined, they possibly have been offset by an increased use of border measures and an increase in regional and R and D expenditures which sometimes provide less transparent support to specific sectors. Progress has been made in reducing the competitive subsidization of exports through officially

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1/ The strength of this view in the United States may, in part, be based on the results of some studies which show that, unlike producers in other major industrial countries, U.S. producers would not lose from multilateral liberalization (Annex II).

2/ Tyers, R., and Anderson, K., Liberalizing OECD Agricultural Policies in the Uruguay Round: Effects on Trade and Welfare, Working Papers in Trade and Development No. 87/10, Australia National University, 1987.

3/ Stoeckel, A., (ed.), op. cit.

supported export credits as a result of the OECD Consensus Arrangement. Although it is generally agreed that development assistance is more useful if it is untied, the staff discussions did not reveal any move in this direction. 1/

The increased use of NTMs reflects, in part, the fact that most industrial countries have "bound" 2/ a considerable proportion of their tariffs, particularly on industrial products, at relatively low levels. 3/ NTMs are particularly damaging, however, because of their lack of transparency and distortive effects and also because they heighten uncertainty about access on usual terms to industrial country markets. In addition, VERs are applied on a discriminatory basis outside GATT control, and thus undermine the fundamental most-favored-nation (MFN) principle of GATT.

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

Quantitative restrictions frequently increase the price of items for which substitute products exist. This reduces demand for products subject to restrictions and makes it difficult for efficient producers to compete on world markets. Steel is a case in point: despite substantial reductions in capacity in major industrial countries, excess capacity continues to be a problem; in part, this reflects a decline in demand due to increased competition from plastics and other substitute products. Sugar is another example where QRs, together with tariff escalation, have encouraged the production of nonsugar sweeteners which would not be profitable at the current free-market price of sugar. The

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1/ Mixed credit offers notified to the OECD in 1987 rose to SDR 9.2 billion from SDR 6.4 billion in 1986; the actual take-up of offers by developing countries may be less, however.

2/ "Binding" tariffs in the GATT means that they cannot be unilaterally increased.

3/ The effects on developing countries of tariff peaks (high tariffs) and tariff escalation (successively higher tariffs for products at a higher stage of processing) in industrial country tariff schedules are discussed in detail in the companion paper on "Industrial Policies of Industrial Countries and their Effects on Developing Countries," SM/88/167 (8/4/88).

United States Department of Agriculture has estimated that the reduction of the U.S. sugar quota has resulted in a loss of over US$1 billion in foreign exchange for Caribbean Basin countries since 1984 (Annex II).

The increased use of "unfair trade" legislation to restrict trade has resulted in a number of disputes (Annexes I and III). While measures to combat unfair competition are permitted by GATT and have a valid basis in many cases, their extensive use has led to charges that industrial countries sometimes use these measures to harass foreign exporters and as substitutes for safeguard actions permitted under Article XIX of GATT. 1/ Evidence suggests that this may in fact have occurred (Supplement 1). Investigations involve costs for exporters even if they result in negative findings and, in addition, often lead to VERs or price undertakings which restrict trade. Recent and prospective amendments to national legislation in this area are likely to increase its adverse effects (Supplement 1).

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

c. Multilateral versus unilateral approaches to trade liberalization

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

Bilateral/sectoral approaches are also used to respond to macroeconomic imbalances (e.g., pressure on Japan and newly industrializing economies (NIEs) to provide access in specific sectors

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1/ Article XIX of GATT allows QRs on a temporary basis to deal with import surges provided they are implemented on a nondiscriminatory basis and compensation is provided to affected exporters.

to industrial countries). These approaches are often divorced from comparative advantage and are unlikely to improve the current account.

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

The lack of major liberalization in agriculture in the U.S.-Canada Free Trade Agreement 1/ has led some industrial countries to suggest that the U.S. interest in multilateral negotiations is now primarily in agriculture and some selected new areas, such as, telecommunications, banking, and patent protection. Although the United States notes that it has much broader interest in multilateral negotiations, statements by the United States that it intends to pursue bilateral solutions to trade 2/ reduces the willingness of other countries to agree to long-term reform of agricultural policies independently of other aspects of the Uruguay Round negotiations. This contributes to the delay in urgently needed short-term reductions in support to agriculture in the major industrial countries.

In the case of the EC, other countries fear that the complexity of internal market discussions might encourage the EC to become more inward-looking precisely at the time that multilateral negotiations are in progress. Concern has been expressed about the possibility of NTMs

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1/ In agriculture, the agreement prohibits export subsidies on bilateral trade; phases out tariffs over a ten-year period; eliminates some transportation subsidies on Canadian exports to the United States; and eases some NTMs between the two countries. "However, the two governments agreed that some of the most pressing problems in the agricultural area go beyond Canada and the United States and will need the cooperation of all countries. For example, the stiff competition for grain export markets leading to various export subsidies cannot be resolved solely on a bilateral basis," (see Canada-U.S. Free Trade Agreement, Department of External Affairs, Canada, p. 77).

2/ For example, Secretary Baker has stated that, "If not [successful at GATT], we might be willing to explore a 'market liberalization club' approach, through mini-lateral arrangements or a series of bilateral agreements," in a speech before the 50th Anniversary Meeting of the National Cotton Council, Memphis, 1988.

imposed at the national level in sectors, such as, automobiles being replaced by possibly more restrictive EC-wide measures (Supplement 1). Important aspects of the EC's external regime after 1992 have yet to be decided. The EC has indicated that it does not intend to raise barriers against the rest of the world after the completion of the internal market; it has nevertheless noted that its ability to contain possible protectionist pressures and to extend the benefits of the integrated market to third countries would depend, inter alia, on its obtaining improved market access in those countries. In the latter respect, the EC has noted that the Uruguay Round provides an opportunity for reciprocal market-opening actions. It has indicated, in addition, that its dependence on export markets and the benefits to be gained from a liberal trade regime will also act to counter protectionist pressures.

d. Arguments for protection

Industrial countries continue to defend protection on the basis of traditional and not so traditional arguments (Supplement 1). 1/ Among the latter, several reasons are worthy of note because of the frequency with which they were mentioned during the discussions and because of their implications for the global adjustment process. These include macroeconomic imbalances among the major industrial countries; associated exchange rate changes and exchange rate instability; and various versions of the "level playing field" argument. In addition, a number of countries cite the social costs of high unemployment (which often is regionally concentrated) as well as the high budgetary costs of unemployment benefits.

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

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1/ The role of trade restrictions and subsidies in easing the burden of adjustment and their impact on structural adjustment are discussed in the companion paper SM/88/167 (8/4/88).

required. The appropriate response to exchange rate instability would be more vigorous efforts to adjust and coordinate macroeconomic policies. Protection only serves to aggravate macroeconomic imbalances and exchange rate instability.

Already a large share of world trade is partially or fully insulated from world market forces, including exchange rate changes. This reflects the use of a variety of protective instruments including VERs and quotas, variable levies, and subsidies which are sometimes designed to compensate for differences between domestic and world prices. The reluctance to adjust to exchange rate changes is evidenced by current discussions between the United States and the EC on civil aircraft and by discussions among major countries on modifications to the PSE for its possible use in multilateral negotiations. 1/

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

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

1/ The "dollar clause" proposed by the EC in the context of U.S.-EC discussions on civil aircraft (Supplement 1 and Annex III) is intended to shelter producers from the effects of exchange rate changes on losses emerging from the differences between dollar-denominated prices and costs in EC currencies; some modifications proposed to the PSE concept for possible use in multilateral negotiations, are intended to neutralize the effects of exchange rate changes on PSEs at least over certain periods.

Singapore and Hong Kong 1/ already have very open trade regimes. Although Korea and Taiwan Province of China have undertaken market-opening measures in recent years, some industrial countries consider that more is needed, given their comfortable external positions. In addition, many industrial countries believe that undervalued exchange rates contribute to the substantive external surpluses in some of the NIEs. It needs to be recognized, of course, that correction of external disequilibria among industrial countries depends primarily on their own macroeconomic policy adjustments.

2. Developing countries

In addition to the measures undertaken by some NIEs, many other developing countries have undertaken trade liberalization in the context of structural adjustment programs, often supported by the Fund and the Bank. Progress is slow in a number of countries, however, and developing countries as a group maintain trade regimes which are more protective and complex than those of industrial countries. In particular, statutory tariffs are generally higher and more dispersed in developing countries and their use of NTMs is more extensive than in industrial countries (Supplement 1). Exchange restrictions also often reinforce trade restrictions.

Developing countries continue to explore the use of countertrade as an export marketing tool, as a possible mechanism to overcome shortages in foreign exchange and protectionist barriers in industrial countries, to counter effects of overvalued exchange rates (countertrade can act as a nontransparent export subsidy), and in some cases to promote intra-regional cooperation. As in past discussions, it was difficult to obtain estimates of such trade; however, there are indications that countertrade has stagnated since 1984 and actually declined in 1987 (Supplement 1). These developments may reflect an increased recognition of the drawbacks of countertrade and the additional costs it imposes on exporters. Both the Fund and the GATT have been concerned with countertrade practices, not only because of their costs but also because they undermine multilateralism and inhibit efficient resource use.

Arguments for protection in developing countries rely heavily on balance of payments justifications. Over 85 percent of all QRs notified to the GATT by developing countries have been justified for balance of payments reasons. Debt problems of developing countries have also sometimes been cited as reasons for maintaining or intensifying exchange

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

and trade restrictions. Some developing countries are hesitant to adopt outward-oriented policies because of pessimism concerning the prospects of improved market access in industrial countries. A traditional argument for protection used by developing countries relates to the development of infant industries. 1/

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

III. Prospects for Liberalization

Against the background of continuing protectionism (as discussed in a staff paper (SM/88/36) prepared earlier in the year), 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. The Round addresses the major issues that are a source of concern in the multilateral trading system, including areas which in the past were largely neglected (e.g., agriculture), new areas (e.g., services), and sectors that have been relegated to special regimes through multilateral action (textiles and clothing). It also aims to apply GATT disciplines to segments of international trade that are now subject to "gray-area" 2/ measures (steel, automobiles, electronics, etc.). In addition, it gives greater recognition to the linkages between trade and other economic policies and to systemic

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1/ For a detailed analysis of arguments for protection in developing (and industrial) countries, see Corden, W. M., "Protection and Liberalization: A Review of Analytical Issues," IMF Occasional Paper No. 54, 1987.

2/ "Gray-area" measures are those taken outside GATT surveillance and whose consistency with GATT rules is not determined.

issues, such as the functioning of the GATT (including its relations with international organizations). Although not included specifically as a topic in the negotiations, the role of developing countries in the multilateral trading system is an issue in most negotiating groups. In launching the Round, industrial and developing countries committed themselves to observe a "standstill" and "rollback" of trade restrictive measures, which were to be monitored by the Surveillance Body established for this purpose. A midterm ministerial review of progress in the negotiations is scheduled for December 1988.

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

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

Another area of concern in the Uruguay Round mentioned by a number of countries is the issue of trade policy surveillance. Discussions within the negotiating group on the functioning of the GATT system are proceeding fairly rapidly on the likely features of a mechanism to improve surveillance of trade policy at the international level. In this context a number of countries suggest that improved domestic surveillance of trade policies is also important. In their view, greater transparency at the national level is essential to reduce domestic pressures for protection and can also play an important role in mustering support for multilateral liberalization and in contributing to the success of improved multilateral surveillance. However, not all countries that favor the latter are taking steps to improve domestic trade policy surveillance.

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

Collaboration between the Fund and GATT was covered in detail in the staff paper on the Uruguay Round which was discussed by the Board in March 1988. Most Directors believed that the character and mechanisms of this collaboration were satisfactory. The information note prepared for the recent meeting of CGATT with Mr. Dunkel summarized (a) current Fund/GATT collaboration and (b) proposals for Fund/GATT cooperation under discussion in the Uruguay Round. The latter discussions are continuing within the Uruguay Round Group on the Functioning of the GATT System (Annex I).

IV. The Role of the Fund

This section reviews the coverage of trade policies in Article IV consultations and use of Fund resources.

1. Article IV consultations

The Board has emphasized on several occasions in the past that greater consideration should be given to trade policy issues in Article IV consultations, particularly analysis of their effects on domestic adjustment and on trading partners. In their 1987 discussion on trade issues, Directors called for "further efforts to improve the coverage and quality of the trade content of Article IV consultation staff reports, including quantification of the effects of protection where that was feasible." 1/ To investigate trade coverage in recent staff reports and accompanying papers on recent economic developments,

1/ The Chairman's summing up at the conclusion of the "Discussion on Recent Developments and Issues in Trade Policies," Buff 87/190 (9/17/87).

the staff made a survey of Article IV consultations held during the period mid-1987 to mid-1988 with industrial countries (17) and with developing countries (11) without a Fund-supported program at the time.

For industrial countries, the survey indicated that (i) trade coverage was generally comprehensive for major industrial countries (especially for Germany, Japan, and the United States), but less so for smaller countries (particularly EC members); (ii) reports continued to be overly descriptive; while factual description is necessary to understand the stance of trade policy, in some cases this was not supplemented with analysis; (iii) some aspects of the trade policy impact on the domestic economy was included in a little over half the reports, though in most cases this analysis was not adequately integrated into the discussion of other economic issues, particularly *structural issues (an example where these issues were integrated was the* report on Germany); (iv) analysis of the impact of the consulting country's trade policy on trading partners was not very frequent (examples where it was featured include Germany, Sweden, and the United States); (v) about one third of the reports discussed trade restrictions abroad affecting the consulting country; (vi) progress remained limited on quantification of the impact of protection, with some exceptions (e.g., in the report on Germany the staff developed a model to investigate the effects of trade liberalization); (vii) the analysis appropriately focused on the economic impact of trade restrictions and not on their legal conformity with GATT; (viii) aspects of regional trade issues were featured in reports of some EC countries (France, Germany, the Netherlands, Portugal, and Spain), and regional integration was discussed in others (Canada, and the United States); (ix) with some exceptions, most reports mentioned the ongoing Uruguay Round and welcomed the consulting country's active role in it; only a few discussed at any length the member's particular interests and views on various aspects of the new Round (the U.S. report was comprehensive in this regard); (x) staff appraisals on trade policies were generally featured, except for some EC members (Belgium, Ireland, Portugal, and Spain); (xii) staff assessments tended to be rather general and uncritical; for example, praise of free trade stances of the authorities was common, while only a few regretted the protectionist stance toward certain inefficient sectors (e.g., Germany) or the lack of progress in removing trade barriers (e.g., Italy); and (xiii) a majority of the reports made general and/or specific recommendations to liberalize the trade system.

For developing countries the staff survey revealed that: (i) the coverage of trade issues was generally comprehensive, with some important exceptions; (ii) some analysis of the impact of domestic and foreign trade policies on the domestic economy was included, albeit in less depth than in some major industrial countries; (iii) discussions generally focused on the effects of foreign trade barriers on the consulting country's exports, on import liberalization, and on export promotion, while discussion on the Uruguay Round was conspicuously absent; and (iv) staff appraisals placed emphasis on the need for import liberalization, reflecting the staff's concern about high levels of existing protection.

Overall, there is room to improve and expand the analysis in many consultation reports, particularly with respect to the interlinkages between trade policy and structural adjustment issues. Potential also exists for experimentation on quantification of protection. In view of the importance of the ongoing Uruguay Round for the multilateral trading system, greater attention is warranted to the consulting country's interests and views on the new Round.

2. Trade policies in Fund-supported programs

In recent years, an increasing proportion of Fund-supported programs has gone beyond the standard "standstill" clause (i.e., no imposition of new, or intensification of existing, import restrictions for balance of payments purposes), and trade liberalization has been included as an integral part of the external and structural policies under the programs. A staff survey indicates that more than half the stand-by and extended arrangements approved in 1985 included some form of specific trade liberalization measures during the program period; this proportion rose to over two thirds in 1986, and to over 90 percent in 1987. Of the 24 structured adjustment facility (SAF) arrangements approved during the period July 1986-March 1988, 23 included some form of trade liberalization.

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

Programs which did not contain specific trade liberalization measures included cases where (i) the trade regime was already liberal; (ii) trade liberalization had been undertaken prior to the approval of the program or in the context of previous programs (e.g., Thailand, Uruguay, and Zaire in 1985); and (iii) trade liberalization was held over until better control of a fragile external position was established (e.g., Chad (1987), Congo (1986), the Gambia (1986), Guinea (1986), Niger (1986), and Tanzania (1986)).

The design of trade liberalization programs takes into account the circumstances of individual countries, and in most cases a gradual approach has been adopted. 1/ This is an important area of consultation and collaboration with the Bank. The focus and depth of trade liberali-

1/ Also see "Conditionality--A Survey of Current Issues," EBS/88/50.

zation have varied widely, ranging from the elimination of QRs to a simple streamlining of regulations. These variations reflect factors, such as, the nature and level of the initial restrictions, complementary exchange rate action, balance of payments prospects, and the authorities' commitment to the liberalization process. Given that exchange and trade restrictions can be effective substitutes, the nature and extent of measures in the area of exchange restrictions and exchange rate policies are of particular importance in influencing meaningful trade liberalization.

Relaxation of QRs, which are less transparent and more distortive than tariffs, was the most common type of trade liberalization in Fund-supported programs. The staff survey revealed the following features: (i) Reduction in the scope of QRs was featured in about a quarter of the countries which were granted stand-by or enhanced Fund facility (EFF) arrangements in 1985, and in about one half in 1986-87; (ii) within this category, elimination or substantial relaxation of QRs, or restrictive import licensing, were featured in a number of programs (e.g., Argentina, Equatorial Guinea, and Somalia in 1985; Bolivia, Guinea, Mexico, the Philippines, Sierra Leone, and Zambia in 1986; Argentina, Central African Republic, and Senegal in 1987; Ecuador and Kenya in 1988); (iii) a number of other programs also included reductions in QRs (in some cases from a relatively low base) (e.g., Jamaica, Korea, Madagascar, and Morocco in 1985; Burundi, Ghana, Morocco, and Tunisia in 1986; Ghana, Mauritania, and Zaire in 1987; and Malawi in 1988); (iv) in the case of the SAF, 16 out of 24 arrangements approved by March 1988 featured liberalization of QRs, in most cases significantly; and (v) In a number of cases, the removal or substantive reduction of QRs was part of a more comprehensive liberalization package including major exchange rate and domestic price reforms.

Tariff reform was increasingly featured in Fund-supported programs. The staff survey revealed the following features: (i) some form of tariff reform was included in the programs for 7 out of 25 stand-by and EFF arrangements approved in 1985, 8 out of 22 arrangements approved in 1986, and 11 out of 17 arrangements approved in 1987-March 1988; and 23 out of 24 SAF arrangements approved up to March 1988; (ii) comprehensive tariff reforms were often part of wider trade liberalization programs designed in collaboration with the Bank, and supported also by Bank resources (e.g., the Bank's trade policy loan to Jamaica in 1987); (iii) comprehensive tariff reforms were typically implemented according to a phased schedule in conjunction with a phased reduction in QRs, often as part of medium-term programs (e.g., Korea, Morocco, and Panama in 1985; Burundi, Mexico, Morocco, the Philippines, Senegal, and Tunisia in 1986; and Ghana, Kenya, Madagascar, Nepal, Sri Lanka, and Tanzania, in 1987-March 1988); (iv) the aim of tariff reforms in most cases was to lower the average nominal rate of protection, in order to reduce the effective rate of protection as well as the dispersion of tariffs; (v) however, in some cases tariff reform was not acceptable to the authorities because of its fiscal revenue repercussions. In cases where QRs were replaced by tariffs, revenues from tariff collections were envisaged to increase after the tariff reform (e.g., the SAF program for Bangladesh). In other cases, revenues were augmented by improvements in tariff collections or increases in tariff rates (e.g., Thailand and Zaire in 1985; Guinea-Bissau (SAF)).

Other types of trade liberalization in Fund-supported programs included: (i) liberalization or abolition of requirements for importer's licenses, sometimes in conjunction with other trade measures (e.g., Egypt, Madagascar, and Togo in 1986); (ii) rationalization of the exchange rate used for customs valuation (e.g., Egypt in 1986-88); and abolition of import or export monopolies (e.g., Somalia in 1985; Congo, the Philippines, Senegal, and Togo in 1986; Mozambique (SAF) in 1987).

Export promotion has also been featured (e.g., in the programs for 10 out of 12 stand-by arrangements, and 8 out of 13 SAF arrangements approved in 1987) in the form of tariff rebates or exemptions on imported inputs used for export production, administrative streamlining, preferential tax treatment for exports, elimination of export duties, and foreign exchange retention privileges for exports, etc. (It may be noted that export promotion via elimination of the anti-export bias implicit in restrictive import regimes is usually more efficient compared with the more direct measures of export subsidization.)

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

V. Issues for Discussion

1. Multilateral surveillance

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

While recognizing that macroeconomic imbalances cannot be corrected through protection, a reduction in these imbalances can play a positive role in reducing protectionist pressures. The Fund through its surveillance activities can contribute to an improvement in the international trade environment by assisting its members to adopt appropriate macroeconomic policies. This is particularly the case for major trading nations in view of the weight of these countries in world trade and the corresponding larger impact on the trading system of their policies. Equally important is the adoption of structural measures by these countries on a timely basis.

Executive Directors may want to indicate whether the continued pressure for protection calls for an increased coverage of trade issues and its links with macroeconomics imbalances and structural adjustment in the WEO exercises.

2. Relations with member countries

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

a. With regard to Article IV consultation discussions, the coverage of trade issues could be further improved. The suggestions below are consistent with the thrust of views expressed by Directors in previous discussions of trade papers and Article IV consultations. It needs to be recognized of course that substantive improvements may be constrained by available staff resources; the size of Fund missions; the availability of resources in national capitals and the willingness of national authorities to devote more time and effort to trade matters in Article IV discussions; and the degree to which Executive Directors may be able to devote time to trade issues given that there are many other priority issues to be dealt with in Article IV consultations.

(i) Scope exists for a more in-depth analysis of the links between trade, structural adjustment, and external imbalances.

(ii) A greater focus on the regional effects of trade policies, particularly for countries that are members of regional trading arrangements is desirable; such coverage would include trade policies implemented at both the national and regional level, and the impact of individual member countries on regional policies.

(iii) A more explicit focus on country views on issues under discussion in the Uruguay Round would also be useful.

(iv) The need for and progress toward increased transparency of trade policies at the national level, and its links with enhanced international surveillance of trade policy might be discussed.

(v) Discussions with developing countries would continue to emphasize the positive impact of open trade policies for these economies. Those aspects of developing country regimes which create access problems for other countries might also be examined.

b. Trade liberalization is a crucial aspect of structural and macroeconomic adjustment in both industrial and developing countries. Analysis of the role of trade reform in the adjustment process would be facilitated by an improved information base. In the case of industrial countries, quantitative information on nonborder measures, in particular subsidies, is inadequate. In the case of developing countries, information on both border and nonborder measures needs to be improved; this would also assist in the design of trade reforms in programs supported by the Fund. Improved information depends, in part, on greater efforts by member countries to collect relevant information on all forms of protection and quantify its protective effect. Consideration could also be given to increased collaboration with the Bank, OECD, and GATT. With regard to the GATT, proposals within the Uruguay Round to enhance GATT surveillance of trade policies offers scope for increased collaboration.

3. Uruguay Round

The Fund will continue to stand ready to provide technical help where possible to the various negotiating groups within the Uruguay Round. It is possible that the Fund may be asked for a view on certain issues before the end of the Uruguay Round, including the use of trade restrictions for balance of payments reasons and proposals to further increase collaboration between the Fund and GATT. As agreed during the Board discussion of the Uruguay Round paper in March 1988, the staff would in this event prepare a position paper for clearance by the Executive Board. In line with the suggestion made in 2 above, the staff will explore the possibility of enhancing collaboration in the area of trade surveillance.

Executive Directors may wish to indicate whether they support the broad range of suggestions outlined above. Given the constraints described above, views on the priority to be attached to trade matters in Article IV consultations and to each suggestion above would be useful.

List of Abbreviations

ACP	African, Caribbean and Pacific Group of States
ADs	Antidumping duties
CCC	Commodity Credit Corporation (United States)
CAP	Common Agricultural Policy (EC)
CSEs	Consumer subsidy equivalents
CVDs	Countervailing duties
EEP	Export Enhancement Program (United States)
ECU	European currency unit
EFTA	European Free Trade Association
EMS	European monetary system
ERA	Effective rate of assistance
ERP	Effective rate of protection
FOGS	Functioning of the GATT System (Uruguay Round)
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
GNG	Group on Negotiations of Goods (Uruguay Round)
GNS	Group on Negotiations of Services (Uruguay Round)
IDA	International Diary Arrangement
IPRs	Intellectual property rights
ITO	International Trade Organization
LIPC	Livestock Industry Promotion Corporation (Japan)
MAFF	Ministry of Agriculture, Forestry and Fisheries (Japan)
MCA	Monetary compensation amount
MFA	Multifibre Arrangement
MFN	Most-favored-nation (principle)
MTN	Multilateral trade negotiations
NRBP	Natural resource based products
NIEs	Newly industrializing economies
NPC	Nominal protection coefficient
NTMs	Nontariff measures
OECD	Organization for Economic Co-operation and Development
PIK	Payments in kind (United States)
PSEs	Producer subsidy equivalents
QRs	Quantitative restrictions

SB	Surveillance Body (Uruguay Round)
TEA	Targeted Export Assistance Program (United States)
TNC	Trade Negotiations Committee (Uruguay Round)
TRIMs	Trade related investment measures (Uruguay Round)
TRIPs	Trade related intellectual property rights (Uruguay Round)
TSB	Textile Surveillance Body
UNCTAD	United Nations Conference on Trade and Development
VERs	Voluntary export restraints
WEO	World Economic Outlook
WDR	World Development Report

Glossary of Terms

Administered protection: Use of administrative procedures (.e.g, in antidumping and countervailing duty investigations) in a manner which impedes trade flows.

Antidumping duty (AD): Duty levied on imports to offset the competitive advantage provided by dumping of imported goods. GATT Article VI and the Tokyo Round Antidumping Code permits ADs on imports of like products provided they cause or threaten to cause material injury to the domestic industry.

Contingent protection: See Administered protection.

Countertrade: Trade transaction committing the exporter to receive payment for the value of his exports, in whole or in part, by imports from his trading partner.

Countervailing duty (CVD): Duty levied on imports to offset the competitive advantage provided by subsidies on imported goods. GATT Article VI permits CVDs provided they cause or threaten to cause injury to the domestic industry.

Customs Union: As defined in GATT Article XXIV, a group of countries forming a single customs territory in which (a) tariffs and other barriers are eliminated on substantially all trade among member countries, and (b) substantially the same measures are applied by each of the member countries to their trade with third countries, including a common external tariff.

Dumping: Price discrimination between exports and domestic sales of a given product. The dumping margin, which forms the basis of antidumping duties, may be determined according to GATT Article VI as the price difference between the price of the product exported from one country to another and (a) the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country or, in the absence of such domestic price, (b) the highest comparable price for the like product for export to any third country, or (c) the cost of production in the exporting country plus a reasonable addition for selling cost and profit.

Effective rate of assistance: The ERA is defined as the difference between the value added per unit of output in the domestic price and the value added in the world price, expressed as a percentage of the world price. This measure thus includes the effects of subsidies and other nonborder measures in addition to the effects of border measures.

Effective rate of protection: A measure of protection provided by an import restriction, calculated as a percent of the value added of the product concerned. Effective protection is higher than nominal protection, which is expressed as a percent of the gross value of the product concerned, if tariffs on imported inputs are lower than on the finished products (see tariff escalation).

Enabling Clause: A 1979 Tokyo Round decision waiving the most-favored-nation provision of GATT Article I to "accord differential and more favorable treatment to developing countries, without according such treatment to other contracting parties." See also Generalized System of Preferences.

Free-trade area: As defined in GATT, a group of countries in which tariffs and other barriers are eliminated on substantially all trade between members on products originating in those countries. In contrast to a customs union, a free-trade area does not involve the adoption of a common external tariff on imports from third countries. Members of a free-trade area enforce their individual tariff schedules through origin rules.

Generalized System of Preferences (GSP): International agreement negotiated under the auspices of GATT, providing for temporary and nonreciprocal duty preferences accorded by the developed to the developing countries. A 10-year waiver from GATT most-favored-nation provision was granted in 1971 to permit implementation of the GSP. The waiver was not renewed in view of the 1979 GATT decision on "Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries" resulting from the Tokyo Round (the Enabling Clause).

Grey-area measures: Measures, such as voluntary export restraints, which are outside GATT surveillance and whose conformity with GATT is not determined.

Hard Core Waiver: Waiver provided under a GATT decision in 1955, which permitted certain quantitative restrictions to be maintained for a specified period of time. The intention was to enable domestic industries that had enjoyed such protection to adjust to its removal over a period of time. The residual restrictions remaining in place after the waivers issued under the GATT's decision lapsed, are incompatible with the provisions of GATT Article XI, which calls for the general elimination of quantitative restrictions.

Harmonized tariff system: Nomenclature developed by the Customs Cooperation Council for customs tariffs and international trade statistics. It entered into effect, for countries that have adopted it in place of their existing nomenclature, on January 1, 1988.

Import licensing: Practice requiring approval by a designated government authority in the importing country, as a prior condition to importing. Under automatic licensing, used for import monitoring, approval is freely granted. Under nonautomatic licensing, the license may be subject to certain conditions, e.g. the availability in the domestic market of the domestically produced like product.

Minimum price system: Minimum price for imports of certain products, such as steel, set by the importing country. Import prices below the minimum trigger protective actions, such as additional duties or quantitative restrictions. Minimum import prices are also referred to as basic price, reference price, and trigger price, depending on the importing country and product concerned.

Minimum price undertaking: An undertaking by an exporter to sell his product at a price that does not fall below a level agreed with the importing country. Such undertakings are sometimes agreed to by the exporter as a condition for the lifting of AD or CVD duties by the importing country.

Most-favored-nation clause (MFN): Fundamental principle included in GATT Article I, whereby any privilege or concession granted by one contracting party to GATT to a product of another contracting party will be unconditionally granted to the like products of all other contracting parties.

Multifibre arrangement (MFA): An arrangement negotiated in 1973 as a temporary derogation from GATT rules. It was last renewed in 1986, when the MFA IV came into effect for a five-year period. The MFA regulates trade in several textile products by means of bilaterally agreed export restraint arrangements.

National treatment: Treatment of imports with respect to internal taxes, other charges, and regulations, equal to that afforded to like domestic products, as provided in GATT Article III.

Nontariff measures (NTMs): All government actions other than tariffs with a potential trade-distorting impact, including quantitative restrictions, subsidies, government procurement practices, and technical barriers to trade.

Origin rules: Rules that define the criteria for establishing the country of origin of a product for purposes of assessing tariffs or other import restrictions. Origin rules are used to enforce the *individual tariff schedules of countries participating in a* free trade area. They usually stipulate a minimum value-added requirement for duty-free access of partner country products to the domestic country.

Residual restrictions: Import restrictions imposed during the early post-World War II years for balance of payments purposes, but no longer in accordance with GATT Article XI which calls for their elimination. See also Hard Core Waiver.

Rollback commitment: A commitment included in the Ministerial Declaration launching the Uruguay Round to unilaterally roll back restrictions inconsistent with GATT articles. The EC is the only participant so far that has made a rollback offer; it involves residual restrictions .

Safeguard measures: Temporary protective measures undertaken to (a) safeguard domestic producers of given goods from an import surge (GATT Article XIX permits such measures under certain conditions; it is generally understood that these should be applied according to GATT's fundamental principle of nondiscrimination); (b) protect the country's reserve and balance of payments position (GATT Articles XII and XVIII:B) (c) protect infant industries in developing countries (GATT Article XVIII:C).

Special and differential treatment: See Enabling Clause.

Standstill commitment: A commitment included in the Ministerial Declaration launching the Uruguay Round not to take, for the duration of the Round, (a) any trade restrictive or distorting measure inconsistent with GATT provisions (b) any trade restrictive or distorting measure in the legitimate exercise of GATT rights that would go beyond what is necessary to remedy specific situations.

Subsidies: Government assistance to the development, production or export of specific goods. Subsidies can take the form of either direct financial support or indirect support through tax exemptions, subsidized loans or loan writeoffs, government procurement practices, and subsidies to the production of inputs. Interpretations on the definition and use of subsidies vary among GATT contracting parties.

Tariff binding: Obligation undertaken in GATT not to raise tariff rates on specific products above a certain level without compensating reductions in other tariffs. Bindings are also referred to as tariff concessions in GATT terminology. Applied tariff rates may be lower than bound rates.

Tariff escalation: A tariff structure such that tariff rates rise with the stage of processing. For instance, higher tariff rates on clothing than on yarn.

Technical barriers to trade: Measures which impede or distort trade arising from technical standards, testing, labeling and certification requirements, health and safety regulations. The Tokyo Round Agreement on Technical Barriers to Trade aims at promoting the development of international standards and certification systems.

Unfair trade: Trade on the basis of a competitive advantage not derived from "legitimate" sources. For example, GATT recognizes dumping and trade distorting subsidies as unfair trade practices.

Variable levies: Import duties that are designed to fill the gap between a specified domestic price (e.g., the threshold price in the EC) and the international price.

Voluntary export restraint arrangements (VERs): Bilateral agreement between an exporter and an importer whereby the former agrees to limit exports of a given product. The agreement may be concluded at government or industry level. VERs are "grey area measures" because their conformity with GATT rules is not determined. Many of them are applied on a discriminatory basis.