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August 9, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Trade Policy Issues and Developments - Industrial and Developing Countries

The attached paper on trade issues and developments in industrial and developing countries provides background information for the Executive Board discussion which is now scheduled for Friday, September 2, 1988.

Ms. Kelly (ext. 8374) or Ms. Kirmani (ext. 8363) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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Trade Policy Issues and Developments: Industrial and Developing Countries

Prepared by the Exchange and Trade Relations Department

(In consultation with other Departments)

Approved by H.B. Junz

August 5, 1988

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Note: 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.

This paper deals with trade issues and developments in industrial and developing countries. It provides background information to the main paper "Trade Policy Issues and Developments," SM/88/166 (8/3/88). Reference is also made to Supplements 2 and 3 of the main paper, which complement information in this paper. This paper is organized as follows. Section I describes trade policy instruments and trade-related aspects of industrial policies in industrial countries. It also describes the major trade developments in selected industrial countries, the arguments advanced for protection, and the associated costs. Section II deals with developing countries. It features trends in their exports and imports since the early 1970s, the characteristics of their trade regimes and recent changes in their trade policies. Also featured are trade measures affecting developing countries. The Attachment describes in more detail the trade and industrial policy instruments of the EC.

I. Introduction

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

Trends in World Trade and Production 1/

(Average annual growth rates)

	1970-79	1980-85	1986	1987
World output	4.1	2.4	3.2	3.0
Industrial countries	3.3	2.2	2.7	3.1
Developing countries	5.6	2.6	4.1	3.1
World trade volume 2/	6.2	2.4	4.6	4.9
Industrial countries	6.6	3.4	5.8	5.2
Developing countries	5.4	0.3	2.5	5.1

Source: IMF, World Economic Outlook, April 1988.
1/ Composites for country groups are averages of percent changes for individual countries weighted by the average U.S. dollar value of their GDP (output) and trade (trade volume) over the preceding three years.
2/ Average of export and import growth.

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

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

II. Industrial Countries

1. Trade trends

Since 1981, the industrial countries have restored their share of world exports to almost the level prevailing before the oil shocks of the 1970s. The counterpart of this increase has been a decline in the developing countries' share to less than 20 percent of world exports. The trends in the major industrial countries diverge: Japan's share rose whereas the U.S. share declined and the EC share remained roughly stable if intra-EC trade is excluded.

Shares in World Exports of Goods 1/

(In percent)

	1973	1981	1986
Industrial countries	70.8	63.0	69.6
EC (10)	(36.7)	(30.9)	(34.5)
Intra-EC	(19.8)	(15.8)	(19.7)
Japan	(6.4)	(7.8)	(9.9)
United States	(12.0)	(11.5)	(9.7)
Developing countries	19.2	27.6	19.5
Centrally planned economies	10.0	9.4	10.8

Sources: GATT; UN; UNCTAD; and Fund staff estimates.

1/ Based on nominal U.S. dollar values. Comparable data for 1987 are not available from the same source, but IMF Direction of Trade data indicate a marginal decline in the industrial country share offset by an increase in the developing country share.

These trends mainly reflect large terms of trade movements that occurred in the 1980s. Excluding trade in petroleum, agricultural products and minerals, the share of industrial countries in world exports has remained roughly constant since 1981. However, the divergent trends in the shares of Japan and the United States is also apparent for manufactured products. Although the EC share of world manufactured exports has increased, the share exported to third countries has declined.

Shares in World Exports of Manufactures 1/

(In percent)

	1973	1981	1986
Industrial countries	83.1	80.8	79.6
EC (10)	(46.5)	(40.1)	(42.6)
Intra-EC	(22.8)	(18.9)	(23.0)
Japan	(10.0)	(13.3)	(14.1)
United States	(12.3)	(13.9)	(10.3)
Developing countries	6.9	10.7	11.8
Centrally planned economies	10.0	8.6	8.6

Sources: GATT; UN; UNCTAD; and Fund staff estimates.

1/ Based on nominal U.S. dollar values.

2. Trade policies

a. Tariffs

Successive rounds of multilateral trade negotiations have reduced MFN tariff rates in industrial countries to an average of 5-6 percent on industrial products, although tariffs on agricultural products remain considerably higher (Table 1). Average rates are lower for some products reflecting tariff reductions beyond those agreed in the Tokyo Round in some countries, as well as preferential trade agreements maintained among industrial countries and between industrial and developing countries. However, problems of tariff dispersion and escalation remain. Furthermore, not all tariffs are bound in GATT, particularly on agricultural products (Table 2); and tariff preferences granted under preferential trading arrangements are greater than preferences granted under Generalized System of Preferences (GSP) schemes (Table 3).

b. Nontariff measures

The increase in nontariff measures (NTMs) may have largely offset the liberalizing effects of tariff reductions in the postwar period. 1/ Nonfuel imports of industrial countries subject to selected NTMs are estimated by UNCTAD to have increased in the 1980s to more than one fifth of the total in 1987. The sharp increase in voluntary export restraints (VERs) between September 1987 and April 1988, as indicated by preliminary data, has probably further raised the total incidence of NTMs.

Industrial Countries: Imports Affected by
Selected Nontariff Measures 1/

(In percent of total imports)

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

Source: UNCTAD (1988) "Protectionism and Structural Adjustment," Geneva.

1/ Includes certain paratariff measures, import deposits and surcharges, variable levies, quantitative restrictions (including prohibitions, quotas, nonautomatic licensing, state monopolies, VERs, and bilateral restraints under the MFA), automatic licensing and price control measures. In contrast to staff estimates presented in Table 4, it also includes antidumping and countervailing actions, and import surveillance.

NTMs can take the form of border or nonborder measures. Voluntary export restraints are a common type of border measure. These are applied on a discriminatory basis outside GATT rules (Annex I) and have increased in recent years. Preliminary data indicate that 253 such arrangements existed in April 1988, twice as many as in September 1987. About half of them are directed at developing countries, including heavily indebted countries, and four fifths are intended to protect the EC or U.S. markets.

1/ See, for instance, the study by J. de Melo, and D. Tarr, cited in Section 5.

Subsidies are the most important form of nonborder measure (subsection 3), but restrictive government procurement practices and technical standards are also significant. Trade frictions persist over the use of nonborder measures. Bilateral and multilateral discussions are under way to bring more discipline in the use of subsidies, to further develop international standards acceptable to all countries, and to open a greater proportion of government procurement to international bidding (Annex I). 1/

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

c. Antidumping and countervailing duties

Industrial countries made increasing use of countervailing (CVDs) and antidumping duties (ADs) in the 1980s (Tables 5 and 6). Although the number of cases has declined somewhat in recent years, the trade values covered have increased. Disputes have become more frequent on issues relating to the use of CVDs and ADs. These result from differences in interpretations of definitions, measurement problems, and the conditions of legitimate use of these measures to combat unfair competition (Annex I).

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

1/ Currently less than half of government procurement is open to international bidding.

The increased number of AD and CVD investigations has resulted in charges from both industrial and developing countries that such investigations are used as a form of "administered protection" rather than to counter "unfair" trade practices. There is indeed some evidence that CVDs and ADs are sometimes used as a substitute for safeguard measures; 1/ that foreign exporters are subject to disciplines that are not imposed on domestic producers; 2/ and that investigations are used to harass foreign exporters and force them into export restraint arrangements. 3/ 4/ Recent changes in legislation to broaden the scope and intent of national legislation have heightened concerns in this area. These include the introduction of separate EC antidumping legislation to cover shipping and products assembled in the EC by foreign firms (Attachment and Annex I); and a ruling by the U.S. Court of International Trade that would make it more difficult to lift antidumping duties after they have been imposed (Annex I). 5/ Partly in response to these developments, in its latest report on world trade developments, the GATT Secretariat notes that antidumping legislation, in particular, has evolved into a major tool of trade policy. 6/

3. Industrial policies

In their broadest definition, industrial policies encompass all government actions, including border and nonborder protection, intended to influence the composition of output. This section briefly discusses national approaches to industrial policies and focuses on assistance to industry provided through subsidies. Such assistance can have an impact

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1/ The outcome of the "injury test" is sometimes influenced by extraneous factors, such as, exchange rate developments, that affect the competitiveness of domestic producers. See J.M. Finger, H.K. Hall, and D.R. Nelson, "The Political Economy of Administered Protection," The American Economic Review, Vol. 72 (1982).

2/ In this context, F.H. Gruen, "Review of the Customs Tariff (Antidumping) Act of 1973," (Canberra, Commonwealth of Australia, March 27, 1986) proposed that Australia's system be changed "to reduce the discrepancy between the concept of "unfair trading practices" as it is applied within Australia and as it is applied by Australia to its imports... by returning the antidumping system to its original role of combating dumping as opposed to combating low prices."

3/ J.M. Finger, and J. Nogues, "International Control of Subsidies and Countervailing Duties," The World Bank Economic Review, Vol. 1, No. 4 (1987).

4/ A number of VERs that protect the EC and U.S. markets are the result of antidumping or countervailing investigations.

5/ Annex I summarizes the rationale given for recent changes in legislation and the issues involved.

6/ GATT, Recent Developments in the Trading System, C/W/548, Geneva, 1988, p. 108.

on trade flows by distorting relative prices and resource allocation. It may thus constitute a substitute for border protection although it is not always designed to do so.

National approaches to industrial policies differ widely across industrial countries. Industrial policies can take the form of informal administrative guidance to producers, as is the case in Japan, which additionally provides tax preferences and credit subsidies on a limited scale. In the United States, which has no industrial policy as such, the role of government is generally limited to maintaining a stable macroeconomic environment and enforcing regulations aimed at promoting competition and innovation while protecting consumers. Assistance to industry is provided indirectly through tax deductions and support for defense-related R and D expenditures that may have technological spin-offs for industry. Recent tax reforms have made the tax system more neutral with respect to industry. The European countries, by contrast, have made heavy use of assistance to industry through subsidies. These can take the form of fiscal and financial incentives including interest rate subsidies, tax preferences, and contributions to pension funds to promote investment, R and D, and regional objectives, or assist small- and medium-sized enterprises and ailing companies. In countries where the government is involved directly in industrial production, as in France, assistance has occasionally been provided to cover the operating deficits of state-owned enterprises or to write off their debts. Australia and New Zealand have traditionally relied on trade protection rather than subsidies to industry. Canada has recently moved away from sector-specific assistance to more general forms of assistance, including R and D support.

Government assistance to industry has often been motivated by the desire to cushion the economic and social impact of external shocks. 1/ Throughout the 1970s and early 1980s, industrial countries made heavy use of subsidies to ease the effects of the oil shocks and assist mature industries. Assistance to industry is at times conditional on specific commitments by the recipients. Following the oil shocks, subsidized loans and tax incentives were offered to companies that invested in energy-saving equipment or shifted to alternative sources of energy. Similarly, subsidies to mature industries have been linked to either job maintenance or to restructuring efforts involving cost-reducing investment, modernization, and capacity reductions to promote international competitiveness. Government assistance has also been directed at industries (e.g., semiconductors) that are viewed as being "strategic" because of their linkages to the rest of the economy, the perceived need for government support to achieve market presence, or for defense purposes.

1/ See SM/88/166 (8/3/88).

Information based on a broad definition of subsidies is not available. 1/ This reflects the lack of consensus over the definition of subsidies with a trade distorting effect, as well as difficulties in collecting the relevant information from state and local governments in countries with a decentralized administration, such as, the United States and Germany. Recent efforts by the EC and OECD to compile information on subsidies have additionally met with resistance by their members to provide sector-specific information that may trigger CVD investigations.

The lack of information on the sectoral distribution of subsidies to industry makes it difficult to ascertain the extent to which industrial policy is used as a substitute for trade protection. 2/ A few broad trends are nevertheless apparent in most industrial countries. A number of industrial countries have moved away from sector-specific government assistance toward R and D and regional support. Substantial progress has also been made in reducing the competitive subsidization of exports through officially supported export credits (Table 7). However, these trends may have been partly offset by an increase in less transparent subsidies that also assist specific sectors. In practice, regional assistance can be sector-specific where particular industries are heavily concentrated in one region, as is the case with the coal industry in France, Germany, and the United Kingdom, and the steel industry in France. While subsidized export credits have declined under the OECD Consensus Arrangement, subsidization through the mixing of aid with export credits may have become more widespread. 3/ Sector-specific assistance has also been increased through the use of border measures, particularly VERs.

The move away from subsidies is part of a broader trend away from heavy-handed government intervention as evidenced by deregulation, privatization and tax reform in a number of industrial countries. The reduction in sector-specific subsidies reflects, in particular, three major considerations: first, they are increasingly subject to CVDs; second, their budgetary cost has placed limits on their use; and third, governments are increasingly recognizing that they may delay adjustment in mature industries. In EC countries this trend has been additionally motivated by the more strict enforcement of EC competition rules

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1/ This would include tax preferences, government procurement practices, national standards, and all other government actions that favor domestic over foreign producers.

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

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

(Attachment). The first two considerations may have contributed to a substitution of VERs for sector-specific subsidies. 1/

4. Trade developments in individual countries

a. United States

Over the past several years, growing external deficits in the United States and a heightened sensitivity to "unfair" foreign competition have intensified protectionist pressures. In line with its declared policy of free and fair trade, the Administration has attempted to avoid increasing protection by playing an active role in the Uruguay Round and by pursuing an aggressive policy to increase its access to foreign markets. This strategy has to some extent been successful. The U.S. Administration vetoed an Omnibus Trade Bill 2/ and also resisted protectionist proposals by Congress on specific sectors (e.g., safeguard measures against footwear imports in 1985 and new efforts to restrict textile imports), which were causing concern to both the Administration and trading partners. It has also undertaken bilateral market-opening discussions with trading partners. Notwithstanding these developments, the share of U.S. imports of manufactures covered by NTMs has increased more than in any G-5 country in the first half of the 1980s when the U.S. dollar appreciated (Table 4). The United States maintains 60 VERs out of a total of 253 known to exist worldwide as of May 1988. These affect mainly imports of automobiles, steel, and textiles, and are directed at a broad range of exporting countries.

The major aspects of U.S. policy that are a source of concern to other countries include the continued possibility of passage of protectionist legislation; its use of bilateral approaches to settle trade disputes, which third countries sometimes perceive as disadvantageous to them; apprehension that the United States will increase its use of bilateral free trade agreements to the detriment of the multilateral trading system; its competitive subsidization of agricultural exports, which is contributing to depressed commodity prices with adverse effects on efficient agricultural exporters; and a perceived increase in its use of "administered protection."

In this context, a number of countries have noted actual and proposed changes in U.S. legislation together with its frequent use of

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1/ VERs are not countervailable and their cost is borne by consumers rather than the budget.

2/ In May 1988, Congress passed an Omnibus Trade Bill which would, inter alia, reduce presidential discretion over trade actions in some areas, expand the scope of antidumping and countervailing duty measures, and require retaliation against trading partners that do not reduce "excessive" bilateral trade surpluses with the United States.

"unfair" trade legislation. 1/ Over the period 1980-87 the United States has initiated 411 antidumping investigations, 283 countervailing investigations, 60 safeguard investigations, and 60 investigations of "unfair" trade practices abroad--the latter under Section 301 of the 1974 U.S. Trade Act (Table 8). Almost half of all antidumping investigations were directed against the EC and Japan, while countervailing investigations were mainly against suppliers in Brazil, Mexico, and EC countries. It is noteworthy that Canada considers "administered protection" as a barrier to trade, and cited the desire to reduce its adverse effects among the reasons for entering into a free-trade agreement with the United States. 2/ These effects include (1) the administrative and legal costs imposed on Canadian exporters by the mere initiation of an investigation, and (2) the uncertainty caused by the threat of contingent protection measures, which has by itself an adverse effect on trade flows and investment.

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

Major trade disputes and trade policy actions involving the United States have occurred in a number of sectors, including agriculture, electronics, construction, and other areas (Supplement 2). These disputes center on the initiatives that the United States has taken to counter subsidies or other "unfair" trade practices abroad or to improve its access to foreign markets.

The United States signed a bilateral free trade agreement with Canada in January 1988, subject to ratification in both countries. The agreement provides for the gradual elimination of tariffs and quotas between the two countries over a ten-year transition period starting in January 1989, and for the removal of barriers to trade in services,

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1/ The provisions dealing with "unfair" trade in the Omnibus Trade Bill, which were not the target of the Presidential veto, are a source of concern to some countries.

2/ Canada Department of Finance (1988), The Canada-U.S. Free Trade Agreement: An Economic Assessment.

including banking services, and investment. In agriculture, the agreement additionally prohibits export subsidies on bilateral trade, including some transportation subsidies on Canadian exports to the United States. The agreement also provides for a reciprocal opening of government procurement, reduction of technical barriers to trade, and introduction of a dispute settlement mechanism in which decisions will be binding. The two countries view various aspects of the agreement as a possible model for multilateral agreements in the Uruguay Round.

Although the impact of the U.S.-Canada Free Trade Agreement has not yet been systematically analyzed, it can be expected to provide substantial benefits to both countries as well as to the rest of the world. Earlier studies have estimated that the gains from specialization, competition, and the achievement of economies of scale could be substantial, particularly for Canada. 1/ The elimination of tariffs between the United States and Canada is unlikely to divert a significant amount of trade from third countries. The low level of tariffs in the United States reduces the competitive advantage that Canada would gain through duty free access to the U.S. market. Although U.S. exporters would gain a more significant advantage on the Canadian market that is protected by higher tariffs, the considerably smaller importance of the Canadian market in world trade reduces the scope for trade diversion. This scope is further limited by the large volume of trade between the two countries, which presently amounts to more than one third of their total trade. The effects on third countries of the simultaneous reduction in technical barriers as well as barriers to investment and trade in services are more difficult to assess because they are less transparent. Nevertheless, the real income gains in both countries resulting from the removal of trade barriers can be expected to benefit exporters in third countries.

The United States also signed a bilateral framework agreement with Mexico in February 1988. The agreement is limited to establishing a bilateral consultation mechanism governing trade and investment relations without committing either party to trade liberalization measures. The agreement with Mexico consists of a framework of principles, procedures, and an agenda under which specific sectoral and other agreements are to be concluded at a later date. It also establishes procedures for mediation of bilateral trade and investment

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1/ R.G. Harris, and D.C. Cox, "Trade, Industrial Policy, and Canadian Manufacturing," (Toronto: Ontario Economic Council, 1984) estimate the potential gains for Canada to be as high as 9 percent of GDP, including the gains resulting from previously unexploited economies of scale. This result has been challenged by other authors (see R.M. Stern, P.H. Trezise, J. Whalley, (ed.) Perspectives on a U.S.-Canadian Free Trade Agreement, (Brookings Institution, 1987). Most estimates range between 2 1/2 percent and 3 1/2 percent of GDP (see Canada Department of Finance, 1988, op. cit.). The gains for the United States would be more limited because the size of its market would increase by only 7 percent.

disputes. The agreement covers a number of sectors including steel, automobiles, textiles, and agriculture, as well as services, intellectual property rights, and trade-related investment measures. Bilateral agreements under the framework agreement reached with Mexico are expected to be negotiated after the U.S. Presidential election in October 1988.

b. Japan

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

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

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

The measures that Japan has undertaken in recent years to stimulate domestic demand and improve access to its market have helped reduce protectionist pressures directed against Japan. Foreign exporters nevertheless continue to question the openness of its market. "Visible" barriers to trade in Japan, as measured by tariff rates and common types of NTMs, are among the lowest in industrial countries (Tables 1 and 4). 1/ Allegations of "invisible" barriers are often based on attitudes or traditions rather than legal or institutional barriers. Aside from standards, testing and certification requirements that have been eased to some extent under the Action Program or as a result of bilateral discussions, such barriers are perceived to include Japan's licensing system for some businesses and its distribution system. Control over Japan's distribution system by Japanese producers in some industries is perceived to be exercised through loyalty to long-established business relations and exclusive distribution arrangements. The incomplete pass-through of the yen appreciation since 1985 to import prices has been interpreted by some countries as evidence of price fixing through lack of competition in the distribution system or through administrative guidance to importers. The EC has also complained about Japan's indirect tax system which applies higher taxes on large cars. Japan is in the process of reviewing its indirect tax system. 2/

With regard to Japan's access to major industrial country markets, about two fifths of its exports to the United States and the EC are subject to some degree of restraint. These include VERs on automobiles, electronic products, machine tools, and steel (Annex III). Several of these were introduced in the early 1980s and were meant to be temporary, but have been rolled over beyond their expiration date, notwithstanding the sharp deterioration in Japan's competitiveness following the appreciation of the yen since 1985.

VERs and "administered protection," including antidumping duties, may have influenced the pattern of foreign direct investment by Japan as

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1/ Japan maintained 12 known VERs as of May 1988 affecting mainly imports of textile products from China, Korea, and Pakistan.

2/ Empirical analysis does not lend support to the view that invisible barriers in Japan have significantly restricted imports. C.F. Bergsten, and W.R. Cline (The U.S.-Japan Economic Problem, IIE, 1985) find that the low share of manufactures in Japan's total imports can be largely explained by comparative advantage given its limited natural resource endowment. Similar results were derived by G.R. Saxonhouse ("The Micro- and Macro-economics of Foreign Sales to Japan," in Trade Policy in the 1980's, W.R. Cline, IIE, 1983) who finds no evidence that "invisible" barriers are any higher in Japan than elsewhere. See also SM/86/36 (3/4/86).

exporters have sought to circumvent them by setting up operations in protected markets (Table 9). This is most evident in Japan's direct investment in the machine tool, electronics, and automobile sectors in North America and Europe, where a rising proportion of Japan's rapidly expanding direct investment abroad is directed.

Japan: Shares in Stock of Foreign Direct Investment and Manufacturing

	All Countries			North America			Europe		
	1981	1988	VERs 1/	1981	1988	VERs 1/	1981	1988	VERs 1/
					(In percent)				
Manufacturing sector	100.0	100.0	35	19.3	40.9	7	6.7	9.2	27
Of which:									
Non-electrical machinery	7.1	9.1	4	1.7	4.8	1	1.0	1.0	3
Electrical machinery	12.6	19.9	8	5.3	12.4	1	1.0	2.0	7
Transport equipment	7.8	15.7	16	0.7	6.2	3	0.5	2.2	13
					(In US$ billion)				
Total	12.6	36.0		2.4	14.7		0.8	3.3	

Source: Table 9.
1/ Number of VERs directed against Japan as of May 1988.

c. European Community

The EC's large agricultural surpluses and their effects on world prices have come under increasing criticism in recent years. Reforms introduced in the EC's Common Agricultural Policy (CAP) since 1984 were motivated primarily by domestic budgetary considerations and are not perceived by some countries to have adequately addressed the underlying problems, in particular access to the EC market and subsidization of exports (Annex II). A number of trade disputes in agriculture revolve around the operations of CAP; the most recent relates to the imposition of import restrictions on apple imports (Attachment and Annex I). One third to one half of all agricultural imports in the major EC countries are covered by quotas and monitoring arrangements (Table 4).

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

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

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

d. Canada

Canada relies mainly on border measures to protect selected industries, including textiles and clothing, footwear, automobiles, and shipbuilding. Tariffs on textiles and clothing are at least twice the average for all industrial products, and the bilateral restraint arrangements reached under the new MFA were generally more restrictive than previously. Imports of certain categories of footwear are subject to global quotas and export restraint arrangements have been negotiated with Korea and Taiwan Province of China covering categories not covered by the quota. Until recently, Canada maintained voluntary restraint arrangements with Japan and Korea limiting their exports of automobiles to the Canadian market. The VER with Japan was negotiated to prevent the diversion of Japanese exports to Canada following the U.S.-Japan VER on automobiles. Although these arrangements were not formally renewed after they expired, both Japan and Korea agreed to monitor their automobile exports to Canada in order to avoid disruption of the Canadian market. A few months after the expiration of the VER with Korea, Canada imposed provisional antidumping duties averaging 35 percent on imports of Korean automobiles. Although sector-specific assistance to industry through nonborder measures has been de-emphasized in recent years, the Government continues to provide considerable support to the shipbuilding sector through subsidies and government procurement practices.

Among the barriers to trade that Canada faces abroad, protection to agriculture by foreign producers is the most important. As a member of the Cairns Group, 1/ Canada attaches great importance to the liberalization of trade in agriculture in the Uruguay Round. Canada has also frequently been the target of antidumping and countervailing investigations initiated by the United States (Table 8) and has cited this as a barrier to trade.

5. Causes and costs of protection

Protection reflects governments' unwillingness or inability to undertake necessary structural adjustment or to withstand pressures for protection from vested interests. The arguments for protection, which have been refuted in a number of studies, 2/ ignore the costs of protection.

Traditional arguments for protection include the need to preserve or encourage mature industries (e.g., steel and shipbuilding); strategic sectors with linkages with the rest of the economy (e.g., high technology industries); sectors important for security and defense reasons (e.g., coal in Germany, agriculture in Japan); and the need to accommodate the special characteristics of sectors, such as, farming. These arguments are advanced in terms of promoting the national interest although protection often promotes sectoral interests at the expense of the rest of the economy. Industrial country arguments for temporary assistance to "mature" industries to return them to competitiveness is akin to developing country arguments for protection of "infant" industries. In practice, such assistance has often proved to be self-perpetuating and to spread to other areas through the rent-seeking behavior of interest groups that want similar treatment. With the exception of production subsidies--the first-best instrument to raise sectoral output--all other forms of protection shift the cost to consumers whose interests are not legally protected. Stockpiling of products that are important for defense would obviate the need for a

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1/ The Cairns Group consists of Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

2/ W.M. Corden, "Protection and Liberalization: A Review of Analytical Issues," IMF Occasional Paper No. 54, 1987.

high level of self-sufficiency produced at high cost, while income support delinked from production would accommodate the special characteristics of the farm sector.

As a considerable degree of adjustment of mature industries has occurred in the 1980s in industrial countries, 1/ other arguments have come to the fore. Protection is frequently motivated by the perceived lack of a "level playing field," (i.e., competition without government assistance and subject to the same rules), particularly against centrally planned economies (China and Eastern Europe); Japan's distribution system and other so-called invisible barriers; and the newly industrializing economies (NIEs) because of the lack of reciprocity and perceived undervaluation of exchange rates.

Persistent large external imbalances have given rise to the use of trade measures to counter macroeconomic disequilibria. Some market-opening discussions have taken the form of attempts to achieve a better balance in bilateral/sectoral trade. Additionally, the EC automobile industry has argued that access of Japan's automobile exports to the integrated EC market should depend on the achievement of arbitrarily defined target EC shares of Japan's market. Attempts to balance sectoral/bilateral trade or, more generally, the use of trade measures to improve the current account ignores its fundamental determinants. Protection will not improve the current account unless it affects the savings-investment balance of the private or public sector. This would be the case for revenue-generating forms of protection such as tariffs or import licenses that are auctioned. The improved fiscal position might then improve the current account. However, the prevalent forms of protection in industrial countries either transfer the windfall gains to foreign exporters (VERs and minimum price undertakings) or entail a budgetary cost (subsidies).

Certain types of protection insulate the protected sector from exchange rate movements, thereby slowing the macroeconomic adjustment process. This is the case with trade "managed" through VERs and quotas on a number of products. Examples include Japanese import quotas on agricultural products, bilateral import restraints by the EC and the United States on automobiles, steel, textiles, and machine tools, by the EC and Canada on footwear and clothing, and by several industrial countries on agricultural products. A similar effect arises from subsidies and import duties that are designed to compensate for the difference between domestic and world prices. Examples include variable import levies and export subsidies under the EC's CAP, and variable subsidies to the German coal industry. Indirectly, the same considerations apply to the shipbuilding sector in the EC, where subsidies depend, to some extent, on the difference between domestic

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1/ See Annex III. While significant reductions in installed capacity have occurred in a number of industries, such as, steel and shipbuilding, capacity utilization in OECD countries remains low.

costs and those of the most competitive world supplier. Along the same lines, the "dollar clause" proposed by the EC in the aircraft financing agreement under negotiation with the United States would partly insulate the Airbus consortium from exchange rate movements (Annex III). Some modifications being proposed to the Producer Subsidy Equivalent (PSE) concept, 1/ which might be used in multilateral negotiations on agriculture, are intended to neutralize the effects of exchange rate changes, at least over certain periods. Moreover, the use of countervailing and antidumping duties as a safeguard measure in cases where exchange rate appreciation affects the outcome of the "injury" test has a similar effect. Sectors that are insulated to some degree account for 24.6 percent of agricultural imports and 12.5 percent of industrial imports of the G-5 countries. 2/ These forms of protection are viewed partly as a response to exchange rate instability. Greater exchange rate stability among the major currencies is therefore viewed as promoting more open markets. However, by insulating these sectors from exchange rate movements, protection shifts the burden of adjustment to other sectors and may contribute to larger exchange rate fluctuations than might otherwise be necessary.

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

The above arguments ignore the costs of protection and the benefits of unilateral liberalization. The costs of protection have been extensively analyzed in the economic literature. 3/ It is widely recognized that protection imposes costs both on the country initiating it and on its trading partners. Any measure that restricts imports also restricts exports by shifting resources to the import-competing sector. Similarly, subsidies and other nonborder measures targeted at specific industries necessarily divert resources from other industries, thereby "taxing" the rest of the economy. Protection can also involve direct budgetary costs or indirect costs through forgone tariff revenue. Protection entails costs due to forgone specialization

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1/ The PSE concept is defined in Annex II.

2/ Based on detailed information underlying Table 4 on selected NTMs; includes VERs, quotas, import licensing, and variable levies but excludes tariffs with quotas and pricing measures, which are not automatically adjusted to offset exchange rate movements. This is a conservative estimate of the importance of insulated sectors, insofar as it excludes (a) variable subsidies, e.g., to shipbuilding, coal, and aircraft, and (b) pricing measures, including ADs and CVDs, that depend to some extent on the competitiveness of the domestic industry.

3/ See W.M. Corden (1987) op. cit., for a survey.

according to comparative advantage, as well as losses in terms of scale economies, product differentiation and R and D efficiency. Additional costs are incurred because scarce resources are directed at rent-seeking activities and enforcement of restrictions imposes administrative costs. By releasing resources for efficient industries, unilateral liberalization can increase potential growth and ease the external constraint. 1/

Protection provided through NTMs tends to be highly selective, favoring a few domestic industries. NTMs compound relative price distortions arising from the dispersion in tariff rates (tariff peaks). A study of the dispersion of protection in German industry found that the coefficient of variation 2/ of nominal protection increases from 0.4 for tariff protection to 1.0 for total protection including NTMs (Table 10). The coefficient of variation of total effective protection, which includes the effects of the escalation of tariff and nontariff protection on products at higher stages of processing, is calculated at 2.0.

The cost of VERs is high for the markets they are intended to protect because of "quota rents" (normally captured by the exporting country) and distortion costs. The cost of U.S. VERs on imports of automobiles, steel, and textiles has been estimated at US$21 billion, of which the quota rent amounts to US$14 billion and the distortion costs of the quotas to US$7 billion. 3/ The cost of "preserving" a job is estimated at eight times the average annual wage in the textile sector and three times in the steel sector. The economy-wide tariff equivalent of the quotas on these three sectors is estimated at 25 percent, bringing protection to its level of the early postwar years. Similar studies of the costs of the MFA have estimated the quota rent transferred to the Asian NIEs by OECD countries at US$2 billion. 4/ The costs of VERs on automobiles maintained by the EC and Canada have similarly been found to be very high (Annex III).

1/ See Annex II for a discussion of the costs and benefits of liberalization in agriculture.

2/ The coefficient of variation is the standard deviation of protection across sectors divided by the average protection for all sectors.

3/ These estimates, based on a general equilibrium model of the U.S. economy, vary by US$2 billion under alternative assumptions on demand and supply elasticities of the protected products and on the terms-of-trade effects of a removal in protection. See J. de Melo, and D. Tarr "Welfare Costs of U.S. Quotas on Textiles, Steel and Autos," World Bank Working Paper (forthcoming) (1988).

4/ OECD, Costs and Benefits of Protection (1986).

III. Developing Countries

1. Trade trends

Since 1981, major changes have occurred in the pattern of trade of developing countries (Tables 11 and 12). Their share of world exports has declined, reflecting the substantial decline in the value of oil exports that offset the increase in their share of world non-oil exports including world manufactured exports. The rapid growth of exports of developing economies with relatively liberal trade regimes, particularly Hong Kong, Korea, Singapore, Taiwan Province of China--the four Asian newly industrializing economies (NIEs)--stands out in this trend. An increasing proportion of developing country non-oil exports was directed toward industrial countries, reflecting the continued importance of industrial countries as a market for the products of developing countries.

The ratio of exports to GDP rose during 1981-85 for about half of the 48 developing countries surveyed, comparable to the increase in the 1973-81 period (Table 12). Declines since 1981 were largest among the oil-exporting countries, while increases outnumbered falls in African and Western Hemisphere countries, reflecting their response to the debt crisis.

Among the developing countries, the combined share of world exports of the four Asian NIEs has risen steadily from 3 percent in 1973 to 4.3 percent in 1981 and to over 6 percent in 1986. 1/ During this period the exports of the four Asian NIEs grew at an annual average rate of 17 percent, and at a rate of 10 percent a year since 1981. Exports of other geographical groupings of developing countries declined during 1981-86, at annual average rates of 8 percent in Africa, 2 percent in other Asian developing countries, 5 percent in Latin America, and 17 percent in the Middle East, compared with a growth rate of world exports of about 2 percent.

In contrast to the developments in total exports, the developing countries' exports of manufactures grew in excess of the world rate during 1973-86. As a result, the share of developing countries in world exports of manufactures rose from 7 percent in 1973 to 12 percent in 1986 (Table 11). Most of this increase was attributable to the four Asian NIEs, whose share rose from 4 percent in 1973 to 8 percent in 1986; since 1981 the share of the other developing countries has fallen

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1/ See Table 17 in the companion paper on "The Industrial Policies of Industrial Countries and their Effects on Developing Countries," SM/88/167 (8/4/88).

from 4.5 percent to 3.9 percent in 1986. 1/ Between 1973 and 1985, slightly less than one half of the increase in developing countries' exports of manufactures came from engineering products (including machinery, transport equipment, office equipment, and electrical goods), into which the four Asian NIEs in particular have diversified (Table 13). Many developing countries' exports of manufactures continued to be concentrated in traditional sectors, like textiles and clothing. These sectors, together with other consumer goods, accounted for a further one third of incremental exports of manufactures. Overall, developing countries captured about 14 percent of the increase in world exports of manufactures, with increases above this average in clothing, textiles, other consumer goods, and other semimanufactures.

The decline in export earnings and the financial constraints arising from the debt crisis have led to a decline in the share of developing country imports in world imports between 1981 and 1986 (Table 14). About three fourths of the countries included in Table 12 also experienced a decline in the ratio of imports to GDP during the period 1981-85. During 1973-81 this ratio had risen in about 70 percent of the cases.

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

Industrial countries remained by far the major suppliers of the developing countries, accounting for 64 percent of their imports in 1986. However, the importance of developing countries as markets for industrial countries has declined; in 1986 some 18 percent of industrial countries' exports went to the developing countries compared with 26 percent in 1981.

2. Trade policies

As indicated in previous Fund staff papers, the diverse historical and economic backgrounds and recent economic performance of developing

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

economies complicate an overall assessment of their trade policies. 1/ Some developing economies (e.g., Hong Kong, Malaysia, Singapore, and many African countries) inherited relatively liberal trade regimes at independence, while others (e.g., Argentina, Brazil, and many other Latin American countries) have historically maintained highly protective trade regimes. Their growth and development strategies have also varied: some countries have adopted inward-looking growth strategies, while other countries have adopted more outward-oriented growth strategies, under which they have continued to liberalize their trade regimes.

An assessment of trade policies in developing countries is also complicated by other factors. First, countries undertaking trade liberalization programs usually as a first step replace quantitative restrictions with tariffs; this normally involves an initial increase in tariffs followed by a subsequent reduction. Second, customs duties have historically been an important source of government revenue in the early stages of economic developement because they are easier to collect than domestic income or consumption taxes when tax administration is weak and tax handles are limited; smaller economies and Asian and African countries depend more heavily on tariffs as a source of revenue than other developing countries (Table 15). Finally, macroeconomic imbalances may result in an increase in trade protection as an alternative to remedial policies to correct the savings-investment balance; in such a situation, an increase in import duties may be a means to reduce the fiscal deficit. 2/ 3/

a. Tariffs

Statutory tariffs are generally higher in developing countries than in industrial countries, typically ranging from zero to very high maximum rates. A recent study of 50 developing countries, which account for about 15 percent of world trade (average of exports and imports), provides results based on 1985 data. 4/ It found that the unweighted average rate of tariffs for all products was 26 percent, or 34 percent if other import charges were included. 5/ The corresponding weighted averages (based on country imports) were 24 percent and 30 percent, respectively. The latter figures can be compared with less than

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1/ S.J. Anjaria, N. Kirmani, and A.B. Petersen, "Trade Policy Issues and Developments," IMF Occasional Paper 38, Washington, D.C., July 1985.

2/ Over the period 1980-84, over one third of Fund-supported adjustment programs relied on general or selected increases in customs duties and import surcharges.

3/ For a fuller elaboration of these points, see Z. Farhadian-Lorie, and M. Katz, "Fiscal Dimensions of Trade Policy," WP/88/43, May 1988.

4/ R. Erzan, H. Kuwahara, S. Marchese, and R. Vossenaar, "The Profile of Protection in Developing Countries," UNCTAD, Discussion Paper No 21.

5/ Other import charges consist of customs surcharge and surtax, stamp taxes and other fiscal charges, and taxes on foreign exchange.

5 percent on average for OECD countries. While variations existed among regional groupings, the study reported an inverse relationship between per capita income and tariff levels (Table 16). This inverse relationship is consistent with other studies which indicate that customs revenues become less important as a source of government revenues as the income level increases. 1/ It is also consistent with other studies which indicate the superiority of outward-oriented over inward-oriented trade strategies in raising income levels.

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

Statutory rates tend to be substantially higher than average rates of duties collected (Table 15). The difference between statutory and average levels reflects a number of factors: (i) "duty drawback" schemes which some countries (e.g., Brazil and Colombia) allow on duty free imports of raw materials and intermediate inputs; (ii) similar privileges which some countries (e.g., Brazil and Mexico) offer to attract foreign investment or to promote investments to specific projects or regions; (iii) preferential tariff reductions which a number of developing countries grant each other under preferential trade arrangements; 2/ and (iv) temporary tariff reductions on a continuous basis on a wide range of products (e.g., Brazil).

Under GATT, a contracting party provides assurance of market access by "binding" its tariffs. This places limits on its legal ability to raise tariffs without compensating its trading partners. The major industrial countries have bound between 88 percent and 98 percent of their tariffs. For the developing countries the proportions are much lower. Only Mexico and Chile have bound 100 percent of their tariff schedules at maximum rates of 50 percent and 35 percent, respectively. For 18 other developing countries, parties for which information is available, the proportion ranges from zero percent to 39 percent with most falling in the 20-25 percent range.

1/ Z. Farhadian-Lorie, and M. Katz, op. cit., and references therein.

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

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

b. Nontariff measures 1/

Developing countries frequently use NTMs as a major form of protection. A study for 50 developing countries found that 40 percent of all tariff lines (weighted by economic size) were subject to some form of NTM. 2/ Excluding NTMs which were applied to all imports, the ratio was 27 percent. Import licensing was found to be the most common form of NTM although foreign exchange restrictions were the most prevalent in Latin America and the second most frequent in sub-Saharan Africa. As in the case of tariffs, an inverse relationship was found between per capita income and the frequency of use of NTMs (Table 17).

A significant feature of NTMs of developing countries is that not only are they widespread but they are also stacked, i.e., a given product is subject to more than one restriction. 3/ While foodstuffs are the most affected sector, it is notable that all categories have higher frequencies of NTMs than most industrial countries. In particular, textiles, clothing and footwear, and iron and steel all had high frequencies of NTMs (and higher tariffs) despite the apparent comparative advantage of developing countries in these products. In contrast to industrial countries where there is increasing resort to discriminatory measures, NTMs are normally applied on a nondiscriminatory basis in developing countries.

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

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

2/ R. Erzan, H. Kuwahara, S. Marchese, and R. Vossenaar, op. cit.

3/ O. Havrylyshyn, Barriers to Trade Among Developing Countries, UNCTAD/UNDP, March 1988, found that this duplication mainly occurred in sub-Saharan Africa and across all regions in the food category.

c. Recent developments

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

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

Information collected on 31 developing countries covering the period 1985-88 indicates that tariffs were raised in 3 countries and lowered in 12 countries; for the rest, changes were mixed or no information was available (Table 18). In a number of these countries trade reform involving initially the substitution of quantitative restrictions with tariffs, and subsequently a reduction in tariffs, was underway. 1/ In some countries (e.g., Argentina, Indonesia, and Thailand) temporary surcharges or temporary increases in tariffs were used as supplementary measures to counter surges in imports; some of these countries continued to rely on quantitative restrictions as the basic mechanism for protection and defense against chronic balance of payments problems. In other countries (e.g., Brazil) domestic shortages were countered through temporary reductions in tariffs or temporary surcharges were eliminated when emergency situations no longer prevailed. Trade liberalization measures have also been taken to ease domestic inflationary pressures (e.g., Mexico), and tariff reductions on certain products have been used to impose the discipline of world prices on domestic producers.

With regard to NTMs, 18 countries moved in the direction of liberalization while 6 countries moved in the opposite direction. For some countries (e.g., Egypt, Korea, Mexico, Morocco, and Taiwan Province of China), the liberalization of quantitative restrictions has been accompanied by a general reduction in tariffs and import-related

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1/ This was the case for some countries which reduced tariffs (Egypt, Mexico, Taiwan Province of China, and Uruguay), for some which increased tariffs (Argentina, Bangladesh, and Chile), and others where the direction of tariff changes was mixed (Nigeria and Zaire).

taxes. 1/ However, for other liberalizing countries, including those which have been in the process of substituting nontariff barriers with tariffs, the liberalization was often accompanied by higher tariffs (e.g., Argentina, Bangladesh, and Chile).

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

d. Trade policies of NIEs

Some common features of the four Asian NIEs are their outward-oriented growth strategies, their relatively poor natural resource bases, and their recent high annual average growth rates. However, beyond these, there are a great many differences among them. One important difference is that Hong Kong and Singapore are basically free trade ports and have few or no trade or exchange restrictions. The situations of Korea and Taiwan Province of China are more complex and developments need to be reviewed individually.

Korea has made significant progress in liberalizing its import system since 1980, when over 30 percent of tariff code items were listed as restricted imports. By 1983, the share of restricted items had been reduced to 19 percent and, starting in 1984, a major new liberalization five-year program was launched. As a result, the ratio of restricted items was reduced to less than 5 percent by April 1, 1988. 2/ Agriculture remains the most heavily protected sector, accounting for over three fourths of the remaining restrictions. To safeguard against import surges, newly liberalized imports may be placed on an import surveillance list, or subjected to adjustment tariffs; however, the use of both procedures has been limited. 3/ The surveillance list is scheduled to be eliminated by the end of 1988.

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

2/ In sectoral terms, liberalization was more significant on electrical and machinery appliances, electronics, machinery, and textiles.

3/ Of the 6,945 items liberalized through June 1986, only 106 were placed on the surveillance list, and by April 1, 1988 they were reduced to 25.

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

The above measures may have been partly offset by the operation of 39 special laws for both agricultural and nonagricultural products which permit government agencies to determine the source and type of certain imports. These laws have been reviewed and steps are being taken to streamline their application and reduce the extent to which they serve as unnecessary barriers.

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

e. Countertrade 1/

Since the late 1970s countertrade has been used extensively by developing countries. Countertrade has been utilized as an export promotion tool, and as a way to overcome shortages in foreign exchange and protectionist barriers in industrial countries. 2/ Some developing countries may also have used it to counter the effects of overvalued exchange rates, in which case it functions as an export subsidy. Latin American and African countries have also explored countertrade as a mechanism for intraregional economic cooperation.

While neither the Fund nor the GATT has jurisdiction over countertrade unless restrictions are involved (e.g., official action affecting the private sector), the Fund is generally concerned with the increased use of countertrade because it undermines the multilateral character of the trade and payments system and imposes additional costs on the participants. One aspect of this is that the complexity of

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1/ The topic of countertrade was reviewed by the Executive Board in 1982 on the basis of the staff paper "Review of Bilateral Payments Agreements, 1976-81," SM/82/169 (8/17/82). Developments have since been reported in successive editions of the Annual Report on Exchange Arrangements and Exchange Restrictions. For details on the various forms of countertrade, see also K.M. Huh, "Countertrade: Trade without Cash?" Finance and Development, December 1983, and Group of Thirty Countertrade in the World Economy, New York, 1985.

2/ For instance, countertrade can be used to gain a larger share of a global quota but it cannot gain greater access to markets protected by VERs.

matching up parties for specific commodities generally increases transaction costs. In addition, countertrade to bypass price distortions in the economy, including the exchange rate, is not an efficient means to correct distortions. Countertrade practices may entail many of the restrictive and discriminatory practices traditionally associated with bilateralism.

The extent of countertrade is difficult to gauge because trade data are not differentiated according to the source of financing, and because countertrade often involves military purchases for which data are not always available. 1/ The OECD has estimated that a maximum of some US$80 billion or 5 percent of world trade occurred through countertrade arrangements in 1983. This estimate excludes trade under bilateral payments arrangements among Eastern European countries and among some developing countries. Including these, the total would rise to at least 9 percent of world trade. The share of trade that occurs under documented countertrade agreements is highest between East European countries and both developing and industrial countries, and among developing countries.

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

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

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

1/ Countertrade among industrial countries often occurs in connection with trade offsets in sales of aircraft or military equipment. Australia and New Zealand have adopted official guidelines with respect to countertrade.

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

3. Trade measures affecting developing countries

The industrial countries are the major markets for developing country exports. Their trade policies affect the access of developing countries and thus have an important impact on these countries.

Industrial countries grant tariff preferences to developing countries under the Generalized System of Preferences (GSP). 1/ Trade preferences are also granted to selected developing countries under various regional trading arrangements. 2/

Currently 20 OECD countries and a number of Eastern bloc countries operate GSP schemes, with more than 140 beneficiaries. In 1986 US$37 billion of exports from developing countries received preferential treatment by OECD countries, compared with US$25 billion in 1980 and US$10 billion in 1976, when GSP schemes came into full operation (Table 19). The growth of imports under the GSP slowed down significantly during the period 1980-86, to an annual rate of 6 percent compared with an annual average growth rate of 21 percent during the period 1976-80. This largely reflected the slowdown in the growth of total and dutiable exports from the beneficiary countries. The ratio of imports accorded GSP treatment to total imports of OECD countries from beneficiary countries continued to increase, and by 1986, the ratio reached 15 percent, compared with 8 percent in 1980 and 7 percent in 1976.

In recent years, efforts to improve GSP schemes have been offset to some extent by a reduction in benefits in some schemes, including those of the EC and the United States. 3/ Some schemes have introduced lower margins of preference, stricter limits on the amount of preferential imports, and differential application of preferential treatment among

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1/ The Generalized System of Preferences is based on work undertaken by UNCTAD during the 1960s, and was implemented after the contracting parties to the GATT approved a waiver to the nondiscrimination clause in Article I in 1971.

2/ Trade preferences granted by the EC to 66 African, Caribbean, and Pacific Group of States under the Lomé Convention and to Mediterranean countries under association and cooperation agreements are reviewed in the Attachment.

3/ The EC scheme is reviewed in the Attachment.

beneficiaries, including product-specific graduation, and more recently, country-specific graduation. In the latter case, countries can be graduated from schemes on the basis of "competitive needs" criteria. The major beneficiaries (Hong Kong, Korea, Taiwan Province of China, etc.) have been the countries most affected by these changes. The least developed countries receive more preferential treatment than other developing countries in most GSP systems. Generally this implies zero tariff rates for least developed countries where other developing countries pay duties at some non-zero preferential rates.

With regard to trade restricting measures of industrial countries, a number of developing countries argue these policies hinder their integration into the world economy. Industrial policies, which are a primary concern of some developing countries, are examined in a companion paper. 1/

Of particular note is the fact that some developing countries that have recently liberalized their trade regimes or continued with liberalization efforts have faced increased barriers abroad or existing barriers have become binding as exports expanded. For instance, Mexico's non-oil exports, which have nearly doubled over the two years to 1987, have been increasingly subjected to AD and CVD investigations and existing barriers have become a binding constraint on export expansion. 2/ This has reduced the domestic political support for liberalization measures. Some middle-income developing countries have indicated that their exports to developing countries are adversely affected by their inability to match the grant element of mixed credits extended by industrial countries.

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

1/ See "The Industrial Policies of Industrial Countries and their Effects on Developing Countries," SM/88/167 (8/4/88).

2/ Examples include ADs imposed by the EC on Mexican exports of synthetic fibers and steel products and the VER on steel exports to the United States, negotiated in 1984, that has become binding.

Export Shares of Food Products

(In percent)

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

Sources: World Bank, World Development Report, 1986; and IMF, International Financial Statistics.

1/ Relative to export unit value for all products.

The agricultural policies of the industrial countries--together with the pricing policies of many developing countries--have contributed to a sharp decline in the share of developing country exports in world agricultural exports since the early 1960s. The decline is particularly marked for food products that are produced by industrial countries. A recent study demonstrates that a relatively modest liberalization of agricultural trade, resulting in a 10 percent increase of world agricultural prices, would increase the income of developing countries by US$26 billion (1985 dollars), an amount exceeding bilateral grants and loans under Official Development Assistance (ODA). 1/ Fully half of this increase would accrue to the highly indebted developing countries (Annex II).

1/ Macroeconomic Consequences of Farm Support Policies, Centre for International Economics, Canberra, 1988.

Table 1. Depth of Tariff Reductions and Post-Tokyo Round Tariff Averages

(In percent)

		All industrial products		Raw materials		Semi manufactures		Finished manufactures	
		Depth of cut	Tariff average	Depth of cut	Tariff average	Depth of cut	Tariff average	Depth of cut	Tariff average
Average of 9 countries 1/	Weighted	34	4.7	64	0.3	30	4.0	34	6.5
	Unweighted	39	6.4	37	1.6	36	6.2	40	7.1
United States	Weighted	31	4.4	77	0.2	33	3.0	29	5.7
	Unweighted	44	6.3	45	1.8	39	6.1	46	7.0
Canada	Weighted	38	7.9	69	0.5	30	8.3	39	8.3
	Unweighted	42	7.3	48	2.6	44	6.6	40	8.1
Japan	Weighted	49	2.8	67	0.5	30	4.6	52	6.0
	Unweighted	42	6.0	45	1.4	36	6.3	45	6.4
EC	Weighted	29	4.7	15	0.2	27	4.2	29	6.9
	Unweighted	30	6.4	16	1.6	30	6.2	29	7.0
Austria	Weighted	13	7.8	9	0.8	19	4.7	13	16.1
	Unweighted	31	8.1	27	1.9	29	7.3	32	9.1
Finland	Weighted	21	5.5	60	0.3	13	5.9	22	6.1
	Unweighted	14	11.4	40	0.5	10	11.7	16	12.0
Norway	Weighted	25	3.2	39	0.0	21	1.4	25	4.2
	Unweighted	22	6.7	29	0.9	20	5.4	22	7.8
Sweden	Weighted	28	4.1	21	0.0	38	3.3	26	4.9
	Unweighted	20	4.8	27	0.4	15	5.1	22	5.1
Switzerland	Weighted	23	2.3	28	0.2	25	1.2	22	3.1
	Unweighted	24	2.9	15	1.5	23	2.8	25	3.0

Source: GATT.

1/ The standard deviation of the average tariff rates shown exceeds one in all the countries listed.

Table 2: Importance of GATT Tariff Bindings in Industrial Countries 1/

(In percent)

	Bound Tariffs	
	Share in Tariff Lines	Share in Imports
United States		
Agriculture	90	87
Industry	100	100
Total	98	99
Canada		
Agriculture	90	98
Industry	98	98
Total	96	98
Japan		
Agriculture	60	63
Industry	97	86
Total	91	81
EEC		
Agriculture	63	69
Industry	99	99
Total	88	93
Austria		
Agriculture	55	75
Industry	96	94
Total	88	91
Finland		
Agriculture	51	89
Industry	97	99
Total	90	97
Norway		
Agriculture	67	96
Industry	95	99
Total	90	99
Sweden		
Agriculture	46	78
Industry	97	97
Total	88	94
Switzerland		
Agriculture	44	57
Industry	99	100
Total	90	93
Australia		
Agriculture	26	36
Industry	11	24
Total	12	25
New Zealand		
Agriculture	48	59
Industry	39	47
Total	41	48
All markets		
Agriculture	61	74
Industry	87	95
Total	82	92

Source: GATT; and OECD.

1/ Tariff bindings are upper limits on tariffs agreed to in GATT. All data refer to 1984 except Australia (1980/81) and New Zealand (1983/4). Since the Uruguay Round was launched in 1986, Australia and New Zealand have offered to bind a larger proportion of their tariffs.

2/ Refers to imports subject to an MFN tariff.

Table 3. Regional Trading Groups:
Share of Intra-Area Exports in World Exports, 1960-86 1/

(In percent of world exports)

	1960	1970	1980	1986
EC (10) 2/	12.5	20.0	18.4	20.0
EFTA 3/	0.7	1.3	0.9	1.0
EC (10)/EFTA 4/	7.3	8.2	6.9	7.7
US/Canada 5/	5.3	8.2	4.0	5.6
Australia/New Zealand 6/	0.1	0.2	0.1	0.1
Total intra-area trade	25.9	37.9	30.3	34.4 7/
Memorandum item:				
US/Mexico 8/	3.2	3.5	1.3	2.8

Source: IMF, Direction of Trade and EC, Eurostat.

1/ Among industrial countries. Trade among developing countries subject to preferential arrangements amounts to only 1.2 percent of world exports. Trade between the EC and 66 Asian, Caribbean, and Pacific countries (ACP) subject to preferential arrangements under the Lomé Convention amounts to 1.8 percent of world exports. A negligible share of world trade occurs under association and cooperation agreements between the EC and Mediterranean countries.

2/ Includes the original six members plus Denmark, Greece, Ireland, and the United Kingdom. Internal trade barriers among the EC (6) were abolished and a common external tariff came into effect in 1968.

3/ The European Free Trade Association (EFTA) is a free trade area comprising Austria, Finland, Iceland, Sweden, Switzerland, and Norway. The United Kingdom and Denmark departed from EFTA in 1974 to join the EC.

4/ A free trade area for industrial products was progressively established between the EC and EFTA over the period 1972-84.

5/ The U.S.-Canada automotive pact, a sectoral free trade agreement covering automobiles and parts, was concluded in 1965. Trade under the pact accounts for one third of trade between the two countries. A free trade agreement covering all products is expected to come into effect in 1989, subject to ratification.

6/ Preferential trading arrangement under the South Pacific Regional Trade and Economic Agreement (SPARTECA), established in 1981 and including Fiji, Papua New Guinea, and other small Pacific countries. Preferential trading also occurs under the Australia-New Zealand Closer Economic Relations Agreement (ANZCERTA). In June 1988, the Agreement was expanded to include services and the date of elimination of all trade barriers was brought forward to July 1990.

7/ This figure rises to 37.3 percent if Spain and Portugal are added to the EC (10).

8/ A framework trade agreement was signed in February 1988. The agreement does not contemplate a free trade area.

Table 4. G-5 Countries: Imports Affected by Selected Nontariff Measures

(In percent)

	End-1981		End-1986	
	Share of sectoral imports	Share of manufactured imports	Share of sectoral imports	Share of manufactured imports
France				
Agriculture	43.3	...	44.7	...
Manufactures	11.2	11.2	15.4	15.4
o/w: Textiles & apparel	42.9	4.3	43.0	4.3
Footwear	6.5	0.1	6.5	0.6
Iron & steel	28.9	1.1	34.3	1.3
Electrical machinery/ electronics	13.0	0.9	31.3	2.3
Automobiles	11.9	0.8	19.1	1.3
Germany				
Agriculture	32.7	...	33.3	...
Manufactures	15.0	15.0	17.9	17.9
o/w: Textiles & apparel	55.2	7.9	55.2	7.8
Footwear	9.4	0.1	9.6	0.1
Iron & steel	45.2	2.4	49.9	2.7
Electrical machinery/ electronics	6.3	0.6	10.0	0.9
Automobiles	39.3	1.9	50.5	2.4
Japan				
Agriculture	49.8	...	49.8	...
Manufactures	10.2	10.2	10.2	10.2
o/w: Textiles & apparel	16.7	2.1	16.7	2.1
Footwear	6.4	0.1	6.4	0.1
Iron & steel	--	--	--	--
Electrical machinery/ electronics	--	--	--	--
Automobiles	--	--	--	--
United States				
Agriculture	6.2	...	18.4	...
Manufactures	11.7	11.7	17.9	17.9
o/w: Textiles & apparel	67.5	4.4	68.3	4.4
Footwear	0.1	--	--	--
Iron & steel	7.0	0.5	75.7	5.6
Electrical machinery/ electronics	2.6	0.3	1.7	0.2
Automobiles	33.7	6.4	38.2	7.2
United Kingdom				
Agriculture	53.6	...	54.1	...
Manufactures	10.2	10.2	12.8	12.8
o/w: Textiles & apparel	52.2	4.8	44.2	4.1
Footwear	12.0	0.1	12.0	0.1
Iron & steel	32.7	0.7	33.2	0.8
Electrical machinery/ electronics	3.1	0.2	11.5	0.8
Automobiles	32.9	1.6	43.9	2.2

Source: Staff estimates based on World Bank/UNCTAD Inventory of Trade Barriers; OECD, Costs and Benefits of Protection (1985); Balassa & Balassa, "Industrial Protectionism in the Developed Countries," The World Economy (1984).

1/ The Nontariff Measures (NTMs) included in this table are tariffs with quotas, variable import levies, total prohibitions, quotas, authorizations to control entry, minimum pricing, voluntary export restraints (VERs) and the Multifibre Arrangement (MFA). All ratios are based on 1981 trade data to avoid biases arising from the relative decline of restricted trade. The import coverage ratio is used as an indicator of the extent of NTMs. However, it does not measure the severity of such restrictions since the measurement does not distinguish between NTMs that are more or less severe. In particular, more restrictive NTMs receive a lower weight than less restrictive ones because the former tend to reduce imports more.

Table 5. Industrial Countries: Antidumping Investigations and Actions, 1981-86 1/

	1981		1982		1983		1984		1985		1986 2/		1987 2/ First Half	
	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions
Australia	49	28	77	47	80	58	56	36	63	30	63	10	11	—
Industrial countries	34	14	55	25	59	44	30	26	38	15	35	7	8	—
Developing countries	15	11	20	20	21	13	21	10	19	12	20	3	3	—
Centrally planned economies	—	3	2	2	—	1	5	—	6	3	8	—	—	—
Canada	23	13	72	21	36	41	31	16	36	27	55	45	34	36
Industrial countries	12	8	54	10	27	29	20	9	18	16	21	18	21	20
Developing countries	8	1	15	7	7	10	8	5	12	8	30	17	10	12
Centrally planned economies	3	4	3	4	2	2	3	2	6	3	4	10	3	4
EC	47	16	55	42	36	45	48	31	45	12	37	21	10	8
Industrial countries	9	18	18	9	11	12	16	9	9	9	11	9	2	3
Developing countries	3	5	15	4	9	12	5	6	16	1	8	—	4	1
Centrally planned economies	35	3	22	29	16	21	27	16	20	2	8	12	4	4
United States	14	4	61	45	47	15	71	25	65	53	70	50	47	43
Industrial countries	7	3	47	41	27	9	32	8	19	19	30	15	32	25
Developing countries	4	—	13	3	19	6	23	17	41	20	34	32	13	10
Centrally planned economies	3	1	1	1	1	—	16	—	5	14	6	3	2	8
Total	133	61	265	155	199	159	206	108	209	122	225	126	102	87
Industrial countries	62	33	174	85	124	94	98	52	84	59	97	49	63	48
Developing countries	30	17	63	34	56	41	57	38	88	41	92	52	30	23
Centrally planned economies	41	17	28	36	19	24	51	18	37	22	26	25	9	16

Sources: J.M. Finger, and A. Olechowski, The Uruguay Round: A Handbook on the Multilateral Trade Negotiations, IBRD, Washington, D.C., 1987; "Semi-Annual Reports on Antidumping and Subsidies Measures," various issues, Geneva.

1/ The countries listed have initiated virtually the totality of antidumping investigations undertaken worldwide. Actions taken include the imposition of definitive duties and minimum price undertakings by exporting countries. Investigations include those opened in the context of reviewing an existing antidumping duty or after allegations of breach of an undertaking.

2/ The data are based on actions reported by signatories to the GATT Committees on Subsidies and Antidumping Practices, which exclude the actions taken against nonsignatories.

Table 6. Industrial Countries: Countervailing Investigations and Actions, 1981-86 1/

	1981		1982		1983		1984		1985		1986 2/ First Half	
	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions	Investi-gations	Actions
Australia	—	—	3	—	7	9	6	1	3	1	1	2
Industrial countries	—	—	3	—	7	9	5	1	3	1	1	2
Developing countries	—	—	—	—	—	—	1	—	—	—	—	—
Centrally planned economies	—	—	—	—	—	—	—	—	—	—	—	—
Canada	—	3	1	—	3	—	2	2	2	2	—	1
Industrial countries	—	3	1	—	3	—	2	2	1	1	—	1
Developing countries	—	—	—	—	—	—	—	—	1	1	—	—
Centrally planeed economies	—	—	—	—	—	—	—	—	—	—	—	—
EC	1	1	3	—	2	3	1	1	—	—	—	—
Industrial countries	—	—	1	—	1	1	—	1	—	—	—	—
Developing countries	1	1	2	—	1	2	1	—	—	—	—	—
Centrally planned economies	—	—	—	—	—	—	—	—	—	—	—	—
Japan (Industrial countries)	—	—	—	—	1	—	—	—	—	—	—	—
United States	10	6	124	80	21	21	50	18	40	24	28	28
Industrial countries	6	1	85	61	3	3	14	2	12	6	8	10
Developing countries	4	5	39	19	16	18	34	16	27	17	20	18
Centrally planned economies	—	—	—	—	2	—	2	—	1	1	—	—
Total	11	7	131	80	34	33	59	22	45	27	29	30
Industrial countries	6	1	90	61	15	13	21	6	16	8	9	12
Developing countries	5	6	41	19	17	20	36	16	28	18	20	18
Centrally planned economies	—	—	—	—	2	—	2	—	1	1	—	—

Sources: J.M. Finger, and A. Olechowski, 1987, op. cit.; and GATT, "Semi-Annual Reports on Antidumping and Subsidies Measures," various issues, Geneva.

1/ The countries listed have initiated virtually the totality of countervailing investigations undertaken by individual countries. Actions taken include the imposition of definitive duties and minimum price undertakings by exporting countries. Investigations include those opened in the context of reviewing an existing countervailing duty or after allegations of breach of an undertaking.

2/ The data are based on actions reported by the signatories to the GATT Committee on Subsidies and Antidumping Practices, which exclude the actions taken against nonsignatories.

Table 7. OECD Countries: Subsidy Shares in Officially Supported Export Credits by Destination 1/

(In percent)

	1979	1980	1981	1982	1983	1984	1985
Total (all destinations)	14.2	19.2	27.5	22.2	15.8	25.4	12.0
OECD countries	6.7	13.4	9.9	10.5	4.0	9.5	2.2
Newly industrialized economies (NIEs)	35.4	31.4	26.6	20.8	21.8	28.3	10.3
Centrally planned economies	26.2	13.2	13.2	11.8	12.8	5.9	1.1
OPEC countries	11.2	5.0	4.4	4.4	12.1	28.0	22.5
Developing countries	20.4	36.9	45.9	52.5	49.3	28.3	63.9

Source: OECD, Structural Adjustment and Economic Performance, Paris, 1987.

1/ Subsidies are calculated as the net present value of credits using actual credit terms and estimated market terms. Data pertain to officially supported credits of over three years' maturity. They do not include the aid component of tied aid credits. Thus, this table gives the subsidy element in officially supported nonaid export credits.

Table 8. United States: Investigations of Unfair Trade Practices Abroad and Safeguard Petitions, 1980-87

(Number of cases and percent)

Directed against:	Dumping	Subsidies	Retaliation 1/	Safeguard actions 2/	Total	Share in total cases (in %)	U.S. imports, 1987 (in US$ billion)	Share in 1987 U.S. imports (in %)
Industrial Countries								
Canada	34	13	6	6	58	9.8	71.5	21.5
EC	—	6	16	2	24	4.1	84.9	25.6
France	20	16	1	5	42	7.1	11.2 3/	3.4 3/
Germany	23	5	—	8	36	6.1	28.0 3/	8.4 3/
Italy	22	20	1	6	49	8.2	11.7 3/	3.5 3/
Japan	71	3	8	9	90	15.1	88.1	26.6
Spain	10	20	—	5	35	5.9	3.1 3/	0.9 3/
United Kingdom	14	5	2	4	25	4.2	18.0 3/	5.4 3/
Developing Countries								
Argentina	6	8	4	1	19	3.2	1.2	0.4
Brazil	22	24	4	2	52	8.8	8.4	2.5
China	15	1	—	3	19	3.2	6.9	2.1
Korea	22	12	6	7	47	7.9	18.0	5.4
Mexico	7	27	—	3	37	6.2	20.5	6.2
Taiwan	25	6	6	7	44	7.4	26.4	8.0
Venezuela	9	6	—	1	16	2.7	5.9	1.8
Total of above	301	172	54	69 4/	594	100.0	331.8	100.0
Other	110	111	6	... 4/	218	...	92.3	...
Total	411	283	60	60 4/	812	...	424.1	...

Sources: U.S. Trade Representative, U.S. International Trade Commission, U.S. General Accounting Office, and U.S. Department of Commerce.

1/ Under Section 301 of the U.S. Trade Act of 1974.
2/ Under Section 201 of the U.S. Trade Act of 1974.
3/ Excluded from the total to avoid double-counting.
4/ Since the U.S. Trade Act came into force, 60 investigations have been initiated under Section 201. Of these, 12 affected imports from any country, including several of those listed individually above.

Table 9. Japan: Geographical Composition of Foreign Direct Investment in Manufacturing by Sector

(In percent)

	Share in Total 1/							
	All countries		North America		Europe		Other areas 2/	
	1981	1988	1981	1988	1981	1988	1981	1988
Manufacturing sector	100.0	100.0	19.3	40.9	6.7	9.2	74.0	49.9
Food	4.7	4.3	1.7	2.0	0.3	0.3	2.7	2.0
Textiles	13.0	6.5	1.4	1.1	1.1	0.7	10.5	4.7
Wood and paper	6.0	4.1	2.6	2.6	--	--	3.4	1.5
Chemicals	20.9	14.6	1.9	4.2	0.8	1.0	18.2	9.4
Metals	20.8	17.5	3.0	4.6	1.2	0.8	16.6	12.1
Nonelectrical machinery	7.1	9.1	1.7	4.8	1.0	1.0	4.4	3.3
Electrical machinery	12.6	19.9	5.3	12.4	1.0	2.0	6.3	5.5
Transport equipment	7.8	15.7	0.7	6.2	0.5	2.2	6.6	7.3
Other	7.1	8.3	0.9	3.2	0.8	1.3	5.4	3.8
Memo item:								
Direct investment in manufacturing (in US$ billion)	12.6	36.0	2.4	14.7	0.8	3.3	9.4	18.0

Source: Ministry of Finance, Japan; and Japan Economic Institute.

1/ End-march of the year shown.
2/ Mainly Asia and, to a lesser extent, Latin America.

Table 10. Germany: Nominal and Effective
Protection in Industry

(In percent)

	Nominal Protection		Effective Protection		
	Tariffs	Tariffs & NTBs 1/	Tariffs & NTBs 1/	Subsidies	Total Effective Protection
Industry average	7.9	11.2	22.4	9.2	31.6
Standard deviation	(2.9)	(10.8)	(39.8)	(27.0)	(62.9)
Coefficient of variation	(0.4)	(1.0)	(1.8)	(2.9)	(2.0)
Of which:					
Coal	...	44.2	189.2	147.6	336.8
Iron and steel	6.4	20.0	43.1	14.9	58.0
Automobiles	10.3	10.3	9.9	1.0	10.9
Shipbuilding	2.7	2.7	-6.5	1.0	19.5
Aircraft	7.2	7.2	15.8	26.0	45.4
Electronics	7.0	7.0	6.0	29.6	9.6
Textiles	13.0	34.4	71.2	2.1	73.3
Clothing	15.3	44.7	120.0	2.9	122.9

Source: D. Witteler, (1987) "Tarifäre und nichttarfäre Handelshemmisse in der Bundesrepublik Deutschland-Ausmass und Ursache", Die Weltwirtschaft.

1/ Includes tariff equivalent of nontariff barriers.

Table 11. Rates of Growth and Market Shares for World Exports by Areas and Commodity Groups, 1973-86

(In percent)

Destination / Origin	Industrial Countries: Shares of Total Exports to Area			Industrial Countries: Compound Rate of Growth			Developing Countries: Shares of Total Exports to Area			Developing Countries: Compound Rate of Growth			World: Shares of Total Exports to Area			World: Compound Rate of Growth		
	1973	1981	1986	1973-81	1981-86	1973-86	1973	1981	1986	1973-81	1981-86	1973-86	1973	1981	1986	1973-81	1981-86	1973-86
Developing countries																		
Manufactures	6.8	9.9	11.6	19.0	13.2	16.8	10.4	14.4	15.1	26.7	-1.7	14.9	6.9	10.7	11.8	21.7	7.8	16.2
Primary products	39.5	51.0	35.9	21.1	-12.0	7.1	47.4	58.8	47.8	26.9	-8.6	11.8	39.4	50.6	37.7	22.3	-10.7	8.4
Oil	67.8	67.8	50.7	27.6	-17.5	7.9	87.6	85.8	...	32.8	...	...	68.5	69.1	...	28.7	...	...
Non-oil	26.9	25.4	25.5	8.6	2.2	6.1	31.5	29.9	...	16.9	...	...	27.4	27.0	...	11.5	...	...
Total exports	20.1	29.4	18.8	20.7	-5.3	10.0	21.7	29.6	25.7	26.8	-6.4	12.8	19.2	27.8	19.5	22.1	-5.4	10.7
Total non-oil exports	13.3	14.0	15.9	13.0	5.3	10.0	15.3	17.2	...	22.2	...	...	13.1	14.7	...	15.9	...	...
Industrial countries																		
Manufactures	90.3	86.6	86.1	12.9	9.5	11.6	81.0	78.6	76.6	21.1	-3.1	11.2	82.2	80.1	79.6	15.0	5.5	11.2
Primary products	48.9	39.2	56.1	14.1	1.4	9.0	41.2	30.4	38.9	18.9	-1.6	10.6	45.9	36.1	47.8	15.0	0.2	9.1
Oil	25.4	23.2	36.8	26.3	-4.2	13.6	8.3	8.1	...	32.7	-2.3	18.0	21.6	19.2	27.2	26.7	-4.0	13.9
Non-oil	59.3	63.4	69.7	10.4	4.0	7.9	54.2	54.2	...	17.6	-1.5	9.9	56.0	57.4	62.8	12.1	1.8	8.0
Total exports	73.2	64.2	77.2	13.3	7.5	11.0	66.7	61.1	64.0	20.6	-2.8	11.0	68.1	60.9	69.6	15.0	4.3	10.7
Total non-oil exports	80.1	80.6	82.9	12.4	8.5	10.9	72.4	72.7	...	20.4	-2.8	10.9	73.9	74.1	75.9	14.4	4.9	10.6
World																		
Manufactures	100.0	100.0	100.0	13.5	9.7	12.0	100.0	100.0	100.0	21.6	-2.7	11.6	100.0	100.0	100.0	15.4	5.6	11.5
Primary products	100.0	100.0	100.0	17.3	-5.7	7.9	100.0	100.0	100.0	23.6	-6.4	11.1	100.0	100.0	100.0	18.5	-2.1	8.7
Oil	100.0	100.0	100.0	27.7	-12.6	10.4	100.0	100.0	100.0	33.1	...	...	100.0	100.0	100.0	28.5	-10.5	11.8
Non-oil	100.0	100.0	100.0	9.4	2.0	6.5	100.0	100.0	100.0	17.6	...	...	100.0	100.0	100.0	11.7	...	7.0
Total exports	100.0	100.0	100.0	15.2	3.6	10.6	100.0	100.0	100.0	22.0	-3.7	11.4	100.0	100.0	100.0	16.6	1.5	10.6
Total non-oil exports	100.0	100.0	100.0	12.3	7.9	10.6	100.0	100.0	100.0	20.4	...	...	100.0	100.0	100.0	14.3	4.4	10.4

Source: General Agreement on Tariffs and Trade, International Trade, various issues, Geneva.

Table 12. Selected Developing Countries and Areas: Ratios of Imports and Exports to GDP, 1963-86 1/

(In percent)

	Imports					Exports				
	1963	1973	1981	1985	1986	1963	1973	1981	1985	1986
Oil exporting countries										
Kuwait	17.0	19.4	28.9	28.8	31.0	59.8	70.4	66.7	52.7	42.1
Nigeria	14.0	13.6	29.7	12.1	...	12.6	25.0	27.4	17.1	...
Oman	10.9 2/	24.0	33.3	33.6	34.6	4.5 2/	68.1	64.4	46.9	33.6
Saudi Arabia	16.6	18.0	22.9	24.9	23.6	53.1	71.3	73.7	33.3	28.5
Venezuela	12.9	16.5	19.7	16.6	18.6	24.4	28.7	30.3	25.3	19.4
Africa										
Burkina Faso	16.9	19.8	28.9	32.6	28.3	4.2	5.1	6.3	12.4	12.0
Burundi	7.9	10.2	16.3	16.4	15.7	8.4 3/	10.0	7.6	9.7	13.1
Côte d'Ivoire	21.4	27.8	24.5	21.7	17.4	29.0	33.7	28.9	39.2	34.2
Ghana	23.7	15.0	3.6	10.6	14.2	19.8	20.8	2.7	10.0	14.5
Kenya	25.7	27.3	30.5	25.0	23.8	22.0	21.6	17.5	16.7	17.6
Liberia	46.3	46.7	51.6	35.1	...	34.8	78.1	60.8	53.7	...
Malawi	21.0	31.5	27.7	23.9	20.1	16.3 2/	22.0	22.1	19.3	18.1
Mauritius	27.0	49.4	48.7	49.6	...	42.0	40.4	29.4	41.1	...
Morocco	19.1	18.8	29.6	32.4	25.8	16.4	15.0	16.1	18.2	16.6
Sierra Leone	27.4	32.3	27.9	20.8	34.1	26.5	26.9	12.0	17.1	32.9
Tunisia	21.4	24.4	45.6	33.1	32.7	12.1	15.2	30.2	20.5	20.0
Zaïre	15.4	26.5	12.5	26.8	25.5	18.0	34.3	12.0	32.2	32.2
Zambia	36.2	26.5	31.7	27.3	41.2	53.1	46.6	26.7	21.0	23.7
Asia										
Burma	14.7	4.8	6.3	4.3	3.8	16.9	4.7	8.1	5.0	3.8
Fiji	34.4	51.6	49.6	37.9	33.3	37.8	22.0	24.7	19.7	20.9
India	6.0	4.2	9.0	7.6	6.6	3.9	3.8	4.8	4.4	4.1
Korea	14.6	41.2	38.0	35.9	32.1	2.3	23.7	30.9	34.9	35.3
Malaysia	42.5	31.7	47.5	39.4	39.3	44.3	39.4	48.4	49.4	50.3
Philippines	13.5	16.9	21.9	16.6	17.0	12.8	17.7	14.6	13.9	15.4
Singapore	153.4	122.6	203.0	150.1	147.0	124.6	87.3	154.3	130.3	129.7
Thailand	18.8	19.5	27.6	24.1	22.0	14.2	14.9	19.5	18.6	21.0
Europe										
Hungary	...	34.4	40.3	39.7	40.4	...	38.3	38.4	39.7	38.6
Turkey	8.5	8.7	13.1	...	...	4.5	5.3	6.9	15.1	...
Yugoslavia	6.9	24.4	24.8	27.8	17.9	5.2	15.4	17.6	24.6	15.8
Middle East										
Egypt	23.6	9.9	36.6	20.4	21.1	13.5	12.1	13.5	7.6	5.4
Jordan	39.5	49.6	89.8	66.7	51.6	5.1	11.0	20.8	19.3	15.6
Pakistan	15.6	14.5	19.7	19.6	18.4	7.3	14.3	10.1	8.8	9.9
Syrian Arab Republic	22.6	23.5	29.7	19.6	18.7	10.9	13.5	12.4	7.7	5.3
Western Hemisphere										
Argentina	7.0	5.8	7.4	5.7	6.0	15.0	8.2	7.2	12.7	8.7
Barbados	64.6	68.9	61.9	50.0	44.1	45.6	21.7	21.0	28.9	20.6
Brazil	5.5	8.8	8.8	5.8	5.2	3.9	7.8	8.3	11.3	8.6
Chile	11.4	8.0	19.5	17.1	17.3	12.5	8.9	12.0	23.9	25.0
Colombia	10.5	10.3	14.3	18.7	11.2	8.0	9.9	8.1	10.2	14.8
Costa Rica	24.1	29.8	46.1	28.8	26.5	18.5	22.5	38.4	25.6	25.9
Dominican Republic	18.3	20.9	23.1	33.5	26.8	17.3	18.9	16.4	16.6	13.4
El Salvador	22.4	28.0	28.5	16.8	21.7	22.7	26.9	23.0	11.8	18.0
Guatemala	13.6	16.8	19.4	10.5	6.1	12.1	17.3	14.5	8.8	6.2
Honduras	23.2	27.7	35.9	25.6	23.4	20.3	27.6	28.7	22.0	22.9
Jamaica	28.8	35.8	49.5	55.2	39.6	25.8	20.6	32.7	27.0	24.5
Mexico	8.0	6.9	10.0	7.9	...	6.2	4.1	8.1	12.5	...
Panama	32.3	34.7	39.7	28.4	24.0	10.7	9.5	8.5	6.8	...
Paraguay	9.9	12.3	10.7	14.0	15.0	10.3	12.5	5.3	6.9	5.0
Peru	19.0	11.0	17.2	12.5	...	18.4	11.3	15.9	20.9	...

Source: International Monetary Fund, Data Fund.

1/ Some of the ratios shown are distorted by large fluctuations in the real exchange rates of the countries concerned. Calculations based on purchasing power parity would yield different results.

2/ 1964.

3/ Average 1962-64.

Table 13. Exports of Manufactures, Shares in Market Growth Rates by Area and Sector, 1973-85

	1973	1985	Increase	Share of Increase	Growth Rate
	(In millions of U.S. dollars)			(In percent)	
Total exports of manufactures					
World	347.50	1,190.75	843.25	100.0	10.8
Industrial countries	285.60	940.35	654.75	77.6	10.4
Developing countries	24.10	144.70	120.60	14.3	14.4
Clothing					
World	12.59	48.65	36.06	100.0	11.9
Industrial countries	6.92	21.20	14.28	39.6	9.8
Developing countries	3.82	21.05	17.23	47.8	15.3
Textiles					
World	23.35	54.55	31.20	100.0	7.3
Industrial countries	17.12	35.30	18.18	58.3	6.2
Developing countries	4.05	13.45	9.40	30.1	10.5
Other consumer goods					
World	24.26	91.25	66.99	100.0	11.7
Industrial countries	18.43	64.60	46.17	68.9	11.0
Developing countries	3.18	19.95	16.77	25.0	16.5
Other semimanufactures					
World	28.95	84.30	55.35	100.0	9.3
Industrial countries	23.31	67.60	44.29	80.0	9.3
Developing countries	3.39	12.20	8.81	15.9	11.3
Iron and steel					
World	28.46	69.20	40.74	100.0	7.7
Industrial countries	23.78	54.75	30.97	76.0	7.2
Developing countries	0.95	6.75	5.80	14.2	17.8
Chemicals					
World	41.87	163.05	121.18	100.0	12.0
Industrial countries	36.46	136.90	100.44	82.9	11.7
Developing countries	1.83	13.35	11.52	9.5	18.0
Engineering products					
World	187.97	679.75	491.78	100.0	11.3
Industrial countries	159.60	560.00	400.40	81.4	11.0
Developing countries	5.91	57.95	52.04	10.6	21.0

Source: GATT, International Trade, various issues, Geneva.

Table 14. Selected Ratios for Developing Countries' Imports, 1973-86

(In percent)

	1973	1981	1983	1985	1986
Developing countries' imports in relation to world imports by product					
Manufactures	19.0	29.0	25.9	21.4	19.3
Primary products	15.0	21.0	21.1	19.9	19.8
Oil	14.6	19.3	20.3	18.5	...
Non-oil	15.2	23.1	22.1	21.3	...
Total imports	18.0	25.8	24.4	21.2	19.8
Total non-oil imports	18.5	27.9	25.6	21.8	...
Shares of product categories in developing countries' imports					
Manufactures	63.7	62.3	62.2	62.7	65.7
Primary products	31.4	34.9	34.4	33.9	30.3
Oil	8.9	18.0	17.5	16.3	...
Non-oil	22.5	16.9	16.9	17.6	...
Total imports	100.0	100.0	100.0	100.0	100.0
Shares of suppliers in developing countries' imports					
Industrial countries	66.7	61.1	58.4	62.2	64.0
Developing countries	21.7	29.6	30.5	28.4	25.7
Other countries	11.6	9.3	11.1	9.4	10.3
Total	100.0	100.0	100.0	100.0	100.0

Source: GATT, International Trade, various issues, Geneva.

Table 15. Selected Developing Countries: Import Duties

(In percent)

	Import Duties/ Total Tax Revenue (1) 1/	Import Duties/ Total Imports (2) 1/	Statutory (3) 2/	Difference (3)-(2) (4)
Argentina	8.2	16.3	27.0	10.7
Barbados	17.7	7.7	17.0	9.3
Brazil	3.0	6.8	55.0	48.2
Colombia	14.9	11.4	38.0	26.6
Costa Rica	9.8	4.9	24.0	19.1
Cyprus	25.3	8.0	18.0	10.0
Ghana	16.5	16.8	30.0	13.2
Guyana	7.1	4.0	17.0	13.0
Korea	17.6	8.3	23.0	14.7
Mexico	5.5	9.4	30.0	20.6
Morocco	21.7	17.7	24.0	6.3
Nicaragua	15.9	9.3	22.0	12.7
Oman	5.1	1.9	3.0	1.1
Philippines	25.9	12.6	28.0	15.4
Singapore	9.0	0.9	...	...
Sri Lanka	21.1	10.3	29.0	18.7
Thailand	21.7	11.1	31.0	19.9
Tunisia	33.6	21.6	33.0	11.4
Venezuela	7.9	9.2	30.0	20.8
Zaire	21.7	33.2	31.0	-2.2
Average	15.5	11.1	25.5	14.4

Source: Columns (1) and (2), Ziba Farhadian-Lorie and Menachem Katz, "Fiscal Dimensions of Trade Policy," May 1988, IMF Working Paper (WP/88/43), p. 6; column (3), R. Ezram, H. Kuwahara, S. Marchese, and R. Vossenaar, UNCTAD Discussion Paper, No. 21, Annex II.

1/ Averages for 1978-84. Tax revenue data are derived from IMF, Government Finance Statistics and include revenue from the oil sector.

2/ Data relate to 1985.

Table 16. Sectoral Average Tariffs by Income Groups 1/

(In percent)

Sectors	GDP Per Capita: Less than US$ 500	US$ 500-1,000	US$ 1,001-1,500	US$ 1,501-5,000	More than US$ 5,000	All income groups
Food	70	42	54	35	2	30
Agricultural raw material	49	28	43	24	2	21
Mineral fuels	35	19	36	16	4	16
Ores & metals	45	24	40	20	2	19
Manufactures	72	45	57	37	3	32
Chemicals products	45	28	41	26	2	22
Other manufactures	96	59	72	46	4	41
Machinery & equipment	49	31	45	29	2	24
Others	49	33	49	31	2	26
Memorandum item:						
All sectors	66	41	54	34	3	30

Source: R. Erzan et. al.

1/ Countries in each group are weighted by import values. Data include tariffs and other import charges.

Table 17. Frequency of Nontariff Barriers by Sectors and Income Groups

(In percent)

Sectors	GDP Per Capita: Less than US$ 500	US$ 500-1,000	US$ 1,001-1,500	US$ 1,501-5,000	More than US$ 5,000	All income groups
Food	78	83	93	43	14	48
Agricultural raw material	65	78	81	34	1	37
Mineral fuels	85	78	85	41	1	42
Ores & metals	64	77	82	35	1	38
Iron, steel & NFM	65	76	84	40	1	40
Manufactures	69	76	81	35	6	39
Chemicals products	70	76	75	26	19	39
Other manufactures	74	77	85	40	2	36
Machinery & equipment	61	77	78	31	4	36
All sectors	70	77	83	36	6	40

Source: R. Erzan et. al.

1/ Countries in each group are weighted by import values. Data relate to percentage of tariff positions affected by NTBs excluding the effect of stacking (i.e., if a product is affected by more than one NTB it is only counted once).

Table 18. Developing Countries: Summary of Trade Measures, October 1985-April 1988

	Tariffs			NTBs			
	Up	Down	Mixed	Tightened	Liberalized	Mixed	Memo 1/
Argentina	X				X		
Bangladesh	X		X		X		
Brazil		X		X			
Chile	X				X		
China			X	X			
Colombia					X		
Côte d'Ivoire	X						
Egypt		X			X		C
Gabon				X			
Ghana					X		
India			X		X		
Indonesia			X		X		S, C
Kenya			X				
Korea		X			X		
Malaysia		X					
Mexico		X				X	S, C
Morocco		X			X		
Nigeria			X		X		C
Pakistan			X		X		
Peru		X		X			
Philippines			X		X		S
Sri Lanka					X		
Taiwan Prov. of China		X			X		
Thailand		X			X		
Singapore		X					
Tunisia		X		X			
Turkey			X		X		
Uruguay		X					C
Yugoslavia				X			
Zaire			X				C
Zambia					X		
Total	3	12	10	6	18		...

Source: GATT, Developments in the Trading System, various issues.

1/ C = Comprehensive Tariff reform.
S = Substitution of quantitative restrictions with tariffs.

Table 19. OECD Preference-Giving Countries' Imports from GSP Beneficiary Countries, 1972-86 1/

(In billions of U.S. dollars)

	Total Imports	Total Dutiable	Covered by GSP	Accorded GSP Treatment
1972	35.0	15.9	4.3	1.0
1973	43.2	24.0	6.6	2.2
1974	102.1	44.6	12.4	4.2
1975	100.7	43.9	12.0	4.5
1976	146.4	74.0	23.7	10.2
1977	160.7	82.4	26.8	12.4
1978	167.4	89.5	33.5	15.0
1979	224.5	124.0	42.4	20.3
1980	308.8	178.7	55.4	25.4
1981	314.4	179.4	54.2	26.5
1982	295.0	179.1	54.7	26.6
1983	275.4	177.5	56.7	27.9
1984	281.4	187.7	69.6	34.0
1985	284.1	189.1	73.2	35.6
1986 2/	269.0	179.0	81.6	35.9

Source: OECD, "OECD Imports from GSP Beneficiaries in 1986," March 30, 1988 (TC/WP(88)24).

1/ The figures in this table represent totals for those OECD preference-giving countries which were operating GSP schemes in each year. The following countries are included beginning in the years indicated: 1972: EEC, Austria, Finland, Japan, Norway, Sweden, Switzerland, United Kingdom; 1975: Australia, Canada; 1976: New Zealand, United States.

2/ Preliminary.

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

I. Introduction and Summary

The European Communities (EC) were established by the Treaty of Paris (1951) and the Treaties of Rome (1957). 1/ The original six EC members 2/ were later joined by the United Kingdom, Ireland, and Denmark in 1973, Greece in 1981, and Spain and Portugal in 1986. Excluding intra-area trade, the EC now accounts for almost one fifth of world exports and nearly as much of world imports. Its weight in world trade is thus somewhat less than that of the United States and Japan taken together (Table 20).

The institutional structure of the Community, organized along the lines of a national administration, consists of the EC Commission, the Council of Ministers, the European Parliament, and the European Court of Justice, which constitute the administrative, legislative, and judicial branches of the EC. The Commission implements Community policy, enforces EC treaties, and proposes legislation to the Council. The Council, which is primarily a forum for national interests, is the final decision-making body. The Presidency of the Council of Ministers rotates among EC member countries on a semiannual basis. The European Parliament, elected by popular vote, has advisory powers under which it delivers to the Council nonbinding opinions on Commission proposals and has supervisory powers over the Commission. The Parliament is also responsible for final approval of the EC budget. The budget finances the EC's Common Agricultural Policy as well as EC regional and social programs using revenues from the common external tariff and part of value added taxes collected by Community members. More recently the Parliament has acquired the power to reject or amend Council decisions pertaining to the unification of the EC market under the Single European Act. The Court of Justice interprets and applies EC treaties and enforces Community law. Each member state of the EC and also the European Economic Community (EEC) as a separate entity are members of GATT. Within GATT they are represented by the Commission.

The EEC Treaty which took effect on January 1, 1958 provided for the elimination of trade barriers within the Community and the establishment of a common external tariff against the rest of the world. Besides establishing a customs union, the treaty provided for a common market permitting the free movement of capital and labor within the

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

2/ Belgium, France, Germany, Italy, Luxembourg, and the Netherlands.

Community. Customs duties and quantitative restrictions on intra-area trade were progressively reduced and were eliminated in July 1968, one and a half years ahead of schedule. This contributed to an increase in intra-area trade from 38 percent of total EC trade in 1960 to 58 percent in 1987, most of which occurred between 1960 and 1970 (Table 21). However, progress in liberalizing factor movements within the Community has been somewhat slower.

In addition to establishing a common market, the EEC Treaty provided for a common agricultural policy (CAP). 1/ This was viewed as an essential step toward freeing intra-area trade in agriculture given the diversity of existing support schemes in the six original EC member countries and the perceived need to protect the agricultural sector. The CAP aimed to maintain a fair standard of living for farmers, reasonable prices for consumers, and to stabilize markets. These objectives have increasingly proved conflicting. Agricultural support has been provided at a high cost to consumers, taxpayers, and non-agricultural producers in the EC, and together with policies of other major industrial countries, has had adverse effects on efficient agricultural exporters (Section II.2).

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

Industrial policies in the EC are regulated through the EC Treaties' provisions on competition. 2/ These include the EEC Treaty provisions on state aids and the ECSC Treaty provisions on the coal and steel sectors, whose purpose is to limit state aids and business practices that restrict competition within the Community. To the extent that state aids are permitted these may substitute for tariff protection within the Community; they also may substitute for border measures in providing protection against non-EC members. The Commission has

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1/ The effects of the CAP were discussed in "The Common Agricultural Policy of the European Community--Principles and Consequences," DM/88/1. See also "Agricultural Trade Policies," Annex II.

2/ This Annex covers trade-related aspects of Community-wide regulations on industrial policies and their implementation.

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

The EC has concluded preferential arrangements with other countries and groups of countries. These include free trade agreements with each of the European Free Trade Association (EFTA) countries; 1/ and cooperation and association agreements with a number of Mediterranean countries. Discussions are under way to increase cooperation with the Gulf Cooperation Council (GCC). In addition, the EC provides nonreciprocal tariff preferences to a number of African, Caribbean, and Pacific (ACP) countries and to all developing countries under the Community's Generalized System of Preferences (GSP) scheme. Preferences granted under bilateral agreements have given rise to complaints by developing countries that do not benefit from them (Section IV).

Beyond the EEC Treaty provisions on free mobility of goods, services, and factors of production within the Community, EC Heads of State agreed in the Hague in December 1969 to establish progressively a monetary union. This has so far proved unfeasible for economic and political reasons. Monetary integration requires coordination of monetary policies as well as a high degree of mobility of goods and factors of production. 2/ However, a significant institutional development toward monetary integration was the establishment of the European Monetary System (EMS) in March 1979. The objective was to create a "zone of monetary stability in Europe" through a system of fixed but adjustable exchange rates among EC members. Although all EC countries have signed the EMS agreement, only eight actively participate in the exchange rate mechanism of the EMS. 3/ While there have been several currency realignments since its inception in 1979, the EMS is generally considered successful in promoting convergence of economic policies and developments in member countries. 4/ More recently, proposals for progress toward the establishment of a European central bank and the adoption of a common EC currency have been advanced by France and were included on the agenda of the European summit in Hannover in June 1988. A high level committee established by the summit is to make recommendations in June 1989 on further concrete measures to accelerate the process of monetary integration. Impetus to the discussions on monetary unification has been provided by the ongoing efforts to further integrate the Community's market.

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

2/ See R.A. Mundell (1961) "The Theory of Optimum Currency Areas," American Economic Review, Vol. 51.

3/ Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, and the Netherlands.

4/ See H. Ungerer, O. Evans, T. Mayer, and P. Young (1986), "European Monetary System: Recent Developments," IMF Occasional Paper No. 48.

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

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

II. Trade Policies

1. Common external tariff

The Community's common external tariff was introduced in 1968 and lowered during the subsequent Tokyo Round of multilateral trade negotiations. Post-Tokyo Round MFN tariff rates for major products are set out in Table 22 for the EC, the United States, and Japan. At 7.8 percent, the unweighted average EC tariff rate is above the U.S. average but below Japan's average, which is raised by Japan's high average tariff on food products. Tariff peaks are less important in the EC than in the United States or Japan, as indicated by the coefficient of variation of EC tariff rates. However, tariff escalation 1/ is quite marked in the EC, as in other industrial countries, as indicated by the

1/ Tariff escalation refers to higher tariffs on products at a higher stage of processing.

lower tariffs on raw materials, fuels and metals compared with manufactured products.

The EC's applied tariff rates on imports of industrial products are lower than the GATT bound rates. 1/ By contrast, applied tariffs are equal to bound rates on agricultural products. Exceptions to the EC's common external tariffs are made for imports entering under the EC's Generalized System of Preference (GSP) scheme and under the preferential trade agreements that the EC has negotiated with other countries or country groups.

2. Common Agricultural Policy

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

The support mechanism covers about 90 percent of EC agricultural production and varies somewhat among agricultural products. For most agricultural products support takes the form of "target" prices which are the upper end of the range within which prices are permitted to fluctuate. At the lower end of this range is the "intervention" price at which specialized public entities are obliged to buy any quantities offered to them. Intervention prices exceed world prices by considerable margins in most cases. Protection against imports is provided through variable levies set at a level that equalizes import prices to a reference price 2/ set around the middle of the range between target and intervention prices. On the export side, variable subsidies, referred to as "restitutions," are provided to exporters to offset the difference between EC and world market prices. The variability of import levies and export subsidies insulates the EC farm sector from exchange rate movements between EC currencies and those of competing suppliers. Exchange rate movements among EC currencies are similarly offset through Monetary Compensation Amounts (MCAs), which serve as import taxes and export subsidies for countries that revalue their currencies and vice versa for countries that devalue. 3/ These amounts are being progressively phased out.

A number of recent studies have concluded that agricultural support in a number of countries, including the operations of the CAP, have

1/ Tariff bindings are commitments undertaken in GATT to set upper limits on tariff rates.
2/ Often referred to as "threshold" price.
3/ MCAs were introduced to ensure the equality of agricultural prices expressed in ECU within the Community.

depressed world prices by encouraging surplus production. 1/ This effect is exacerbated by subsidized exports of surplus production to third countries. Agricultural protection in the Community has given rise to a number of trade disputes with the United States, which relies more heavily on acreage limitation incentives as a means of support. The EC has been the main target of the U.S. Export Enhancement Program (EEP) which provides subsidies to U.S. exporters to enable them to compete with heavily subsidized foreign exporters. This, in turn, has further depressed world prices of agricultural products.

The CAP also imposes heavy costs on taxpayers and consumers within the EC and has adverse effects on the overall macroeconomic performance of member countries. 2/ The budgetary cost of the CAP is borne by both the EC and national budgets. 3/ The rising budgetary cost of the CAP, which amounts to some US$35 billion annually and accounts for two thirds of EC budget expenditures, resulted in efforts to reform it in recent years. Past reform efforts have mainly taken the form of limits on entitlement to support, production quotas, and price restraints. Measures agreed in February 1988 also included a land set-aside scheme and limits on spending from the EC budget on price support. 4/ However, barriers to access remain largely intact.

3. Quantitative restrictions

The EC and its individual members maintain quantitative restrictions on imports of a number of industrial and agricultural products from selected third countries. These include quotas on textiles and clothing under the Multifibre Arrangement (MFA), national "residual" restrictions which predate the EC (see below) and voluntary export restraints (VERs). 5/ Preliminary data indicate that the EC accounted for 137 of 253 known VERs, excluding quotas concluded under the MFA, as of end-May 1988 (Tables 23 and 24). Between September 1987 and May 1988 the number of VERs doubled in the EC, compared with a 74 percent increase in the rest of the world. These restrictions are increasingly directed against exports of developing countries. VERs applying to developing country exports rose to nearly one half of the total in May 1988 from one third in September 1987. Trade with state trading countries is governed by separate, more restrictive, EC regulations that permit the maintenance of national quotas.

1/ See "Agricultural Trade Policies," Annex II.

2/ See "Agricultural Trade Policies," Annex II.

3/ Spending on agricultural support through the national budget is three times higher than spending through the EC budget in some EC countries.

4/ See "European Community--The Brussels Accord," SM/88/60 (3/10/88).

5/ VERs include bilateral quotas, unilateral monitoring, and minimum price undertakings. These measures are applied on a discriminatory basis and are referred to as "gray-area" measures because their conformity with GATT is unclear.

The quantitative import restrictions maintained by the EC fall under three broad categories: EC-wide restrictions, national restrictions recognized by the EC, and industry-to-industry export restraint arrangements which do not involve member governments and are not recognized by the EC.

EC-wide restrictions include those concluded under the MFA as well as a number of VERs. Import quotas negotiated under the MFA by the EC Commission are split into subquotas applying to individual member countries. As of May 1988, the EC had concluded 20 bilateral agreements on textiles and clothing under MFA IV. VERs are maintained on imports of steel, textiles, clothing, agricultural and food products, machine tools, automobiles, and electronic products. With one exception (footwear), these are government-to-government arrangements. Imports of steel are governed by bilateral quotas or minimum prices which, if not observed, can lead to dumping actions against foreign suppliers; these restrictions apply to a wide range of exporting countries including Japan and other industrial countries, newly industrializing economies and state trading countries. Outside of the MFA, the EC has 18 additional bilateral agreements on textiles and clothing; these include bilateral agreements with Turkey under the safeguard provisions of Turkey's Association Agreement with the EC and agreements with Egypt, Morocco, Tunisia, Yugoslavia, Bulgaria, Iran, and a number of Latin American countries.

National restrictions include VERs and other gray-area measures as well as "residual" restrictions. VERs apply mainly on imports of automobiles and transport equipment, electronics, and footwear, and take the form either of government-to-government or industry-to-industry agreements. Most of these restrictions protect the markets of France, Italy, and the United Kingdom. Imports of automobiles from Japan are restricted in France, Italy, Portugal, Spain, and the United Kingdom. 1/

The so-called residual restrictions remained in place after most quantitative restrictions were lifted in the first 15 postwar years. In 1955, the GATT adopted a decision known as the "hard core waiver," which permitted certain restrictions to be maintained for a specified time period. The residual restrictions remaining in place, after the waivers issued under the GATT's 1955 decision lapsed, are incompatible with the provisions of Article XI, which calls for the general elimination of

1/ The restrictions by France and the United Kingdom are industry-to-industry agreements and are not approved by the Commission. The restriction by Italy is approved by the Commission. It originated from a reciprocal self restraint arrangement concluded in the 1950s and was initially intended to protect the Japanese market against imports of Italian cars. The restrictions limit imports to 3,425 units (Italy), 3 percent of estimated domestic demand (France), and 11 percent of estimated U.K. sales (United Kingdom).

quantitative restrictions. 1/ The EC has offered to abolish some of these residual restrictions, which constitute only a small proportion of national restrictions maintained by EC members, as part of its rollback commitment in the Uruguay Round.

4. Enforcement of quantitative restrictions

EC-wide restrictions are enforced through import licensing procedures which are applied at the Community level (see below). National restrictions on imports of goods from third countries that are in free circulation within the Community are enforced through Article 115 of the EEC Treaty or, in cases when restrictions are not officially recognized by the EC, through national import licensing or standards and certification procedures.

Article 115 empowers the Commission to authorize a member country to apply protective measures against imports from third countries in cases where such imports threaten the domestic production of the item concerned. An Article 115 authorization temporarily restricts free circulation of goods within the Community and prevents circumvention of national restrictions through imports from other member countries. Most of the existing Article 115 authorizations relate to imports of textiles and clothing under the MFA (Table 25). Article 115 authorizations have also been granted for imports of automobiles, footwear, and other industrial products as well as for agricultural products. Industry-to-industry restrictions on automobiles (e.g., France and the United Kingdom) are not approved by the Commission and consequently are not covered by Article 115. In principle, it would be possible to bypass the French restriction by importing Japanese automobiles from other EC members. In practice, this is prevented by national automobile standards and certification procedures, which are scheduled to be eliminated by 1992.

The criteria for granting Article 115 authorizations were tightened in 1974 and 1979. The trend since 1979 has been in the direction of further tightening. Although the percentage of Article 115 authorizations granted to the total requested has increased, the number of requests has been halved over the period 1980-87. In assessing members' requests, the Commission takes into consideration the evolution of total EC imports of the item concerned relative to the individual member's imports, past patterns of intra-EC trade, as well as the profit position and employment situation of the industry. In principle, recourse to Article 115 would no longer be possible after internal borders disappear upon the completion of the internal market in 1992. This would have implications for the nature of bilateral agreements under the MFA, if it were to be renewed after its expiration in 1991. These implications are being reviewed by the Commission to ascertain the feasibility of replacing national restrictions with EC-wide restrictions.

1/ Other major industrial countries also maintain residual restrictions.

5. Import licensing 1/

Import licensing procedures are applied at the Community level as well by some individual members for import control purposes. 2/ At the Community level licenses are required for imports of industrial or agricultural products that are subject to quantitative restrictions or monitoring. Separate regulations apply for imports of products originating in state trading countries and for textile imports from third countries. Automatic licensing is granted to imports that are subject to surveillance. Surveillance is often, but not always, the precursor to restrictions as was the case with EC-wide restrictions on Japanese automobiles. Imports subject to quotas require prior authorization which is provided under nonautomatic licensing procedures. For products subject to export restraint arrangements, an import authorization is granted on the basis of the export permit issued by the exporting country. The Commission is authorized to require licenses for imports that cause or threaten to cause injury to Community producers or when "critical circumstances" make immediate action necessary. Licensing requirements, necessary to implement safeguard measures taken under Article XIX of GATT, are subject to EC Council confirmation.

EC-wide quotas are allocated among member countries on the basis of agreed shares. Member countries grant import authorizations within the limit of their quota shares. To ensure that licenses issued are actually used, each member country must notify the Commission on a monthly basis the amount of import authorizations and actual imports in the preceding month. Based on this information, the allocation of the quota among member countries may be modified.

6. Other trade instruments

The EC is a signatory to all codes and agreements adopted during previous multilateral trade negotiations. These include codes dealing with import licensing (discussed above); government procurement; technical barriers to trade; trade in civil aircraft (see Annex III); subsidies and countervailing duties; antidumping duties; customs valuation; and dairy and beef products.

As in other major industrial countries, government procurement policies and technical barriers protect the EC market from outside competition. It is difficult to gauge the importance of these barriers compared with tariffs, nontariff border measures, and subsidies. It is instructive, however, that the reduction and or removal of such barriers

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1/ The EC is a signatory to the Tokyo Round Code on Import Licensing.
2/ Licensing systems applied by individual members of the EC are described in the IMF Annual Report of Exchange Arrangements and Exchange Restrictions (forthcoming).

among EC members as part of the process to integrate the internal market is expected to result in significant benefits for the Community (see Section V.3).

EC policies dealing with subsidies, dumping, and other unfair trade practices play an important role in its trade relations with other countries. This legislation includes definitions of subsidies and dumping, and outlines the procedures governing the Commission's investigations. The definition of dumping under EC procedures is based on the price prevailing in the exporters' domestic market. If this price is not considered representative of costs because of market imperfections, the antidumping investigation is based on estimated costs of production which assume average cost pricing and may be subject to a considerable margin of error. In line with GATT provisions, the imposition of antidumping or countervailing duties requires a positive finding of injury.

In 1984, new regulations governing subsidies and dumping came into effect which broadened and sharpened the scope of existing rules. In 1986, the EC extended the concept of "unfair" trade practices to a service industry (shipping), which is not covered by GATT rules. The legislation allows the Commission to take offsetting measures against countries or shipping lines practicing predatory pricing. In June 1987, the concept of antidumping was extended to so-called "screwdriver" plants established by non-EC producers in the EC. The legislation aimed to prevent circumvention of antidumping duties on finished products and allows duties to be imposed on products assembled in the Community if certain conditions are met. First, the screwdriver operation must be closely related to the firm on which dumping duties have been imposed and must have been established, or have substantially increased its operations, following the imposition of antidumping duties on the finished product. Second, components imported from the country against which the initial antidumping duty was levied have to amount to at least 60 percent of the price of the finished product. (This means that to avoid an antidumping duty at least 40 percent of the finished product must be produced locally or in a third country.) The EC justified the new legislation on the grounds that any action undertaken to enforce antidumping duties on the finished products, imposed on the basis of GATT Article XX, was legitimate. The alternative action of initiating antidumping investigations on each of the imported components involved was considered impractical because of the large number of components involved. Japan, which is affected by the legislation, has questioned its conformity with GATT rules.

In 1984, the EC also adopted the New Commercial Policy Instrument (NCPI), intended to counter "unfair" trade practices abroad. This is analogous to Section 301 of the U.S. Trade Act of 1974. "Unfair" practices are defined as any measures incompatible with generally accepted practices or with international codes or rules agreed multilaterally in GATT, the OECD or other international institutions and agreements. This applies to situations where an EC member believes that its access to the markets of another country may have been unfairly reduced as a result of trade practices that the importing country considers not inconsistent with GATT rules. Complaints may be presented to the Commission by member countries or by an association representing an industry throughout the Community. In the event of a positive determination, the Commission must decide on actions to be taken in defending the Community's interests. No actions were undertaken on the three cases that have been investigated under this legislation.

The EC has initiated very few countervailing investigations, in part because its antidumping provisions are easier to invoke and also because imports of some products that are subsidized directly in other countries, such as, steel and agricultural products, are subject to EC or national quantitative restrictions, or to pricing disciplines. 1/ Frequent use is made of its antidumping legislation. Antidumping investigations tended to decline in the first half of the 1980s when the U.S. dollar appreciated, but have recently increased. The number of antidumping investigations declined from 39 in 1984 to 36 in 1985 and to 24 in 1986, but rose to 34 in 1987. 2/ Out of a total of 68 antidumping investigations underway in 1986, four ended with the imposition of definitive duties, 25 were concluded with price undertakings by the exporters, and the remaining ended without penalties being imposed. In 1987, four countervailing duties and 15 antidumping duties were imposed on a number of products from several exporting countries including steel, chemicals, and electronics. Most of them affected exports of developing and state-trading countries. 3/

An investigation was launched under new shipping legislation in November 1987 against a Korean shipping line on the rates charged on cargo lines between the Community and Australia. The Commission is in the process of investigating the complaint, initiated by the EC Association of Shipowners, and has invited information and comments from interested parties. EC exporters have opposed measures against Korea on the grounds that the low rates charged by the Korean shipping line permit them to be competitive on the Australian market.

Out of a total of four investigations opened under the new legislation on "screwdriver" operations, three have been completed. Two of these have resulted in antidumping duties and one was dismissed because the 60 percent import content requirement was not reached. All the investigations were directed against Japanese manufacturers and involved electronic typewriters, weighing scales, photocopiers, and construction equipment.

1/ The definition of subsidies in the EC's countervailing legislation is based on the existence of a direct financial contribution by governments, in contrast to the U.S. legislation which is based on a broader definition. See Annex I.

2/ GATT.

3/ IMF, Annual Report on Exchange Arrangements and Exchange Restrictions (forthcoming). The report includes for the first time an Annex of restrictive measures taken by the EC in 1987.

III. Trade-Related Aspects of Industrial Policies

Industrial policies in the EC are regulated through the EEC Treaty's provisions on competition and the ECSC Treaty which established the European Coal and Steel Community. 1/ These provisions regulate the provision of state aids and thus have a bearing on the extent to which such aid may distort trade. In some cases state aids are permitted in a form which essentially insulates certain sectors from developments in world markets, including exchange rate changes.

1. Regulation of state aids

The EEC Treaty's provisions on state aids are contained in Articles 77 and 90 to 94. In principle, state aids are prohibited by Article 92(1) insofar as they distort competition and affect intra-Community trade. The Treaty includes statutory exceptions and, in addition, the Commission has discretionary power under Article 92(3) to grant exemptions for state aid that meets specific criteria. Exemptions are granted with respect to the following:

a. Regional development aid to benefit the relatively poorer regions of the Community: Greece, Portugal, Ireland, Northern Ireland, Italy's Mezzogiorno, and several regions of Spain. The Community contributes to the financing of regional aid through the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The objective of these funds is to help correct the most serious regional imbalances in the Community and contribute to the restructuring of declining industrial areas.

b. Aid to develop economic activities or areas where the degree of distortion in trade and production within the EC would not be substantial. These aids relate mainly to regional programs in higher income countries (e.g., Germany) and could include R and D expenditure.

c. Schemes in the common European interest. This applies to projects with high start-up costs, including R and D costs, which may be financed jointly by some member countries (e.g., Airbus). 2/

1/ Competition policy also covers restrictive business practices. Thus it aims at striking a balance between market forces and selective intervention by public authorities. The objective is to ensure that (a) resources are channeled to industries which contribute to growth and competitiveness, (b) state intervention does not permit a company or sector to gain an unfair advantage over its competitors in other member countries, (c) dominant positions arising from monopoly power are not abused, and (d) state aid policy is consistent with other policies, such as, regional and R and D policies.

2/ The Airbus Consortium is also affected by the GATT Code on Trade in Civil Aircraft. The dispute on the financing of aircraft construction between the United States and the EC is covered in Annexes I and III.

Article 93(3) requires EC member governments to give prior notification to the Commission of all financial assistance. The Commission determines whether individual state aids fall within its jurisdiction under Article 93 and reviews its consistency with EC regulations. 1/ Based on its review, the Commission may approve proposed state aids, recommend modifications, or forbid them. The Commission's decision may be appealed to the European Court of Justice by any of the interested parties. Alternatively, the Council of Ministers can, by unanimous vote, overturn the Commission's decision; the latter occurs in exceptional cases usually involving agricultural products. The Commission also has authority under Article 93(1) to review existing state aids for their continued consistency with EC rules, including schemes maintained by new members. In principle, competition laws apply to new members immediately on accession. In the case of Spain, however, special treatment was accorded to the steel sector, for which state aids that were inconsistent with EC rules were permitted during a transition period.

2. State aids to steel, coal, and shipbuilding

State aids to steel and coal are governed by Articles 4, 54 and 95 of the ECSC Treaty. The Treaty also allows the Commission to impose controls on production and prices, and is stricter than the EEC Treaty insofar as it provides for the suspension of all subsidies at the end of a transition period. 2/ Article 95 does, however, provide for "appropriate amendments" in case of unforeseen difficulties after the end of the transition period. The code on state aids to steel, adopted in 1980, called for the termination of operating subsidies by the end of 1984 and most other aids by the end of 1985. Although state aids to steel are permitted only in connection with restructuring leading to capacity reductions, operating subsidies apparently continue to be provided to the steel sector and in some other member countries.

The Commission is less active in regulating state aids to the coal sector, partly because not all member states have coal mining industries and the likelihood of distortions in trade and production within the EC is consequently lower. 3/ Prices in EC countries are maintained above world prices. Even so there are many loss-making enterprises that are kept in operation with subsidies that would be incompatible with the rules for steel or shipbuilding. Under the ECSC Treaty, aid to the coal sector is subject to the Commission's approval, which is granted provided the proposed aid does not distort the internal market for coal. In addition, the proposed aid must meet certain criteria, set out

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1/ The reporting requirements on state aids cover areas exceeding the jurisdiction of the Commission.

2/ Remaining production quotas and guide prices applicable to steel were lifted following an EC Council decision in June 1988 (see Annex III).

3/ Belgium, France, Germany, Portugal, Spain, and the United Kingdom have coal mining industries.

in a Commission decision of July 1986. The aid must (i) strengthen the competitiveness of the coal industry, including by improving security of national supply; (ii) create new capacity only if commercially viable; or (iii) address regional and social problems arising from pit closures.

The Commission interprets the lack of internal cross-border trade as evidence that operating subsidies are not being used to lower prices artificially to an extent that distorts intra-EC trade, and therefore allows operating subsidies under criteria (i) and (iii). It does not however allow aid to be granted to such an extent that it amounts to indirect support to industrial users of coal, such as, the steel industry. Aid to new capacity is allowed up to 50 percent of investment costs, but subject to case-by-case review by the Commission which must satisfy itself that the new installation will be economically viable.

Under these guidelines the Commission allows Germany to cover the difference between world prices and those paid by the German iron and steel industry for domestic coal and coke. 1/ It also has approved of an arrangement whereby the extra costs of burning German coal in power plants is passed on to consumers by raising electricity prices. This aid is justified by the German authorities to prevent "premature" pit closures that contribute to social and regional problems related to developments in the coal industry. This argument, which would not be acceptable to the Commission in the case of steel or shipbuilding subsidies, is also used to justify operating aid provided by Belgium, France, and the United Kingdom.

Aids to shipbuilding are governed by a decision under Article 92(3)d of the EEC Treaty whereby the Commission may recommend to the Council that a particular sector be exempted from normal rules. 2/ The Community's Directive on aid to shipbuilding, adopted in early 1987, limits operating subsidies to 28 percent of the contract value. This limitation is intended to promote production in the most viable shipyards, by preventing a heavy concentration of state aids to the least competitive yards. The 28 percent limit is subject to annual review and is expected to fall over time as shipyards become more competitive. However, the limit does not apply to exports to developing countries financed by soft loans and grants, nor does it cover export credit subsidies, which are governed by the OECD Consensus Arrangement. 3/ State aids may also be provided in support of restructuring plans that reduce capacity and in connection with payments to redundant workers. The state aids must be commensurate with the restructuring effort involved.

1/ Last January, the Comission approved a package of subsidies to the German coal sector amounting to DM 4.2 billion in 1988.

2/ The EC provides information to the OECD (WP6) that is used to monitor developments in shipbuilding.

3/ The margin of interest rate subsidy below that permitted in the Consensus Agreement does count against the ceiling.

3. Difficulties in enforcing EC rules on state aids

EC rules on state aids have not been enforced strictly because (i) member states do not fully comply with notification requirements to the Commission; (ii) state aids to specific sectors are sometimes provided under the guise of regional or social policy; and (iii) state ownership of enterprises in a number of member countries complicates the implementation of competition policy. Concerning state ownership, EC rules require governments to follow the same behavior as commercial investors in injecting additional equity into state-owned enterprises. Since it is not always clear how commercial investors might act, the Commission has encountered difficulties in assessing the compliance of equity contributions with EC rules 1/. Similar difficulties have arisen in connection with aids aimed at particular sectors but provided by member governments under the guise of regional or social aids. Such aids may, in some cases, be more than necessary to overcome locational or other disadvantages and may therefore provide an artificial competitive advantage.

4. Surveillance over state aids

Surveillance over state aids by the Commission has been tightened since 1985, when the White Paper containing proposals for completing the EC internal market was approved by the European Council. This reflected the recognition by both Community and national administrations of the need to effectively enforce competition policy, to ensure that the removal of internal nontariff barriers is not substituted by other devices limiting competition. Acceptance of this principle by member governments was facilitated by budgetary considerations, pressures from some members for greater control over other members' activities, the fact that industry-specific subsidies are more likely to be countervailable, and a growing recognition that state aids are neither an efficient nor effective method of encouraging structural adjustment.

Developments in surveillance over state aids occurred in three main areas since 1985. First, the effectiveness of surveillance was enhanced through a tightening of the procedures applied in cases of non-notified aids. Article 93(2) procedures, providing for the termination of state aids incompatible with EC rules, are now automatically opened in cases where member states do not respond to a request for notification within a limited time period. Moreover, the Commission now systematically demands that non-notified state aids that are illegal either on

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1/ Recent examples involve Renault (France) and Rover (the United Kingdom). The case of Renault also involved loan writeoffs of F 12 billion, which were sanctioned by the Commission provided no further aid is granted, its restructuring program is fully implemented, and its status changed from a state agency (Régie), whose debts are guaranteed by the Government, to a normal commercial company.

substantive or procedural grounds be reimbursed. 1/ Demands for reimbursement increased from ECU 11 million in 1986 to ECU 747 million in 1987, and major investigations were initiated in 1988 involving France (automobile and steel industries), the United Kingdom (automobiles), and Italy (steel). However, in some of these cases, governments have proved to have more power than the Commission.

Second, the transparency of EC procedures has increased through the publication in the EC official journal of all decisions on state aids issued by the Commission, whether positive or negative, to encourage the intervention of interested third parties.

Third, information on the level and type of state aids is to be improved. An internal task force has been formed to survey state aids in the Community. A preliminary draft was recently discussed by member governments, to be later published in a White Paper on EC state aids. The published information may be aggregated across sectors or member countries and expressed as percentages of GDP to avoid possible application of countervailing duties by other countries.

IV. Preferential Agreements with Other Countries

Aside from its GSP scheme, the EC has concluded a number of preferential trade agreements with other countries and country groups. These agreements provide for preferential access to the EC market in exchange for tariff and nontariff concessions on products of interest to the EC. These include a free trade agreement with the EFTA countries, association or cooperation agreements with a number of Mediterranean countries, and preferential access to the EC market on a nonreciprocal basis to 66 African, Caribbean, and Pacific (ACP) countries.

Three factors provided the impetus for these bilateral trade agreements. First, with the departure of Denmark and the United Kingdom from EFTA to join the EC, existing EC members extended duty free treatment to the remaining EFTA countries. Second, the Mediterranean countries that conduct a large part of their trade with the EC had a clear incentive to get inside the EC's common external tariff, especially in view of the fact that a number of their competitors in the Mediterranean area (Greece, Portugal, and Spain) have recently joined the Community. Third, the preferences granted by Belgium, France, and the United Kingdom to their former colonies in Africa, the Caribbean, and the Pacific were extended to the entire Community.

Some contracting parties have questioned the consistency of these agreements with GATT Article XXIV which stipulates that the most-favored-nations (MFN) of GATT should not prevent the formation of

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1/ Article 93(2) permits the Commission to refer the matter directly to the European Court of Justice in the event the aids are not rolled back within the prescribed time period.

customs unions and free trade areas subject to certain requirements. These include their formation "within a reasonable period of time" and their coverage of "substantially all trade" among the partner countries. For their part, the EC and the other signatories of the agreements have argued that these agreements were fully consistent with Article XXIV and that in addition, when concluded with developing countries, they were covered by Part IV of the General Agreement and by the Tokyo Round decision of November 28, 1979 on differential and more favorable treatment, reciprocity and further participation of developing countries (the so-called enabling clause). The competent GATT working parties have taken note of these opposed views and have not ruled on the issue of the consistency of the agreements at stake with relevant provisions of the General Agreement and of the Tokyo Round agreements.

1. EFTA agreements

The free trade agreements between the EC and each of the EFTA countries were signed in 1972 and cover trade in industrial and processed agricultural products. 1/ Trade in unprocessed agricultural products remains highly restricted. Since the conclusion of the free trade agreement, trade between the two country groupings quadrupled and currently amounts to about US$100 billion, equivalent to 70 percent of EFTA trade and one fourth of EC trade with third countries, excluding trade within the two groups (see Table 21).

By 1984, it was recognized that the scope for furthering trade creation in the context of the existing agreement was limited. Although cooperation was increasing in the areas of consumer policy, technology, and the environment, EFTA countries were apprehensive that the EC initiatives toward internal integration would reduce access for EFTA countries to the EC market. These factors led to a ministerial meeting between EFTA and the EC in November 1984 and the announcement of a program, contained in the Luxembourg Declaration. The Declaration included commitments to reduce technical barriers to trade, eliminate quantitative export restrictions, revise rules of origin, and open up government procurement. Subsequent ministerial meetings expanded the scope of EC/EFTA cooperation to increase the transparency of state aids and simplify border formalities. Services, intellectual property, and capital movements were also included on the agenda.

In line with the above agreements, concrete steps have been taken in a number of areas. Border formalities have been simplified, and agreement in principle was reached to eliminate quantitative export restrictions in the EC that had been introduced for historical

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1/ The agreements allowed for a transition period until 1976, but were not fully implemented until 1984 because Finland had longer transition periods on a number of sensitive products.

reasons. 1/ In the area of technical barriers, discussions are under way to develop alternative mechanisms for notification and harmonization of technical norms. Negotiations aimed at relaxing the rules of origin under which EFTA was granted duty free access to the EC are under way with a view to extending the minimum value added requirement to EFTA countries as a group rather than individually. 2/ In the area of state aids, EFTA countries have agreed to introduce notification requirements to the EFTA Secretariat, similar to those that exist in the EC vis-a-vis the Commission. Further progress in harmonizing rules may be hampered by the fact that the EFTA Secretariat, in contrast to the EC Commission, is not empowered to enforce competition policy.

2. Association and cooperation agreements

The EC has concluded association and cooperation agreements with a number of Mediterranean countries. Association agreements have been concluded with Cyprus (1972), Malta (1970), and Turkey (1963) providing for reciprocal tariff preferences, aid, industrial cooperation, technical assistance, and full accession to the EC after a transition period. Under the agreements, concluded on the basis of Article 238 of the EEC Treaty, the Community grants duty free access for industrial exports and tariff preferences for agricultural exports. The associate member countries have not, however, adhered to the timetable for granting reciprocal preferences to EC exports, nor have they adopted the EC common external tariff. A protocol which will complete the customs union with Cyprus was signed in 1987 and came into force on January 1, 1988. Under the agreement, Cyprus will remove customs duties on imports of industrial products from the EC and adopt the common external tariff over a 10-year period. The agreement also provides for reciprocal concessions on agricultural exports, and the eventual liberalization of agricultural trade beyond the 10-year period.

Cooperation agreements have been signed with Israel (1975), and with Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, and Yugoslavia (1978). The agreement with Israel, concluded on the basis of Article 113 of the EEC Treaty, provides for a free trade area covering most trade in line with the provisions of GATT Article XXIV. While the EC removed all tariffs and quantitative restrictions on Israel's industrial exports by 1977, Israel's deadline for granting the EC reciprocal treatment was extended twice, to January 1989. Under the agreement, the EC also provides tariff preferences for Israel's agricultural exports. The EC has granted similar benefits to the other countries with which it has signed cooperation agreements, in exchange for MFN treatment of EC exports to their markets. Trade between the EC and these countries as a group is a negligible portion of EC trade but a significant portion of these countries' trade.

1/ These affect a few products, including copper scrap, representing a negligible amount of EFTA/EC trade.

2/ Currently duty free access is granted by the EC on products with value added of at least 60 percent in any individual EFTA country.

3. GCC cooperation agreement

The Cooperation Council of the Arab States of the Gulf (GCC), which includes Saudi Arabia and other Gulf countries, has recently requested the negotiation of a trade and cooperation agreement with the EC providing for a free trade area covering all industrial products, including petrochemicals. In November 1987 the EC Council authorized the Commission to negotiate a two-stage agreement with the GCC. The first stage, concluded on June 15, 1988, includes agreements to increase cooperation in the areas of industry, energy, science, technology, and the environment; 1/ a "standstill" clause preventing the introduction of new restrictions; and the mutual application of MFN treatment. 2/ The second stage would include trade liberalization measures that fall short of a free trade area. This reflects a desire by the EC to maintain sufficient petrochemical production capacity to provide security of supply and concerns of some EC member countries that complete elimination of EC tariffs on their petrochemical industries could harm restructuring efforts in the EC oil refining and petrochemical industries. In exchange, the EC would provide for an infant industry protection clause to benefit the GCC countries. To avoid a reduction in EC protection to its petrochemical industry not matched by similar reductions by the United States and Japan, both parties to the agreement have pledged to promote a multilateral reduction in customs duties applicable to petrochemical products in the Uruguay Round.

Imports of petrochemicals from the GCC countries into the EC are presently governed by the EC's Generalized System of Preferences (GSP) scheme. The operation of the GSP scheme has been the focus of a dispute between the Community and the Gulf Cooperation Council and has hindered the negotiation of a cooperation agreement. Duty free access of "sensitive" products, including petrochemicals, under the GSP scheme is subject to annual quantitative limits. Beyond these limits, duties of 13 percent on petrochemicals are applied automatically for some products or at the request of the domestic industry for others. These limits are typically reached within the first few days of the year, giving rise to complaints by the GCC countries that the Community's GSP scheme is unhelpful to them. The EC Commission, in turn, views the substantial imports of petrochemicals from the GCC countries as evidence that the tariff does not appear to adversely affect GCC exports.

1/ The EC undertook to help GCC countries diversify their energy, industrial, and agricultural sectors through joint ventures, technology transfers, training, and joint surveys of markets for oil and gas and their derivatives.

2/ MFN treatment presently does not apply to trade between the EC and the GCC countries that are not GATT members; Kuwait is the only GATT member among GCC countries.

4. Lomé Convention (ACP preferences)

The EC has extended duty free access on a nonreciprocal basis to its market as well as financial and technical assistance to 66 ACP countries under the third Lomé Convention (Lomé III). The agreement came into force on March 1, 1985 for a five-year period and superseded previous agreements. 1/ With the accession of Angola to the agreement, the signatories of Lomé III include all the sub-Saharan African countries. Lomé III contained broadly similar provisions and included an increase in EC financial assistance from ECU 5.5 billion under Lomé II to ECU 8.5 billion. A portion of the financial assistance is linked to developments in commodity export receipts of the ACP countries. In addition, the Community is committed to purchase an agreed quantity of sugar exports at a guaranteed price. EC imports from ACP countries account for one fifth of its total imports from non-oil developing countries.

The EC is about to enter into a new round of negotiations with ACP countries to renew Lomé III after its expiry in February 1989. The EC Commission's draft negotiating mandate, subject to the Council's approval, includes a modification in the modalities of financial assistance to ACP countries to include loans in support of structural adjustment efforts. The negotiations are complicated by their coincidence with the Uruguay Round discussions on a possible elimination of tariffs on tropical products, which would eliminate the preferential treatment of ACP exports of such products on the EC market. Another complication is that certain ACP countries have higher per capita incomes than Greece, Ireland and Portugal, yet rely on them for aid.

5. GSP scheme

The EC's GSP scheme provides nonreciprocal tariff concessions to developing countries. The scheme, which operates at the Community level, was introduced in 1971 and renewed in 1981 for another ten-year period. Though available to all developing countries, the benefits of the GSP are in practice mainly utilized by Asian and Latin American countries. Developing countries in the African, Caribbean, and Pacific regions (ACP countries), while legally beneficiaries of the GSP, enjoy more generous tariff preferences under the Lomé Convention. Similarly, most countries bordering on the Mediterranean have more favorable access to the EC market under their EC agreements than under the GSP. The

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1/ The Yaoundé Conventions I and II (1964 and 1971) with African countries were replaced by Lomé I (1976) which included 21 former Commonwealth countries that were invited to join following the United Kingdom's entry into the EC. A successor agreement, Lomé II, was signed in October 1979, a few months before Lomé I expired. Lomé II broadened the scope of the agreement to include provisions relating to payments and capital movements, direct investment, and services. Grants and loans were provided through the EC budget and the European Investment Bank (EIB).

scheme provides for more generous preferences for the countries appearing on the UN's list of least developed countries, including exemptions from all quantitative limitations. Out of the 39 countries on this list, all but nine 1/ have signed the Lomé Convention and hence receive these benefits anyway.

The EC's GSP covers all otherwise dutiable manufactured and semi-manufactured products. More restrictive schemes apply to "sensitive" industrial products, including textiles and clothing. Whereas all industrial products are covered by the Community's GSP, coverage of agricultural products is more selective.

For industrial products, quantitative limits on duty free access are imposed on "sensitive" items that compete with EC products. When the limit is reached, the EC's common external tariff is applied. 2/ The limit applies uniformly to each beneficiary of the scheme, except for certain "sensitive" products for which individualized ceilings are imposed on "competitive" exporters that are generally lower than the ceilings applied on "noncompetitive" exporters.

A more restrictive scheme is in effect for textiles and clothing. Textile imports are classified among the "sensitive" products and are subject to limits on duty free access. For products covered by the MFA, only countries that have concluded bilateral agreements with the Community in the context of the MFA, or have similar undertakings, are entitled to benefit. All developing countries qualify for preferences on their exports of textile products that are not covered by the MFA. Individualized ceilings are applied to "competitive" exporters.

Duty free entry of nonsensitive industrial products is not subject to ceilings. However, if preferential imports cause or threaten to cause economic difficulties in the Community, the Commission can reintroduce customs duties provided an indicative threshold has been exceeded and subject to consultation with member states. 3/ This provision may have reduced security of duty free access to the EC market for GSP beneficiaries. The least developed countries are exempt from this provision.

1/ The nine are Afghanistan, Bangladesh, Buthan, Haiti, Laos, Maldives, Nepal, Yemen Arab Republic, and Yemen People's Democratic Republic.

2/ The limited duty free access applied to imports of petrochemicals has given rise to a dispute between the EC and the GCC countries. See Section IV.3 above.

3/ The Commission has received an increasing number of requests to reintroduce duties on nonsensitive products in recent years. In 1987, duties were reimposed in 19 cases covering 18 products, of which 12 were chemical products.

With regard to agricultural imports, products that are subject to market arrangements under the Common Agricultural Policy and are protected by variable levies or similar devices are not covered. Obligations to ACP and Mediterranean countries also limit coverage. Concessions generally take the form of tariff reductions rather than exemptions; only one fifth of the 385 tariff lines covered enter duty free, and three products are subject to quantitative limits.

In the 1986 mid-term review of the GSP, provisions were introduced to graduate country products from the EC's scheme. Starting in 1986, countries with a per capita income exceeding US$2,000 and whose share of EC industrial imports from third countries of the product concerned exceeded 20 percent were graduated from the scheme for industrial products. This provision was applied to exports from Brazil, China, Hong Kong, Korea, and Singapore. More recently, GSP benefits on all products were withdrawn from Korea on the grounds that it provides discriminatory protection for U.S. intellectual property rights. Benefits are withdrawn over two years, and the benefits withdrawn from one beneficiary are redistributed to other beneficiaries of the scheme. Starting in 1988, countries with income per capita exceeding US$2,000 and whose share of EC imports of the textile product concerned exceeds 10 percent are also graduated from the textiles scheme.

V. Single European Market

Despite the provisions for a common market embodied in the EEC Treaty, the markets of the twelve member states do not constitute a single market for any producer or seller. Market segmentation arises from different national standards, regulatory barriers to market entry and competition, national restrictions, time-consuming internal border formalities, and discriminatory government procurement practices. 1/ This segmentation raises the cost of producing goods and providing services by creating monopoly rents, imposing administrative costs, and preventing the achievement of economies of scale, and distorts the allocation of resources within the Community (Table 26 describes selected barriers). Restrictive practices are particularly widespread in the area of services. Air, sea, and road transport, which represents more than 7 percent of the Community's GDP, is subject to restrictions on nonresident carriers operating in member countries. In the area of insurance, some EC members (Denmark, France, Germany, and Ireland) require that an insurance company maintain a physical presence in the country where the risk is insured. Similar regulatory barriers exist in the provision of other financial services, including restrictions on foreign acquisitions or participations in resident banks. The integration of the services markets across the Community would have important effects on their efficiency as well as on the efficiency of other sectors using these services.

1/ Evidence of market segmentation is provided by the different prices at which identical goods are sold in member countries.

National legislation also impedes factor mobility within the Community. Licensing rules of professional associations limit the freedom of EC citizens to practice their profession in other EC states, and national educational standards have implied that diplomas are not always recognized in other member states. Similarly, most EC countries maintain capital restrictions despite a directive issued by the Commission in 1960 calling for their elimination, in line with the EEC Treaty provisions.

1. Single European Act

In recognition of the costs imposed by market fragmentation, the EC Council adopted a White Paper 1/ containing detailed proposals to remove all physical, technical, and fiscal barriers to free movement of goods, services, and factors of production within the Community by end-1992. The paper defines a sector-by-sector strategy and lists 300 proposals (later revised to 286) to unify the markets in member countries. These proposals were incorporated in the Single European Act which came into force on July 1, 1987. 2/ The Act contains measures to complete the implementation of the the EC Treaties but goes beyond them in certain areas. 3/ It thus constitutes the first major revision of the Treaties.

The Act provides for a dismantling of internal frontiers in order to facilitate trade within the Community. Technical barriers to trade will be gradually eliminated by the application of the principle of mutual recognition of standards. However, in the areas of health, safety, consumer protection, and the environment, standards will be harmonized. Barriers to trade in services and to the movement in factors of production will be removed. Far-reaching liberalization measures are proposed in the areas of banking, insurance, security transactions, and mortgage finance. The companies providing such services will be subject to control by the authorities of the home country rather than by the authorities of the country of operation. Mortgage credit institutions will be allowed to operate freely with other member countries and offer mortgages patterned on their home country regulations. The system of quotas in road and air transport will be gradually phased out. Public procurement will be open to Community-wide bidding. EC citizens would have freedom to engage in their professions throughout the Community, and all capital controls would be lifted.

Fiscal barriers would be removed "by approximation" (as opposed to equalization) of indirect taxes (VAT) in member states. The system would resemble the U.S. system, where interstate borders do not exist and variations in tax rates among states are limited within a band to

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1/ Completing the Internal Market, White Paper from the Commission to the European Council, June 1985.

2/ EC Commission, Single European Act, Bulletin of the European Communities, Supplement 2/86.

3/ For instance, in the Council's voting procedures.

avoid encouraging interstate trade based on differences in indirect tax rates.

An important companion measure to the internal market program was the doubling of the EC structural funds--the regional and social fund--to compensate the lower-income EC members at the Community's periphery for the intensified competition that would result from the single market. The compensation was agreed to, notwithstanding some studies showing that these countries would benefit the most from the dismantling of internal barriers because their geographical location implied that they had more barriers to cross compared with more centrally located EC countries. 1/ Greece and Spain would benefit from the Integrated Mediterranean Programs that are part of the planned increase in the EC's structural funds. The loans would finance infrastructure projects, professional training, productive investment, and productivity improvements in both the private and public sectors under a program (rather than project) approach designed to further broader regional objectives. These loans would include a grant element.

2. Implementation of the Act

To facilitate the adoption by member states of the proposals contained in the White Paper, the Single European Act amended the EEC Treaty by extending the areas where decisions could be adopted by simple or qualified majority in the EC Council. The adoption of most measures concerning the establishment of the single market therefore does not require unanimity. 2/

Implementation of the proposals contained in the White Paper was initially slow, but was accelerated under the German presidency of the EC Council in the first half of 1988. The reform process has also acquired a momentum of its own as the proposed deregulation of certain sectors (e.g., the financial sector), has created pressures for deregulation in other areas (e.g., liberalization of capital movements). As of June 1988, about one third of the 286 proposals were fully adopted by member states, a few proposals were partially adopted, and the remaining are pending. Most of the adopted proposals deal with the removal of physical and technical barriers, the liberalization of transport and financial services, the enhancement of labor mobility, and the lifting of capital controls. The remaining deal with the introduction of new technologies, company law, intellectual property rights, and fiscal

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1/ DRI, The European Internal Market, Winter 1987/88.
2/ Unanimity would still be required in decisions pertaining to harmonization of turnover taxes, excise duties, and other forms of indirect taxation.

barriers. Table 26 provides details of selected decisions and their impact.

The most significant progress has been made in removing capital controls, 1/ enhancing labor mobility through mutual recognition of university diplomas, liberalizing road transport, harmonizing technical standards affecting pharmaceutical products, and reducing customs formalities. The introduction of the Single Administrative Document (SAD) in January 1988 superseded some 70 customs documents in several different languages. Progress in the areas of air and sea transport, broadcasting, banking, and securities trading has been slower.

3. Studies of effects

The potential economic impact of completing the internal market by 1992 was evaluated in a recent study prepared by the EC Commission. 2/ The study assumed that barriers against the rest of the world do not increase and concluded that completion of the single market could provide gains of the order of ECU 200 billion, equivalent to 5 percent of Community GDP, and increase employment by 1.8 million over the medium term (Table 27). If EC governments used the room created by the release of productive resources to simultaneously pursue expansionary policies, GDP could increase by 7 percent and employment by 5 million. Broadly similar estimates of the potential gains from a single market were presented in a recent DRI study. 3/

The assessment of the effects of completing the internal market were based on simulations using econometric models. 4/ The simulations cover four aspects of market unification--removal of internal frontiers, opening up of public procurement, liberalization of financial services and supply effects. The supply effects analyzed include the direct costs of technical and regulatory barriers that limit market entry and competition, whose removal would reduce monopoly rents and enable firms to achieve economies of scale. Supply effects were estimated to be the single most important source of gain from market unification. These effects may be underestimated because they do not take account of the effects of competition on innovation and technical change. In addition, completion of the internal market is expected to ease the macroeconomic constraints on the Community. The consequences of the internal market could thus be further magnified by accompanying macroeconomic policies that make use of the room created by the release of productive resources. The study explores three alternative scenarios involving budgetary expansion in the Community to exploit all or part of the

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1/ Discussions are underway to ensure that divergent tax rates do not distort the allocation of capital among member countries.

2/ "The Economics of 1992," European Economy, No. 35, March 1988.

3/ DRI, op. cit. The DRI estimates are not strictly comparable to the Commission's study, insofar as they analyze only the short-term effects of harmonizing VAT and scrapping border controls.

4/ The Commission's Hermes model and the OECD's Interlink model.

easing in the external constraint caused by the fall in prices and the reduction in public deficits. The resulting increase in GDP ranges between 6 1/2 percent to 7 1/2 percent, depending on the amount of stimulus provided. In practice, these additional gains may arise from supply effects that raise investment demand by increasing the after-tax return on capital, dispensing with the need for fiscal expansion.

4. External effects and interaction with the Uruguay Round

In principle, the internal market program consists of a set of microeconomic supply-side measures intended to be neutral with respect to the rest of the world. In practice, adherence to the principle of neutrality is not automatic and, in some cases, impossible. The completion of the internal market is thus likely to affect third countries.

The net impact on third countries will depend on the balance of the single markets' trade-creating and trade-diverting effects. This in turn depends, in part, on the Community's external regime after 1992. In some cases, internal liberalization measures will automatically become available to third countries or will change the Community's regime with the rest of the world. In the latter cases, the Community would liberalize vis-à-vis the rest of the world unless it makes adjustments to its external regime. For the most part, decisions necessary to determine the Community's external regime have not yet been taken.

Many of the measures necessary to complete the internal market are in areas which are subject to negotiations within the Uruguay Round. These include "new areas," such as, services, trade related investment measures, and trade related aspects of intellectual property rights, as well as government procurement, and technical barriers to trade. Other areas in which decisions are necessary to determine the EC's external regime after 1992 are also subject to negotiation in the Uruguay Round. Most notable among these are "gray-area" measures maintained by individual EC members. The Uruguay Round thus offers scope to obtain parallel market-opening measures on a multilateral basis. The EC is also exploring opportunities for parallel market-opening measures on a bilateral basis with other countries or trading groups.

For expositional purposes, measures contained in the White Paper can be divided into five groups to illustrate the options available to the EC as it completes the internal market: 1/

a. The EC opens internally without any external impact. Indirect tax harmonization and the elimination of internal frontiers are examples of such measures.

1/ This classification was suggested by the Commission.

b. The EC opens "erga omnes," internally and externally in one and the same action. The liberalization of capital movements is an example of such a measure. Internal liberalization in this area is akin to a public good.

c. The EC opens internally with possibilities for parallel opening measures multilaterally in GATT, or bilaterally with other countries or trading groups. Examples include government procurement, where the GATT code is under discussion in the Uruguay Round.

d. The EC opens internally and, in doing so, necessarily changes its regime with the rest of the world. The existence of internal borders at present permits the enforcement of restrictions on imports of automobiles and other products and individual EC member country quotas agreed under the Multifibre Agreement (MFA). With the removal of internal borders in 1992, national restrictions will need to be lifted or replaced by EC-wide restrictions.

e. The completion of the internal market also raises the issue of "nationality" of EC and foreign firms with regard to establishment, mergers, and takeovers. Increased barriers in this area would result if regulations applied to non-EC firms were more restrictive than those applying to EC firms. This would be akin to an increase in trade-related investment barriers.

Clearly the external impact of internal liberalization depends on decisions to be taken by the EC on the extent to which internal liberalization is extended to third countries, either unilaterally or through reciprocal market opening measures. A liberal policy approach by the EC would benefit the EC as well as third countries. While the EC has stated that it does not intend to increase external restrictions, disparities in national levels of protection and competitiveness in particular sectors have given rise to pressures for the adoption of the most restrictive national regime by the EC as a whole. For example, automobile manufacturers in countries that maintain national VERs are resisting the possible elimination of these barriers. In particular, they argue that increased access to the Japanese market as measured by target market shares is a condition for the removal of these restrictions. More generally, the extent to which the benefits of the integrated market will be extended to third countries will depend on reciprocal market-opening measures by the EC's major trading partners. The EC is pursuing such market-opening measures both bilaterally and in the context of the Uruguay Round. Finally, the benefits to the EC of a liberal policy will act to counter protectionist pressures.

5. Implications for other European countries

The recent initiatives toward integration of the EC internal market gave new impetus to bilateral discussions between the EC and EFTA countries and raised the issue of EFTA countries' membership in the

EC. 1/ Discussions on possible areas of increased EC/EFTA cooperation are progressing. As already noted, EFTA countries are apprehensive that their access to the EC market will be reduced as a result of the internal market and that important decisions, e.g., on EC standards, will be taken without their input.

Some EC members, and in particular the Mediterranean countries, have taken the view that the benefits of the internal market should not be extended to EFTA countries without "payment." The "payment" could take the form of EFTA contributions to the EC's structural funds, improved access to the EFTA markets for agricultural commodities for Mediterranean countries, or relaxing restrictions on labor mobility. These proposals are resisted by other EC countries that do not want the burden of concessions to be borne by the entire Community for the benefit of Mediterranean countries alone. Making the "payment" proposal workable would thus require finding ways to share the EFTA "payment" more equitably among EC members. A separate issue is whether the EC should negotiate access to the EC market with EFTA on a bilateral basis or multilaterally in the Uruguay Round. The latter option would reduce the scope for further fragmenting the world trading system into regional trading blocs.

1/ One of the issues for certain EFTA members is whether joining the EC is compatible with maintenance of political neutrality, given the EC's common foreign policy.

Table 20. The EC's Share in World Trade

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

Source: IMF, Direction of Trade.

1/ Includes the original six EC members plus Denmark, Greece, Ireland, and the United Kingdom. The same group of countries is maintained throughout the period to avoid distortions arising from EC enlargement.

2/ Includes the present six EFTA members throughout the period.

Table 21. The Level and Direction of EC Trade

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

Source: IMF, Direction of Trade.

1/ Includes the original six EC members plus Denmark, Greece, Ireland, and the United Kingdom. The same group of countries is maintained throughout the period to avoid distortions arising from EC enlargement.

2/ Includes the present six EFTA members throughout the period.

Table 22. EC, United States, and Japan: Average Tariff Rates 1/

(In Percent)

	EC	United States	Japan
Food	13.8	7.1	19.5
Agricultural raw materials	3.3	1.7	2.3
Mineral fuels	3.4	1.0	3.0
Ores and metals	4.0	3.8	3.9
Manufactures	7.0	6.7	6.7
Of which:			
Chemicals	4.2	5.9	6.0
Textiles and clothing	10.5	10.3	10.5
Machinery and transport equipment	4.7	3.5	4.6
Other manufactures	5.2	6.2	6.1
All sectors	7.8	6.2	8.0
(Coefficient of variation) 1/	(0.92)	(1.06)	(2.09)

Source: UNCTAD
1/ Unweighted post-Tokyo Round MFN tariffs
2/ Ratio of standard deviation of tariff rates to unweighted average rate.

Table 23. EC: Voluntary Export Restraint Arrangements, September 1987

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

Source: GATT, "Review of Developments in the Trading System" (C/W/548) Geneva, 1988. The information is preliminary and subject to revision.

1/ Industry-to-industry arrangement.

Table 24. EC: Voluntary Export Restraint Arrangements, May 1988

Major Known VERs (Excluding the MFA)	World-Wide	EC Total	EC-Wide	National	Restrained Exporters
Total	253	137	87	50	Industrial countries (50); developing countries (64); Eastern European countries (23)
Steel	47	15	14	1 (United Kingdom)	Industrial countries (7); developing countries (3); Eastern European countries (5)
Agricultural and food products	54	40	36	4 (France, Ireland, Italy)	Industrial countries (13); developing countries (16); Eastern European countries (11)
Automobiles and transport equipment	17	13	2	11 (France, Italy, United Kingdom, Spain, Portugal)	Industrial countries (13)
Textiles and clothing	71	21	18	3 (Germany, United Kingdom)	Developing countries (19); Eastern European countries (2)
Electronic products	19	16	5	11 (France, Italy, United Kingdom)	Industrial countries (7); developing countries (9)
Footwear	14	11	1 1/	10 (France, Italy, United Kingdom)	Developing countries (8); Eastern European countries (3)
Machine tools	7	3	2	1 (United Kingdom)	Industrial countries (3)
Other	24	18	9	9 (Benelux, Denmark, United Kingdom)	Industrial countries (7); developing countries (9); Eastern European countries (2)

Source: GATT, "Review of Developments in the Trading System" (C/W/548) Geneva, 1988. The information is preliminary and subject to revision.

1/ Industry-to-industry arrangement.

Table 25. European Community:
Authorization of Article 115 1/ Actions, 1980-87

	1980	1981	1982	1983	1984	1985	1986	1987
Benelux								
Acceptances	25	17	19	22	14	4	--	1
Of which: textiles	19	16	17	16	12	2	--	1
agricultural products	2	1	1	1	1	1	--	--
As percent of requests	73	74	100	100	100	100	--	100
Denmark								
Acceptances	4	--	--	--	--	--	--	2
Of which: textiles	4	--	--	--	--	--	--	2
agricultural products	--	--	--	--	--	--	--	--
As percent of requests	100	--	--	--	--	--	--	100
France								
Acceptances	105	80	85	57	39	66	67	62
Of which: textiles	63	55	55	39	26	43	52	44
agricultural products	2	--	1	2	--	4	--	1
As percent of requests	84	73	76	59	68	80	78	86
Germany, Federal Republic of								
Acceptances	1	2	2	4	--	--	--	--
Of which: textiles	1	2	2	4	--	--	--	--
agricultural products	--	--	--	--	--	--	--	--
As percent of requests	100	100	100	100	--	--	--	--
Greece								
Acceptances	...	--	--	--	--	--	--	--
Of which: textiles	...	--	--	--	--	--	--	--
agricultural products	...	--	--	--	--	--	--	--
As percent of requests	...	--	--	--	--	--	--	--
Ireland								
Acceptances	57	32	26	48	59	57	45	52
Of which: textiles	57	28	26	47	57	55	43	49
agricultural products	--	--	--	--	--	--	--	--
As percent of requests	49	56	79	91	84	89	68	87
Italy								
Acceptances	23	23	29	37	34	30	20	23
Of which: textiles	14	11	7	9	11	7	3	8
agricultural products	--	--	--	--	2	4	2	1
As percent of requests	52	58	53	65	69	86	91	96
Portugal								
Acceptances	...	...	...	...	...	...	--	1
Of which: textiles	...	...	...	...	...	...	--	--
agricultural products	...	...	...	...	...	...	--	--
As percent of requests	...	...	...	...	...	...	--	100
Spain								
Acceptances	...	...	...	...	...	...	4	13
Of which: textiles	...	...	...	...	...	...	--	--
agricultural products	...	...	...	...	...	...	--	--
As percent of requests	...	...	...	...	...	...	100	77
United Kingdom								
Acceptances	7	12	13	20	19	19	5	3
Of which: textiles	6	8	9	16	14	12	4	1
agricultural products	1	2	2	2	4	3	1	1
As percent of requests	23	50	65	95	76	76	83	60
Total EC acceptances	222	166	174	188	165	176	141	157
Of which: textiles	164	120	116	131	120	119	102	105
agricultural products	5	3	6	8	8	12	3	3
Rejected and withdrawn	134	89	67	65	50	35	43	25
Total requests	356	255	241	253	215	211	184	182
Acceptances as percent of requests	62	65	72	74	77	83	77	86

Source: Data provided by the European Commission.

1/ Temporary restrictions on free circulation of goods within the Community under Article 115 of the Treaty of Rome.

Table 26. EC: Internal Market Program: Selected Measures

	Existing Barriers	Impact	Proposed Measures	Date
Border formalities	Different customs regulations and forms maintained by each member country.	The costs arising from border formalities and other red tape are estimated at 1.8 percent of intra-EC trade.	Single Administrative Document (SAD) introduced in January 1988 superseded some 70 customs documents in several different languages.	Implemented January 1988
Road transport	Bilateral quotas limit the number of trips that trucks from one country can make to another and prohibit "cabotage," i.e., the transportation of merchandise within an EC country by a nonresident trucking company.	Existing restrictions force about one third of the trucks transporting merchandise across EC borders to return empty. Most intra-EC trade, amounting to more than $500 billion, is transported by trucks.	National and EC quotas and licenses governing more than half of the goods transported by trucks will be gradually phased out and lifted by end-1992. The small number of EC permits allowing trucks to enter any country will be increased by 40 percent as of July 1, 1988 and by a further 40 percent in 1989.	Adopted June 1988
Air transport	Traffic is regulated through bilateral government-to-government agreements allocating routes between any two national carriers. Traffic is divided 50-50 by the carriers, with fares subject to approval by both governments; "cabotage" not permitted.	Market-sharing agreements raise the cost of air transport by reducing the number of passengers per flight and creating monopoly rents for the airlines. Almost half of available seats are flown empty. The fare between Paris and London costs almost twice as much as the fare between Washington and New York, although the distance is the same.	Automatic approval of discount or deep discount fares; freedom to offer additional seats on a particular route provided one country's share does not fall below 40 percent; possibility to combine service to two or more points in another member state. However, the freedom to provide scheduled transport services within other member countries or from these to a third country would continue to be heavily restricted.	Adopted November 1987
Non-life insurance	National regulations require that insurance companies maintain a physical presence in the country where risk is located. Market entry is restricted through licensing requirements.	Considerable cost savings could arise from a more competitive environment; regulatory barriers give rise to differences in insurance premiums across EC countries in excess of 200 percent.	After a transition period ending in 1992, large EC companies will be able to purchase insurance policies anywhere in the EC. Eligible companies constitute 70 percent of the market for company risk insurance. Greece, Ireland, and Portugal are exempt until 1999; Spain until 1998.	Adopted in principle November 1987 (formal adoption expected in 1989)
Capital controls	National regulations range from complete freedom of capital movements in the United Kingdom and the Netherlands to strict controls on capital outflows in Greece and Portugal; France and Italy have liberalized considerably in recent years but continue to prohibit residents from holding bank accounts abroad.	Gains would result from a more efficient allocation of Community savings.	Progressive removal of all remaining obstacles to capital mobility within the EC by 1990; Ireland and Spain by 1992; Greece and Portugal by 1995. A safeguard clause, subject to review in 1992, would permit the reimposition of controls. EC loan mechanism for countries with BOP difficulties raised to ECU 16 billion.	Adopted June 1988

Sources: EC Commission The Economics of 1992, European Economy, No. 35, March 1988; EIS, European Report, various issues; EC Commission, Bulletin of the European Communities, various issues.

Table 27. EC: Macroeconomic Consequences of Completion of the Internal Market

(In percent unless otherwise indicated)

	GDP	CPI	Employ-ment 1/	Public Deficit 2/	External Balances 2/
Frontier controls	0.4	-1.0	200	0.2	0.2
Public procurement	0.5	-1.4	350	0.3	0.1
Financial services	1.5	-1.4	400	1.1	0.3
Supply effects	2.1	-2.3	850	0.6	1.0
Total gain without accompanying measures	4.5	-6.1	1,800	2.2	1.0
Total gain with accompanying measures					
Disinflation 3/	7.0	-4.5	5.0	0.4	-0.2
Public deficit 4/	7.5	-4.3	5.7	—	-0.5
External position 5/	6.5	-4.9	4.4	0.7	—

Source: EC Commission, "The Economics of 1992," European Economy, No. 35, March 1988.

1/ In thousands.
2/ In percent of GDP.
3/ This scenario assumes that accompanying macroeconomic policy measures exploit 30 percent of the room for maneuver created by the fall in consumer prices and the reduction in the fiscal deficit.
4/ Assumes budgetary expansion to exploit the entire room for maneuver created by the fall in prices and the reduction in the fiscal deficit.
5/ Assumes budgetary expansion up to the point where the Community's external balance is left unaffected by the creation of the single market.