Evaluator. If you or your staff have any questions about the contents of this fact sheet, please contact me on (202) 275-4812.

Sincerely yours,

Allan I. Mendelowitz

Allan I. Mendelowitz, Director
Trade, Energy, and Finance Issues

Five East European countries—Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia[2] —are members of the GATT. Each one, however, acceded at a different time and on the basis of different provisions.[3] No nonmarket economies were among the original drafting countries. While Czechoslovakia was an original contracting party, it was not a nonmarket economy at the time. Table I.1 shows the status of nonmarket economy countries in GATT.

Table I.1: Current Status of Nonmarket Economies in GATT

Country	Status
Bulgaria	Observer
China	Observer
Czechoslovakia	Contracting party
Hungary	Contracting party
Poland	Contracting party
Romania	Contracting party
Soviet Union	Observer
Yugoslavia	Contracting party

Source GAO analysis of various data

The GATT drew upon the charter of the International Trade Organization,[4] an international organization that never came into existence, to establish import commitments for some nonmarket economy countries' accession to GATT.[5] Although import commitments are not included among the GATT provisions, they have been used for the accessions of Poland and Romania

Integrating nonmarket economies into the GATT is problematic because GATT principles stipulate that tariffs are the preferred instrument for

[2] Yugoslavia's inclusion in this category remains debatable; although it is a socialist country, many regard it as a market economy

[3] For the purposes of this paper five East European members of GATT will be discussed Czechoslovakia, Hungary, Poland, Romania and Yugoslavia East Germany is not part of the GATT system. Bulgaria is an observer to the GATT and has applied for full accession. The Soviet Union has recently become an observer to the GATT The People's Republic of China, once a full member, is currently an observer and is seeking reaffiliation with GATT

[4] The International Trade Organization was originally envisioned to be one of several international economic institutions (these included the International Monetary Fund and the World Bank) Much more limited in scope, the GATT came about as an interim agreement to the International Trade Organization. By default, the GATT remained the only multilateral trade organization when plans for the International Trade Organization were abandoned in 1948

[5] The International Trade Organization charter contained provisions specifically pertaining to the integration of nonmarket economies into international trade. The GATT does not contain any of these provisions.

Entry of Nonmarket Economy Countries Into GATT

GATT has adopted a pragmatic and gradual approach for handling the accession of nonmarket economies into GATT. The Protocol of Accession of each nonmarket economy country has been drawn up with separate terms. Although GATT does not require it, nonmarket economy countries, as many other acceding countries, can commit to a series of stages of participation leading to full membership: observer status, provisional accession, associate membership,[7] and full membership. (In practice, however, participation in each of these stages has not taken place in recent years.) In the case of a nonmarket economy, this process allows time for the country to adjust its international trading practices, bringing them into conformity with GATT obligations.

When a country seeks to become a contracting party to GATT, the process of accession is not automatic or unconditional. Accession requires the negotiation of a specific Protocol of Accession for that country and generally takes into account its current policies, laws, regulations, practices, and the general character or condition of its economy. The Protocols of Accession for Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia vary considerably, reflecting differences in their economies and in the timing of their accession.

Czechoslovakia, as a charter member of GATT, does not have a special Protocol of Accession, as was required of members that later joined GATT. Yugoslavia, as an associate member of GATT, initially traded under special provisions within GATT, until its full accession in 1966 on the basis of regular GATT obligations.

In the cases of Poland, Hungary, and Romania, however, the contracting parties believed that specific undertakings were required, in addition to those provided for in GATT, to ensure that reciprocal trade concessions would not be impaired by state trading enterprises, central planning, artificial prices, and bilateral trade agreements. These undertakings have taken the form of increased import commitments, periodic review of the country's trade, provisions for country-specific safeguards against discriminatory or unfair practices, and possible suspension of the benefits of the Protocols of Accession. In return, the contracting parties have granted these countries most-favored-nation status and have

[7] According to several GATT experts, associate membership means that trade can be conducted in conformity with the rules of the GATT to the extent possible within the guidelines of the nonmarket economy's economic system. An associate member is allowed to participate in the organizational bodies of the GATT, including the rounds of tariff negotiations. Provisional accession usually enables the acceding country to receive GATT rights from the contracting parties, provided it reciprocates. However, the provisionally acceding country has no direct rights with respect to tariff concessions, meaning that if concessions are withdrawn, the country would not have a right to compensation.

Table I.2: GATT Provisions for Nonmarket Economy Countries

Country	Year of accession	Effective customs tariff	Import commitment type	GATT review	Safeguards	Elimination of quantitative restrictions
Czechoslovakia	1948	(No protocol, original contracting party)			NA	NA
Yugoslavia	1966	Yes	None	No	No	NA
Poland	1967	No	7 percent per year	Annual	Yes	No deadline
Romania	1971	No	Total imports not less than those imports provided for in 5-year plan	Biannual	Yes	End 1975[a]
Hungary	1973	Yes	None	Biannual	Yes	Early 1975[a]

Legend

NA = Not applicable

[a]In reality, quantitative restrictions have not been totally eliminated

Source Organization for Economic Cooperation and Development

Czechoslovakia

Czechoslovakia was a founding member of GATT but became a centrally planned economy shortly after GATT was established. No special adjustments within GATT were made once Czechoslovakia became a nonmarket economy. Because it acceded as a market economy, it has no special Protocol of Accession. Czechoslovakia's volume of trade at the time was not sufficient to warrant any changes in its status within the GATT, according to several experts in the area.

According to the Commerce Department, in 1951, GATT allowed the United States to suspend GATT obligations toward Czechoslovakia. The United States was barred by legislation passed that year from extending most-favored-nation treatment to Czechoslovakia and other Communist countries. In April 1990, the two countries signed a trade agreement that, when applied, will rely on GATT rules on trade including most-favored-nation status, provide for protection of intellectual property, and guarantee nondiscriminatory treatment regarding access to currency and banking accounts. This agreement has been submitted to Congress for approval.

Yugoslavia

Yugoslavia acquired GATT observer status in 1950, associate membership in 1959, and full, unconditional membership in 1966. During its associate membership, Yugoslavia made the transition to a decentralized economy, introducing tariffs and abolishing multiple exchange rates. These reforms earned Yugoslavia full membership in GATT based on the annual import commitments. According to the Department of State, this decision was driven by the imposition of martial law in Poland. The United States restored unconditional most-favored-nation status to Poland in 1987.

In light of its liberalized trade regime—which included the establishment of a customs tariff in January 1988—Poland has recently sought to renegotiate its Protocol of Accession to substitute a tariff schedule, similar to those of other GATT members, for its current 7-percent import commitment. According to a USTR official, the United States supports Poland's proposal to renegotiate its terms of accession to GATT, but will not commit to any particular outcome of the negotiations without first examining the ability of Poland's reformed economy to undertake standard GATT obligations such as national treatment,[10] nondiscrimination, market access, and fair trade.

Romania

Romania became an observer to GATT in 1957 and a full member in 1971. Like Poland, it acceded to GATT on the basis of adhering to global import commitments. Unlike Poland, however, Romania was not required to commit to a specific annual increase in imports from GATT contracting parties. Instead, Romania pledged to a "best efforts" type commitment to increase these imports by not less than the growth of total Romanian imports provided for in its 5-Year Plan.

Another difference between the Polish and Romanian protocols concerns the removal of quantitative restrictions. The contracting parties committed to removing quantitative restrictions on Romanian exports within 3 years; no specific time commitment was made with respect to Poland. (In practice, however, the restrictions have not been totally eliminated for either country.) In addition, the GATT working party review of Romania's trade development and commitments was to take place every 2 years, as opposed to the annual review in effect for Poland. Romania, furthermore, stated that it considered itself to be a developing country and thus believed that it was eligible for certain benefits provided for developing countries under Part IV of GATT.[11]

[10]National treatment refers to giving products imported from any contracting party the same treatment accorded to domestic products

[11]Part IV (Articles XXXVI through XXXVIII) outlines the principles, objectives, commitments, and joint actions to be undertaken to integrate developing countries into GATT. It essentially relieves developing countries from a rigorous adherence to GATT provisions

accorded normal most-favored-nation status.[13] On the basis of a 1978 bilateral trade agreement, the United States and Hungary reciprocally apply the GATT.

Other Nonmarket Economies not Party to GATT

The People's Republic of China

China is an observer to GATT and has requested accession as a market economy country.[14] GATT experts generally believe, however, that some sort of a transition mechanism would make more sense for China's accession than accession as a market economy. There is no consensus among GATT experts on the kind of transition mechanism to be applied. The pace of accession negotiations, underway since 1987, has slowed considerably since the government crackdown on student demonstrations in June 1989, which called into question the future direction of market oriented reform in China.

According to a USTR official, the United States is seeking a five-point framework of commitments from China as a precondition to GATT membership: 1) a uniform trade regime would be applied throughout China; 2) China would address and work to eliminate the GATT-inconsistent nontariff barriers to trade that are currently in place; 3) China would provide a much greater degree of transparency regarding the operation of its trading system than it has previously, including access on a regular basis to trade information and economic data currently not available; 4) China would specify its intentions concerning economic reforms; and 5) China's exports would be subject to a special safeguards clause pending completion of these reforms.

[13]The lack of unconditional most-favored-nation treatment means that Hungary's most-favored-nation status is subject to a 3-year renewal through its commercial agreement with the United States. This differs from GATT most-favored-nation status in that under GATT, application of most-favored-nation trade status is unconditional and for an indefinite period Under U S law, most-favored-nation treatment is limited to 3 years and can be withdrawn at any time if section 402 of the Trade Act of 1974 is invoked Section 402 (referred to as the Jackson-Vanik Amendment) links U S. trade policy to the emigration practices of nonmarket economy countries.

[14]China was a member of GATT from 1948 to 1950. The current Chinese government now asserts that the Chiang Kai-shek government that withdrew from GATT in 1950 was not the legal government of China (the People's Republic of China was established in Oct 1949). Therefore, China is seeking to "resume" its membership in GATT.

U.S. Application of GATT to Nonmarket Economies

The United States was instrumental in developing the principles and institutional framework of the GATT and has traditionally been one of its strongest supporters. However, the United States is constrained by domestic legislation in its ability to apply GATT to nonmarket economy countries. Successive U.S. trade acts have barred, or set conditions on, the extension of most-favored-nation treatment (under varying definitions over the years) to Communist or nonmarket economy counties. Under current U.S. law, embodied in Title IV of the Trade Act of 1974, certain nonmarket economy countries must satisfy, or receive a presidential waiver of, the freedom of emigration provision and certain other criteria contained in the act. This waiver must be granted by the President on an annual basis. If a country satisfies the emigration criteria of the act, most-favored-nation treatment is granted on a 3-year basis linked with renewal of a bilateral trade agreement.[1]

Since 1975, the United States has relied on bilateral agreements with nonmarket economies to grant most-favored-nation status. The substantive elements of the GATT have been incorporated into bilateral agreements that the United States signs with nonmarket economy countries. GATT provisions are incorporated into a U.S. trade agreement to the extent that they do not conflict with the specific provisions of the bilateral agreement, in which case the latter takes precedence. This kind of agreement may be considered inconsistent with the GATT, because GATT rules call for compatibility in domestic policy with GATT policy.

The United States imposes "column 2" (non-most-favored-nation) tariff rates on all nonmarket economy countries other than China, Hungary, Poland, and Yugoslavia.[2] Products from these countries are assessed at the most-favored-nation status rates. The denial of most-favored-nation status to Communist countries was originally authorized by the Trade Agreements Extension Act of 1951. The act directed the President to withhold tariff rate reductions from countries dominated by the "world Communist movement."

As directed by the statute, the President withdrew tariff concessions from all Communist countries, except Yugoslavia, which was deemed to be exempt from the statute. In 1960, the President determined that Poland had shown the requisite independence from the international

[1]The Omnibus Trade and Competitiveness Act of 1988 also set out presidential determinations required for U.S. agreement to GATT accession of nonmarket economy countries.

[2]Czechoslovakia and the Soviet Union have both signed trade agreements with the United States. Each will be granted most-favored-nation status as soon as the agreements are approved by Congress

favored-nation or preferential tariff treatment to all other countries and trading entities.

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U.S. Laws and Regulations Applicable To Imports From Nonmarket Economies Could Be Improved (ID-81-35, Sept. 3, 1981).

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Communist movement required by the statute, and most-favored-nation tariff treatment was granted to Poland in 1960, Romania in 1975, and Hungary in 1978. Table II.1 summarizes the most-favored-nation status of nonmarket economies with the United States.

Table II.1: Nonmarket Economy Countries' Most-Favored-Nation Status With the United States

Country	MFN with United States at the time of GATT accession	Current MFN status with United States	Year MFN granted[a]	Year MFN suspended	Year MFN resumed
Czechoslovakia	Yes	No	b	NA	NA
Yugoslavia	Yes	Yes	NA[d]	NA	NA
Poland	Yes	Yes	1960	1982	1987
Romania	No	No	1975	1988	NA
Hungary	No	Yes	1978	NA	NA
China	NA	Yes	1979	NA	NA
Soviet Union	NA	No[e]	NA	NA	NA
Bulgaria	NA	No	NA	NA	NA

[a]Subsequent to the 1951 Trade Agreements Expansion Act

[b]Czechoslovakia had MFN until 1951. MFN status will be reinstated upon congressional approval of the U.S.-Czechoslovakia trade agreement signed in April 1990

[c]Not applicable

[d]Yugoslavia never lost MFN status from the United States

[e]The Soviet Union signed a trade agreement with the United States in June 1990. MFN treatment will be granted when Congress approves the agreement

Source: Departments of State and Commerce, Organization for Economic Cooperation and Development, U.S. Trade Representative

According to a USTR official, the United States will continue to apply Article XXXV (nonapplication of GATT) or otherwise suspend GATT relations with nonmarket economy countries as long as most-favored-nation status is withheld under the conditions imposed by Title IV of the 1974 Trade Act. For example, although the United States supported the GATT accessions of Romania and Hungary, the United States did not extend them most-favored-nation treatment because of the provisions of the 1962 Trade Agreements Expansion Act.

Currently, Title IV of the 1974 Trade Act does not allow for the application of the most-favored-nation provision of GATT to those countries subject to the Jackson-Vanik Amendment, except upon an annual waiver by the President. With the exception of the Communist countries still not receiving most-favored-nation treatment, the United States grants most-

According to a State Department official, an emphasis on China's using its "best efforts" to achieve full compatibility with GATT probably will be written into China's protocol. The only additional binding provision likely to be in China's protocol will be a safeguard clause. According to a USTR official, China's protocol may be viewed as indicative of the types of commitments and standards that would apply to the Soviet Union at the time of its accession to GATT.

The 1980 U.S.-China bilateral trade agreement provides (a) reciprocal most-favored-nation tariff treatment on imports; (b) protection of patents, copyrights, and trademarks; (c) procedures for the settlement of commercial disputes; and (d) safeguards against market disruption. On May 22, 1990, President Bush announced a 1-year extension of most-favored-nation tariff treatment to China.

Bulgaria

Bulgaria became an observer to GATT in 1967 and applied for accession in September 1986. According to a USTR official, until recently, procedural disagreements concerning how Bulgaria's accession application should be approached delayed activation of the negotiations. According to the same source, Bulgaria has requested consideration for accession as a market economy country, a position the United States rejects. GATT will begin to consider Bulgaria's accession application in late 1990, with a view to determine whether Bulgaria has undertaken sufficient economic reform to permit its accession.

The United States invoked Article XXXV[12] (nonapplication of the GATT) when Romania joined GATT in 1971. Then, on the basis of a bilateral trade agreement, the United States granted Romania most-favored-nation status in 1975. Most-favored-nation status was suspended in July 1988, by mutual agreement. The rest of the 1975 U.S.-Romania bilateral agreement is still in effect, including provisions regarding business facilitation and intellectual property rights.

Hungary

Hungary became a full GATT member in 1973 after 7 years as an observer. Like Yugoslavia, Hungary sought GATT accession on the basis of tariff concessions. No commitment was made to increase imports from GATT members at a fixed percentage rate or on the basis of its past import performance, as was true of Poland and Romania. Although some GATT members had reservations about this arrangement, Hungary was able to convince GATT that its primary method of trade protection was its tariffs. In view of Hungary's economic reforms, this arrangement of mutual tariff reductions was accepted by the contracting parties.

Certain conditions, however, were imposed on Hungary's accession to the GATT. For example, Hungary's trade regulations were subject to a biannual review by the GATT working party. In addition, some GATT contracting parties maintained quantitative restrictions on Hungary's exports, with the provision that the restrictions would be phased out by December 31, 1974. This action, however, has not occurred. In a 1988 bilateral agreement with Hungary, the European Economic Community agreed to eliminate its remaining quantitative restrictions on Hungarian exports by the end of 1995. Hungary is currently considering whether its Protocol of Accession to GATT should be renegotiated.

When Hungary acceded to the GATT, the United States invoked Article XXXV (nonapplication of the GATT), as it had for Romania. However, the United States effectively accorded Hungary annually renewable most-favored-nation treatment from 1978 to 1989, after which Hungary was

[12]Although GATT requires unconditional application of most-favored-nation treatment among its signatories, Article XXXV permits a contracting party to withhold the application of its schedule of tariff concessions, or of the entire agreement, from another contracting party with which it has not entered into tariff negotiations Article XXXV allows a contracting party to have no obligations pursuant to a new GATT member.

normal obligations (tariff concessions) among contracting parties. No conditions were attached to Yugoslavia's becoming a full contracting party to GATT. However, at the time of its accession, Yugoslavia agreed to continue to liberalize its foreign trade regime. In effect, Yugoslavia acceded to GATT as a market economy. The United States and Yugoslavia enjoy full GATT relations.

Poland

Poland became a contracting party to GATT in 1967, having obtained observer status in 1957. The Protocol of Accession provides full application of GATT to Poland, including most-favored-nation status. However, Poland's terms of accession differ in three ways from most-favored-nation treatment accorded to other GATT contracting parties.

First, in addition to agreeing to the provisions related to state trading enterprises already contained in GATT, Poland entered GATT by committing to a 7 percent annual increase in the total value of its imports from the territories of GATT contracting parties. In return, the GATT contracting parties made tariff concessions on Polish imports. Poland's trade is further subject to an annual GATT review by a working party[a] to examine the fulfillment of its import commitments.

Second, notwithstanding Article XIII of GATT, the contracting parties are free to maintain quantitative restrictions on Polish exports. However, the discriminatory element in these restrictions cannot be increased and is supposed to be progressively relaxed over an undetermined period. In a September 1989 European Community-Poland agreement, the European Community committed to abolish its remaining quantitative restrictions on Polish exports from the Community within 5 years (or by 1994).

Third, in the event of any market disruption, the importing country may have recourse to a safeguard clause more rigorous than that generally provided for in the GATT. This safeguard clause allows a contracting party to restrict those exports from Poland that cause or threaten injury to domestic producers

In October 1982, the United States suspended most-favored-nation treatment to Poland on the grounds that Poland had not been fulfilling its

[a]A working party is established by the contracting parties to review and to make recommendations on the degree to which Poland is in compliance with its terms of accession. Working parties are customarily open to the contracting parties that wish to participate in them.

agreed to gradually phase out the quantitative restrictions on their exports that are inconsistent with Article XIII of GATT.[8] According to the Organization for Economic Cooperation and Development and an official of the U.S. Trade Representative (USTR), the majority of quantitative restrictions on the exports of Poland, Hungary, and Romania are expected to be eliminated in the context of negotiations with the European Community, which is the only entity that still maintains them.

The Protocols of Accession for Poland, Hungary, and Romania each contain a safeguard clause and a provision permitting the use of temporary quantitative restrictions by the contracting parties. Concerning the safeguard clauses, in cases of alleged market disruption, bilateral consultation is required. If no solution is reached, selective safeguard measures may be applied for as long a time as necessary to prevent or remedy any injury. Under the Polish protocol, this safeguard right is not reciprocal, but reserved solely for the other contracting parties. Romania and Hungary both have reciprocal safeguard rights. The use of quantitative restrictions is vaguely worded in all three protocols, calling for "progressive relaxation" of the restrictions in Poland's case, and "removal" in the cases of Romania and Hungary.

Unlike Yugoslavia, Poland and Romania obtained GATT membership without adjusting their trading systems. Instead, both committed to adhere to global import commitments from GATT contracting parties because neither Poland nor Romania had an effective customs tariff. According to officials in the Departments of State and Commerce, Poland's and Romania's import commitments generally have not been met due to adverse economic conditions within these countries and hard currency shortages.

The individual nonmarket economy countries that are contracting parties to GATT are discussed below in the order in which they acceded to GATT. Table I.2 summarizes the major features of their GATT accession.

[8] Article XIII (Nondiscriminatory Administration of Quantitative Restrictions) states that a contracting party may not restrict imports from or exports to another GATT country unless the restriction is applied to all GATT members.

governments to regulate trade. Because tariffs have a different significance in nonmarket economies than they do in market economies, a substitute for tariff reductions was needed. Thus, the use of import commitments, as foreseen by the original International Trade Organization draft, was considered when some nonmarket economies showed an interest in joining the GATT.

The Soviet Union and GATT

The Soviet Union is not a GATT member but was granted observer status on May 16, 1990. This status will enable the Soviet Union to attend most GATT meetings and to participate in standing committees. However, the Soviet Union will be precluded from participating in any decision making and in settling trade disputes. Further, the Soviet Union will not be allowed to take part in the ongoing Uruguay Round of trade negotiations scheduled to end in December 1990. The United States supported granting the Soviet Union observer status before the U.S.-Soviet summit, held in June 1990, as a sign of U.S. interest in bringing the Soviet Union into the global economy.

Until the recent reforms in the Soviet Union and Eastern Europe, the United States was the leading opponent of Soviet participation in the GATT, although the European Community and Japan were also opposed to Soviet observership. In the face of international support for Soviet observer status in the GATT, these countries dropped their objections and joined the other GATT members in stating their expectation that the Soviet Union use its new status to achieve economic reforms and to report back regularly to the GATT on its economic progress.

Although supportive of GATT observership, the United States has made it known that the Soviet Union has a long way to go before it could be considered for full membership. Soviet accession to GATT poses concerns due to the size and rigidity of its economy. According to an official at the Department of State, previous nonmarket economy Protocols of Accession[6] would be inadequate models for the Soviet Union due to the differences in the size of the various economies and the Soviet Union's potential impact on the international trade system.

[6]A Protocol of Accession is a legal document that records the obligations agreed to as a consequence of accession to an international accord or organization.

GATT Provisions for Nonmarket Economies

Introduction

The GATT was negotiated in 1947 and came into force in 1948 as a set of disciplines and rules for the conduct of international trade among market economy countries. The GATT is a framework of rights and obligations undertaken among its participants, referred to as "contracting parties." When a contracting party "joins GATT" it commits itself to apply its national laws, regulations, and practices in a manner consistent with the GATT provisions. The GATT contains a list of negotiated tariff schedules, principles, and rules governing trade among the signatories. It also provides a forum in which participating nations can raise, discuss, and settle trade disputes.

The basic obligations of the GATT participants are to promote nondiscrimination and competition in trade through open markets. Contracting parties of the GATT commit to grant each other "most-favored-nation" trade treatment and agree not to discriminate in their trade policies and practices. The GATT aims to foster competition through national commitments to reduce tariffs and remove other barriers to trade.

Nonmarket Economies in GATT

Trade with nonmarket economies was not addressed during the drafting of GATT; therefore, there are no general policies governing their accession[1] to GATT. The GATT, however, does include certain provisions that pertain to state trading operations within a market-driven economy. These provisions were included because the contracting parties recognized that there may be some degree of government intervention within a market economy. These provisions provide the only basis for the integration of nonmarket economies into the GATT system. The provisions address the valuation of exports from state trading enterprises to implement antidumping and countervailing measures, and address the imposition of quantitative restrictions (i.e., quotas on exports from state trading enterprises).

[1] Accession refers to the process of adherence to the terms of the GATT as a nation becomes a contracting party

Contents

Abbreviations

GATT	General Agreement on Tariffs and Trade
MFN	Most Favored Nation
USTR	United States Trade Representative

and the possibility of suspending their GATT rights if it was found that they were not adequately fulfilling their obligations.

China is an observer to GATT and has requested accession. According to an official at the Office of the U.S. Trade Representative, the conditions under which China will negotiate its membership in the GATT may be indicative of the conditions under which the Soviet Union's accession to the GATT might be negotiated.

Although the United States is a strong supporter of the GATT, legislation has prevented the United States from applying GATT rules in its trade relations with nonmarket economy countries. U.S. laws have barred or set conditions on the extension of most-favored-nation tariff treatment,[3] a central GATT obligation, to nonmarket economy countries.

Scope and Methodology

In preparing this fact sheet, we examined current literature on GATT treatment of nonmarket economies, held discussions with officials from the Departments of State and Commerce, and sought the opinions of outside experts.

As requested, we did not obtain formal agency comments on this fact sheet. However, we discussed the contents of this report with officials from the Departments of State and Commerce and the U.S. Trade Representative and incorporated their comments where appropriate. Our work was conducted between February and April 1990.

Appendix I discusses the GATT provisions for nonmarket economy countries. Appendix II reviews the U.S. application of the GATT to nonmarket economy countries

As agreed with your office, we will distribute this fact sheet to other congressional offices, the U.S. Trade Representative, and the Secretaries of State and Commerce. We will make copies available to other parties upon request.

The major contributors to this fact sheet were James McDermott, Assistant Director; Elizabeth Sirois, Project Manager; and Neyla Arnas,

[3]"Most-favored-nation" (MFN) treatment generally refers to the practice of providing nondiscriminatory treatment in the form of customs duties and other charges imposed on imported products

United States General Accounting Office

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Fact Sheet for the Chairman, Committee on Finance, U.S. Senate

August 1990

INTERNATIONAL TRADE

GATT Treatment of Nonmarket Economy Countries

GAO/NSIAD-90-206FS

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-239423

August 1, 1990

The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate

Dear Mr. Chairman:

As requested, this fact sheet provides information on the General Agreement on Tariffs and Trade's (GATT) treatment of nonmarket economy countries[1] in international trade. It also addresses U.S. trade relations with nonmarket economies in the context of the GATT. The information provides a basis to assess conditions under which the Soviet Union might enter the GATT. This material may be useful in evaluating the United States-Soviet trade agreement signed in June 1990.

Background

The GATT was established in 1948 as a forum for conducting international trade among market economy countries. Trade with nonmarket economies was not addressed during the drafting of the GATT, and there are no general policies regarding their accession (membership) to the GATT. Five East European nonmarket economy countries are members of the GATT: Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia. The Soviet Union and China were granted observer status[2] in the GATT in 1990 and 1982, respectively. Once a leading opponent of Soviet participation in the GATT in the 1980s, the United States dropped its objections to granting the Soviet Union observer status in 1989 as a sign of U.S. interest in integrating the Soviet Union into the world economy.

Results in Brief

The GATT has handled the accession of nonmarket economy countries on a case-by-case basis. Each of the five nonmarket economy GATT members acceded at a different time and under different conditions. These conditions included tariff concessions; adherence to import commitments on products from GATT member countries; a "selective safeguard" provision allowing for country-specific trade restrictions, including quotas, in the event of market disruption; a periodic review of these countries' trade;

[1] A nonmarket economy refers to a national economy or a country in which a central planning authority determines economic activity, in contrast to a market economy that depends heavily upon market forces for its economic activity.

[2] A formal observer to GATT does not benefit from GATT trade concessions. Observer countries attend the annual contracting party session and sit in on other GATT meetings and the GATT council.