

GATT: The New Round of Trade Negotiations

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A meeting of ministers of member countries of the General Agreement on Tariffs and Trade (GATT) agreed on a draft agenda for a new round of multilateral trade negotiations in September 1986.

This paper by Nicola Timoney of the College of Commerce, Rathmines, looks at the background to the new round and how it may affect developing countries. The first section considers the history of GATT and the second, Third World interests in GATT. The next section outlines the agenda for the new round before concentrating in more detail on the two most important subjects: agricultural trade and trade in services. The final section considers the general outlook for the new round.

History and role of GATT

Discussions after the end of the Second World War led to the setting up of the International Monetary Fund (IMF) and the World Bank. It was intended that there would be a third international organisation dealing with trade. The General Agreement on Tariffs and Trade (GATT) was signed in 1947 and it functions as the major international instrument which lays down rules for trade accepted by the leading trading nations. There are at present 92 member countries known as contracting parties. The objectives of GATT are 'to ensure that international trade is conducted in order to ensure full employment and a large and steadily growing volume of real and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods.' To achieve these ends the contracting parties should have 'reciprocal and mutually advantageous arrangements directed at the substantial reduction of tariff and other barriers to trade in international commerce'.

The GATT is based on a few fundamental principles.

1. *Non-discrimination* Each member country, or contracting party, has to treat all other member countries equally. It requires member countries to extend most-favoured nation treatment or equal treatment to other member countries (there are agreed rules covering free trade areas and customs unions).
2. *Open markets* This specifies that protection is to be in the form of tariffs with all other forms prohibited.

3. *Prevention of damage to the members' trading interests* While the Agreement does not outlaw dumping or domestic subsidies, all member countries have the right to levy an anti-dumping or subsidy countervailing duty if their industries are materially injured by goods dumped in their market or entering with the help of subsidies.

4. The provision of a *negotiating framework* for the reduction of tariffs whereby such agreements become binding.

Seven rounds of multilateral negotiations have so far taken place under the auspices of GATT – the most recent being the Tokyo Round of 1973-1979. The resulting trade liberalisation led to unprecedented increases in the volume of trade in the 1950s and the 1960s. Since the oil crisis, there has been a slower growth of international trade and a growth of protectionism. Practices in covert and overt contravention of the principles of GATT have been set up in many member countries. The most significant international agreement contrary to free trade principles is the Multi-Fibre Arrangement which was introduced in its first form in the early 1960s to regulate trade in textiles.¹ It purported to bring about a gradual liberalisation of trade but has in fact become an instrument of protection against developing and newly industrialising countries. More generally, voluntary export restraints (VERs), government procurement, technical specifications and administrative procedures are increasingly used as a barrier to imports. Countertrade (the use of barter-type agreements) which is now thought to account for a maximum of 5 per cent of world trade is another form of trade restriction.

Third World interests

The interests of developing countries began to receive special attention in GATT during the 1960s, when committees were set up to examine their participation in international trade. The rule of reciprocity in trade negotiations – that a country is expected to make trade concessions equivalent to those it receives – was waived for developing countries in the 1970s and the Tokyo Round in 1979 formalised this. The need for preferential treatment of developing countries was recognised and a legal basis was given to this in the Generalised System of Preferences whereby developing countries receive concessions on tariffs on manufactured goods exported to developed countries. Developing countries have not yet played a very active role in GATT rounds, but the idea that they should is increasingly being voiced. Kumar, an Indian trade representative, says:

“It was and remains a matter of great concern to the developing countries that the discipline and procedures in the GATT framework should be strictly observed and enforced. Due to their relatively weak economic position, developing countries are more dependent on the observance and enforcement of GATT rules as their defence against unfair trade practices than are the large industrialised countries which can wield retaliatory power to varying degrees. (Similarly, the smaller developed countries have to look to multilateral institutions, like GATT, to defend their

legitimate interests.) Consequently, the developing countries sought to strengthen the enforcement mechanism of GATT articles and, too, to extend the GATT's multilateral surveillance procedures."²

Similarly, Srinivasan feels that the drive for the demands of the new international economic order. (NIEO) including the integrated programme for commodities and preferential treatment in terms of tariff reductions, has eased partly in view of a lack of the expected consensus among the developing countries. He feels that GATT may become an important forum for negotiations by developing countries:

“By participating fully in GATT discussions and taking a stand against any and all protectionist measures, and by moving towards reciprocity, rather than demanding special treatment, developing countries should gain much more.”³

Developing countries now constitute two-thirds of the membership of GATT (see Appendix). The General Agreement provides for each country having one vote at all meetings, unlike the weighted voting systems of the IMF and the World Bank. In practice, however, the GATT functions through the collective action of the contracting parties and a consensus is sought rather than a vote taken.

This latest round of GATT, launched at a ministerial meeting in Uruguay in September 1986, is being held mainly at the USA's initiative. The present US administration feels that America's interest lies in freer trade and wants GATT to open up new markets for American goods and services. Also, the administration is anxious to use an international institution such as GATT to resist protectionist pressures in Congress.

The European Community acceded to the request to have the new round, although, for it, possible benefits are smaller. GATT might try to outlaw the voluntary restraint agreements, whereas the Community would want to have them legitimised. In addition, the Community viewed the inclusion of agriculture with trepidation. Japan, or rather its Ministry of Trade and Industry, favoured having the talks, although it is in favour of VERs. In the preparatory stages of the negotiations, developing countries were seeking a commitment to a “standstill” – no new impediments to trade should be introduced – and to “rollback” – existing agreements which are in contravention of GATT principles to be phased out.

Ireland negotiates at GATT through the auspices of the European Community, i.e., the Commission negotiates on behalf of the member countries. The Commission seeks a mandate through internal Community negotiations and puts forward the agreed position at the multilateral discussions. To date, Ireland has agreed with the line the Community is taking, particularly on agriculture, and no significant area of disagreement has arisen.

The agenda

An agenda for the multilateral trade negotiations was agreed at the ministerial

meeting in Uruguay in September 1986, contrary to some observers' fears that this might not be possible.

The ministerial statement does include a commitment to "standstill", including that participants shall not take any trade measures which improve their negotiating positions, and a declaration on "rollback" specifying that existing measures inconsistent with the provisions of GATT should be phased out before the date of the formal completion of the negotiations.

Another item on the agenda is the question of the safeguard clause. This is rule XIX of GATT which allows restrictions on imports for emergency reasons. Discussing the US experience of increases in imports, Pearson and Ellyne⁴ suggest that this clause is not invoked very often and that countries prefer informal export restraint agreements, negotiated informally and usually in camera, between governments on an industry-by-industry basis. They show that perceptions of these surges of imports may often be erroneous, e.g., that they are not disruptive in that home production continues increasing, that the source of imports is misplaced etc. The negotiations on the safeguard clause should reach agreement on transparency, objective criteria for action including the concept of serious injury, duration of measures taken etc.

Another issue of concern to both developed and developing countries is the dispute settlement procedure in GATT. This is held to be unsatisfactory – providing for consultation between the interested parties and/or adjudication by special panels or working parties. The dissatisfaction relates to the time-scales and procedures for such mechanisms and particularly the absence of enforcement procedures. The declaration from the ministerial meeting says that negotiations shall aim to improve and strengthen the rules and procedures of the dispute settlement process, suggesting that GATT should have more enforceable rules.

At the specific request of the United States, the agenda also includes the subject of intellectual property rights, including the protection of patents and copyright and the question of counterfeit goods. Confrontation could possibly arise in this area between developed and developing or newly industrialising countries although the issues are also of great concern to the developed countries.

The agenda includes a number of items: provision for negotiations on tariff reduction and on elimination or reduction of non-tariff measures. Tropical products, natural resource-based products and textiles and clothing are specifically mentioned. (The Multi-Fibre Arrangement is to be eventually integrated into GATT on the basis of strengthened rules, but no specific deadline is set.)

Agricultural trade

Two of the most important items on the agenda are agricultural trade and trade in services. From the creation of GATT, special rules have applied to trade in agriculture. Beginning at the Tokyo Round in 1973-1979, GATT started to involve itself a little in agriculture and international agreements were signed by interested contracting parties (member countries) on bovine meat, dairy products and tropical products.

Having agricultural trade on the agenda of the new round of negotiations was not itself contentious. But the form these negotiations should take was a continuous problem throughout the preparatory stages. For the EEC, and France particularly, the major fear was that the essentially domestic Common Agricultural Policy (CAP) would be open to negotiation in the round. While internal economic policies are not negotiable, the Community's system of export restitutions which is fundamental to the CAP, relates to trade and is therefore vulnerable. France worked hard to ensure, through arduous negotiations at the Preparatory Committee and at Punte del Este in Uruguay, that no specific timetable for phasing out the restitutions should appear, and that negotiations on agriculture be conducted only within a committee on agriculture. As a result of its stand the Community drew criticism from developed and developing countries alike. A group of leading agricultural exporting nations, including Argentina, Australia, Brazil, Canada, New Zealand, Indonesia and Thailand, had met in July to consider their grievances over continued agricultural protectionism and a group of leading grain exporters held a conference in Cairns, Australia to co-ordinate their stand at GATT. Thus, the Community became increasingly isolated.

The Community's agricultural policies affect developing countries in three ways (see Matthews⁵):

- (1) Countries which import food are affected through the Community's influence on world agricultural prices. Importers of temperate zone products may gain from lower world prices due to EEC export subsidies.
- (2) Countries which export certain products may have lower and more variable export earnings.
- (3) Certain developing countries are affected by the Community's preferential trade agreements. For instance, exporters of fruit and vegetables have lost markets due to the substitution of imports from the Mediterranean regions.

An examination of the pattern of world trade in agricultural goods shows that the Community and developing nations compete to only a limited extent on world markets. Liberalisation of agricultural trade by the industrialised countries would mainly affect developing countries which export commodities produced in both tropical and temperate climates – sugar, beef and tobacco.

Agriculture can be viewed as the most significant failure of the principles of GATT. It has been on the GATT agenda since the early stages, but most efforts to address the real issues have been obscured and progress is slow. Agriculture is also probably the chief cause of recent trade disputes. A reduction in the level of European agricultural protectionism has long been sought by the United States. However Tangermann comments:

“Given the highly complex nature of agricultural trade policies, the prevalence of non-tariff measures and the degree of separation of domestic markets from world markets, agricultural protection does not easily lend itself to liberalisation through the standard tariff-cutting approach.”⁶

section of the agenda dealing with agriculture should be phrased. It says negotiations shall aim to achieve greater liberalisation of agricultural trade 'by improving the competitive environment by increasing discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including phased reduction of their negative effects and dealing with their causes.' The European Commission was happy with its wording. First, it mentions all measures affecting trade in agricultural products, thus covering for instance, headage payments or export credits rather than concentrating on the export restitutions characteristic of the Community's agricultural policy. Secondly, the discussions will cover the causes and the negative effects of these policies, giving the negotiations broad scope on worldwide issues in agriculture. Thirdly, the framework within which these negotiations will take place ensures that concessions on agriculture will not have to be intermingled with those on industrial goods, thus confusing the issue. Giving responsibility for negotiations to the committee on agriculture in this way is in line with the Community's wishes.

Trade in services

International commerce could not be conducted without services. Trade must be financed, cargo insured, goods transported, distributed and marketed. Many other services may be traded, such as technical services, travel, tourism, films and the expertise of lawyers, engineers, accountants, medical personnel and professionals. Some services are directly linked to the movement of goods; others are not, and may be performed without the physical presence of the service provider. This physical 'disembodiment' is made more feasible with rapid change in communications and information networks.

Trade in services is not straightforward to measure, but studies suggest an annual growth rate of 20 per cent during the 1970s,⁸ accounting for about one-fifth of the world trade in goods and services. At first glance, it would appear that the United States is the world leader in exports of services, but if factor income from abroad is taken out, the USA, UK, France and Germany each account for a little under 10 per cent of receipts from exports of services. The growth in trade in services can be linked to a number of influences. It represents first the underlying shift in employment from manufacturing to services in OECD countries. Secondly, the distinction between manufacturing and services is increasingly blurred with, on the one hand, for example, computer manufacturing firms moving into word processing, software, etc. and on the other, the increased contracting out of services previously provided within manufacturing firms.

Barriers to trade in services may resemble those in goods – tariffs, licences to import, quotas or procurement policies. These barriers are usually raised to meet broad objectives of national economic policies: in many developing countries, government regulations are often designed to protect the domestic infant industry against foreign competition. The barriers may also serve very important functions such as regulation of the banking system and development of the local capital market. The picture is further complicated by the fact that

many services may be provided by government agencies.

The initiative for having services on the agenda at this round of GATT negotiations lies with the United States, which has, since the early 1980s, made several diplomatic efforts to persuade other countries to prepare for multilateral negotiations on the trade in services. The American objectives would appear to be twofold: first, to set up new rules to govern international transactions in the services sector of the world economy and second, to promote the liberalisation of internationally traded services. More specifically the present administration would appear to be seeking to apply GATT principles to services:

- (a) *National Treatment*: Foreign services and their suppliers should be treated on the same basis as the domestic firms supplying these services.
- (b) *Least Restrictive Regulations*: Each government should commit itself to adopting regulations in the least restrictive manner possible.
- (c) *Right to Sell*: The right to transact would include automatic free access to local distribution and delivery channels.
- (d) *Transparency*: Regulations which distort trade should be open and unambiguous.
- (e) *Settlement of Disputes*: There should be opportunities for consultations in the settlement of disputes involving trade in services.

In many developing countries there was scepticism or even strong resistance to the idea of services being on the GATT agenda. There was, in many governments, the suspicion that the US and a handful of the other more advanced developed countries, simply wanted to consolidate their present dominance in the international provision of services. If it is true that recent progress in telecommunications and computer technologies offers substantial economies of scale (that for instance, once an information grid is built, the additional cost of processing and transmitting extra information is very small) then these fears of developing countries are not misplaced. They also felt that liberalisation of trade in services would restrict the ability of governments to assist the development of indigenous service industries. Brazil and India have particular concerns in this area, and at the Preparatory Committee leading up to the ministerial meeting in Uruguay, they made strenuous efforts to have services taken off the agenda. The EEC position was basically favourable to the inclusion of services and the Community played a role in bringing the two sides together – the US and the hard-line developing countries. The compromise outcome is that services figure in a separate part of the declarations from the ministerial meeting. Negotiations on this subject will be conducted in parallel rather than jointly with those on goods, thus partially alleviating the developing countries' fears of having to trade concessions on services for those which they would hope to receive on goods.

The negotiations on services are likely to be complex and lengthy. Considerations of confidentiality and national security govern many regulations on electronically stored or transmitted information. A 'free flow' of information is not feasible, in that the commercial value of information is

determined by how freely or otherwise it is available. In many states, there is not even a national, not to mention an international, consensus on the framework for the regulation of services. Given also that the area is one of very rapid technological advance, a 'standstill' on government regulations is impossible. In addition, negotiating liberalisation of trade in services would lead to the question of establishment rights. This would open the extremely complex questions of foreign investment regulation and rules for the conduct of business by non-nationals which few governments would wish to negotiate in detail. Modern services, if they were to be liberalised, would require agreed technical standards, so that international negotiations would have to proceed in many other fora, in addition to GATT. The US view is that the new framework of rules might supplant, supplement or co-exist with the few existing current international agreements. It might be interlinked with GATT or established as a separate independent code applicable only to signatory countries. This last possibility appears the most likely – with few developing countries signing.

Outlook

Many observers feel that this round will be crucial in the history of GATT. In fact, many feared that the ministerial meeting in Uruguay might not be able to agree on an agenda for the round, and this would have very adverse consequences for the Agreement.

The rise in protectionism in industrial countries is the first threat to the future of an open international trading system. It is shown in the rising numbers of bilateral trade agreements, voluntary export restraints and many other non-tariff barriers. The issue is whether GATT is able to cope with these features of the present situation in world trade.

The aims of the new round are to bring about a further liberalisation and expansion of world trade to the benefit of all countries, especially less developed contracting parties, improving the access to markets by the reduction and elimination of tariffs and other measures. The negotiations will also aim to strengthen the role of GATT and to improve the multilateral trading system based on GATT principles, bringing about a wider coverage of world trade under agreed effective and enforceable multilateral disciplines.

The developed industrial countries are seeking, in addition to further liberalisation of trade in manufactures, an extension of GATT principles to agriculture and to services. The concern over services is strongest in the United States. Negotiations in this area are likely to involve a lengthy period of discussions on definitions and measurement of trade flows, before an agreed framework and liberalisation questions could be considered. Japan is interested in liberalisation of trade in manufactured goods, or possibly simply an improvement in its voluntary export restraints. With the US, Canada, Australia and some developing countries such as Brazil and Argentina are also very interested in liberalisation of world trade in agriculture.

Developing countries are thought to be divided in their approaches to these negotiations. Some developing countries, led by Brazil and Argentina, have

adopted a hardline approach. This involved attempting to have services taken off the agenda to protect indigenous service industries and requesting reform of the international financial and monetary system. Other developing countries, led by newly industrialised countries, see hope for reducing barriers to trade through GATT. They expect protectionism in developed countries to intensify rather than to ease and see GATT as possibly holding back this tide.

The agenda agreed in Uruguay restates that developing countries are not expected to adhere to the principle of reciprocity: the developed countries will not require that developing countries make concessions inconsistent with their individual development, financial and trade needs. It is possible therefore, that some, particularly the poorer, developing countries could win further concessions under the generalised system of preferences. Newly industrialising countries on the other hand could play the game of industrialised countries and obtain a standstill on VERs. Indeed, the agenda includes, in an understated form, the idea of "graduation", i.e., that developing countries as they develop would expect to participate more fully in the framework of rights and obligations under GATT. To a certain extent this is already happening in the case of the more advanced newly industrialising countries.

A four-year timetable has been set for the negotiations. This is regarded as optimistic. If the new round makes any progress towards the liberalisation of trade in that time, it should be considered a success. Substantial advances could take much longer.

Footnotes

¹For a fuller discussion of the MFA, see J. Fitzpatrick, "MFA IV – Prospects for the Textile and Clothing Negotiations"; *Trócaire Development Review*, 1985, pp. 65-74

²KUMAR, P., "Critical Issues in the Talks on Emergency Protection", *The World Economy*, November 1982

³SRINIVASAN, T.N., "Why developing countries should participate in the GATT System", *The World Economy*, March 1982

⁴PEARSON, C. and M. ELLYNE, "Surges of Imports: Perceptions versus Evidence", *The World Economy*, September 1985

⁵MATTHEWS, A., *The Common Agricultural Policy and the Less Developed Countries*, Trócaire and Gill and Macmillan, 1985

⁶TANGERMANN, S., "What is different about European agricultural protectionism", *The World Economy*, March 1983

⁷See W. Dullforce and C. Dawney, "GATT – launching the new round", in *The Financial Times*, 22 September 1986

⁸SCHOTT, J.J., "Protectionist threat to trade and investment in services", *The World Economy*, June 1983

APPENDIX**Contracting parties to the General Agreement on Tariffs and Trade (1986)**

Argentina	Haiti	Peru
Australia	Hong Kong	Philippines
Austria	Hungary	Poland
Bangladesh	Iceland	Portugal
Barbados	India	Romania
Belgium	Indonesia	Rwanda
Benin	Ireland	Senegal
Brazil	Israel	Sierra Leone
Burma	Italy	Singapore
Burundi	Ivory Coast	South Africa
Cameroon	Jamaica	Spain
Canada	Japan	Sri Lanka
Central African Republic	Kenya	Surinam
Chad	Korea, Rep.	Sweden
Chile	Kuwait	Switzerland
Colombia	Luxembourg	Tanzania
Congo	Madagascar	Thailand
Cuba	Malawi	Togo
Cyprus	Malaysia	Trinidad
Czechoslovakia	Maldives	Tobago
Denmark	Malta	Tunisia
Dominican Republic	Mauritania	Turkey
Egypt	Mauritius	Uganda
Finland	Mexico	United Kingdom
France	Netherlands	United States of America
Gabon	New Zealand	Upper Volta
Gambia	Nicaragua	Uruguay
Germany, Fed. Rep.	Niger	Yugoslavia
Ghana	Nigeria	Zaire
Greece	Norway	Zambia
Guyana	Pakistan	Zimbabwe

GATT used to have a reputation as a 'rich country club'. Now two-thirds of the members are developing countries. It is, however, a market-oriented club – few planned economies are members (Hungary, Poland, Romania, Yugoslavia). Three are also part of the Organisation of Petroleum Exporting Countries (Indonesia, Kuwait and Nigeria). The People's Republic of China was a founder member of GATT and has recently applied to rejoin.