

The attached press features are intended to outline the main areas of negotiation in the Uruguay Round and to emphasise their importance and relevance to the everyday concerns of businessmen, employees, investors, consumers - in fact, everyone with an interest in the health of world trade. The Round is extremely complex and touches on many aspects of global economic activity. Equally, governments have pursued their national objectives through sophisticated and carefully-considered negotiating positions. In seeking to simplify the issues for the general reader, these features are not intended to compromise any negotiating position of any participant.

The eight items consist of a general feature looking at the overall impact of the Round and one on each of the seven current negotiating areas. The material can be used freely, in whole or in part, and without attribution or acknowledgement.

December 1991

## **THE URUGUAY ROUND: A GIANT STEP FOR TRADE AND DEVELOPMENT, AND A RESPONSE TO THE CHALLENGES OF THE MODERN WORLD**

### **Why? ...**

Why is success in the Uruguay Round really necessary? What is there to lose if it fails? Is it only the credibility of GATT as an institution that is at stake? Is it the resolution of a few specific trade problems of importance to just one or other of the big trading nations? Or are the stakes higher still? The answers lie in the past and in the future - what has GATT done so far, and what could it do in the future if its member countries achieve the objectives they set themselves in the Uruguay Round negotiations?

### **Because ...**

GATT has an acknowledged record of achievement. As a result of seven trade rounds since it was established, it has secured the lowering of average tariff levels from around 40 per cent in the late 1940s to about 5 per cent now. That has helped international trade enjoy long periods of high growth - an average of 8 per cent annually in the 1950s and 1960s for instance. These phases were undoubtedly spurred by the impressive reduction of trade barriers and, no less, by the climate of confidence the GATT system has created for businessmen to invest and trade in an increasingly open global market.

In volume terms, world merchandise trade has multiplied 12 fold since GATT was established in 1947. The value of merchandise trade rose from about \$57 billion, in 1947, to a record \$3500 billion last year. Trade in services is now worth at least \$800 billion a year.

### **Because ...**

A major factor in the recovery of the world economy and trade in the 1980s was the strength of United States' import demand. However, the attitude of the US Administration to the country's trading performance was very much influenced by its expectations for opening up new market opportunities for its exporters; in particular, through the Uruguay Round. Other trading nations made the same assumption: some even decided on their own to open up their economies to greater international competition because they considered that this was the irreversible direction of world trade as a whole. In many cases, these were developing countries and, more recently, have included the reforming countries of Eastern and Central Europe.

These individual efforts at trade liberalization gathered pace as the Round progressed. They were a clear expression of anticipation of a successful outcome of the Round and its potential for promoting sustained economic growth. Would governments be disposed to do the same in the future in the absence of results from the negotiations? Might reforms even begin to unravel? The blow to business confidence would almost certainly exacerbate the slow-down in economic growth and trade seen in 1989 and 1990. Already there are early signs of further deterioration - the reappearance of inflation and high unemployment in several industrialized countries, for instance. And would some governments simply concentrate on the distant, second-best solution of creating new regional groups? Because ...

Current economic conditions are a dangerous breeding environment for ever-present protectionist tendencies and short-term thinking in government policy-making. An upsurge in protectionist policies would give rise to a climate of conflict and a lack of business confidence that would result in a further slow-down in production and trade. Recourse to unilateral or bilateral solutions more or less imposed at the political level would flout the principles at the heart of multilateralism - principles which have ensured economic benefits from the system for all its participants for many decades. GATT is a rampart against a chain reaction of retaliatory protectionist measures which such a policy drift would inspire.

### **Because ...**

GATT is being pushed by many global developments into assuming a strengthened role in the new multilateralism of the future. The renunciation of centralized economic management in Central and Eastern Europe, the Soviet Union and elsewhere is a call for help to which the market-based GATT system must respond. The huge potential for economic and trade development of these new democracies - which together represent markets of hundreds of millions consumers for foreign suppliers, as well as competing exporters - needs a strong GATT. They look to joining a coherent and stable trading system that is well adjusted to commercial realities; capable not only of absorbing the shock of their integration but also of displaying a creative and flexible response to the challenges they will face in the future.

There are many linkages at work in the global economy. At the international level it has become increasingly difficult to separate the objectives and effects of policies on trade, finance, money and world development. This is recognised in the Uruguay Round. At the same time the gap between traditional trade policies imposed at the border (tariffs, for instance) and domestic policies having trade effects (production subsidies, among them) - has narrowed significantly as the agenda of the Uruguay Round demonstrates clearly.

**Because ...**

The nature and complexity of trade are changing and provide challenges to the multilateral system. Trade in services has created millions of jobs and is still booming. Securing a set of rules and the progressive opening of services markets should help drive the growth of this sector.

Competitiveness depends more than ever on creativity and innovation especially in high-technology industries. Agreement on a Uruguay Round package would provide more adequate protection for intellectual property, and thus strengthen economic growth and the spread of technology worldwide.

Trade in textiles and agriculture serve to satisfy basic human needs. At the same time, they illustrate the dilemma between conflicting pressures to maintain long-standing protection in some markets, on one hand, and the pressing need of many competitive producers for these sectors to be progressively opened up to market forces, on the other. Consumers and taxpayers would be the first to benefit from liberalization, and major sources of conflict would be eased.

**Because ...**

Success in the Uruguay Round will also reflect changes in the ways of "doing business". The interplay between trade in goods and trade in services, the impact of computers and advanced telecommunications, and the effects of the rapid growth of international investment as a stimulant or an alternative to trade all provide good reasons for updating the multilateral trade rules. It is necessary to adapt or add to some of the rules of the General Agreement. So, rules on the origin of goods, the alleged circumvention of anti-dumping duties by local assembly operations, and trade-distorting investment practices are among many being discussed in the Uruguay Round.

**That's why!**

The Uruguay Round is thus linked with the realities of trade in the 1990s and the global challenges of the day. It is the biggest round of trade negotiations ever undertaken. It is an opportunity to stimulate sustainable growth in developed and developing economies alike. Its success will affect the world economy as a whole, but also each of us in our daily lives as workers, employers, entrepreneurs, traders, investors or consumers.

## **MARKET ACCESS: CREATING WIDER CHOICE FOR CONSUMERS AND COMPETITIVE CONDITIONS FOR TRADERS**

The consumer's pocket and the efficient company's balance sheet will be the first to benefit from a successful Uruguay Round. Tariff liberalization lowers prices for consumers, and encourages the more efficient allocation of national resources to competitive industries. And it is a spur for development in poorer countries.

### **Continuing with unfinished business**

The steep decline in tariff levels during the postwar period - from about 40 per cent to around 5 per cent on industrial goods in developed countries - is the result of the seven completed trade rounds sponsored by GATT. In the same period, the value of world merchandise trade soared from \$57 billion to over \$3,500 billion a year. The Uruguay Round promises not only a continuation of trade liberalization, but its further extension in terms of tariff cuts and bindings (the freezing of maximum duty rates in national membership schedules) to the potentially huge markets of the developing world. However, because of GATT's previous success, this Round has had to tackle the most sensitive remaining high tariffs which have been left intact in the past.

Since the launching of the Round in 1986, many developing countries have been liberalizing their trade regimes independently in anticipation of a successful Round (in 1990, imports by developing countries rose by 8 per cent - higher than the world import growth rate of 5 per cent). Countries recently joining the GATT have undertaken comprehensive market-opening reforms, expecting to be part of a more liberal multilateral trading system. A failed Round could not only seriously undercut this trade liberalization trend sweeping long-insulated markets, it could also badly damage an economic lifeline from Eastern Europe, and other countries in transition to market economies, which need to cope with a collapse in traditional trade arrangements. It is not surprising that "trade not aid" has become a popular slogan in these countries.

### **Lower barriers - higher gains**

Market-access negotiators in the Uruguay Round committed themselves to lower tariffs, on average, by no less than the reduction achieved during the Tokyo Round - about 30 per cent. They are also addressing specific trade practices like tariff escalation (when import duties are higher on semi-processed products than on raw materials, and higher still on finished products) and tariff peaks (the use of high tariffs to shelter certain sensitive industries like textiles). Some participants are also aiming to negotiate, in the so-called "zero-for-zero" initiative, the complete elimi-

## Uruguay Round

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nation of tariffs in some sectors, including steel, chemicals, medicine, fish, wood and paper, beer, electronic products and medical and construction equipment.

The negotiations are also expected to result in substantial reduction in non-tariff measures (NTMs). NTMs are considered less desirable than tariffs because they directly reduce competition and often are not transparent. Some examples of NTMs are import quotas, import licensing systems, "buy-national" provisions and technical standards.

Two specific sectors are covered by the market-access negotiations: tropical products and natural resource-based products. A successful deal should lower prices for many familiar grocery items like bananas, coffee, tea, chocolate, cooking oil, fish, paper, spices and nuts. At the same time, it would help many struggling economies dependent on export of a few cash crops who desperately need new market-access opportunities. The Mid-Term Review led to provisional concessions on tropical products involving trade worth an estimated US\$20 billion. This package and further more significant concessions would be at risk should the Round fail.

## **TEXTILES AND CLOTHING: ENDING A BIG EXCEPTION TO THE WORLD TRADE RULES**

Many of us pay much too much for at least one basic necessity - clothing. Since 1974, much of the textiles and clothing imports of industrialized countries has been subject to bilateral quota restrictions negotiated under the Multifibre Arrangement (MFA). Not only that but high tariffs are often imposed on textiles. Consumers in developing countries often equally disadvantaged by tariffs and other trade barriers on imports of textiles and clothing.

The original aim of negotiating an exception for the textile sector from GATT rules was to give a breathing space for developed countries' industries to adjust to competition from lower-cost producers. The MFA itself was an extension of the short-term and long-term cotton agreements negotiated in the GATT in the 1960s.

Estimates of the total cost to consumers of this trade protection in the United States alone are as high as \$27 billion a year. Removing tariffs and MFA quotas would lower import prices of textiles and clothing by up to 50 per cent for the American consumer, according to studies. Some economists have also calculated that trade protection forces British and Canadian consumers annually to pay £500 million and C\$800 million extra, respectively, for clothing purchases. It has been estimated that annual consumer costs of protection per job saved in these three countries are roughly four to seven times higher than the average annual wage rates in the textile and clothing industries. Economists have also pointed out that trade protection in this sector hits lower-income families especially hard since clothing is a basic need.

### **From rags to riches**

The textiles and clothing industry has long been considered the first stepping stone in industrial development. However, countries relinquish some of the competitive edge in textiles and clothing to less-developed countries as they move up the ladder of industrialization. This was the case for the United Kingdom in the mid-19th century. Then it was the United States, France and Germany. Next was Japan, and then more recently, Hong Kong, Korea, Taiwan and Singapore. Countries such as Bangladesh, Thailand and Jamaica want to become major players in the textiles and clothing sector in their turn.

Industries seldom die out when comparative advantage moves to other nations. Many highly-profitable and competitive firms exist in the clothing and textiles sectors in North America, Europe and Japan. But even with the protection of the MFA (and some would argue because of it), employment in these countries has fallen dramatically over recent decades - due, in large part, to investment in new

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production technology. In the textile industry, employment in the European Communities and Japan is currently about half that of 1973, and in the United States and Canada, about a quarter less. In the clothing sector the picture is more complex. While employment has declined more than for textiles in some countries, such as the US, Canada and some European countries, in other parts of Europe the decline is less and in Japan it has in fact gone up.

### **Made to measure**

Would a Uruguay Round agreement mean an immediate closure of textile and clothing industries in the importing countries? No. What is envisaged is a progressive integration of the sector into GATT. This means that normal GATT rules will ultimately apply to this, as to every other sector. But the transition period would give the affected industries in the developed countries further time to adjust to more competitive conditions - and there is no reason why viable textile and clothing industries should not be retained in the United States, Europe, Canada and elsewhere at the end of the process. A special safeguard mechanism would also enable an importing country to deal with a sudden surge of textiles and clothing imports. At the same time, improved rules elsewhere in the GATT would ensure fair, competitive conditions in all markets. Textile and clothing markets in the developing countries would also open up as part of a Uruguay Round deal. All in all, a deal should mean a big boost for textiles and clothing trade which is already valued at around \$120 billion a year in each of the two sectors.



## **MAKING SENSE OF FARM POLICIES: A BETTER DEAL FOR CONSUMERS, TAXPAYERS AND COMPETITIVE PRODUCERS**

Agriculture is a politically sensitive negotiating area for many governments; it provides a livelihood for the world's farmers - but it is also a concern for all of us as consumers.

Trade in agricultural products is governed by GATT disciplines, but they are mostly less predictable than those applicable to industrial goods. Agricultural products have also largely been excluded from the big reductions in tariffs and non-tariff barriers made in previous negotiating rounds. As a result, exceptional treatment has led to uncompetitive production and growing surpluses shielded behind a proliferation of market restrictions and subsidy practices worldwide.

### **Restrictions retard growth**

It should be no surprise, therefore, that world agricultural trade has grown much less rapidly than trade in other products; it stands at \$400 billion a year and currently represents 11 per cent of total world merchandise trade, compared with 46 per cent in 1950. However, a third of the world's population is estimated to be involved in agricultural production, and about two thirds of the population of developing countries.

In the case of food products, the big exporters are developed countries: the United States, France, the Netherlands, Germany and the United Kingdom are foremost among them. But the importance of agricultural products within their exports is much smaller (10-15 per cent on average) than for some developing countries. For example, more than half of Argentina's exports and more than a third of Thailand's are food products.

### **A furrowed playing field**

The cost of supporting the farm sector is huge, reaching almost \$300 billion in 1990. Budgetary costs alone represent about \$50 billion each for the two major agricultural producers and exporters - the United States and the European Community. And the competition between these big farm traders to win and retain international markets has grown fierce and expensive. This has damaged many countries' chances of exporting the agricultural goods they produce efficiently and hence earning the wherewithal to repay their debt. At the same time it has discouraged the development of efficient farm sectors in the poorest countries. The economic and political cost of maintaining the *status quo* in the agricultural sector would, therefore, be very high. A major reform, reversing the direction of decades of unsustain-

able farm policies, may be difficult to swallow for some governments faced with worried agricultural constituencies but the overall benefits worldwide are unarguable and the need for change almost universally recognized.

To be more specific, what positive changes may be expected from the Uruguay Round negotiations? First, national policies concerning direct government spending - domestically and to promote exports - would be modified to inject some fair competition in farm trade.

### **A better form of support**

Certain types of internal aid would be permitted (for example, for the protection of the environment), as well as certain export measures (such as genuine food aid). On the other hand, Government aids that have the effect of encouraging production and increasing surpluses, thus heralding export subsidies and distorting trade, would be progressively reduced and replaced by legitimate aids. Government support would move to direct income support for farmers which would not stimulate inefficient production.

A change of this kind would avert the build-up of excessive stocks of agricultural goods which have a high three-fold cost: the initial purchase of surpluses, the costs of storage, and their disposal in overseas markets by means of subsidies. The huge budgets devoted to these stocks - ultimately paid for by consumers and taxpayers - could eventually be shifted to more beneficial uses.

### **Opening doors for a healthier environment**

The second area of reform is the opening of national markets to international competition, by replacing the many insurmountable non-tariff measures affecting agricultural imports with normal customs duties which would be progressively reduced. As a result, consumers would have a wider choice of competitively-priced agricultural goods.

Third, new disciplines on export competition - progressive reductions in export subsidies, in particular - will bring fairness to the international markets and provide opportunities for efficient farmers who have been squeezed out of world trade for years.

While allowing protection of human, animal and plant safety and health, agreements envisaged in the Round would curb the use of such regulations for protectionist purposes.

Overall, the environment should be aided by Uruguay Round reforms - reducing high-intensity, over-subsidized production for instance. And a wider range

of suppliers would ensure secure food and better quality food in many countries. At the same time, the particular problems of developing countries will be recognised in a Uruguay Round deal.

One by-product of reform should be the easing of agricultural trade conflicts, by the establishment of clear rules to determine what is allowed and what is not. Where disputes do arise they should be more readily resolved.

However radical the reform commitments may seem, they will be introduced gradually. The shock to farm communities will be cushioned. At the same time, farmers will have, at the end of the Round, a clear idea of the environment in which they will need to work in the future. And farmers in countries now largely kept out of international markets by the export subsidy practices of the major players, should see a valuable improvement in their opportunities to trade.

## PUTTING THE TRADE RULES IN ORDER

Why does world trade need rules at all? From one point of view, it is not so different from the rules of the road. Car drivers need to know how to predict the behaviour of others on the highway - if they cannot do so then traffic will not flow freely, at best, and violent confrontation follows, at worst. Importers and exporters, as well as investors and even consumers, need some predictability in markets if world trade is to flow freely. If there is no predictability, why should anyone take the risk of trading or investing? If the rules don't exist or are inadequate, there is nothing to prevent damaging trade disputes.

So, GATT is a contractual arrangement between countries which is founded on rules. If members chose to break the rules - which are based upon the need for predictability and stability and a healthy competitive environment for business - then they run risks. They risk damaging their own long-term economic interests and they risk a legal reaction from other GATT members.

But in drafting these rules, the founding fathers of GATT mixed economic sense with political realism. So, while principles like non-discrimination, security of trade concessions, undistorted competition and progressive liberalization, form the pillars of the General Agreement, there exist also exceptions which recognise that there is no such thing as a perfect world.

### Clear rules enhance freedom of movement

However, the rules are not perfect either. Some have proved impossible to implement, some are subject to wildly differing interpretations by GATT members and some are simply out of step with the realities of trade in the 1990s. Much of the Round is about rule-making. The agriculture, services, intellectual property and textiles negotiations all, in some way, have rule-making elements in them. But many other rules, each of which may have a vital practical importance for businessmen, are being negotiated or renegotiated.

The GATT has several rules relating to fair competition. These include *anti-dumping* and *subsidies* disciplines. Both dumping (exporting at prices below those charged in the domestic market) and subsidies can be offset by the importing country through anti-dumping or countervailing duties respectively. But the investigation of complaints and the imposition of these duties can be excessive and lead to suspicions of deliberate and unwarranted trade harassment. Over 90 per cent of all anti-dumping investigations and duties are imposed by just four major traders (the EC, US, Australia and Canada) while the United States accounts for the vast majority of countervailing actions. Among the countries most often targetted by anti-

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dumping actions are: Japan, the United States, China, Korea, Taiwan, and member states of the European Community.

The negotiations seek to ensure proper restraint on the use of anti-dumping and countervailing regulations. At the same time, some parties are seeking to extend their use to new trading situations like the alleged circumvention of duties through the establishment of assembly plants in importing markets. On the other hand, there are efforts to further restrict, if not ban, the use of industrial subsidies themselves.

Even where fair competition exists, GATT members have the possibility of restraining imports through the so-called *safeguards* rule. However, in the past two decades the European Community and the United States, in particular, have avoided GATT disciplines and sought "voluntary export restraints" (VERs) with competitive exporters. Hence, cartel-like arrangements have developed affecting trade in automobiles, steel, video-tape recorders and many other products. The effectiveness of these arrangements is, in any case, doubtful but have served to undermine the credibility of GATT rules. So the Round includes an effort to secure a comprehensive safeguards agreement and a phasing out of VERs.

A number of other existing GATT rules have been the subject of Uruguay Round negotiations. These include articles on the operation of state-owned trading enterprises; the renegotiation of "bound" tariffs; the use of "waivers" where GATT members cannot avoid actions contrary to GATT obligations; and the treatment of duties and charges in excess of bound tariffs.

### **Tidying up from other Rounds**

The last big trade round was the Tokyo Round and that led to a number of important agreements on non-tariff barriers in addition to those on anti-dumping and subsidies. These too are subject to renegotiation in the Uruguay Round. Participants have sought to extend the agreement on *technical barriers to trade* (covering standards and product testing procedures, for instance), and to improve those on *customs valuation* and *import licensing*. A separate negotiation to extend the coverage of the *government procurement* agreement should potentially bring billions of dollars of procurement contracts within the realms of open international tender.

Other rule-making efforts include *rules of origin* and *pre-shipment inspection*. The first is vital for the efficient and fair administration of trade measures and tariffs. The second involves a growing practice of employing private companies to check shipment and invoicing details where governments do not have the capacity to do it themselves. In both cases, clear rules are necessary.

National *investment* regulations are also a focus of activity in the Uruguay Round. While many countries have - even since the Round began - radically changed their attitudes to the value of inward investment and now seek to promote it, regulations still exist which can distort international trade. Among them are local content requirements (where a minimum proportion of local materials must be used by foreign-owned production plants), export performance requirements (where a given share of output must be exported), and foreign exchange restrictions. Agreement in this area, would make clear which practices are forbidden and which should be subject to disciplines to avoid trade distortion.

## **INTELLECTUAL PROPERTY: PROMOTING THE TRADE BENEFITS OF CREATIVITY AND INVENTION**

The protection of intellectual property is more and more important for trade because of the acceleration not only in the pace of innovation but also in the speed at which it spreads. This is a new negotiating subject for GATT. In the Uruguay Round what is perhaps the most comprehensive international agreement to date on the accessibility and spread of new inventions, designs, artistic works and other products of research and intellectual creativity is being negotiated.

### **Protecting the rights**

Intellectual property protection covers a very wide area, ranging from copyright, trademarks, industrial designs and patents to layouts of integrated circuits, trade secrets and geographical indications and appellations of origin.

Many kinds of intellectual property are already partially protected by international conventions, in particular the Paris Convention on patents, trademarks and other industrial rights, and the Berne Convention on copyright. These Conventions were negotiated under the auspices of WIPO (World Intellectual Property Organization) but have not been signed by all GATT members. They do not provide common standards on some key points - the duration of patents, for instance - and nor do they provide effective means for the settlement of disputes between governments.

### **Eliminating the wrongs**

Why establish new rules in GATT for the protection of intellectual property?

- The protection of intellectual property has become a key element in international competition: creativity and inventiveness are major assets in competition between companies and countries.
- The scale of trade in counterfeit products has reached alarming proportions and it involves a very broad range of products, from pharmaceuticals to auto parts and luxury goods. This is the area in which the need for international rules is least contested.
- The protection of intellectual property is a factor in technological progress; it can encourage technology transfer between countries, leading to investment and jobs.

- The protection of intellectual property has become a source of trade tensions in recent years, owing to the differences in the levels of protection in competing countries. Bilateral agreements can sometimes temporarily end conflicts. However, a multilateral agreement would have the merit of preventing such conflicts by providing a stable and comprehensive set of agreed standards and rules.

The international arrangement that would result from the Uruguay Round would ultimately put an end to disparities in protection and replace them with a set of jointly agreed standards. It would ensure that intellectual property rights are properly protected and at the same time that measures intended to enforce those rights do not become obstacles to legitimate trade. It would confirm the application to intellectual property rights of the basic principles of GATT - non-discrimination, equality of treatment and transparency. The arrangement would also enhance the enforcement of intellectual property rights at the national level. It would establish an equitable international system of conciliation and dispute settlement. Special treatment would be granted for developing countries to enable them to adjust gradually to the requirements of the arrangement.

In short, those who *provide* creative and inventive products and processes will be encouraged to share them and will get their financial return; while those who *need* such products and processes will be able get access to them.



## **GATT AS AN INSTITUTION: KEEPING WATCH ON NATIONAL TRADE POLICIES AND ENSURING THE RULE OF LAW PREVAILS**

In its watch over world commerce, the GATT is equipped with two essential and unique tools: a mechanism for settling trade disputes and a surveillance system. The first ensures that the rule of law prevails in trade relations, and the second acts as an early-warning system on possible areas of trade conflict as well as a means of multilateral assessment of trade policies. In the Uruguay Round, these tools are being upgraded to better help today's multilateral trading system operate smoothly and efficiently.

### **Maintaining equanimity**

The GATT dispute-settlement system provides for panels of independent experts to examine and provide solutions to trade complaints not resolved through bilateral consultations. This panel system has succeeded through the years not only in defusing trade tensions but also in lifting trade barriers. Nevertheless, despite its relative success, the system has been affected by unnecessary delays, by blockages in the GATT Council and by reluctance to implement adopted panel recommendations quickly and completely.

At the Mid-Term Review, participants agreed on an interim package of reforms. It established a stricter timetable and clear-cut procedures to accelerate panel proceedings. The GATT panel process now moves faster than other comparable dispute settlement procedures, both within and between nations. A final success in the Round would confirm these reforms and implement other improvements such as:

- making the establishment of panels, adoption of their reports and implementation of recommendations a speedy and largely automatic procedure (this has been linked to the need for a ban on illegal unilateral measures); and
- streamlining and, perhaps, unifying the various disputes-settlement mechanisms in the GATT (the Tokyo Round Agreements have their respective dispute-settlement systems) and the new agreements, like those on services and intellectual property, which will be part of the Uruguay Round package.

### **GATT as a watchdog**

Another early result of the Round which is already proving its value is the Trade Policy Review Mechanism, established in 1989 after the Mid-Term Review. The role of the "TPRM" is to examine, on a regular basis, the trade policies of individual GATT members and to assess their impact on the multilateral trading sys-

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tem generally. The mechanism is intended to encourage governments to live up to their GATT obligations.

The aim is also to make national laws, policies and practices more transparent and to improve the level of public debate on them. By doing so, the costs and other implications of particular trade policy options should become more apparent and policy reforms encouraged where necessary.

Seventeen reviews have been completed so far by the GATT Council. These include each of the four biggest traders (the EC, the United States, Japan and Canada) who are assessed every two years. Other GATT members are examined in four or six-year cycles.

Transparency would be further strengthened in a successful Uruguay Round package by a commitment by GATT members to notify new trade measures in a central notifications registry in the GATT.

### **New rules - a new court-house?**

Since 1948, GATT has been fulfilling its dual role of opening markets and providing the "rules of the road" in international commerce despite some serious institutional handicaps. The GATT rules were originally intended to ensure the security of tariff concessions and to be part of a much larger and more comprehensive International Trade Organization alongside the World Bank and International Monetary Fund. However, the Havana Charter establishing the ITO was never ratified and the GATT has been applied provisionally since. Thus, some observers have suggested that GATT does not have the international standing in world economic policymaking commensurate with its position as the only multilateral instrument governing trade.

Certain initial steps have already been agreed to strengthen the institutional aspects of the GATT, including the holding of the annual Session of the Contracting Parties at ministerial level once every two years. The GATT Director-General has also been given a mandate to pursue cooperation with international economic organizations like the IMF and the World Bank.

Consideration of more far-reaching proposals for a new institutional framework has awaited the very final phase of the Uruguay Round negotiations. Apart from the logic in having a properly established and permanent world trade body, with no legal vagaries, there is a need for overall institutional arrangements covering not only trade in goods - the current purview of the GATT - but the services, intellectual property and, perhaps, other agreements which can be said to fall outside GATT's present competence. Thus, forty-five years on, we may finally see the trade organization that GATT's founding fathers envisaged following the days of trade warfare in the late 1920s, and 1930s.

## **SEEKING LIBERALIZATION AND RULES FOR TRADE IN SERVICES**

The GATT applies to trade in goods (merchandise) but not to services. Services cover many activities from banking and insurance, through transport, tourism, consultancy, telecommunications, to construction, accountancy, films and TV and the provision of labour. The aim in the Uruguay Round is to create a comprehensive framework of general rules and disciplines to govern international trade in services and to secure an initial package of liberalization measures.

Many services can be traded internationally: directly across borders (for example, the use of telecommunications facilities for stock market transactions), through the establishment of infrastructure and personnel in the "importing" country (retail banking services), through the movement of consumers (tourism) and through the movement of labour (construction projects).

### **What's good for goods, can serve services**

But why create rules for trade in services? First, experience with the GATT (where merchandise trade grew by a very high 8-9 per cent in the two decades following its establishment) suggests that open trade rules and some initial liberalisation should give a big boost to services trade.

Second, there is a fear that, in this already fast-growing area of world trade, governments will resort to protectionism if not restrained multilaterally. And, finally, rules should help new players to begin services trade activities and to enhance their domestic services capacities - in particular, the developing countries.

The importance of these objectives can be seen from statistics on services and services trade.

- Production of services (non-governmental) was valued at \$10,000 billion worldwide in the mid-1980s and is probably at least \$12,000 billion now.
  - International trade in commercial services is already worth around \$800 billion a year - perhaps as much as \$1000 billion - and is growing at around 12 per cent each year. (Merchandise trade is worth around \$3,500 billion.) In addition, sales by local affiliates - whose activities would be affected by the services agreement - amounts to as much as a further \$1000 billion a year.
  - Although the United States and Europe are the largest exporters and importers of services, the relative importance of services trade to many small countries and to the least developed countries is greater.
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- Over 60 per cent of the GDPs of industrial countries is accounted for by services and around 50 per cent for developing countries (Mid-1980s).
- 60 per cent of working women and over 40 per cent of working men in industrial countries are employed in service industries. For developing countries the figure is around 20 per cent for both men and women. (1980 figures which have almost certainly increased since)

While securing an agreement on trade in services is often portrayed as a largely industrial-country objective, many developing countries have been able to identify significant interests in this sector. To some extent this reflects their particular advantages in terms of labour availability and costs. But they also have expertise and skills in tourism, film-making, the design and production of computer programmes and many other activities. So, not only should a services agreement promote the development of services industries in poorer countries it should also allow those countries to expand their exports where they are already competitive.

Will a new international services trade agreement look like the GATT itself? Only partly. Some familiar concepts like non-discrimination, market access, progressive liberalisation and so on will be there. But the nature of services trade is very different and more complex than that of merchandise trade. Unlike trade in goods, there is often a need for the establishment of infrastructure - a branch office, for instance - in the "importing" country. At the same time there is a prevalence of domestic policy regulations affecting services activities to be taken into account. So the provisions of the General Agreement on Trade in Services (GATS) will be rather more sophisticated than those of GATT.

In essence, the agreement will contain three elements: firstly, a body of general rules; secondly, a number of special conditions, exceptions or derogations related to the particular circumstances of individual service sectors and, thirdly, a package of initial liberalization commitments by members of the agreement. The exercise is analogous to the establishment of the GATT itself in 1947 - yet it represents just one of the fifteen negotiating areas of the Uruguay Round. In terms of the potential impact on economic growth, its importance can hardly be over-estimated.