What if the Uruguay Round had never happened?



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Note: The original text was provided in Spanish

Circumstances forced me to begin writing these words on the very day that a series of audacious reciprocal tariffs were announced. Fortunately, some of these tariffs have been reduced or put on hold, leaving some hope that the effect of this type of measure will continue to ease.

In the meantime, to alleviate some of the pressure of the present day, I suggest a counterfactual exercise focused on the past: What would have happened if the Uruguay Round had not been launched? This will not merely be an analysis of what would ultimately have happened with the agreements that arose from the Round. Instead, the aim is to analyse/imagine how the multilateral trading system would have evolved if the Uruguay Round had not taken place.

For this, I will rely on the invaluable assistance of influential figures who held key positions at the time.

Before he stood down in early 1985, Jan Tumlir had been Director of Economic Research and Analysis at the General Agreement on Tariffs and Trade (GATT) for 18 years. It is important to reflect on his vision, and the timing of his departure – so close to the launch of the Uruguay Round – seems particularly relevant.

Here, I must ensure that my appreciation for Mr Tumlir's views does not in any way influence my critical thinking in this essay. But is it possible not to be in awe of such a sharp and provocative thinker? He could not have chosen a better title for the second Harry G. Johnson Memorial Lecture, which he gave at the Trade Policy Research Center: "The Contribution of Economics to International Disorder". His irony still resonates and is perhaps just as relevant today as it was in 1980.

Mr Tumlir was a firm believer in the advantages of free trade and in a multilateral system governed by rules and disciplines. The GATT provided a very sluggish format for liberalizing global trade. The first GATT negotiations essentially involved granting bilateral concessions that were then extended *erga omnes* under the most favoured nation clause. This was a slow and far from optimal path to achieving greater multilateral liberalization of trade. The circumstances that prevented the International Trade Organization from being created in Geneva in 1947 must have weighed heavily in favour of adopting a certain restraint in efforts to liberalize trade.

The GATT reflected that restraint – even in the name used to open its bank accounts. I can still recall the meeting I had at the request of the manager of the branch at which I held my accounts when

I lived in Geneva. With the tact and gravitas typical of a Swiss banker, he told me that something did not seem quite right. Many of the international organizations in Geneva held accounts with his bank, and it was standard practice for the account to be in the name of an institution whose name was clearly linked to the name and purpose of the respective international organization. With the GATT, however, this process had not been followed so clearly. For its accounts, the beneficiary was associated with an interim committee for the International Trade Organization. So why was the GATT so different and what was the significance of this? I have had to take a deep breath before trying to provide a straightforward answer.

Among the organizations designed at Bretton Woods to ensure multilateral governance in the post-war period, there was broad agreement on both the International Monetary Fund (IMF) and the World Bank. The IMF would play a role in harmonizing monetary policies and providing countries with temporary economic assistance when difficulties arose in the balance of payments, while the World Bank would support countries in need, essentially by providing loans for reconstruction and development projects.

Meanwhile, progress on creating the International Trade Organization (ITO) was very slow and subject to controversy. Those present at the Havana Conference of 1947 and 1948 failed to reach an agreement on the creation of the ITO. There was no full consensus on how ambitiously the objective of trade liberalization should be pursued. Most notably, the United States indicated that it would not submit the proposal for congressional ratification.

Instead, around 20 countries exchanged tariff concessions that came into effect on 30 June 1948 through a Protocol of Provisional Application. Successive negotiating rounds were held on trade liberalization and the development of rules and disciplines that would serve as the framework for international trade. This culminated in a set of standards and an organization that were respected by members. In any event, for several decades, the GATT continued to exist as an agreement and entity for provisional application. That was what led to the situation that piqued the curiosity of our eagle-eyed banker.

The negotiations that took place during the Tokyo Round (1973-1979) brought to light the increasing complexity of the issues at hand – in a cheerful manner, some participants suggested that the Tokyo Round should be renamed the “Long Round”, as a play on the name of the then-Director-General, Switzerland’s Olivier Long. The benefit of ending

the provisional nature of the undertaking was also discussed.

This was the prevailing sentiment when talk of the Uruguay Round began. Jan Tumlir stepped down in February 1985 and was replaced by Richard Blackhurst, who had been an economist at the GATT for a decade. Pragmatic by nature, Mr Blackhurst was all for the new Round covering a broader range of topics, taking into account developments in international trade. Like Mr Tumlir, he supported making institutional changes that would bring an end to the GATT's provisional status.

While these considerations were taking place globally, Uruguay was going through exceptional times. In 1985, the country returned to democracy and the rule of law, both of which had been cast aside since 1973. Uruguay then sought to reclaim the international standing and prestige it had traditionally enjoyed. This was a multi-pronged effort – one that included regaining the country's position in the international multilateral trading system and one that the entire Government was behind.

Two figures stand out for their role in ensuring that the upcoming negotiating round took place in Uruguay. One of these individuals was Ambassador Julio Lacarte Muró, who had been involved in the creation of the GATT from its very early stages. And he worked very closely with the Foreign Minister, Enrique Iglesias, to ensure that Uruguay once again took up a constructive role in the GATT, as it had done from the outset.

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In Punta del Este, the Ambassador of Japan, who presided over the Contracting Parties, formally handed over the reins to Enrique Iglesias, who chaired the Uruguay Round at the ministerial level. Towards the end of the decade, the Foreign Minister stood down in order to become president of the Inter-American Development Bank, and Ricardo Zerbino, Uruguay's Minister of the Economy, took over as chair of the Uruguay Round at the ministerial level.

Uruguay threw itself with great enthusiasm into the negotiations in all areas. Here, it is worth mentioning two overarching themes that were of particular concern to Uruguay during the Round:

- the need to apply the principles and disciplines governing trade in other products to agricultural trade, addressing an asymmetry that ran counter to the spirit of the GATT; and

- the creation of a dispute settlement mechanism that would address, as equitably as possible, the glaring gaps in the procedures applied thus far.

At the institutional level, the Uruguay Round led to the creation of the World Trade Organization (WTO). A dispute settlement mechanism was also established, laying the foundations to prevent the reoccurrence of the failings that, thus far, had hindered the effective implementation of the disciplines governing the multilateral trading system. Key new themes were also incorporated into the international multilateral trading system.

On all these points, the Uruguay Round can be considered a success. When it came to agricultural trade, however, there were few substantive changes and there continued to be deviations from the rules and principles applicable to trade more broadly. The consensus that the final outcome should be considered a whole and indivisible package – or a single undertaking – was decisive in ensuring the Round's success.

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Let us return briefly to the counterfactual question in the title. Today, we can surmise that, if there had been no agreement driving the launch of the Uruguay Round, the process of liberalizing trade would perhaps have been more difficult and slower and the consensus required to create the WTO would not have emerged. It is also possible that we would have seen an increase in protectionism and more fragmented international trade, with a proliferation of regional and/or sectoral agreements, and that the development of global value chains would not have been as dynamic without the rules or institutional framework that brought the stability and certainty needed for those value chains to take shape.

But perhaps one of the most significant outcomes of the Uruguay Round is that it brought to light the difficulties inherent in the negotiating model in place at

the time. The efforts involved a massive number of participants and were increasing all the time. Possibly alongside the success of the Uruguay Round, those involved started to realize that it would be increasingly difficult to keep up those efforts unless major changes were made to the negotiating procedures.

Just like 40 years ago, today we also have numerous participants, diverse interests and new challenges that once again require the lucidity, vision and audacity of new leaders and negotiators capable of taking a new and decisive step forwards in the advancement of the multilateral trading system.

The launch of the Uruguay Round took place nearly four decades ago and the agreements stemming from those negotiations have been in force for almost three decades. A generation of lucid world leaders and negotiators were able to lay the foundations, finding the right format to deliver more open trade and resolve some of the trade tensions that existed at the time. For many years, multilateralism has served as the basis for robust growth in trade and has helped many countries and millions of people to become more integrated into the global economy.

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Let us hope that, in four decades' time or before, some observer will be able to objectively and optimistically ask a similar question to that posed in the title of this essay: What would have happened if an agreement had not been reached that was as audacious and far-reaching as the Uruguay Round turned out to be?

We must trust that the response to that future question/challenge will also, as today, be one of recognition and gratitude for those that will take this future round forward.