

Uruguay Round of Negotiations: A Political Economic Analysis

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INTRODUCTION

Since the 19th century, the dominant view of economists, at least those of the developed world, has been that an open and nondiscriminatory trading system among nations would maximize welfare. On the 1st January 1984, an international organization, with secretariat in Geneva, came into operation as a result of an agreement made at an international conference the previous year. This agreement was on the international code of tariffs and trade rules, and called General Agreement on Tariffs and Trade (GATT).

The main objective of this article is to explain the major rounds of negotiations of GATT. Most complex, yet incomplete, Uruguay round is explained with particular emphasis on its possible failure.

GATT was originally intended to be a complementary provision to handle tariff and trade questions along multinational lines until the charter of the International Trade Organization (ITO) was established, but in 1950 the US senate rejected the ITO charter and the GATT became effective. Since then, it has been renewed and amended many times.

Three factors doubtlessly motivated nations to enter into the 1948 agreement (Greenwald, 1982).

- The great depression and very high tariffs:
The belief that the event leading to second world war was the great depression of 1930's and very high tariffs enacted during the early 1930s.
- Leadership role of the US in 1930s:
In early 1930s US began tariff escalation but by the late 1930s US economic leaders became convinced that vastly reduced tariffs would be in the nation's best interest if those could be regulated multilaterally.

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Need to rebuild Europe:

The third factor was the need to rebuild Europe following world war II. The belief of many European leaders was that an open international economic system was prerequisite to this rebuilding.

PRINCIPLES AND NEGOTIATIONS

GATT is dedicated to three basic principles:

- **Equal, nondiscriminatory treatment for all trading nations.** One of the important principles of GATT is the "most favored nations" clause. According to this clause each nation should treat each member country equally in terms of tariff structure. There are certain cases in which the "most favored nations" clause may be waived.
- **Reduction of tariffs by negotiations is another important principle of GATT.** There have been ten round of negotiations so far. About 55,000 tariff concessions were involved in the first three major rounds of tariff reductions concluded in the agreement (Auld, 1983). Thus GATT has proved to be a useful body for international tariff bargaining.
- **Elimination of import quota is another principle of GATT.** It aims at the promotion of expansion of international trade through a coordinated program of free trade liberalization. According to the agreement protection is to be given to domestic industries only through custom tariffs, thereby prohibiting import quotas and other restrictive trade practices. The agreement also provides for the binding of the tariff levels negotiated among member countries and establishes framework for the settlement (Pierce, 1986).

DIFFERENT ROUNDS OF NEGOTIATION

There has been series of rounds of negotiations between the signatories of the GATT. The first round took place in Geneva in 1947.

The first major revision of GATT was ratified in March 1955. The provisions regarding the treatment of subsidies designed to reduce imports or increase exports were strengthened. Members were required to give details of any subsidy. It was agreed that any subsidy should not harm the interest of any other member and they were required to discuss the possibility of reduction or elimination. The use of subsidies on the export of primary products was agreed to be avoided (Auld, 1983). A new code of conduct

regarding protection against subsidies was agreed to in the Tokyo Round. We look at some important rounds of trade negotiations.

Kennedy Round of Trade Negotiation

Kennedy round was the sixth round of trade negotiations. It commenced in 1964 and was concluded in July, 1967. This round was distinguished from its predecessors by the fact that its aim was straight percentage tariff reduction right across the board rather than item-by-item agreement. This approach was made possible by the fact that in 1962 president Kennedy obtained authority from the US congress to negotiate reduction in tariffs of up to 50 percent under the Trade Expansion Act. Members of GATT also agreed to honor the most favored nations clause. Forty-nine countries took part in the Kennedy Round, including all the principal and trading national of the world except the USSR and China. In the end, agreements for the reduction of industrial tariffs by up to 50 percent, with an overall average of 30 percent, were achieved. Special attention was given to developing countries. Various special concessions were made to aid underdeveloped countries, notably to lower tariff and quotas for their products in particular. These GATT initiatives together with the operations of the International Monetary Fund (IMF) and sustained economic growth in the developed countries, combined to bring about a record expansion of world trade down to the end of the 1960's (Greenwald, 1983).

Protectionism of 1970's

With the onset of recessionary conditions in 1970's, however, much of the work of GATT was undermined by resurgence of protectionism. It was referred to as "The New Protectionism", which was based not on tariffs but on devices much less visible and hence more difficult to detect and control, for example, import licensing procedures, local-content requirements, subsidization of domestic industries etc. Both the Common Market and the United States tended to make Preferential Trade Agreement with other nations, and the US also resumed protecting home industry, particularly agricultural products such as meats, dairy products, and sugar by tariffs. The Common Market nations similarly granted heavy subsidies to the farmers. On August 15, 1971, the Nixon administration unilaterally set a 10 percent surcharge on imported goods other than those items covered by quotas. The surcharge was revoked on November 13, 1971.

Tokyo Round of Trade Negotiations

This was the tenth round of trade negotiations. Agreement was reached in Tokyo in 1973 to initiate a seventh round of trade negotiations under the auspices of the GATT. These negotiations began in 1974, after the passing the trade Act in the US.

This act gave the president of the US wide power enabling him to negotiate effectively in the multilateral discussions of the seventh round. The negotiations were concluded at the end of 1979. Agreement was reached on the following (Greenwald, 1983):

- The major developed countries agreed to reduce their tariffs by, on the average, one-third over a period ending on January 1, 1987.
- A new code of conduct was drawn up covering customs valuation procedure, barriers caused by technical specification import licenses and government procurement policies.
- A new code was also agreed on the application of counter dumping policy, if it can be established that dumping is taking place.

Uruguay Round of Trade Negotiations

The Uruguay Round began with preliminary negotiations in the summer of 1986. In September of that year a ministerial statement provided a strong foundation for further tariff reduction. The Uruguay Round of multilateral trade negotiations has been the most ambitious by far of all the GATT negotiating rounds. Distinguishing features of this round are:

- Attempts to bring some entirely new area, like the trade-related aspects of intellectual property rights (TRIPS), and trade-related investment measures (TRIMS), under GATT purview.
- The efforts to bring the two old, but contentious, issues of agriculture and textiles under normal GATT rules.
- It attracted wider participation than previous GATT rounds, with a much larger number of developing countries than before taking active part in the negotiations.
- This has been the most complex and disputed negotiations, which started in October, 1986 and were scheduled for completion in four years, but it has been stalled by a dispute between the US and the EC over farm subsidies.
- GATT did not have rule specially directed towards protection of environment. Uruguay Round involved issues relating to protection of the environment (World Economic Survey, 1992).

The success of the Uruguay Round is now uncertain. The negotiations were scheduled for completion in four years but remain stalled. After the suspension of talks in Brussels in December 1990, negotiations were restarted in 1991 and were intended for completion by the end of the year 1991. In December 1991, Arthur Dunkel the GATT director-general, in his capacity as chairman of the Trade Negotiations Committee, the main negotiating body, tabled a comprehensive package of draft agreements on a take-all or leave-all basis. While this was widely regarded as a bold step to nudge forward a process of negotiations of extreme complexity. Among the most contentious issues was agriculture, where the position of the US and the EC remained far apart on the question of production and export subsidies (World Economic Survey, 1992).

The good news on January 13th 1992 was that the 108 countries taking part in the Uruguay Round of trade talks agreed unanimously to use a package of 26 trade deals drafted in December as a basis for "the final spirit" to an Easter deadline. But the bad news was that the EC's objection to the agriculture deal assembled by Arthur Dunkel could bread up the entire package (Economists, March 1992).

Although Uruguay Round of world trade talks is said to be deadlocked for two years by a dispute over demands by the US and the other exporters for cuts in the EC's agricultural subsidies (Washington Post, November 27, 1992). Japan is also responsible in this regard. The entire Uruguay Round of GATT talks could collapse if Japan holds firm to its out-right ban on rice imports, as Prime Minister Kiichi Miyazawa vowed that it would (Washington post, November 29, 1992). Japan had adopted the policy of removing land from cultivation in 1971, to reduce rice surpluses, but now Japan intends to increase its rice production in the face of a shortage, and said it will maintain its ban on rice imports regardless of the outcome of GATT talks to liberalize world trade (Wall Street Journal, February 11, 1993).

Global trade negotiators said on December 14, 1992 that new signals from Tokyo that Japan may be willing to open its fiercely protected rice market to foreign competition could clear a major barrier in the current round of GATT negotiations (New York Times, December 15, 1992). But Japanese farmers rallied in Tokyo on December 16, 1992 in an attempt to prevent their government from dropping longstanding bans on the import of rice, which it has been considering as part of a concession in global trade negotiation (New York Times, December 16, 1992). The importance of the role of Japan in world trade agreement becomes clear from the fact that the US trade representative Mickey Kantor and Leon Brittan, the EC's new trade negotiator, agreed to press Japan to take more responsibility in settling disputes that have stalled world trade talks (Wall Street Journal, February 12, 1993).

France is also responsible for blocking a final agreement on the Uruguay Round of GATT. On November 20, 1992, a deal on gradual reduction in farm subsidies was reached between EC trade ambassador Frans Andriessen and US trade representative Carla A. Hills. With this agreement, the 108 nation trade negotiation was revived. But it was feared that France could veto the pact. The US and the EC formally informed the GATT on December 21, 1992 that they are aiming to reach an accord in the long running Uruguay Round of trade talks by mid-January 1993 (New York Times, December 22, 1992). Then tens of thousands of European farmers shouting "No to GATT" marched through Strasbourg France to protest the adoption of an agricultural accord between Europe and the US (Atlanta Constitution, December 2, 1992). French Foreign Minister Roland Dumas told the director general of GATT that an EC offer to lower agricultural tariffs was invalid because it had not been approved by agriculture ministers meeting in Brussels. Prime Minister Piere Beregovoy said his country will veto any agreement that is not in France's best interest (Chicago Tribune, November 25, 1992).

The role of US is also extremely important in this Round of trade talks. In an article, Robert J. Samuelson has examined the essential role President Clinton and the US must play in the Uruguay Rounds of trade talks (Washington Post, January 24, 1993). An editorial contends that President Bill Clinton would be foolish not to continue the GATT talks, as a good, broad agreement would lower world tariffs by about a third and include services and agriculture trade for the first time (Chicago Tribune, December 14, 1992). GATT director general Arthur Dunkel believes that the fate of the 108-nation talks has fallen to President Clinton (Washington Post, January 15, 1993). But on the other hand, Robert C. Pozen warns against a quick completion of the Uruguay Round of the GATT talks, which could result in American markets remaining open to all trade while Asian markets continued to restrict some access (New York Times, January 10, 1993). Thus there is a mixed reaction concerning the responsibility of the US.

So far as the completion of the present Round has been concerned, the Clinton administration, abandoning hope for early completion of long-stalled global trade talks, said on February 11, 1993 that it will ask Congress for an indefinite extension of its authority to negotiate new trade rules (Los Angeles Times, February 12, 1993). According to Peter Behr, the long running GATT talks in Geneva Switzerland, intended to be the capstone on a half-century of cooperation and compromise by the world's trading nations, have stalled and blueprints for reviving them have not appeared (Washington Post, January 29, 1993).

GATT AND DEVELOPING COUNTRIES

At the time when GATT came into existence it had envisaged the non-discriminated trading system among nations in general and among developed countries in particular. No special interest of developing countries was taken. In one round of negotiations, known as Kennedy Round, attention was given to developing countries. Various special concessions have been made to aid underdeveloped countries, notably to lower tariffs and quotas for their products in particular. A section of the agreement dealing with trade and development that laid emphasis on the special problems of the developing countries, and a committee on trade and development was given the responsibility of working towards the elimination of barriers on the trade of particular interest of developing countries.

In a significant development since the mid 80's that contrast with the growth of unilateralism, managed trade, and non-tariff barriers, a large number of developing countries have been liberalizing their trade regimes (World Economic Survey 1992). Furthermore, since the start of the Uruguay Round, a dozen of developing countries have joined the GATT, and other have started negotiations to become a contracting party or are exploring the possibility of acceding. The new members that joined since the start of Uruguay Round are: Mexico, Antigua, Barbuda, Bolivia, Botswana, Costa Rica, El Salvador, Guatemala, Lesotho, Macau, Morocco, Tunisia and Venezuela. Algeria, China, Honduras, Nepal, and Paraguay are at various stages of negotiations to join (World Economic Survey, 1992).

CONCLUSION

The global economic interdependence is a reality. The GATT has played an important role in promotion world trade through different negotiations on tariffs reduction. Many developing countries are liberalizing their foreign trade policy in the process of entering into the GATT. There has been a wide recognition that global interdependence is reality and the trade liberalization will benefit all. But unfortunately, the present Uruguay Round of trade talks has been stalled. Japan and France are not showing their interest in finalizing the negotiations. If the Uruguay Round fails then it will undermine the whole importance of GATT and the result will be, once again, drive towards protection. If it really happens the whole world will have to suffer. So, the 'Big Three' - the US, Japan, and the EC - urgently need to relunch the Uruguay Round to resume negotiations on the GATT. The three powers need to threaten each other less and cooperate more to work for the global economic good. If Uruguay Round fails, in that event valuable agreements on trade in textiles, services, intellectual property and the rest will come to nothing (Economists, march 1992).

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