

The Impact of the Uruguay Round on World Economy

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PART I

International trade as an engine for economic growth is an accepted proposition in modern economic literature. Statistical and econometric analysis of cross-section and time-series data of the growth in exports and growth in GDP shows a very high correlation between the two. Normally growth in exports is twice or more than the growth in GDP for most fast-growing economies particularly the East Asian Tigers. There is hardly any country which over a decade has had a growth in GDP higher than the average rate of growth of exports in that decade. Export led growth has been vindicated by one economy after another specially in East Asia. It is therefore of great importance that the international trading system allows the free flow of goods in order to promote the growth of the world economy as a whole.

After the Second World War, plans were drawn up for an International Trade Organisation (ITO) at Havana but when the US Congress declined to approve it, it was dropped. The demise of the ITO, however did not do away with the need for an international organisation to deal with negotiations for reducing tariff and non-tariff barriers to international trade. Twenty-three nations agreed to continue extensive tariff negotiations for trade concessions at Geneva which were incorporated in a General Agreement on Tariffs and Trade (GATT). GATT has provided a permanent platform for reducing trade barriers. The fundamental objective of GATT is to achieve free trade through reduction in tariff and non-tariff barriers on the basis of non-discrimination, reciprocity and national treatment. The agreement provides for the binding of the tariff levels among member countries and establishes a framework for resolving disputes between members who break

its rules. The GATT has so far successfully concluded seven rounds of trade negotiations, which have resulted in a substantial increase in international trade and income.

The Uruguay Round is the eighth in the series of GATT multilateral trade negotiations. It started at Punta Del Este, (Uruguay) in 1986 originally involving 107 countries which have now increased to 117. This is the most comprehensive round launched by the GATT as besides tariff reduction which was the main aim of the earlier seven rounds, this round has also dealt with complex issues like agriculture, trade in services, intellectual property and trade-related investment measures. Tortuous negotiations have continued for the last seven years. Agriculture proved to be most difficult subject for reaching an international accord as it is a highly protected sector in most developed countries specially in the European Union (EU) with its Common Agricultural Policy (CAP). Any significant restructuring in this sector would face strong political opposition from a shrinking but still politically powerful population engaged in agriculture in developed countries although agricultural subsidies are costing them \$ 200 billion. The Aggregate Measure of Support was an indicator drawn up during negotiation to measure the total impact of production and export subsidies which distort domestic pricing from the international free trade norms. Similarly, developing countries had strong misgivings on free trade in services. Even the United States which in earlier negotiations had pushed this issue very strongly, as it has a significant favourable balance in its international trade in services, became cautious about freeing trade in shipping and banking. The developing countries also had serious reservations on protection of intellectual property as they rightly feared that it would delay the transfer of technology from developed to the developing countries. The trade-related investment measures were also suspected to be a sop to multi-national corporations who wanted internationally guaranteed universal treatment for their predatory activities around the globe.

With so many complex issues and 117 players, negotiations were bound to be painstaking and they were on the point of collapse on a number of occasions. The main players were the USA, the EC (now EU), Japan and the CAIRNS group of agricultural product exporting countries. Mr Arther Dunkel former Director-General of GATT presented the text of a draft treaty in 1992, but it was not found acceptable to the major trading partners. He was replaced by Mr Sutherland, an Irishman, who succeeded in getting the agreement before the deadline of 15th December, 1993. It was a target set by the US Congress in its resolution for fast-track legislation. Fast track implies that the treaty can be approved as it is, in

toto, without any amendments. Hence if this deadline had expired, the prospect of the Uruguay Round being completed successfully would have become very remote and the international trade regime which was being subjected to many non-GATT sanctioned measures like voluntary export restraints (VERs), orderly marketing arrangements (OMAs) etc., would have become endemic leading to a contraction of international trade and global GDP. Fortunately 1994 starts with new hopes for international trade as the Uruguay Round has reached far-reaching agreements on many contentious issues.

PART II

THE BASIC PROVISIONS OF THE URUGUAY ROUND AGREEMENT CONCLUDED ON 15TH DECEMBER, 1993 WITH RESPECT TO THE MAIN SUBJECTS ARE AS FOLLOWS

Agreement on Agriculture

Non-tariff border measures have been converted into tariffs that provide substantially the same level of protection. Tariffs resulting from this "tariffication" process, as well as other tariffs on agricultural products, are to be reduced by an average 36 percent in the case of developed countries and 24 percent in the case of developing countries with minimum reductions for each tariff line being required. Reductions are to be undertaken over six years in the case of the developed countries and over ten years in the case of the developing countries. Least-developed countries are not required to reduce their tariffs.

The domestic support subsidies have been recalculated into an index termed as the Aggregate Measure of Support (AMS). The total AMS covers all support provided on either a product specific or non-product-specific basis that does not qualify for exemption and is to be reduced by 20 percent (13.3 percent for developing countries with no reduction for least-developed countries) during the implementation period.

Reduction of Tariffs

Tariffs on industrial goods will fall by an average of 40 percent. Some goods such as East Asian high-tech products will benefit from duty cuts of 50 percent to 70 percent. There will be total elimination of tariffs and quotas among industries on eleven items covering furniture, etc.

Textiles

The object of this negotiation has been to secure the eventual integration of the textiles and clothing sector—where much of the trade is currently subject to bilateral quotas negotiated under the Multifibre Arrangement (MFA) into the GATT on the basis of strengthened GATT rules and disciplines, over a period of ten years, after which there will be no quotas on textiles and the MFA will cease to exist.

All MFA restrictions in place on 31 December 1994 would be carried over into the new agreement and maintained until such time as the restrictions are removed or the products integrated into GATT. For products remaining under restraint, at whatever stage, the agreement lays down a formula for increasing the existing growth rates. Thus, during Stage 1, and for each restriction previously under MFA bilateral agreement in force for 1994, annual growth should be not less than 16 percent higher than the growth rate established for the previous MFA restrictions. For Stage 2 (1998 to 2001 inclusive), annual growth rates should be 25 percent higher than the Stage 1 rates. For Stage 3 (2002 to 2004 inclusive), annual growth rates should be 27 percent higher than the Stage 2 rates.

The agreement includes provisions to cope with possible circumvention of commitments through transshipment, re-routing, false declaration concerning country or place of origin and falsification of official documents.

Trade Related Investment Measures (TRIMs)

The agreement recognises that certain investment measures restrict and distort trade. It provides that no contracting party shall apply any TRIM inconsistent with Articles III (national treatment) and XI (prohibition of quantitative restrictions) of the GATT. To this end, an illustrative list of TRIMs agreed to be inconsistent with these articles is appended to the agreement. The list includes measures which require particular levels of local procurement by an enterprise (“local content requirements”) or which restrict the volume or value of imports which an enterprise can purchase or use to an amount related to the level of products it exports (“trade balancing requirements”).

The agreement requires mandatory notification of all non-conforming TRIMs and their elimination within two years for developed countries, within five years for developing countries and within seven years for least-developed countries. It establishes a Committee on TRIMs which will, among other things, monitor the implementation of these commitments. The agreement also provides for con-

sideration, at a later date, of whether it should be complemented with provisions on investment and competition policy more broadly.

General Agreement on Trade in Services (GATS)

The Services Agreement which forms part of the Final Act rests on three pillars. Part I of the basic agreement defines its scope—specifically, services supplied from the territory of one party to the territory of another; services supplied in the territory of one party to the consumers of any other (for example, tourism); services provided through the presence of service providing entities of one party in the territory of any other (for example, banking); and services provided by nationals of one party in the territory of any other (for example, construction projects or consultancies).

Part II sets out general obligations and disciplines. A basic most-favoured-nation (m.f.n.) obligation states that each party “shall accord immediately and unconditionally to services and service providers of any other party, treatment no less favourable than that it accords to like services and service providers of any other country”. However, it is recognised that m.f.n. treatment may not be possible for every service activity and, therefore, it is envisaged that parties may indicate specific m.f.n. exemptions. Conditions for such exemptions are included as an annex and provide for reviews after five years and a normal limitation of 10 years on their duration.

The agreement contains both general exceptions and security exceptions provisions, which are similar to Articles XX and XXI of the GATT. It also envisages negotiations with a view to the development of disciplines on trade distorting subsidies in the services area.

Part III contains provisions on access and national treatment which would not be general obligations but would be commitments made in national schedules. Thus, in the case of market access, each party “shall accord services and service providers of other parties treatment no less favourable than that provided for under the terms limitations and conditions agreed and specified in its schedule”. The intention of the market access provision is to progressively eliminate the following types of measures, limitations on numbers of service providers, on the total value of service transactions or on the total number of service operations or people employed. Equally, restrictions on the kind of legal entity or joint venture through which a service is provided or any foreign capital limitations relating to maximum levels of foreign participation are to be progressively eliminated.

Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) Including Trade in Counterfeit Goods

The agreement recognises that widely varying standards in the protection and enforcement of intellectual property rights and the lack of a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods have been a growing source of tension in international economic relations. Rules and disciplines were needed to cope with these tensions. To that end, the agreement addresses the applicability of basic GATT principles and those of relevant international intellectual property agreements; the provision of adequate intellectual property rights; the provision of effective enforcement measures for those rights; multilateral dispute settlement; and transitional arrangements.

Part I of the agreement sets out general provisions and basic principles, notably a national-treatment commitment under which the nationals of other parties must be given treatment no less favourable than that accorded to a party's own nationals with regard to the protection of intellectual property. It also contains a most-favoured-nation clause, a novelty in an international intellectual property agreement, under which any advantage a party gives to the nationals of another must be extended immediately and unconditionally to the nationals of all other parties, even if such treatment is more favourable than that which it gives to its own nationals.

Part II addresses each intellectual property right in succession. With respect to copyright, parties are required to comply with the substantive provisions of the Berne Convention for the protection of literary and artistic works, in its latest Version (Paris 1971), though they will not be obliged to protect moral rights as stipulated in Article 6bis of that Convention.

Industrial designs are also protected under the agreement or a period of 10 years. Owners of protected designs would be able to prevent the manufacture, sale or importation of articles bearing or embodying a design which is a copy of the protected design.

As regards patents, there is a general obligation to comply with the substantive provisions of the Paris Convention (1967). In addition, the agreement requires that 20 year patent protection be available for all inventions, whether of products or processes, in almost all fields of technology. Inventions may be excluded from patentability if their commercial exploitation is prohibited for reasons of public order or morality; otherwise, the permitted exclusions are for diagnostic, therapeutic and surgical methods, and for plants and (other than micro organism)

animals and essentially biological processes for the production of plants or animals (other than microbiological processes).

Understanding on Rules and Procedure Governing the Settlement of Disputes

The dispute settlement system of the GATT is generally considered to be one of the cornerstones of the multilateral trade order. The system has already been strengthened and streamlined as a result of reforms agreed following the Mid-term review Ministerial Meeting held in Montreal in December 1988. Disputes currently being dealt with by the Council are subject to these new rules, which include greater automaticity in decisions on the establishment, terms of reference and composition of panels, such that these decisions are no longer dependent upon the consent of the parties to a dispute. The Uruguay Round Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) will further strengthen the existing system significantly, extending the greater automaticity agreed in the Mid-term Review to the adoption of the panels and a new Appellate Body's findings. Moreover, the DSU will establish an integrated system permitting WTO Members to base their claims on any of the multilateral trade agreements included in the Annexes to the Agreement establishing the WTO.

Setting up of WTO

GATT's legal status and enforcing powers were very weak and international trade was riddled with numerous exceptions like VER, OMA etc. Moreover powerful traders like U.S.A. had special laws like Super 301 under which they could impose discriminatory tariffs or quotas. All these distortions will become more difficult with the legally powerful successor institution—World Trade Organisation as it was envisaged more than four decades ago at Havana. The signatories to its charter will no longer be contracting parties to GATT but members of WTO.

PART III

International trade is like a game in which gains are related to the extent to which one plays the game. When the rules of the game improve or referees become more powerful, the main players gain more and those who play occasionally gain much less. It is therefore in the nature of things that big traders will gain more not only in absolute terms but also in proportionate terms in relation to small traders.

The traditional theory of comparative advantage in international trade based

on factors of production (land, labour, capital and organisation) needs to be revised. Export success and dominance of international markets depends not so much on static advantage embodied in natural resources or derived from low labour costs as on the dynamic capacity of a country to adapt, initiate and imbibe new technology. Information is becoming a key element in production process as raw materials and labour costs are declining as a proportion of production costs. countries can now be divided into technologically rich and technologically poor or leaders in technology and followers. The leaders in the field are tempted to restrict diffusion as it enhances market value of their lead and protects their monopolistic position. In the dynamic sense the Uruguay Round is loaded against the developing countries.

The biggest beneficiaries are the TNCs (Transnational Corporations) and the OECD countries where they are headquartered. For them Uruguay Round provides a strategic thrust. Trade in goods has been linked to trade in services, TRIPs and TRIMs. As TNCs provide the underpinning of the global economy this linkage will clear the decks for expansion with long protection of patents and freedom to invest anywhere around the globe. Trade in Services, TRIPs and TRIMs will become subject to International Conduct Rules and its supervision will get internationalised. There will be a broadening in the scope of protectable new ideas, extension in the period of protection and the strengthening of the enforcement mechanism.

It is estimated that global income would go up by \$ 210 billion and international trade increase by 20 percent as a result of Uruguay Round decisions after a decade. The gains among the regions are expected to be as follows:

	\$ Billion
1. European Union	61
2. USA	36
3. Former USSR and Eastern Europe	29
4. Japan	27
5. Third World Manufacturers	13
6. Agricultural Exporters & New Tigers (Argentina, Brazil, Indonesia, Malaysia, Thailand, China)	20
7. Non-European Union Western Europe	8
8. Old East Asian Tigers (Hong Kong, Singapore, Taiwan, South Korea)	10
9. Canada	4
10. Australia and New Zealand	2

The gains to OECD countries will be \$ 138 billion, to old and new tigers \$ 30 billion, to former COMECON countries \$ 29 billion and to other third-world manufacturers, the gain will only be \$ 13 billion. The region which will be worst affected by the decisions of the Uruguay Round is the food importing African Countries, as they might lose as much as \$ 2.6 billion by deterioration in their terms of trade. The rich will get richer and the very poor may get poorer as a result of the Uruguay Round.

With the universal reduction of tariffs, the tariff benefits under the Generalised Scheme of Preferences and the Lome Convention will be eroded. The difference between MFN and GSP tariff will decrease and developing countries will have to face stiffer competition.

In India, Brazil and other leading developing countries the basic objection to the Uruguay Round has been on its provisions pertaining to intellectual property. It is alleged "that whereas the Capitalist System swears by competition, the credo of intellectual property rights tends to foster monopolies, it restricts competition, restrains production and thereby tends to contract overall trade. This is contrary to the objectives of GATT, which is to expand trade. The concept of trade for development has been forgotten—trade qua trade—and one-sided trade through diverse restrictive practices such as TRIPs has come to the fore". There is much truth in this assertion as the developing countries have failed to get a commitment to freer transfer of technology as *quid pro quo* for the protection of intellectual property rights. The agreement on intellectual property rights is likely to be used against the developing countries. Technology advancement in developing countries will be retarded by 20 years patent protection and 50 years for copyright. The compulsory enforcement of new patents and copyrights are designed in favour of rich OECD countries.

In the long run however, every country in the Round, whether rich or poor, stands to gain from the unquantifiable results of the deal. New rules for shipment and customs, more transparency in trade and a better way of settling disputes all make for a more predictable trading system. Unlike the benefits of the Lome Convention and GSP, which can be withdrawn at any time and are hedged around with limits and conditions, these rules are binding and impartial. No economic model could take into account the way in which this will boost trade.

Long-term benefits will also derive from greater efficiency and productivity. Indirect benefit of trade liberalisation will be most far-reaching when tariffs are cut in developed country markets and more crucially in a developing country itself as domestic industries are exposed to competition. As a result the resources are

shifted to the more efficient sector which will boost productivity and living standards. It is possible that Saharan Africa's US \$ 2.6 billion loss quickly becomes a gain if trade liberalisation leads to better allocation of resources and higher productivity. More gains in efficiency are not limited to one-off corrections in existing industries. The growth in poor countries has been held back by protective barriers which the rich countries have erected around their inefficient producers like textiles or in the processing of metals. By removing these barriers, the Uruguay Round can clear the path towards export led growth in many developing countries.

Impact on Pakistan

Pakistan will gain from elimination of textile quotas after ten years and a more liberal trade in textiles during the transition period. Textiles account for more than 50 percent of Pakistan's exports, but we get a very low unit value from our textile exports. For example for every kilogramme of textile exports to Japan, Korea earns \$ 18.97, China \$ 13.4, Pakistan \$ 2.13, whereas the world average i.e. \$ 9.5. This is because our textile exports consist mainly of low count yarn and grey cotton. We produce only 7 percent of the world's cotton yarn, but export 31 percent of the global cotton yarn exports. We must move upmarket in higher value-added products to gain from freer trade in textiles. Our rice exports will also gain marginally from the opening up of the Japanese and South Korean markets.

The Uruguay Round has been described as a milestone in the history of world trade. It is more than a milestone. It opens new avenues for world trade. The current head of the GATT has described the accord as a choice between openness and cooperation on one hand and uncertainty and conflict on the other. It will mean more trade, more investment, more jobs and larger income growth for all. A more predictable global trading arrangement has been put in place and WTO will have firmer legal basis and be at par with IMF and IBRD.

The world however cannot wait for developing countries like Pakistan to wake up, adapt modern technologies and improve the price, quality and competitiveness of their goods. The survival of the fittest is an accepted law of nature. Instead of manufacturing shoddy goods for the domestic market, we must produce high quality goods for export. The Uruguay Round will help the efficient and punish the inefficient in the international market place. Inefficient agriculture and textiles in developed countries will suffer as the inefficient developing countries from freer trade. However, it provides an opportunity to all to become more efficient and join the bandwagon of the East Asian tigers.

Comments on
“The Impact of the Uruguay Round on
World Economy”

The Uruguay Round is the most important agreement which will facilitate the flow of international trade in goods and services, thus directly and indirectly affecting the level of world output. Considering the importance of this agreement, all countries the world over are trying to analyse and interpret various provisions of this multilateral agreement with a view to identifying its implications for their respective economies. Given this background, the paper read by Dr Akhtar Hasan Khan secures high marks in terms of its relevance to the current debate on the Uruguay Round and the world economy.

The significance of the paper also stems from the fact that it presents a synoptic view of the detailed document covering about 500 pages entitled “The Final Act Embodying the Results of Uruguay Round of Multilateral Trade Negotiations” and provides the basic information about the major agreements which constitute the Uruguay Round such as Market Access, Agriculture Sector, Trade Related Investment Measures (TRIMs), Trade Related Intellectual Property Rights (TRIPs), Safeguards, Anti-dumping, Subsidies and Countervailing Duties etc.

However, the paper has its weaknesses which can be briefly discussed below:

- (i) The paper does not seem to have benefitted from a fairly vast literature both theoretical and applied on the subject of trade liberalisation, which has emerged in recent years. The World Bank, IMF, GATT and other international agencies have come up with a large outflow of research papers and documents on an evaluation of the Uruguay Round. Surprisingly, Dr Akhtar H. Khan’s paper does not refer to any such documents.
- (ii) The paper lacks in a comprehensive analysis of linkages/mechanisms and implications which are critical for measuring the actual effects of the Uruguay Round on the world economy. For example the Uruguay Round agreement includes TRIPs i.e. Trade Related Intellectual Property Rights TRIMs i.e. Trade Related Investment Measures and

- GATTS i.e. Trade in Services, which are the new developments in the world trading relationship. These developments and agreements will have far-reaching consequences for the economies of the both the developed and developing countries, and have to be analysed in depth.
- (iii) The paper depicts a marked optimism about the effects of the Uruguay Round for the world economy, but it fails to realise, as some critics have pointed out, that WTO, IMF and World Bank could easily form a triangle of economic dominance and could develop into a "troika" of colonial resurgence led by the multinationals. Through manipulation of various processes and mechanisms of the new agreement such as the Trade Policy Review Mechanism and Dispute Settlement Mechanism, the industrial countries could have a complete surveillance on economic policies of developing countries in both trade and services sectors. In the services sector, there is a built-in paradox in the sense that whereas sophisticated services developed by advanced countries in the field of communications, banking and insurance etc. would be exported to the developing countries at the usual high cost, the unskilled labour from the developing countries will not be allowed to move to the rich countries of the world.

The new agreement is not very helpful for the developing countries with respect to their major export items such as textiles and clothing which are covered under the Multifibre Arrangement (MFA). MFA is to be phased out over a period of 10 years and the developing countries will be deprived of immediate access to the world markets for their major export items i.e. textiles and clothing.

Having said all that, we need to have a deeper look at the conclusion drawn by Dr Akhtar H. Khan. He states:

"The world however cannot wait for developing countries like Pakistan to wake up, adopt modern technologies and improve the price, quality and competitiveness of their goods. The survival of the fittest is an accepted law of nature. Instead of manufacturing shoddy goods for the domestic market, we must produce high quality goods for exports. The Uruguay Round will help the efficient and punish the inefficient in the international market place. Inefficient agriculture and textiles in developed countries will suffer as the inefficient developing countries from freer trade. However, it provides an opportunity to all to become more efficient and join the bandwagon of the East Asian tigers".

In the context of growing challenges and pressures on developing countries resulting from the Uruguay Round, the above conclusion is of immense usefulness for policy formulation. It must be taken in all the seriousness with which it has been stated.

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