

Reinvigorating The Trading System

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Almost seven years after the conclusion of the seventh Round of GATT (General Agreement on Tariffs and Trade) negotiations, the new Round of negotiations (to be known as Uruguay Round) was launched in 1986 at the ministerial meeting in Punta del Este, the Atlantic resort in Uruguay, by the ninety two contracting parties. The new Round, eighth in the series, is expected to continue for four years.

The agreement reached at the ministerial meeting in Uruguay after the final week's tug-of-war, called for prohibition of any " .. trade restrictive or distorting measures inconsistent with the provisions of the general agreement in the legitimate exercise of (each member's) GATT's rights". More specifically the declaration states that "all the trade restrictive and distorting measures inconsistent with the provisions of the general agreement shall be phased out or brought into conformity within an agreed time frame not later than by the date of the formal completion of the negotiations". Though the agenda agreed by the GATT members seeks to restrict the use of tariffs and non-tariff barriers to improve market access, tariffs and non-tariff barriers are however, not at the heart of the new Round. On the otherhand, the new Round has in the agenda for negotiations of less traditional areas of trade such as : Services, Agriculture, Intellectual Property Rights, and Investment. Hence, now the question arises : will the Uruguay Round mark the turning point of the present day global protectionist trends and hence, a return towards truly multilateral world trade ?

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The General Agreement on Tariffs and Trade (GATT) with comprehensive arrangement for global trade promotion was signed in 1947 originally with a membership of twenty three contracting parties and came into force from January 1, 1948. The objectives of the general agreement are clearly set out in its Preamble where the "contracting parties" recognise that "..... their relations in the field of trade and economic endeavour should be conducted with a view to raising standard of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods, and promoting the progressive development of the economies of all contracting parties". Hence, it is a multilateral treaty that provides for a forum to discuss trade problems faced by contracting parties and take steps as are necessary for trade promotion through reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and by the elimination of discriminatory treatment in international commerce.

Since its inception in the aftermath of World War II, seven major Rounds of GATT have been concluded so far—last three being called as Dillon Round, Kennedy Round and Tokyo Round respectively. Both the Dillon Round and the Kennedy Round cut tariffs on manufactured goods by approximately one quarter. The Tokyo Round not only further cut tariffs on an average by 25 to 30 per cent but also established important new codes of conduct for the regulation and/or elimination of non-tariff barriers to which the present day trading system is subjected. Table 1 shows the results of various rounds of multilateral trade negotiations.

TABLE I
Results of Multi-lateral Trade Negotiations (MTN) Concluded so far

Round	Venue	Year (s)	Value of Trade covered	Number of Concessions Made
I	Geneva	1947	\$ 10 billion	45,000
II	Annecy	1949	n.a.	5,000
III	Torquay	1951	n.a.	8,700
IV	Geneva	1956	\$ 2.5 billion	n.a.
V	Geneva	1960-61	\$ 1.9 billion	4,400
(Dillon Round)				
VI	Geneva	1964-67	\$ 40 billion	n.a.
(Kennedy Round)				
VII	Geneva	1973-79	\$ 155 billion	27,000
(Tokyo Round)				

Source : Foreign Trade Review Vol. XX, No. 3, Oct-Dec. 1985.

The experiments in the post-war period in trade liberation resulted in rapid expansion of trade both in value and volume. Such unprecedented growth in the volume of world trade in the fifties and in the sixties not only accelerated the growth process of economics of both the orient and the occident but also further narrowed down the gap of world production and trade. Hence, both the sixties and seventies can truly be regarded as the golden age of growth and stability in the international trade environment.

Notwithstanding the buoyant growth of world trade in the sixties and seventies, many crises have cropped up on several fronts in the international economic environment in the late sixties and early seventies, the odours of which are still permeating the air. The decade seventies began with the collapse of the Bretton Woods system and the regime of fixed exchange rates was replaced by a firm entrenchment of the flexible exchange rate system. Then came the Oil Shock of 1973 which in turn resulted in serious balance of payments difficulties for most non-oil developing countries. Starting from mid-seventies, the general trend towards trade liberation reversed and a new era emerged in the trading environment—the regime of new protectionism. In the international economic sphere the year 1974-75 saw the culmination of inflationary wave and spreading of deep recession from industrial countries to other part of the world. The recession was deliberately brought about by the need to squeeze inflation out of the system when aggregate spending began to exceed increasingly the productive capacity. As a result from a once hopeful age of growing interdependence and prosperity in which it seemed that playing the game “trade” everyone will gain and no one will lose, the world has entered a period which has come perilously close to a zero-sum game, where no one even seems to win.

Under the spell of recession, nations, particularly industrial nations, seek to solve or atleast alleviate their problems of unemployment, lagging growth and declining industries through the application of non-tariff barriers (NTBs). Therefore, over the years when the tariffs were reduced as a part of the several Round of negotiations and are very low on most industrial goods, the number and importance of NTBs have multiplied. It has been estimated that the number of NTBs have quardrupled between 1968 and 1983. For instance, between the 1980-83, the proportion of the U.S. imports subjected to NTBs more than doubled while the proportion of the European Community's imports subjected to NTBs increased by 38 per cent (World Bank, World Development Report, 1984).

With the proliferation of import restrictive measures, nations have come to perceive that they have conflict of interest in liberating the world trade and hence, prefer to go for bilaterally managed trade on the pattern of 1930s to multilateral free trade. Moreover, the instruments being used are somewhat different from and less transparent than the traditional one. Such a trend is more evident in the spread of agreements whose purpose is to restrict competition by sharing markets in the name of “voluntary export restraint agreements”, “consultations”, “voluntary understanding”, “export forecast agreement”,

“orderly marketing arrangements” so on and so forth. Though these import restrictive measures seem to suggest otherwise by their name, however, beneath the delicate surface, they not only contravene the contracting parties commitments under the GATT but also they are frequently at odds with domestic anti-trust laws. Again, to justify their actions, nations quite often blame the unfair trade practices by the foreign exporters. For example, when a series of voluntary export-restraint agreements with leading steel-exporting nations were concluded in 1984, the U.S. trade representative stated : “... we are responding the unfair trade in the U.S.; defending yourself against unfair trade is not, in our opinion, protectionism” (New York Times, Dec. 19, 1984). This is no justification as two wrongs do not make a right.

Another interesting aspect is that such arrangements take place outside the GATT rules and disciplines. One example is the world trade in textiles and clothing between developed and developing countries, which is subjected to a special treatment—popularly known as Multi-Fibre Arrangements (MFA). Though the MFA arrangement was supposed to expire in July 1986, it has further been extended for a period of five years. Alongside these developments, the system of bilateral trade agreement which has been reinforced by countertrade arrangements with countries that have non-convertible currencies, has added one more dimension to the much distorted trade environment.

All these developments in the international trade environment have brought about structural changes in world production and trade. As against the unprecedented growth of world trade in the fifties, sixties and the early seventies the growth rate of world trade decelerated in the late seventies and ultimately became negative in early eighties. Such deceleration in the growth rate of world exports in the late seventies and the early eighties has been uneven among major trading partners. On the other hand, in the international economic scenario, such developments have in turn contributed to the decline in the dominance and hegemonic economic position of the U.S. and a concomittant rise in the European Community and Japan to International economic prominence and the emergence of a highly competitive group of newly industrialised countries.

Therefore, the crucial task ahead for the current Round is to bring back the trading system to the track of fair trading by reverting from the current drift towards protectionism. To begin with, before making any negotiations on less traditional areas of trade, the emphasis should be on the protectionist devices to which present world trade is subjected and which are inconsistent with the general agreement.

Such measures as they are being applied and practised by the countries to alleviate their problems of unemployment in declining industries, involve protecting one sector of the economy at the cost of others, with nation as a whole losing in the long-run. And even such steps do not stop the decrease in the employment in declining industries. For example, in the

European Community and the United States despite increased import protection, their industries such as textiles and apparel and steel have been unable to prevent fall in employment. While in the short-run, employment tends to increase due to the fall in imports, in the long-run off-setting forces are set in motion causing employment level to fall. These forces include a decrease in the expenditure on the product as its domestic price tends to rise; a shift in expenditure to non-controlled varieties and substitute products; a redirection of exports by foreign supplies to more expensive forms of items; and if the import controls are country specific, an increase in exports by non-controlled suppliers. Besides, the oligopolistic profits associated with the increased protection are likely to be used to introduce labour-saving equipment. Ultimately this causes the displacement of workers at a faster rate than before. Furthermore, protectionism also taxes the protecting country's own export industries-partly through higher prices of their inputs, but much more importantly through depressing effect on exports of the country's reduced participation in world trade and international specialisation. Hence, if these protectionist measures are permitted to continue there will be a decline in world trade and production, slow down in the structural adjustment in mature economies, mis-allocation of resources internationally and in sum, a threat to the world welfare.

Given the willingness of contracting parties-particularly industrial nations-it is not at all impossible to reverse the present trend towards politicisation of trade in the present Round. Because Uruguay Round is not starting from the scratch as is well known. It already has a position, from which it should be possible to make quite rapid progress in tough negotiations on the problems in the agenda. In this context it should be acknowledged that the declaration at the ministerial meeting in Uruguay is quite promising at least on three counts. First, the "standstill commitment": where all participants have undertaken to refrain from taking protectionist measures outside the GATT rules that are inconsistent with the provisions of the general agreement or its instruments negotiated within its framework or under its auspices, during the negotiations. Second, the roll back of "grey zone areas": all participants have agreed to take all such measures to phase out or brought into conformity any existing barriers that are not consistent with the general agreement, by the end of the negotiations. Third, the principle of "open graduation": while the industrialised countries will not insist on reciprocity in relation to concessions made to the developing countries in the course of negotiations, the third world countries have been asked to make contributions appropriate to their stage of development and thus, can contribute to a more balanced relationship of rights and obligations in the GATT system. These commitments by the contracting parties if properly adhered to, will go a long way in bringing back the fairness to the system.

Coming to the negotiations on less traditional areas of trade, the interest of developing countries-especially less developed countries-should be carefully taken into consideration. While there is a need for an improved international investment climate, to restore the confidence and credibility of the general agreement there is also a need for improvement in the dispute settlement and enforcement mechanism. In case of most debatable and

controversial issue "trade in services", the developed countries so far unwillingly enough, have pressed their advantage in services instead of seeking mutuality of interest within the broad service sector itself. To achieve a compromise there is a need to identify service sectors (such as construction sector) where developing countries have the export edge. Similarly, in case of agriculture, the interest of developing countries should be looked into on the negotiations on trade in tropical products which are of particular interest to developing countries.

The outcome of the present Round depends more on the accommodative attitude of the contracting parties than on anything else. After the finalisation of the agenda for the negotiations in Uruguay, the United States Secretary of Commerce Mr. Malcolm Baldrige said : "... launching the new round we have reinvigorated the General Agreements on Tariffs and Trade (GATT) and restored confidence in the system of rules and procedures under which international trade has flourished since the GATT's creation in 1948" (Business America, October 13, 1986). But simply launching a new Round of negotiations does not and cannot itself improve and reinvigorate the trading system. Every thing rather depends upon the willingness of the governments of various nations to reach meaningful agreements- more so on the part of developed countries to eschew their protectionist attitude. In sum, the joint efforts of developed and developing nations at this juncture with a view to bringing about fairness to the system would do much good than a later band-aid.