

Liberalization of Tariffs

The Tokyo Round agreement resulted in an average decline in duties worldwide of about one third, with reductions being phased in over an eight- to ten-year period. An analysis by the GATT Secretariat suggests, however, that, although the developing countries will benefit from generalized tariff cuts, their gains will be less than those of the industrial countries. The Secretariat estimates that average duties on developing-country exports will decline by only about 25 per cent. For example, tariffs on textiles as well as on rubber and leather goods, which are important exports of the developing countries, will be reduced only 16 to 20 per cent. Tariffs on non-electrical machinery, chemicals, transport equipment, and other products primarily traded among the industrial nations will in most cases drop by more than one third. Moreover, a number of items of specific importance to the developing countries were not even subject to negotiation; for example, industrial fasteners (nuts and bolts), non-rubber footwear, and color television sets were expressly excluded from any U.S. tariff reductions agreed to in Geneva. Finally, because several product categories, particularly textiles, are already subject to restricted trade through OMAs, even the tariff cuts being made will do little to increase trade in the developing categories.

Although the degree and distribution of tariff cuts are not totally satisfactory to the developing countries, the cuts should not be viewed as insignificant. The Tokyo Round reductions are roughly comparable to those of the Kennedy Round, in which reductions on developing-country exports were somewhat below the average. In both cases, the difference is due almost entirely to less than average tariff cuts on textiles. The post-Kennedy Round experience nevertheless showed that at least some developing countries were very successful in expanding their exports of manufactures. It also showed that non-tariff restrictions hinder trade more than tariff barriers.

Changes in the Rules of Trade

Changes in the rules of trade that affect the developing countries were accomplished in basically two ways: 1) through changes in the basic GATT framework, and 2) through the negotiation of individual codes of conduct on several NTBs.

Nonreciprocity and Graduation. Since 1965, trade rules for developing countries, which now constitute about two thirds of the GATT membership, have fallen under Part IV of the General Agreement, which states that developing countries need not make trade concessions detrimental to their individual development, financial, and trade needs. An important component of this policy is "nonreciprocity," under which developing countries receive the advantages of trade liberalizations by industrialized countries on a most-favored-nation basis, without being expected to offer equivalent reductions in their own trade barriers. The Tokyo Round agreement provides

a stronger legal basis for nonreciprocity in the so-called "enabling clause," which allows developed countries to selectively extend differential and more favorable treatment to developing countries on a non-most-favored-nation basis.

The establishment of the enabling clause was largely due to efforts by developing countries, led by Brazil, to create a firmer legal basis for GSPs and other forms of "special and differential treatment." Although this clause was the primary negotiating objective of the developing countries, it is in fact a modest concession to them, since most eligible countries already are extended nonreciprocal treatment through waivers of the rules.

Industrialized countries conditioned their support of the enabling clause on a developing-country commitment to assume fuller GATT obligations as their economies develop. This principle of "graduation" requires that special treatment be phased out as economic progress is made. The United States, which has pressed hardest for acceptance of this concept, bases its position on the arguments that 1) certain middle-income developing countries are able to make trade concessions in a way that brings efficiency and consumer benefits to their economies and 2) that all developing countries can make commitments to enforce trade regulations less arbitrarily.

In the course of the negotiations, the United States demanded and received specific concessions on tariff and non-tariff items from a number of developing countries. It has signed separate bilateral agreements with nineteen developing countries. Although developing countries have demonstrated a willingness to negotiate trade concessions, they strongly resist any notion of externally imposed graduation, contending that they are already at a disadvantage in international trade and that local conditions and constraints necessitate individual approaches in each country. Moreover, developing countries argue that they offer an implicit form of reciprocity in that their export earnings tend to be spent on imports from developed countries (two thirds of their imports originate in the developed world).

U.S. officials have noted that Japan, by liberalizing its trade policies to levels equivalent to those of most developed countries, in effect "graduated" in the current round of MTNs. If this is true, then developing countries, most of which are far less advanced economically than Japan, should not be expected to offer major trade concessions until their economies are much more developed. Certain advanced developing countries, however, should realize that eventual trade liberalization is in their own self-interest and that they can make positive contributions to the world trading environment by opening up their markets to imports from all countries. Properly applied, graduation is a relative concept which implies gradual change by developed as well as developing countries.

Safeguards. The major dispute between developing and certain developed countries has involved the proposal for a safeguards code. Article XIX of the GATT,