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The Uruguay Round:

What's In It For The Developing Countries?

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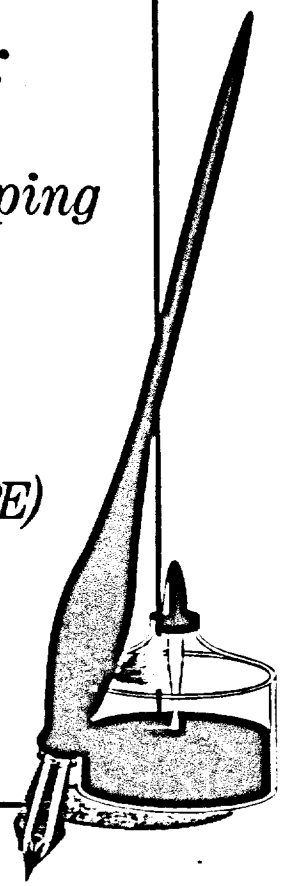
(March 1994)



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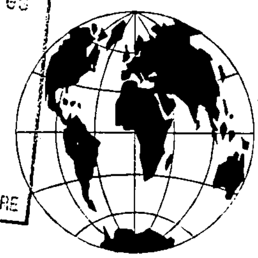

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The Uruguay Round: What's In It For The Developing Countries?

This Commentary briefly addresses what the Uruguay Round has to offer the developing countries. In mid April 1994, ministers will sign the Final Act embodying the results of the Uruguay Round. The results of the Round will subsequently be submitted to national governments for formal approval. It is proposed that the newly agreed to World Trade Organization (WTO) and its constituent agreements on goods, services, intellectual property, investment and trade rules will take effect in 1995. The OECD has estimated that reductions in tariff and non-tariff barriers negotiated in the Round will increase world GDP by at least U.S. $270 billion annually by the year 2002, with the non-OECD countries receiving about U.S. $86 billion of these benefits. This LDC share is greater than their receipt of Official Development Assistance from OECD countries, which amounted to approximately U.S. $56 billion in 1991.

For a variety of political and economic reasons, there is speculation about the Round's "winners" and "losers", including among the developing countries. Given the complex and often unmeasurable nature of the outcome of the Uruguay Round, any assessment of "winners" and "losers" involves drawing broad conclusions and the recognition of a number of critical caveats (there is no a priori method, for example, of capturing the undoubtedly important value of improved rules on subsidy and countervailing duty practices). The core interests of the developing countries in the Uruguay Round were textiles and clothing, agriculture, general access to the developed countries' markets, reform of trade rules, and the strengthening of dispute settlement procedures to the overall benefit of the multilateral trading system. One thing is clear--a failure of the Round would not have been in the developing countries' economic interests.

Avoidance of the Erosion of the Multilateral Trading System

- The outcome of the Uruguay Round must be considered in the context that the status quo was not a rational, economically sound option. The failure of the Round would have signalled that the European Union (EU) and the U.S. saw alternatives to the multilateral trading system as more viable options than they have in the past. This would have begun the erosion of the multilateral trading system, and the rise in unilateralism and bilateral fixes to the detriment of smaller economies.

- A failure of the Uruguay Round would have given domestic producers an opportunity to exert more pressure on governments in developed countries to resort to discriminatory, if not outright protectionist, trade policies.

Governments would have been more likely to yield to the demands of special interest groups, given that they would have been unable to use the argument that other countries "play by the rules". In this situation, the smaller trading countries, with little negotiating leverage, would probably have been forced to accept a managed trade regime that could have further restricted their exports. In general, a more adversarial trading system would likely have prevailed had the Round failed. No one would have benefited from such a development, particularly the developing countries.

Market Access

- Market access negotiations will likely go into late March 1994. Thus the final results of the package are not yet fully known. The developed countries have agreed to eliminate tariffs in a number of sectors and to reduce remaining tariffs by an average of one third by the year 2000. Improving market access in developed countries for imports of many manufactured products from the developing countries is mainly of immediate interest to the LDC export leaders (ASEAN, China, India and many Latin American countries), and not the majority of Commonwealth or Francophonie members. This said, any increased market access opportunities in the developed countries should reinforce the attractiveness of outward-oriented development strategies for all developing countries over time.

- The textile and clothing negotiation was a priority for the developing countries. The developing countries succeeded in having the highly protectionist Multifiber Arrangement eliminated. Under the MFA, exports from developing countries are limited by export quotas resulting from bilateral agreements negotiated with individual developed countries. The Uruguay Round agreement on textiles and clothing will liberalize the developed countries' markets over a ten year period, reducing tariff protection and eliminating the MFA quota system. The average tariff-equivalents of MFA quotas have been estimated to be approximately 25 per cent for clothing and 15 per cent for textiles. The effect that the MFA and tariff barriers have on developing countries has been a matter of considerable speculation for years, but it has been estimated that the elimination of quotas and all tariffs on developed countries' textiles and clothing imports would increase the developing countries' welfare by around U.S. $8 billion.[1] The

[1] The same estimate indicates that welfare gains in developed countries would be approximately U.S. $15 billion.

Uruguay Round result, once fully implemented, will leave some tariff protection in place, but clearly the reform in this product category will bring substantial benefits to the LDCs. Some economies such as Hong Kong, Taiwan and South Korea, will face increased competition as the large rent-generating quotas they now enjoy will be eliminated. Other developing countries, such as low-cost producers in India, Pakistan, China and Bangladesh, are likely to benefit from the increased market access.

- Reductions in tariffs on tropical products will be of benefit to the developing countries, particularly for Latin Americans and Asians. One possible exception to this is with respect to the E.U., where the ACP countries, largely African and small island nations, will face greater competition and, possibly, reduced exports or at least slower export growth. Under the Lome agreement with the E.U., the ACP countries receive preferential market access. With the E.U. lowering its tariffs for all producers of tropical products as a result of MTN commitments, the preferential tariff margin that the ACP countries now enjoy will shrink. This said, increased openness in the U.S., Japan, Canada, Australia, and non-E.U. European countries will be of benefit to all tropical product producers, including the ACP nations.

- The Round's agricultural agreement improves market access, increases disciplines on subsidies that distort trade, and helps to ensure that health and sanitary regulations will not be used as easily as disguised barriers to trade. A number of developing countries are agricultural exporters, such as Argentina, Brazil and Thailand, and are members of the Cairns Group, which played a key role in liberalizing trade in agricultural products. Other developing countries, such as Morocco, Nigeria, Jamaica and Egypt, are net food importers. Thus they hold the view that export subsidies by the E.U. and U.S. are not altogether negative policies from their vantage point. The bottomline for the net food importers is that higher food import prices could exacerbate their foreign payments difficulties, although in many instances the growth generated by improved market access for their exports and better trade rules should more than compensate. Nonetheless, the Final Act takes into account more fully the net food importers' concerns (see below).

Trade Rules and the "New Issues"

- GATT Article XVIII, which allows developing countries more leeway to use trade restrictive measures for economic development purposes, has been retained.

- The Uruguay Round imposes disciplines on the use of trade-related investment measures (TRIMS). TRIMS are government-imposed obligations on investors, which are likely to have an effect on trade. A country's use of TRIMS and the uncertainty of what future rules on TRIMS may bring can deter foreign investment. The MTN result provides greater certainty and lessens the likelihood that the use of TRIMS will distort trade and investment flows among the LDCs themselves. For example, to take a general case, given a large LDC market (A) and a small neighbouring LDC market (B), all things being equal (A) would likely receive a substantial share of foreign investment because of its large market size, but (B) would also be a possible investment location, if only to provide cost-competitive inputs for production based in (A). With no discipline on the use of TRIMS, however, (A) could condition fuller access to its market on investors sourcing more inputs domestically, thus discouraging firms from investing in (B). The TRIMS reforms thus lessen the market power of large versus smaller and often poorer developing countries.

- The effect of the Round's trade-related intellectual property (TRIPS) agreement on the developing countries is unclear. The basic difficulty during the negotiations was arriving at a compromise between the interests of countries advocating strong intellectual property holder's rights against those countries stressing their right to have access to innovation and seeking to minimize the extent of multilateral restraints on national intellectual property policies. The TRIPS agreement could reduce the developing countries' welfare by increasing transfers to the developed countries. Conversely, the implementation of stronger intellectual property rights will provide greater certainty that should encourage investment and technology transfer toward certain developing countries - a point that has been made publicly by the Indian government.

- The Round's agreements on trade rules will lead to more secure and predictable access to markets. This is a benefit for all countries, but particularly for the developing nations that otherwise have little bilateral negotiating leverage. During the Round, the developing countries favoured new disciplines on the use of import restrictions related to emergency safeguards (GATT Article XIX), anti-dumping, and subsidy/countervail. As with most countries, including Canada, the developing countries were concerned with the potential abuse of GATT rules by the U.S. and the E.U.. Substantial improvements were achieved with regard to new disciplines on safeguards and countervailing duties, including, in the case of safeguards, a commitment to eliminate voluntary export restraints/orderly marketing arrangements that have negatively affected LDC exports.

- The MTN result provides for a strengthened dispute settlement mechanism. Under the new mechanism, it will no longer be possible for a country to block the adoption of a dispute settlement recommendation by a panel of experts. This is an important benefit for all small and medium-sized economies. Under the new system, the use of rules rather than economic power will be strengthened with regard to settling trade disputes.

- The General Agreement on Trade in Services (GATS) contains important commitments by developed countries to open their services markets. An important element for the developing countries is that each country determines what its schedule of commitments will be. This means that developing countries may tailor their commitments to reflect their individual levels of economic development and domestic political sensitivities, and need not match the liberalization commitments undertaken by more advanced economies.

Special Ministerial Decisions

- The Final Act includes two Ministerial Decisions that act as safeguards for the least-developed countries. These are: the "Decision on Measures in Favour of Least-Developed Countries"; and the "Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries."

- The first Decision states that the least-developed countries, while complying with the general rules set out in the Final Act, "will only be required to undertake commitments and concessions to the extent consistent with their individual development, financial and trade needs, or their administrative and institutional capabilities." The Decision also continues to allow the MFN principle to be violated by allowing for GSP schemes that give developing countries market access at lower than MFN tariff rates.

- The second Decision recognizes that, during the reform programme leading to greater liberalization of trade in agriculture, the least-developed and net food-importing developing countries may experience negative effects in terms of the availability of adequate supplies of basic foodstuffs from external sources on reasonable financial terms. To prevent undue hardship, the Decision states that "Ministers accordingly agree to establish appropriate mechanisms to ensure that the implementation of the results of the Uruguay Round on trade in agriculture does not adversely affect the availability of food aid at a level which is sufficient to continue to provide assistance in meeting the food needs of developing countries, especially least developed and net food-importing developing countries."

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