

**NEWS  
OF THE**

# URUGUAY ROUND

OF MULTILATERAL TRADE NEGOTIATIONS

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## **GATT BACKGROUND PAPER LOOKS AT VALUE OF POSSIBLE ROUND RESULTS, ESPECIALLY TO DEVELOPING COUNTRIES**

Gives new figures on world trade and income effects

On Friday 3 December, participants in the Uruguay Round will, as required by the Punta del Este Declaration, conduct an evaluation of the likely results, as far as they are known, from the perspective of developing countries.

To assist participants, the Secretariat has issued a factual background paper which sets out the main aspects of the draft Uruguay Round agreement. Because the participants' evaluation is taking place before the conclusion of the Round, the Secretariat's paper is limited by the fact that the proposed package of offers and legal texts is not yet in its final form.

The paper is divided into two main parts - the first dealing with the market opening part of the draft agreement, and the second covering the new rules, procedures and institutional aspects whose likely effects cannot be quantified but which are nevertheless of central importance in the final package.

### Increases in market access

Increased market access for the two broad categories of world trade - goods (industry and agriculture) and services - is being negotiated in the Uruguay Round. The Secretariat's study describes the current export interests in each of these categories of the 88 developing economies participating in the Uruguay Round. Although most developing economy participants obtain the majority of foreign exchange receipts from trade in goods, services still account for over 20 per cent of foreign exchange

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MORE

earnings for one-half of participants. Within the category of trade in goods, agriculture accounts for 13 per cent of total export earnings of developing economies, as a group, but represents a higher proportion of export earnings for two-thirds of developing economy participants.

The Secretariat's study emphasizes that the current pattern of trade is not fully indicative of the export interests of developing economies, because the product composition of their trade will continue to evolve. For example, in Latin America, Africa, the Middle East and developing Asia, one-third or more of products important in their exports at the end of the 1980s were 'new' - that is, added since the end of the Tokyo Round in 1979. A factor contributing to the diversification of exports into new products was the tariff reductions implemented at the end of the Tokyo Round by developed countries, whose benefits were generalised to all participants through the MFN clause.

On the basis of industrial tariff offers on the table on 19 November, the Secretariat's paper indicates:

- an increase in the scope of tariff bindings, with developed countries binding 97 per cent of their tariffs (up from 78) and developing countries moving from the present level of 21 per cent to 65 per cent.
- tariff reduction offers from developed countries, covering \$464 billion of their industrial imports out of the total of \$612 billion that is not already bound duty free;
- the proportion of developed economy merchandise imports from all sources entering duty free would more than double (from 20 to 43 per cent) - and rise from 22 to 45 per cent for duty-free imports from developing economies

Textiles and clothing is the single most important category of exports of developing countries, as a group, accounting for 22 per cent of total exports. In addition, one-third of developing economy participants in the Uruguay Round have a substantial export interest (more than 20 per cent of industrial export earnings) in the product group. It should be noted that textiles and clothing is a sector which, for many developing economies, is particularly significant in helping them start on the path of export-led growth. Trade in the sector is affected by relatively high tariffs (about 15 per cent on average in developed countries), and by quantitative restraints on exports applied under the Multi-Fibre Arrangement. Importers have committed themselves to progressively eliminate these restraints, and are offering to reduce tariffs on textiles and clothing products by 20 per cent.

One-half of developing economy participants have a substantial export interest in natural resource-based products (excluding petroleum). These products include 'wood, pulp, paper and furniture', 'fish and fishery products', and 'metals'. The percentage reductions in tariffs on these products are respectively 67, 63 and 22 per cent, which will bring the average tariff on this group of products from the pre-Uruguay Round level of 4 per cent to 2.6 per cent.

The study identifies higher than average percentage reductions in tariffs applied by industrial countries on the product categories of "metals", "mineral products, precious metals and stones", "wood, pulp, paper and furniture" and "non-electric machinery"; and lower than average cuts on products such as "textiles and clothing", "fish and fish products", "transport equipment" and "leather, rubber, footwear and travel goods". Both textiles and clothing, and leather, rubber, footwear and travel goods are product categories in which tariffs are above the average of developed countries.

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When considering the tariff offers, the study points out that whether the pre-Uruguay Round level of the tariff on a product was high or low was also important in judging the extent of increased market access resulting from the offers being made. A below average reduction in a high tariff level may have the same effect on the price of the imported product as an above average cut in a low tariff.

The cut in tariffs on textiles and clothing is below the average reduction being made on industrial product categories of 38 per cent; at the same time, textiles and clothing is a product category in which tariff 'peaks' are present.

Looking at the overall picture for industrial goods these preliminary figures show that the developed country offers on the table as of 19 November 1993 would give trade-weighted average reductions of 38 per cent for the mix of imports from all sources, 32 per cent for imports from developing countries (other than the least-developed) and 19 per cent for products from the least developed. These figures are heavily affected by the below-average reductions being offered on *tariffs* for textiles and clothing as well as fish and fish products, with the least developed countries being particularly affected because their exports tend to be less diversified. It is pointed out, however, that for textiles and clothing it is also necessary to take into account the Uruguay Round agreement to eliminate quantitative restrictions maintained since 1974 under the Multi-Fibre Arrangement.

Increased market-access for agricultural goods is the result of bindings and reductions in tariffs, as well as the tariffication process envisaged in the Draft Final Act, according to which many kinds of market access restrictions are to be converted into tariffs and reduced. The Draft Final Act also envisages reductions in internal support and export subsidies in the agricultural sector. As the Secretariat's paper notes,

- even though agriculture accounts for only 13 per cent of total merchandise export earnings of developing countries, one-third of the developing countries participating in the Uruguay Round - and almost one-half of least-developed countries - depend at present for the majority of their export earnings on exports of agricultural products;
- the market access commitments so far tabled would make the proportion of bound agricultural tariffs broadly the same as those for industrial goods for the first time in GATT's history;
- tariffs on tropical products are being reduced by 42 per cent and tariff escalation reduced; this is a product group in which one-half of developing countries have a substantial export interest, due primarily to tropical beverages (on which the offered cut is 45 per cent);
- while the overall percentage reduction in tariff equivalents in the agricultural offers reaches 36 per cent for all products, the highest reductions are for "cut flowers, plants and vegetable materials" and the lowest are for "dairy products";

Evaluating current market access offers for services is much more difficult than for industrial and agricultural products, in particular because there is no equivalent to the tariff as a quantifiable barrier. The barriers, rather, involve domestic laws, regulations and licensing requirements whose impact on imported services is often incidental to their main purposes. In order to assess the value of commitments on services it is therefore necessary to examine in detail the sectoral coverage of national offers and the limitations on market access or national treatment which they may contain.

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As of 25 November 1993, offers of initial commitments covering 88 countries which account for the vast proportion of world trade in services, had been put on the table. Many of these offers cover sectors such as professional, construction services and computer-related services, which are of export interest to developing countries by virtue of their labour-intensive or skill-intensive nature. Most offers also cover the tourism sector, which for many developing countries is an important source of foreign exchange earnings. Liberalization commitments assumed by developing countries will assist them in attracting the investment to strengthen the infrastructural basis of this key sector, and commitments being made by other countries to liberalize restrictions on foreign travel should also be of benefit. Developing countries are giving particular attention to the provisions for the movement of personnel supplying services across borders; initial commitments are for the most part presently confined to managers and skilled technicians.

### **Possible effects on trade and incomes**

The paper emphasizes two principal sources of increased national income resulting from a successful conclusion to the Round: first, the more efficient use of domestic resources when domestic distortions such as trade barriers are reduced or removed; and second, increased access to the markets of trading partners.

The Secretariat's estimate of the overall trade impact of the Uruguay Round is that *world merchandise trade* would be about 12 per cent, or \$745 billion higher, in the year 2005 than it would otherwise be.

The Secretariat has similarly estimated that the boost to *world income* through the implementation of (only) the market access parts of the Round, will amount to about \$230 billion a year by 2005 when the liberalization would be complete - a figure close to other recent estimates by the OECD and World Bank. The Secretariat also estimates that this gain would be broadly based across participants.

The study points out that these figures substantially underestimate the likely full effects of the Round, since they ignore the stimulus to world trade in services as well as the stimulus to all trade from strengthened trade rules generally. The estimates also implicitly assume that a failure in December would result in the status quo in the world trading system being maintained -if a failure worsened the current world economic situation, as is widely believed would be the case, avoidance of those costs would have to be added to the gains from a successful Round. More generally, the *dynamic gains* from a successful Uruguay Round are altogether ignored in these quantitative exercises, including its effects on business confidence and hence on investment and growth at this juncture and beyond.

### **New rules, procedures and institutional arrangements**

The other major part of the Uruguay Round - the new and strengthened rules, procedures and institutional arrangements negotiated in the Uruguay Round are examined in Part II of the paper. The substance of all provisions which refer to developing countries, including those that provide for more favourable treatment, are described.

One of the principal concerns of all small and medium-sized trading nations is that trade be conducted in a transparent, predictable and open manner in accordance with multilaterally agreed concepts, principles and rules. Improved market access is not in itself sufficient to establish a solid foundation for world trade, income and employment growth in the coming decades. If governments

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can effectively deny the improved market access that results from liberalization commitments, business decision-makers will not have the necessary confidence to expand investment and create jobs. This requires a stable and predictable environment, which in turn requires a multilateral trading system based on agreed rules and procedures, to be implemented and monitored by a credible institution which is definitive in nature.

A major reason for the launching of the Uruguay Round in 1986 was a concern that existing GATT rules and procedures had not kept pace with developments in the world economy. One of the consequences had been a proliferation of grey area measures, such as voluntary export restraints. In this respect, the rules of GATT dating from 1947 have been improved and updated to reflect the realities of today's world. Rules which had been applied by only some GATT contracting parties in the past will now be applied by all signatories of the Uruguay Round package. These rules apply to, for example, subsidies and countervailing measures, anti-dumping actions, technical barriers to trade and safeguard measures taken in response to import surges. Some of these are contained in Agreements negotiated in the Tokyo Round which have been strengthened and clarified in the light of 13 years of commercial experience. Furthermore, a number of areas have in the past been less effectively disciplined by GATT rules (for example, agriculture), covered by an Arrangement that constitutes a derogation from the GATT disciplines (that is, textiles and clothing), and some which have never before been subjected to the rules of any multilateral agreement (for example, services).

While the strengthening of rules, and the extension of their coverage to new areas has been an objective of all countries - particularly developing countries - what is of equal importance is the creation of the appropriate institutional framework to monitor, implement and enforce the agreed disciplines. In this respect, the replacement of GATT - which has always operated on a provisional basis - by a new institution on a definitive basis is of considerable importance. So too for the improvement of the functioning of the dispute settlement mechanism of GATT, which operates to ensure that the interests of small and medium-sized countries are protected both effectively and equitably against unilateral actions.

In view of the fact that the Review is to evaluate the Uruguay Round results in the light of the differential and more favourable treatment for developing countries, this aspect of each of the provisions is highlighted in Part II of the paper. At the same time, and in order to provide background to the provisions relating specifically to developing countries, each of the Agreements in the Uruguay Round package is briefly summarized in Part II of the paper. These summaries identify considerations that may be of particular interest to developing countries in the Agreements, even if they are not referred to specifically.

#### **Note to Editors**

A copy of the complete paper is available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.