

LINKING THE WORLD

Trade Policies
for the Future

Edited by
KHADIJA HAQ

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About the Editor

Khadija Haq, currently Executive Director of the North South Roundtable, a policy research and dialogue forum on international development issues, has written and edited books, journals and monographs dealing with the socioeconomic problems of developing countries and international economic relations. Mrs. Haq's previous publications include *Deficit Financing in Pakistan* (1962); *Equality of Opportunity Within and Among Nations* (editor, 1977); *Dialogue for a New Order* (editor, 1980); *Global Development: Issues and Choices* (editor, 1983); *Crisis of the '80s* (editor, 1984); *Adjustment with Growth: A Search for an Equitable Solution* (co-editor, 1984); *Human Development: The Neglected Dimension* (co-editor, 1986); *The Informatics Revolution and the Developing Countries* (editor, 1986); *Human Development, Adjustment and Growth* (co-editor, 1987); *Managing Human Development* (co-editor, 1988); and *Informatics for Development: The New Challenge* (editor, 1988).

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ACKNOWLEDGMENT

Funds for North South Roundtable activities are provided by the Canadian International Development Agency, the Inter-American Development Bank, the International Development Research Centre of Canada, the Netherlands Government, the OPEC Fund, the Swedish International Development Authority and the World Bank. The funding organizations are, however, not responsible for views presented in North South Roundtable documents.

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Papers Prepared for the North South Roundtable on Trade
December 14-16, 1986; Geneva, November 6-7, 1987

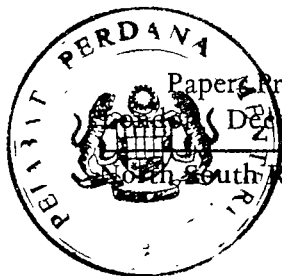
North South Roundtable

Islamabad, Pakistan

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Published in 1988 by the North South Roundtable
P.O. Box 2006, Islamabad, Pakistan
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Printed in Pakistan

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ABBREVIATIONS AND ACRONYMS

CAP	Common Agricultural Policy of the European Community
CFF	[IMF] Compensatory Financing Facility
CP	[GATT] Contracting Party
CVD	Countervailing duty
ECLA	Economic Commission for Latin America
GATT	General Agreement on Tariffs and Trade
GNG	Group of Negotiations on Goods
GNS	Group of Negotiations on Services
GSP	Generalized System of Preferences
ICAO	International Civil Aviation Organization
IMO	International Maritime Organization
ITU	International Telecommunications Union
MFA	Multifibre Arrangement
MFN	Most-favored nation
MTN	Multilateral trade negotiations
NTB	Nontariff barrier
OMA	Orderly marketing arrangement
RBP	Restrictive business practices
SDT	Special and differential treatment
TIS	Trade in services
TNC	Trade Negotiations Committee
TNC	Transnational corporation
TOT	Transfer of technology
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Commission on Transnational Corporations
UNSO	United Nations Statistical Organization
VER	Voluntary export restraint

PREFACE

Over the next decade, no global economic issue is perhaps as important as the liberalization of world trade. A sustained world economic recovery depends on a progressive freeing of the world markets from the protectionism and trade constraints which became the unfortunate distinction of the 1970s. For the developing world, a more liberal trading environment is likely to confer better and more permanent benefits than progress on any other global issue — say, for instance, an increase in foreign assistance. For indebted economies, an increase in trade is the only feasible way of repaying their mounting debts.

There are some recent indications that national and international decision makers are finally catching up with the central importance of global trade issues. Progress made at the Punta del Este deliberations in September 1986 is indeed encouraging. There is a commitment to a Uruguay Round of global trade talks, to be completed within the next four years.

However, the difficult journey has just begun. It is going to be an enormously complicated task to harmonize the conflicting interests of over 150 nations of the world and to reach sensible compromises which advance global interests while at the same time protecting some of the entrenched bilateral interests. Global negotiations are generally successful when they set out to seek not the ideal, or even the optimum, solutions but the most feasible and accepted ones.

The North South Trade Roundtable

It is in this spirit that the North South Roundtable decided to organize a special Roundtable so that elements of a global consensus can be identified through a process of progressive dialogue in this vital field, in much the same way as the NSRT succeeded earlier in forging an unofficial global consensus in the fields of energy, food, adjustment with growth and human development, and the African problem. Leading personalities and prominent experts having knowledge and experience in trade issues and broadly representative of the countries of the North and the South were invited by the Chairman

of the North South Roundtable to become members of the Trade Roundtable.

A preparatory meeting was held in Geneva on July 4-5, 1986 to decide on the agenda and the work program of the Trade Roundtable over the following two years. The first substantive meeting of the Trade Roundtable, held in London in cooperation with the Commonwealth Secretariat on December 14-16, 1986, held a candid discussion of "traditional" GATT issues, which included reestablishment of GATT principles with special reference to the export trade of developing countries; differential and more favorable treatment for developing countries; and improving monitoring, surveillance and dispute settlement. The Roundtable's second substantive session, held in Geneva on November 6-7, 1987, focused on the negotiations on trade in services.

The present volume is thus divided into two parts. Part I contributors address goods trade issues, while Part II contributors focus on trade in services. Both parts open with overview chapters based on published statements issued by the NSRT at the conclusion of the London and Geneva meetings.

Policy Issues on Trade in Goods

In its statement after the London meeting, the Trade Roundtable welcomed the Punta del Este decision to launch a new Round of trade negotiations amid an atmosphere of confusion in the international trading system. Noting with concern the erosion of multilateralism, the rise of protectionism and the increasing incidence of departures from GATT principles, the Roundtable stressed the need for early action in the Uruguay Round, recommending a confidence-building package including the clarification of the precise definition of standstill and rollback, an early agreement on safeguards, and the establishment of high-level monitoring and surveillance mechanisms, both nationally and internationally. The Roundtable observed that progress could be made in the Uruguay Round only by ensuring a reasonable balance of advantages for all the participating countries.

According to C. Michael Aho, integrating the LDCs more fully into the international trading system over the next decade could stimulate the flagging growth of the world economy. He summarizes what LDCs and industrial countries want from each other in the Uruguay Round and outlines the shape of a possible bargain, stressing that success in the new Round will depend upon high-level political involvement and active private-sector support in all countries.

Winston Fritsch identifies the major stumbling blocks to an effective launching of the new Round as the severe current account imbalances among the world's largest economies, reluctance of these countries to move on agricultural protection and safeguards, and the theoretical and political challenge of strengthening the GATT. He goes on to list LDC targets in the negotiations vis-a-vis tariffs, subsidies, safeguards and agricultural protection and analyzes the chances of these targets being met.

Henry R. Nau recaps the history of the world trading system since the 1950s and lists the policy options in the new Round from both the U.S. and the NIC perspectives. For the U.S., he says, the choice is to order its priorities among domestic macroeconomic adjustment, international financial and monetary reform, and multi-lateral trade liberalization. For NICs, the policy choice is between continuing and extending their trade-restricting policies of the last four decades or liberalizing imports in exchange for better access to industrial-country markets. He concludes by analyzing the possibilities for expanding and strengthening the GATT.

Finally, Philip Ndegwa, focusing on departures from GATT principles, doubts whether "any mere tinkering with GATT rules" can provide a durable solution to trade policy problems. Pointing out how trade policies are intertwined with other policies, he recommends a "back to basics" movement in trade policy, coupled with a greater emphasis on making sustainable policy choices in other areas. Trade is an important engine of growth for both North and South, he notes, but the South cannot move until LDC debt problems are resolved.

Policy Issues on Trade in Services

The Geneva meeting of the Trade Roundtable was devoted exclusively to a review of the general issues of international trade in services and of the specific progress to date of the Uruguay Round's Group of Negotiations on Services (GNS). These issues proved to be so contentious that the NSRT issued a summary of the discussions prepared by Gerald K. Helleiner rather than a definitive statement.

This summary, which provides an overview of services trade issues, identified seven major ones: (i) definition and measurement; (ii) new issues raised by the peculiar character of services trade, such as international factor movement and the international distribution of gains; (iii) the relevance of GATT principles and experience to services trade; (iv) the potential contribution of services to development; (v) the possibility of pursuing country-specific approaches

within the framework of general policy guidelines rather than prescribing uniform international rights and obligations; (vi) the imperative of considering sector-specific approaches simultaneously with a general framework agreement; and (vii) ensuring that any framework agreement will yield a reasonable balance of advantages among all trading partners.

Deepak Nayar argues that the GNS agenda, at present tipped in favor of the developed countries, should also include sectors and issues of interest to developing countries, such as a right of establishment for labor services. He enumerates conflicting North-South interpretations of many of the terms under discussion and upholds the right of developing-country governments to intervene in their services sectors in order to claim their share of gains from international trade and to protect their national economic and cultural sovereignty.

Tradeoffs between goods and services concessions are inevitable, reasons Gerald K. Helleiner; the developing countries' choice is between multilateral rules and "bilateral bullying and anarchy." He upholds the applicability of GATT principles to services trade and identifies some aspects of the recent U.S.-Canadian bilateral agreement which demonstrate how bilateral deals on trade in services are being negotiated between countries.

Anthony Hill presents a review of the progress of GNS negotiations in the initial phase, outlining some possible next steps in each area and summarizing the overall problems in pursuing a framework agreement. Paul Streeten sets the U.S. interest in free trade in services against developing-country fears that a liberalized services regime would work to their disadvantage. He goes on to enumerate what developing countries stand to gain from such a regime, provided that their concerns for maintaining GATT discipline in goods trade, protecting their infant industries and ensuring an equitable distribution of the gains from free trade are addressed.

In his second contribution to this volume, Winston Fritsch identifies some peculiarities of services transactions which make it difficult to assess the impact of their liberalization. He strongly urges the developing countries to develop their telematics capability, whether by importing or producing the necessary technology, if they are to remain competitive internationally.

Noting that developing countries export only \$0.78 in services for every \$1.00 they import, Murray Cobban nonetheless reports that developing-country services exports are growing at a faster rate than those of the developed countries. He goes on to review the history, content, progress and implications for developing countries

of services trade negotiations in the GATT context, asserting that these countries must move rapidly to identify their interests if these are to be reflected in the debate. A GATT staff paper also summarizes the history and progress of GNS negotiations thus far, identifies some unresolved issues and concludes by saying that the discussions are still at a preliminary stage, with some concepts as yet unaddressed.

Kenneth K.S. Dadzie suggests ways in which developing countries could take services more effectively into account in designing their development strategies, exploring the implications of such an objective for the Uruguay Round negotiations. He rejects the "comparative advantage" concept of choosing between goods and services, asserting that strength in one is a condition for competitiveness in the other.

Sidney Dell winds up the services trade discussion with a stern rebuke to the U.S. and other developed countries which are trying to force developing countries to offer them concessions in exchange for not violating the GATT in letter and spirit. "The incentive to further violations is obvious," he states. He argues that, rather than attempting to "reinvent the wheel" in the Uruguay Round, GATT negotiators should build upon relevant work done in such fora as UNCTC and UNCTAD.

The GATT press release containing the text of the Ministerial Declaration on the Uruguay Round and a GATT information note on certain important terms and issues are appended to this volume.

Future Plans

The analyses and deliberations of the North South Roundtable on Trade will continue when the Roundtable meets in early 1989 in Geneva to assess the Mid-Term Review of the Uruguay Round in December 1988 in Montreal by the Trade Ministers and to make suggestions for the future course of the negotiations.

In connection with the London meeting, The North South Roundtable wishes to express its grateful thanks to the Commonwealth Secretariat, particularly to its Secretary General, Shridath Ramphal, for so graciously hosting this meeting; to Deputy Secretary General Peter Marshall and Economic Affairs Director Vishnu Persaud for their substantive contributions; and to the Commonwealth Secretariat's staff for the superb organizational support which they provided for the meeting. All the participants, especially the chairmen of the various sessions and the rapporteurs, deserve special thanks for making this Roundtable a truly meaningful initiative.

For the Geneva meeting, the North South Roundtable wishes to express its grateful thanks to the GATT Secretariat, especially Mr. M.G. Mathur, for providing the conference facilities, and to the GATT staff for organizing the meeting so efficiently. Our heartfelt thanks go to Professor Gerry Helleiner and his distinguished team of rapporteurs. We are most grateful to the participating ambassadors to the U.N. and to the GATT in Geneva, who brought to the meeting their practical negotiating experience. The interaction between them and the academics led to a very rich and exciting debate.

Finally, we thank all the participants and observers for attending the Trade Roundtable meetings and contributing to their success. The intellectual effort of all of them is our only permanent renewable resource.

Khadija Haq
Islamabad
October 8, 1988