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CHAPTER 16

Results of market access negotiations

Summary

The preceding chapters describe the main features of the strengthened legal system that is now applicable under GATT 1994 to trade in goods. One of the important aims of this system is to assist countries to promote their economic development through increased trade by removing tariffs and other barriers to trade in negotiations among Members.

The seven rounds of negotiations held prior to the Uruguay Round had considerably reduced the tariffs applied by developed countries to industrial products. However, as the preceding chapters note, they made very little progress in removing the quantitative restrictions and other non-tariff measures applicable to imports. For instance, in the industrial sector, the developed countries' discriminatory quantitative restrictions on imports of textile products and clothing continued to be applied under the legal cover provided by the Multi-Fibre Arrangement. The rounds had also failed to modify the highly protectionist agricultural policies pursued by some developed countries which had almost closed their markets to competitive imports. Furthermore, no changes were made in their policies of subsidizing exports of agricultural products, which distorted conditions of competition in international trade.

The market access negotiations in the Uruguay Round greatly improved the situation. The main features of the Round's results can be summarized as follows:

- *The tariff cuts countries have pledged to make on industrial products are much higher than those of the earlier Tokyo Round.*
- *By adopting the Agreement on Textiles and Clothing, countries have agreed to phase out the restrictions maintained under the Multi-Fibre Arrangement within a period of 10 years, i.e. by 1 January 2005.*
- *The Agreement on Agriculture has created a framework for gradually bringing the trade in agricultural products under GATT discipline and for liberalizing trade in the sector.*
- *Developing countries and economies in transition, which participated actively in the negotiations, have reduced their tariffs on both industrial and agricultural products.*
- *Almost all tariffs of developed countries have been bound against further increases; in developing and transitional economies, the proportion of tariffs that have been bound has risen significantly.*

This process of liberalization was carried further after the conclusion of the Uruguay Round through negotiations on the Information Technology Agreement, which provides for the gradual elimination of tariffs on some 400 information technology products.

The 50 years that have elapsed since the GATT/WTO system came into existence have witnessed a gradual improvement in access to importing markets through removal or elimination by member countries of barriers to trade in eight rounds of multilateral trade negotiations. This chapter first describes the progress that took place in the last of these rounds – the Uruguay Round of trade negotiations. Then it gives an account of the trade negotiations which took place in certain sectors of the trade in goods since the conclusion of the Uruguay Round. The chapter concludes by outlining the steps that business persons will have to take to take full advantage of these liberalization measures.

Uruguay Round of trade negotiations

Industrial products

Reduction in tariffs

As a result of the rounds of negotiations held prior to the Uruguay Round, the average levels of tariffs in developed countries had come down from high levels of around 40% to about 10%. This average level was further reduced in the Uruguay Round by 40% overall. Developing and transitional economies also cut their tariffs, but by a lower figure of 30%. Least developed countries were not required to make reductions in their tariffs on a percentage basis but were encouraged to make token concessions by reducing tariffs on selected products. All these tariff cuts, with a few exceptions, were to be made in five equal stages so as to reach the final agreed rates applicable at the tariff line level by 1 January 1999.

In addition, developed countries and certain developing countries also agreed in the Uruguay Round to eliminate all tariffs in certain sectors, the so-called zero-for-zero sectors. These included pharmaceuticals, agricultural equipment, construction equipment, medical equipment, furniture, paper, steel and toys. As a result of these and other concessions, the proportion of industrial products entering developed country markets on an MFN duty-free basis was expected to more than double from 22% to 44%. The weighted average level of tariffs applicable to industrial products would fall from:

- 6.3% to 3.8% in developed countries;
- 15.3% to 12.3% in developing countries; and
- 8.6% to 6% in transition economies

when the process of staged reductions in tariffs agreed in the Uruguay Round was completed.

Binding of tariffs

Another important aspect of the negotiations was the progress made in binding tariffs. Virtually all imports into developed countries of both industrial and agricultural products now enter under bound rates; the proportions for developing and transition economies are 73% and 98% respectively. One of the major advantages of binding is the security of access it provides to foreign markets. Enterprises can plan the development of their trade without fear of duties being increased or access being restricted by quantitative restrictions.

Removal of quantitative restrictions

Equally important from the point of creating improved opportunities for trade are the provisions for phasing out quantitative restrictions on industrial products. As has been noted in chapter 14, the Agreement on Textiles and Clothing provides a four-stage programme for the elimination of restrictions on textiles and clothing by 1 January 2005. The Agreement on Safeguards requires countries applying voluntary export restraints and other grey area measures to eliminate them by 1 January 2000.

Agricultural products

In the agricultural sector, as has been described in chapter 15, considerable progress has been made in securing the liberalization of trade by:

- Eliminating non-tariff measures through the tariffication process.
- Binding tariffs and tariffs arrived at by tariffication against further increases.
- Reducing bound tariffs by 36% in developed countries and by 24% in developing countries.
- Current access and minimum access commitments in certain cases.
- Commitments to cut both the value and the volume of export subsidies by an agreed percentage.
- Commitment to reduce by an agreed percentage domestic support on the basis of an Aggregate Measurement of Support.

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Post-Uruguay Round negotiations

Negotiations in two sectors of the trade in goods have taken place since the conclusion of the Uruguay Round.

Under the Ministerial Declaration on Trade in Information Technology Products (also known as the Information Technology Agreement or ITA), adopted at the 1996 Singapore Ministerial Conference, a number of WTO member countries agreed to reduce to zero the tariffs on such products as computers, telecommunications equipment, semiconductors, semiconductor manufacturing equipment, software and scientific instruments. As of April 1999, ITA had 31 participants (covering 46 Members and States or customs territories in the process of acceding to WTO). Member countries are at present considering the possibility of broadening the coverage to other information technology products.

Countries interested in the trade in pharmaceutical products have also agreed to add 450 products to the list of products on which they had in the Uruguay Round decided to remove tariffs on a zero-for-zero basis.

It is important to note that although the negotiations to eliminate tariffs on information technology products and pharmaceuticals took place among a limited number of countries, the concessions made will be extended on an MFN basis to all countries.

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Assessment of liberalization gains from the Uruguay Round

From the point of view of business enterprises deciding on marketing strategies, it is important to be aware of the gains – in income and trade – that could flow from these liberalization measures.

WTO, other international organizations and research institutions have carried out macroeconomic studies to assess the impact which the implementation of the Uruguay Round commitments could have on world trade and world income.

Income and trade gains: estimates and reality

Estimates

Broadly speaking, these studies estimated that, when fully implemented, the liberalization measures agreed by governments would boost world income by 1% a year or by between US$ 200 billion and US$ 500 billion annually. World trade volumes would rise by 6% to 20% yearly depending on the assumptions made in the studies. These growth rates would be over and above the annual increase of 4% in world trade that was expected to take place even if the Uruguay Round results were not implemented.

More than one-third of the benefits were expected to flow from the removal of restrictions on imports of textiles and clothing products, and one-third from the liberalization of regimes on other industrial products. Agriculture was expected to contribute between 10% to 30%.

These gains would not, however, be shared equally among all countries. The major beneficiaries were expected to be developed countries and developing countries which had reached higher stages of development and whose exports of textiles were subject to restrictions. Countries in Africa and the least developed countries would benefit only marginally, if at all, from the liberalization measures.

The reality

Most analysts now consider that actual income and trade gains may be much smaller than foreseen. Problems posed by measurement methodologies and by the numerous factors which in practice cannot be easily assessed may be one reason. The other equally important reason is the failure of two basic assumptions to materialize.

First, in making the estimates, the analysts assumed that countries would implement their commitments fully, i.e. not merely in the letter but also in the spirit in which these commitments were made. This assumption has not been borne out by the facts and there has been significant backsliding in the implementation of commitments in the two sectors – textiles and agriculture – in which major gains were expected following liberalization.

As regards textiles, as has been noted in chapter 14, the developed countries maintaining restrictions were able to implement the first two phases without a significant reduction in restrictions on imports. They did this by taking advantage of the flexibility available under the relevant provisions of the Agreement on Textiles and Clothing. As a result, it is now clear that the bulk of the restrictions will be withdrawn only during the last stage or on the day (1 January 2005) the Agreement is terminated. The expected dramatic increase in the trade in textiles may therefore remain illusory during most of the transition period of 10 years.

In agriculture, a large number of tropical products in which developing (and particularly least developed) countries had an export interest were entering the markets of developed countries duty free or at low duty rates on either an MFN or a preferential basis even prior to the launching of the Uruguay Round. Consequently, further reductions may not by themselves have a perceptible influence on the trade in these products. As regards temperate zone agricultural products like cereals and meat, it now appears that the calculations of tariff equivalents sometimes over-estimated the incidence of non-tariff measures (this is often referred to as 'dirty tariffication'). The result is that, for a number of products, the level of protection provided by the new tariff rates even after reductions are made may be considerably higher than that existing previously.

The second assumption the analysts made was that the world economy would continue to grow at an even pace and that there would not be any downturn in growth and trade. These expectations have been belied by the Asian financial crisis which began in mid-1997, Japan's poor economic performance and the failure of the Russian economy to revive in 1998. It is now clear that with the consequential substantial reduction in economic growth, there will be an overall slowdown in the value of world trade for at least a year and even longer as a result of the lack of demand in Asian markets and the general decline in oil and other commodity prices.

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Business implications

Varying impact on exports from different countries

It is thus clear that income and trade benefits may be much less than estimated in the macroeconomic studies, and some gains may even be negated by the recent downturn in the world economy. In addition, at least for some products, the implementation of commitments could have a varying impact on the export trade of individual countries. Thus, developing countries which enjoy preferential access in their major developed import markets may find that the preferential margin on their export products has been reduced as a result of reductions in MFN tariffs. The extent of this possible adverse impact will depend on how far the preferential access was meaningful in trade terms, taking into account such factors as the product's quality and price. For textiles, where restrictions are applied on a discriminatory basis, the impact of the removal of restrictions could vary for different supplying countries. Box 37 looks at the impact of the removal of MFA restrictions on textile products.

Studies at the micro-level (product or product sector level) will have to be undertaken to identify the impact of the Uruguay Round commitments on different products. These studies will have to be supplemented by research on, and analysis of, potential demand in liberalizing markets. Such analyses of demand should enable enterprises to formulate a strategy for taking advantage of new opportunities and, where necessary, to adapt to the competitive situation as it changes with the gradual implementation of the Uruguay Round commitments.

Undertaking such studies may be beyond the technical and financial resources of individual enterprises, particularly SMEs. In such instances, the initiative for carrying out the studies may have to be taken by national foreign trade research institutes or by associations of industries and chambers of commerce. In doing so, they may need financial assistance from their governments. International organizations could carry out studies on selected products or assist the relevant institutions and associations in different countries in undertaking them.

Marginalization of developing and least developed countries

As noted earlier, macroeconomic studies expected the majority of developing countries and most least developed countries to obtain only minor benefits, if any, from the liberalization measures taken during the Uruguay Round. The

Box 37

The impact of the removal of MFA restrictions on textile products

In comparison to rates on other manufactured products, tariff rates on textile imports will continue to be high, even when the reductions agreed during the Uruguay Round are fully implemented. The main gains for trade are therefore expected to result from the removal of restrictions in some developed countries.

Restrictions on imports lead to a rise in the prices of imports, as supplies tend to be insufficient to meet demand. Import restrictions thus penalize consumers, who have to pay higher prices. As to whether the importer or the exporter benefits from the premium resulting from the high price depends on where the licensing system is administered. If it is at the importing end, the importer is able to capture part of the difference between the normal import price and the wholesale price in the importing country. On the other hand, if the licences are issued by the exporting countries, exporters can appropriate part of the premium by charging higher export prices.

Under the Agreement on Textiles and Clothing, the licences required for administering restrictions are issued by exporting countries. When quota restrictions are removed, exporting enterprises will not be able to claim the premium and will have to charge lower export prices. The decline in the value per unit of exports is expected to be offset by a rise in earnings as export volumes grow following the removal of restrictions. However, the growth of trade will in practice depend on the elasticity of demand (i.e. whether demand will increase with the fall in prices). Demand for textiles in most restraining markets is generally assumed to be elastic. But, at the enterprise level, the main issue is whether it is elastic for the particular category of textiles – say, shirts and children's clothes – which the enterprise is exporting and on which restrictions have been removed. If it is not, the enterprise may not benefit from the removal of restrictions and may even lose unless it is able to diversify its production and exports into lines for which demand is elastic.

The removal of restrictions will lead to increased competition among supplying countries in the restraining importing market. As restrictions under ATC are applied on a discriminatory basis, the impact of such competition on different supplying countries could vary. For instance, exporting firms in country A, whose exports of shirts and children's clothing are restricted, may have to develop strategies to take advantage of the removal of restrictions. On the other hand, suppliers in other countries whose exports of such textile products were not restricted will have to prepare themselves to meet increased competition from the suppliers in country A. (See also chapter 14 on the Agreement on Textiles and Clothing.)

decline in commodity prices and the difficulties that have occurred in the implementation of the Agreements have brought about the further marginalization of these countries in international trade.

In order to prevent any further deterioration of this situation, a number of developed countries have, in pursuance of decisions taken at the High-Level Meeting on Integrated Initiatives for LDCs' Trade Development, broadened the coverage of their generalized systems of preferences, with a view to allowing the import of all products of export interest to these countries on a duty-free basis. A few developing countries have also decided to adopt systems for importing selected products from these countries on a preferential basis, while proposals for introducing such systems are under consideration in some other countries. These actions are being complemented by integrated technical assistance to these countries at the enterprise level from WTO, UNCTAD, ITC and other international organizations; the ultimate objective is to build up national capacities for production and supply.

Potential for expanding trade with developing countries

In this context, it is necessary to bear in mind an important aspect of the Uruguay Round. This is the further stimulus it has provided to the liberalization process in both developing and transitional economies. The launching of the Uruguay Round almost coincided with a change-over to more open and liberal trade policies, even in developing countries which until then had followed more restrictive trade policies. By about the same time, the transition economies were taking initial steps towards market reform, privatization and the reorientation of economic and trade policies. Both groups of countries consolidated in the Uruguay Round their earlier unilateral tariff reductions either by binding them at reduced rates or by giving ceiling bindings. These tariffs are expected to fall further, in some cases even below the reductions agreed in the Uruguay Round. This will result from the additional liberalization measures that a number of countries are taking or propose to take on a unilateral basis in pursuance of their policies of promoting export-oriented growth.

The reductions in tariffs on an MFN basis could, in certain cases, lead to a decline in the preferential margins on products that are covered by regional preferential arrangements[19] or by interregional arrangements among developing countries[20]. The MFN tariff rates of most developing countries participating in such preferential systems will, however, continue to be relatively high even after reductions, with the result that the preferential margins, though narrower, may still provide meaningful trade benefits.

But more important than tariff reductions are the steps taken by developing countries to liberalize their non-tariff measures. These reduce or remove quota restrictions on, and licensing requirements for, imports and provide for the liberal allocation of foreign exchange to the import trade. In the past, non-tariff restrictions blocked the development of trade in products on which preferential concessions were exchanged under regional or interregional preferential arrangements. The liberalization of import regimes could provide a new stimulus to the expansion of this trade on both MFN and preferential terms.

Traditionally, many enterprises (particularly in some developing countries) have concentrated on markets in developed countries. The new market opportunities that have been created by liberalization measures in developing, least developed and transition countries (taken unilaterally or under structural adjustment programmes supported by the International Monetary Fund and the World Bank) should now encourage enterprises in these countries to give equal, if not greater importance, to trade development among themselves.

19 Such as the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS) in Africa, the Association of South-East Asian Nations (ASEAN) in Asia, and the Asociación Latinoamericana de Integración (ALADI) in Latin America.

20 Such as the Global System of Trade Preferences (GSTP).