

EC246-2-AU – Lecture 5

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# GATT and the Control of World Trade: The Late Rounds

Alexander Mihailov

University of Essex

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# Plan of talk

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- **Introduction**

- 1. GATT and agriculture**

- 1. What's so special about agriculture and GATT?
    - 2. Summary of CAP

- 2. World food markets in disarray in the 1970s and 1980s**

- 1. Evidence
    - 2. Causes

- 3. The policy response: the late GATT rounds**

- 1. 7<sup>th</sup> Tokyo Round (1973-1979)
    - 2. 8<sup>th</sup> Uruguay Round (1986-1994)

- **Wrap-up**

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# Aim and learning outcomes

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- **Aim:** understand that domestic agricultural policies were a principal cause behind the food and trade problems of the 1970s and 1980s and evaluate the response to these problems during the MTNs of the Tokyo and Uruguay rounds
- **Learning outcomes**
  - explain the link between domestic agricultural policies and trade
  - discuss why agriculture was a special case within GATT
  - describe the basic mechanism of CAP and the disarray in food markets
  - review the historical and economic aspects of the late GATT rounds through the perspective of earlier trade disputes on agriculture (and textiles/clothing)
  - strike a balance between what the Uruguay round achieved and could not

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# Agriculture and GATT

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- D.E. Hathaway, 1987, *Agriculture and the GATT: Rewriting the Rules*, Institute for International Economics, Washington, D.C., pp. 103-104:
  - “In general, GATT rules relate to how governments may intervene to protect markets and industries. ... These rules were agreed to by member countries of the GATT, and governments brought their practices in line with these rules...
  - ... For agriculture, the process was exactly the reverse. The GATT rules were written to fit the agricultural programs then in existence, especially in the US.”
- Therefore, conflicts/failures on the issue not surprising

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# GATT: what's so special about agriculture?

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- Under GATT, agriculture receives special treatment in 2 areas:
  1. **subsidies** (Art. XVI): with requirement for notification
  2. **quantitative restrictions** (Arts. XI and XIII): as exceptions
- These have been the basis for many **trade disputes**
- 1955: under the overall review of GATT (recall Lecture 3) **US** was granted a **waiver** on agricultural products, after threatening to withdraw from GATT ⇔ grave blow to GATT, US “free trade” hypocrisy
- 1960s: **EU** developed, in retaliation, its **CAP**
- Since then, US devoted considerable diplomatic effort to convince Europeans to also apply GATT to agriculture

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# Common agricultural policy: summary

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- 1958, Stresa: intergovernmental conference, first ideas
  - **structural** farm policy (“guidance”): reshaping the fragmented, unspecialised and small farms that made up EU agriculture and improve its efficiency, by also freeing labour
  - **price support** farm policy (“guarantee”): enhance farmer incomes during the adjustment process - **dominated initially**
- Since mid-1960s: CAP in effect, with **gradual shift** to structural policy (since the *Mansholt Plan* of 1968 and especially as from the early 1970s)
- CAP attempted to maintain farm-gate prices well in excess of price levels without intervention: 3 policy mechanisms used
  1. imports taxed: **variable import levy** *set daily* as the difference b/n lowest world price and predetermined *minimum import (threshold)* price
  2. exports subsidised: **export refund** to enable EU traders to compete on world markets
  3. if within-EU market prices fall, intervention agencies buy at a price equal, or lower than, a prefixed **intervention price**: Swinback and Tanner (1996), Fig. 3.1, p. 37

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# World food markets in disarray

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- D. Gale Johnson, *World Agriculture in Disarray*, Macmillan, 1973: he first drew attention to the **relationship** b/n domestic agricultural policies and trade:
  - “Products from the land are being produced at high cost in some parts of the world while elsewhere farm products that can be produced at low cost cannot be sold at all or only with great difficulty. The prices of farm products are manipulated by most governments without any real knowledge of such manipulation.” (p. 1)
- A decade and a half later, D. Gale Johnson again noted in a 1987 article for the *Australian Journal of Agricultural Economics* (2, 142-153), that:
  - “... the disarray has, in fact, deepened.” (p. 142)

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# Evidence of the disarray in the 1980s

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- Illustrations from Swinback, Alan and Carolyn Tanner, *Farm Policy and Trade Conflict: The Uruguay Round and CAP Reform*, U of Michigan Press, 1996, to be discussed in class
  1. Falling commodity prices: e.g., wheat (ST, Fig. 2.1, p. 21)
  2. Falling farm incomes and land values: follows from 1.
  3. Burgeoning stocks: e.g., wheat (ST, Fig. 2.1, p. 21)
  4. Rising costs to taxpayers and the economy: policies in most industrial countries to insulate domestic producers from falling world prices meant increased protection and costs to taxpayers
  5. Trade conflict: *EU CAP* and *US Export Enhancement Program* launched in 1985 in the centre of numerous trade disputes



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# Causes of the disarray in the 1980s

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1. Principal cause: **domestic agricultural policies** pursued by the major industrialised countries
  - oil crisis and dramatic rise in commodity prices that followed provided an impetus for agro-policies that encouraged investment and led to expansion of output
  - production (supply) outstripped consumption (demand)
  - insulation from world markets in US and EU meant that production went on unabated => large stocks accumulated
  - with export markets stagnating and competition for them increasing, “the food crisis of the 1970s turned into the trade crisis of the 1980s”
2. **Other** interrelated **causes** exacerbated the disarray
  - slowdown in world growth, high real interest rates, appreciating USD
  - debt problems of developing countries
  - changes in agricultural policies of developing and socialist countries

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# GATT 7<sup>th</sup> Tokyo Round (1973-1979): agriculture and textiles as main issues

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- 1967: **Poland**, 1<sup>st</sup> centrally planned economy in GATT
- 1973: “**new protectionism**” resulting from the oil crisis, Bretton Woods system fiasco, stagflation, instability in commodity markets, uncertain prospects for growth
- 1974-1977: **impasse** in agricultural negotiations
  - EU maintained that CAP cannot be subject to negotiation and pressed for international commodity agreements to both raise and stabilise prices
  - US already wanted to include agricultural products into the same disciplines applied to industrial goods and to eliminate export subsidies
- 1977-1979: impasse broken, limited **tariff reductions** achieved
- 1974: Agreement regarding International Trade in Textiles, or Multifibre Arrangement (**MFA**), restricting export growth to 6% per year entered into force and was renegotiated (1977 and later)

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# GATT 7<sup>th</sup> Tokyo Round (1973-1979): overall evaluation

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- 1<sup>st</sup> round of MTNs in which **developing countries** participated with strength and cohesion...
- But... produced outcomes not in their long-term interests since their demands were still driven by import-substituting ideology
- **Tokyo Round enabling clause** on *special and differential treatment*: formal incorporation into GATT of their demands for a nonreciprocal and more favourable treatment “triply hurt them” (Srinivasan, 1998)
  1. direct costs of enabling them to continue import substitution
  2. developed economies could keep GATT-inconsistent barriers (textiles)
  3. allowed developed countries to retain higher-than-average MFN tariffs on goods of export interest to developing countries

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# Experience of developing countries in GATT up to Tokyo Round (inclusive)

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- Two diametrically opposed interpretations
  1. GATT **hostile**: developing countries repeatedly frustrated in making it reflect their concerns
    - barriers to their exports were reduced to a smaller extent relative to exports of developed economies (composition)
    - products in which they had a comparative advantage (textile and agriculture) remained out of GATT disciplines
    - “concessions” granted were rhetorical (Part IV of GATT on trade and development and the enabling clause on special and differential treatment) or quantitatively small and hard to qualify (GSP)
  2. But GATT could have been more **friendly** had they participated fully in it by adopting outward-oriented development strategy, as evidenced by Asian NICs success

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# Crisis in MTNs of the 1980s: problems

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- The Tokyo Round left many problems unresolved
  - trade in agriculture
  - trade in textiles: GATT principles inconsistent with MFA
  - safeguard issues: increasing use of VERs
  - complaints by developed countries against nonreciprocity applied to more successful developing economies
  - US initiative for a new round of MTNs on “new” issues
    - trade in services (now GATS within WTO)
    - trade related to intellectual property rights (now TRIPs within WTO)
    - trade related to investment (now TRIMs within WTO)

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# Crisis in MTNs of the 1980s: diplomacy

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- 1982: GATT ministerial meeting to consider measures in addition to tariffs (and government procurement)
  - a group of developing countries led by Brazil and India opposed, because of nonobserved commitments of US and EU w.r.t. textiles and agriculture => **2 types of demands**
    - stand-still demand: not introducing new GATT-inconsistent measures
    - roll-back demand: removing any such measures in existence
  - **Australia** dissociated itself with the final text
  - **EU** issued an interpretative statement distancing itself from negotiations or obligations related to agricultural products

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# Crisis in MTNs of the 1980s: way out?

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- Winter 1985: **informal** discussions in GATT for a new round
- May 1985: **EU** called for a launch of this round
- Early autumn 1985: **US** took the hitherto unusual step of calling a **vote** rather than arriving at consensus, and won
- October 1985: a **special meeting** of CPs agreed a preparatory process and appointed officials but faced a firm opposition of key developing countries

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# GATT 8<sup>th</sup> Uruguay Round (1986-1994): the drama in Punta del Este

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- mid-July 1986, ministerial meeting in Punta del Este
  - apart from the preparatory committee, countries and overlapping groups of countries began to circulate **draft texts** for the ministerial declaration
    - Argentina, Australia, Canada, Japan (separately)
    - Group of 9 = Australia, Canada, New Zealand and EFTA6
    - Group of 10 = Argentina, Brazil, Cuba, Egypt, India, Nicaragua, Nigeria, Peru, Tanzania and Yugoslavia (led by Brazil and India) => a minority text
    - Group of 40 = G9 + other major industrialised countries + 20 developing countries (led by Switzerland and Colombia) => a majority text
  - **US ultimatum** to withdraw from the conference
  - G10 position eroded and consensus emerged around US and **G40 text**
  - 31 amendments to it offered and 14 accepted: according to a US-India agreement, the Punta del Este declaration was in **2 sections**
    1. services as a non-GATT subject of negotiations
    2. the rest of the negotiating agenda



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# GATT 8<sup>th</sup> Uruguay Round (1986-1994): deadlocks again and again...

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- Actual course of **negotiations** of Uruguay Round until its Final Act in 1993 remained as **tortuous** as its launch
  - 1988: midterm review at the ministerial meeting in Montreal was not effective, due to lack of progress
  - 1990: by the ministerial meeting in Brussels agreement has been reached on almost none of the topics; Canada formally proposes to create a Multilateral Trade Organisation (MTO) to cover GATT, GATS, etc.
  - 1992: accord between EU and US on agriculture (to reform CAP), but no progress on other issues...
  - ... until November 1993, Seattle: summit of the Asia-Pacific Economic Cooperation (APEC) agreed regional liberalisation
- **15 December 1993**: Uruguay Round concluded in Geneva and **Final Act** agreed thanks to efforts by
  - Arthur Dunkel and Peter Sutherland as GATT general-directors and
  - the Cairns group (of agricultural exporters led by Australia since 1986), for not letting US-EU disputes prevent agreement on agriculture

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# GATT 8<sup>th</sup> Uruguay Round (1986-1994): lessons from negotiating history

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- GATT negotiating history illustrates the **dynamics of interests** of individual countries and regional trade groups as well as trade-offs involved (e.g., inside EU by internal agreements)
- John Jackson (1997) calls this a **power-oriented approach** by the major trading economies: power is exercised in the negotiation through a *pyramid structure*
  - issues first agreed between US and EU
  - then expanded to include other countries
- Sebastian Edwards (1995) considers a 1988 joint study of Tokyo-based Institute for Developing Economies and UN Commission for Latin America (CEPAL), the citadel of inward orientation, on **comparative experience** of East Asia vs Latin America as the *pivotal event* in turning Latin America to trade liberalisation

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# GATT 8<sup>th</sup> Uruguay Round (1986-1994): achievements and failures

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- **Manufactured goods** other than textiles
  - developed nations to reduce tariffs by 40% (from 6.3% to 3.8%) on average
  - since average tariffs were already low, no big deal...
- **Agriculture** (manipulated by government intervention in all countries)
  - tariffication + reduction by (on average) 36% over 6 years in developed countries and 24% over 10 years in developing countries + safeguards under special treatment for predominant staples in traditional diet
  - loopholes in tariffication process so big that tariffs were set above previous NTB protection in many countries (US, EU but also Thailand)
  - beyond border measures, limits to domestic support: loopholes (Japan)...
  - small effects of trade liberalisation from model-based simulations...
- **Textiles** and clothing: phaseout of MFA in 3 stages for 10 years
- **Real income**  $\approx$  welfare: gains (GATT) but modest (studies)...

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# Concluding wrap-up

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- **What have we learnt?**
  - why agricultural was special within GATT
  - how CAP functioned
  - what was the evidence and the causes behind the disarray of world food markets in the 1970s-1980s
  - how policy responded during the late GATT rounds
  - what are the achievements/failures of the last GATT round
- **Where we go next:** to the creation of WTO, the first international organisation to regulate and control the multilateral trading system