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EFFECTS OF URUGUAY ROUND OF GATT ON DEVELOPING COUNTRIES. A VIEWPOINT FORM AFRICA.

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1. INTRODUCTION:

Prior to the economic downturn in the United States and Europe which began in 1990, industrialised countries enjoyed the longest period of uninterrupted economic growth of the post war era. By contrast, the World's developing nations, especially in Africa and Latin America, became trapped in a profound development crisis. Living standards, which had already been low, fell sharply, and investment in these countries collapsed, undermining the potential for sustained recovery. The term, "developing country" itself became a cruel parody.

With the completion of the Uruguay Round, which have spanned the period from 1986 to 1993, developed countries stand to gain again. Studies project that the world will be at least USD 213 billion richer by 2002, due to trade liberalisation. The same forecasts predict, however, that sub-Saharan Africa will be USD 2,6 billion poorer and that other developing countries will also be worse off.

2. REASONS FOR THE DEVELOPMENT CRISIS IN THE DEVELOPING WORLD.

The previous decade has dispelled the myth that economic growth in industrialised countries will automatically trickle down to the developing world through mechanisms of international trade. The world trading system, while acting as an engine of growth for the industrialised countries, transmitted recession and decline to the rest. There are several reasons for this state of affairs:

2.1 A marked asymmetry exist in power, dividing the rich from the poor countries. Three quarters of international trade and investment flows take place between industrialised countries, which account for just 15 percent of the world's population. It follows that policies of the powerful developed world, and the United States in particular, dictate developments in the world economy. Especially for the poorest countries, decisions by the developed North can be a matter of life or death. The sheer scale of the crisis facing developing countries should have prompted a genuine dialogue between developed and developing countries over the management of the international trading system. Indeed, dialogue and shared responsibility, irrespective of the political and economic power of individual nations, should be the natural result of interdependence implied by trade. Instead, while industrial countries have become vigorous advocates for greater democracy for developing countries, they have steadily retreated from the basic principles of democracy at multilateral forums such as the GATT. Today, the politics of dominance and might, by a mere 15 percent of the world population, are victorious in the international decisionmaking process.

2.2 Developing countries are dependant on primary commodity exports, and the protracted fall in prices have caused severe balance of payment problems. Developing countries, more advanced in the export of manufactured goods have suffered less, but have had to witness a resurgence of protectionist policies by industrialised nations during the eighties.

2.3 The debt crisis undermines the ability of countries for sustained economic recovery, as well as their capability of investing in social services, which is essential for long term economic growth, (e.g. education). Trade itself becomes a way of repaying debts which have long been recognised by their creditors as unpayable.

2.4 The divide is also made increasingly acute by the widening gap between knowledge-rich and knowledge-poor countries and international rules that severely inhibit poor countries from access to information.

3. DEFICIENCIES OF THE URUGUAY ROUND OF GATT.

In 1964, provisions were included into the GATT, (part iv of the GATT agreement), which was dedicated exclusively to special rules for developing countries. These rules allowed for special measures aimed at economic development of developing countries, as well as lower trade barriers for exports from developing countries to developed countries. Although these measures were important in protecting emerging economies in the shorter term, it weakens their ability to develop through protecting them from global competition. As competitiveness can only be developed in competition, it is therefore important that the GATT regime should provide a framework for fair global competition which are not biassed towards the developed world.

The Uruguay Round of GATT was seen by many developing countries as a means of reforming the GATT in a way that would allow developing countries to compete globally, in accordance with their specific strengths and weaknesses. With the conclusion of this round, there was consensus that industrial countries were the victors and the only gain for the developing world, was the fact that the world trading regime had not collapsed. Developing countries are presently more sceptical than ever regarding a global trade regime coming into being, which would be more accommodating to the interests of the developing world.

3.1 GATT INSTITUTION UNDEMOCRATIC

GATT does not address the asymmetry in power that exist between the industrial and developing nations. It was for instance clear from the Uruguay Round that the industrialised countries dominated the setting of the agenda and the shaping of the issues. Formally, GATT is a democratic institution with every country enjoying equal voting rights. In practice, most of the substantive bargaining which shapes GATT talks occur between the United States, the European Union and Japan during meetings of the G-7 or in contacts between their trade ministries. Developing countries have no influence over the drafting of agreements, and only see them at the end of the negotiation process, when it is difficult to get changes made.

The negotiating teams of the developing countries are small, compared to the mass of advisors and multi-national corporation support that the industrialised nations' negotiators can utilise for ideas and support. This has influenced the direction of the negotiations, and ensured that development issues would be relegated to the backburner.

Issues vital to the economic advancement of the developed world, such as services, investment, and intellectual property issues were included on the agenda, against the wishes of developing countries, lead by Brazil and India. These countries argued that GATT regimes in these areas would compromise their policy sovereignty, forcing them to cede authority over investment, deregulate financial services and accept patent rules inappropriate to their stage of development. Broader development issues that are vital to the economic upliftment of the developing world, however, were not included on the agenda. For example, the developed world rejected an inclusion of debt issues, and blocked efforts to include commodity trade issues in the talks. In other areas, vital to the survival of millions of people, such as agriculture, the developed world dominated procedures. Developing countries will be forced to comply with policy rules negotiated exclusively between the United States and the European Union.

During the Uruguay Round, the "Group of 77" non-aligned and developing countries, frequently protested against behind-the scenes-deals without consulting all negotiating parties, and the Organisation of African Unity complained that African Countries were not only being ignored, but also marginalised.

The developed world has defended this state of affairs through the doctrine that influence in GATT should reflect economic strength in the international trading system. As the previous senior US trade negotiator explained: " We cannot have countries accounting for five percent of world trade dictating to those accounting for ninety five percent." Viewed from a different perspective, one might ask whether countries accounting for 15 percent of the world's population should use a multilateral forum such as the GATT to dictate policy rules to governments representing the vast majority.

3.2 ONE WAY RECIPROCITY

Industrialised countries' dominance of the decision making process and disregard for democracy have also been evident in their lack to reciprocate liberalisation measures undertaken by the developing world. Throughout the developing world, emphasis over the last fifteen years shifted from import substitution policies behind high tariff barriers, to export oriented growth, economic liberalisation, financial deregulation and the dismantling of investment restrictions and, finally, trade barriers.

In sub-Saharan Africa, through policies prescribed by the World Bank and IMF, countries launched extensive policy reforms involving tariff reduction, withdrawal of import licensing restrictions for a wide range of manufactured goods, and the deregulation of foreign investment. Other measures, such as quantitative restrictions being replaced by tariffs, were also effected.

All these policy reforms were unilateral, and outside the auspices of GATT. Therefore, developing countries have not been able to claim credit for them at the negotiating process, and there is no obligation on the part of industrialised countries to reciprocate. In fact, many third world countries experienced an opposite trend, namely the raising of protectionist barriers against export orientated third world industries. This disregard for the basic premise of the GATT, when it is in the interests of the developed world, is strengthening the perception of the GATT as a "rich man's club."

3.3 TARIFF ESCALATION.

One of the most serious deficiencies of the international trading regime, which has not been adequately addressed by the Uruguay Round of GATT, is the discriminatory practise of tariff escalation: the practise of setting higher tariffs on processed goods than on raw materials. It follows therefore that low duties on raw materials give multi-national corporations access to cheap raw materials, while high tariffs on processed goods obstruct the emergence of potentially more efficient processing industries in the developing world. The result is that a very small proportion of the final value of primary commodities remains in the exporting country. Over the past ten years, developing countries have been the victim of ever decreasing commodity prices, while multi-national corporations could benefit from steadily increasing profits from processed products behind walls of tariff protection.

Especially in the field of tropical products, GATT did not address the issue of tariff escalation. Cane sugar, oilseeds and vegetable oils have been excluded from discussion, and industrial country offers will raise the overall value of tropical commodities by only USD 244 million, a 1,7 percent increase. In the early 1980's, the World Bank estimated that the removal of tariffs on processed varieties of eight agricultural products would raise the value added by 20 percent, equivalent to more than the transfers resulting from the industrial countries' General System of Preferences (GSP) combined. The lack of the industrialised countries to liberalise in this area, is one of the main reasons for developing countries' antipathy towards GATT.

3.4 AGRICULTURE

In the area of industrial goods, the industrialised world has insisted that developed countries adhere to a strict course of trade liberalisation to gain access for their industrial products to new markets, even if it would mean the destruction of local industries which have successfully been spawned through import substitution policies. Those same countries, however, insisted on GATT rules which would protect their vulnerable agricultural sectors from outside competition, thereby calling their commitment to free trade principles into question.

Agriculture, in particular, is an area which affects the well-being of millions of people in the developing world. Policies adopted in the North can be a matter of life and death for millions of peasant farmers in the South. Yet, the Gatt-debate largely ignored this reality, exclusively focusing on the needs and realities of the agricultural sectors of the developed world.

The continued subsidisation of food products has the effect of artificially lowering prices, undercutting the competitiveness of non-subsidised industries in developing countries. The fall in food prices also has an adverse affect on thousands of small food producers who are normally dependant on peasant labour, which could lead to unemployment and poverty in countries where social safety nets do not exist. Famine in parts of Africa can in part be ascribed to the agricultural policies of the developed world, which have wiped out food security and household incomes of millions of rural producers in Africa. Smallholders who are deprived of markets, inevitably fall into extreme poverty and even famine.

3.5 MONOPOLY OVER INFORMATION

Developing countries spend less than one percent of GDP on research and development while developed countries is spending

2.5 percent of a much larger GDP. With the technological processes on which international competitiveness depends becoming more and more information intensive, the technological marginalisation of the developing world accelerate the gap in living standards between the developed and developing world. Policies are needed to encourage technology development and technology availability to the developing world. Instead, a reverse process is underway, with knowledge rich governments consolidating their domination over knowledge through GATT-based intellectual property laws in fields such as pharmaceutical, biotechnology, aerospace computers and new materials.

The new Trade Related Intellectual Property Rights (TRIPS) Agreement have extended the life span of patents and extended the range of products eligible for patenting. This gives trans-national corporations exclusive control over information, to the detriment of the economic and social upliftment of developing countries.

3.6 NON-TARIFF BARRIERS .

Another example of the industrial countries' deviation from the principles of free trade when it is not in their interests, is the existence of Non Tariff Barriers (NTB's) such as market sharing arrangements, minimum price agreements and voluntary export restraints (VER's)

As regards the developing world, VER's are the most common protective measure used. Developing countries are "invited" to restrict exports or face retaliation. With weak economies, limited significance as markets, and associated lack of retaliatory power, developing countries have no choice but to participate.

Another non-tariff device is the misuse of GATT's anti-dumping provisions. Although the Uruguay round has refined the laws pertaining to dumping, they remain sufficiently vague to be an effective tool against countries who are highly vulnerable to the threat of sanctions and the cost of lengthy legal proceedings. It is relatively simple, according to the rules, to find dumping margins where none actually exist. A threat of imposing countervailing duties on products deemed by developed countries as being subsidised, has the effect of forcing developing countries to unilaterally restrict exports of products, and thereby restrict the growth of their industries.

3.7 MEASURES BY THE DEVELOPED WORLD TO GAIN MARKET ACCESS FOR THEIR PRODUCTS

Apart from protecting their markets through non-tariff barriers, industrial countries have used a form of modern day gunboat diplomacy to open markets for their products. The

Uruguay Round of GATT did not significantly alter this position. An example of this is section 301 of the US Trade Act of 1984. This measure empowers the US Trade Representative to retaliate against actions that "unfairly" restrict US exports and denies US corporations "reasonable" market access. Under this measure, the US forced market access for its products on developing countries. Section 301 strikes at the very heart of the GATT system, making the US, rather than the GATT, judge, jury and executioner in trade disputes. The assumption of authority to declare foreign trade practises unfair unilaterally, and to retaliate, violates the principle of adherence to internationally agreed rules on which the GATT is based.

Section 301-type policies also violate the GATT principle of reciprocity. By definition, section 301 can only be used by a country like the US with a large important market, and the economic muscle to back up its demands. The use of section 301 therefore forces unilateral liberalisation on the part of small countries who cannot force reciprocal liberalisation.

4 COMMENT:

The Uruguay Round of GATT does not effectively promote a global free trade arrangement that discourages the division of the world into inward looking trading blocs. Three de facto trade blocs exist, based on the US, the European Union (EU), and Japan. The US initiatives towards extending its influence in the Pacific Rim with the APEC summit, is an effort to replace Tokyo as leader in that region. The EU is in nature inward looking, and the possibility of the others becoming increasingly inward looking is highly probable. The end result could still be powerful trading blocs characterised by semi-mercantilism and managed "fair" trade relations between the blocs. This could leave countries who are not part of any powerful trading blocs, especially in Africa, in a vulnerable position. Apart from the direct economic disadvantage, in the politics of economics, countries in Africa could find themselves at a disadvantage. South Africa, for instance, is forced by the GATT to reduce not only its levels of import substitution, but also its fixed investment and export incentives. Although, if seen in isolation, import protection and export incentives are in opposition to free trade principles, the GATT action assumes a whole new meaning, when compared to GATT's acceptance of EU farm policies, or US section 301 practises. Unfortunately, this is how power works, and countries outside the trading blocs will find it difficult to gain market access, even within the new GATT guidelines.