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SM/91/57
Correction 1

April 22, 1991

To: Members of the Executive Board
From: The Secretary
Subject: Uruguay Round

The following correction has been made in SM/91/57 (3/8/91):

Page 3, first full para., last 2 lines: for "were giving rise...being
addressed."

read "were not genuinely...external
policies."

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

in April 1989 did not suffice to obtain other than political commitment to address those underlying problems that had given rise to a network of subsidies and noneconomic production in farming, managed trade in various sectors, defensive attitudes toward the establishment of foreign firms and a host of other distorting policies that the Uruguay Round seeks to address. These policies are the legacy of attempts to insulate certain sectors of the economy from the pressures of change--often for what may have appeared to be good political and social reasons. For a while, the inflationary period of the late 1960s and the 1970s had obscured the costly effects of allowing economies to become increasingly rigid in the face of fast change in technology and productive ability worldwide. With the disinflation of the 1980s, these rigidities could no longer be ignored and recognition of their costs contributed to the virtually worldwide adoption of a basic policy orientation that looks to market signals to guide economies and that seeks to reduce, if not eliminate, government intervention internally and externally.

With this basic policy outlook, many governments included market opening and trade liberalization as a major element in their economic programs although, in many industrialized countries there has been more emphasis on domestic deregulation than on external liberalization. In many instances, the fundamental shift toward liberalization of trade and investment has been motivated by self-interest, as emphasized by the President of Mexico, speaking to the GATT Council in February 1990. This shift in outlook could have brought a basic improvement in the environment for the trade negotiations. But countries appeared unable to bring these attitudes into the Uruguay Round framework, under which each liberalizing measure continues to be viewed as a "concession" requiring a counter-concession. Consequently, apparent agreements, based on political commitments in important negotiating areas such as agriculture, trading rules and services, fell apart to the extent that basic domestic problems were not genuinely being addressed and, thereby, giving rise to defensive external policies.

This has led to the question whether the agenda for the Uruguay Round was too ambitious ^{1/} and, therefore, constituted an impossible task from the outset. The answer then and now is that the Round's ambition sprang from necessity--a necessity to reverse trade policy trends that tended to export the effects of delays in domestically difficult policy decisions, often resulting in "hit and run" defensive actions. A comprehensive round is also necessary to modernize and strengthen the GATT, to bring it into the 21st century. Nevertheless, domestic and international markets remained dynamic despite the danger signals of increasing defensive actions in some

^{1/} World Economic Outlook, op. cit., pp. 94-101.

sectors and concentration of economic power/market management in others. 1/ This dynamism stemmed in part from the reorientation of economic policy noted above and the vigorous development of trade sectors that have benefitted from deregulation of domestic markets coupled with technological advances that tended to globalize business activity, particularly in services. Consequently, perhaps part of the support for the Uruguay Round is related to the extension and preservation of these dynamics. In this respect, while there is broad support for eliminating barriers and expanding trade opportunities, there remain basic tensions between the interests of "sunrise" and "sunset" industries, and it is often the latter that capture the greatest attention.

The breadth of the Uruguay Round's objectives, the complexity of the issues and the array of special interests, have resulted in numerous linkages. The decision at the beginning of the Round to create 15 separate negotiating groups (14 for issues relating to trade in goods and one for services) accommodated the need for each interest group to have its own forum. 2/ And indeed, the negotiating groups have increased mutual understanding of the relative importance of particular issues to particular negotiators or groups of negotiators. However, in moving to concrete results and seeking to agree on a balanced package, the tactical and functional linkages once again dominate.

At the political and tactical level, negotiating a balanced package on the GATT basis of reciprocity means that each negotiator will agree to some points contingent upon others agreeing in other areas. The major example is that some producers of agricultural products, who have an overriding interest in achieving fundamental changes in the trading rules for that sector, would hold back agreement in other areas until an agricultural package is in sight. Similarly, a number of developing countries might approach TRIPs and TRIMs flexibly if they saw that their interests regarding market access and rules would be met. Thus, at this stage many apparent areas of agreement remain ad referendum, and possible compromises in some areas are yet to be revealed.

On functional linkages, a major example is the effort to bring under the GATT trading activity that has remained--or moved--outside, largely for defensive reasons. Thus, integration of textiles and agriculture into the GATT and phasing out bilateral sectoral agreements (e.g., steel, electronics and automobiles) depend on improving those rules which, for lack of clarity

1/ It might be noted that the proliferation of such measures occurred during the longest economic expansion since the end of the Second World War, and was coupled with a rate of growth of world trade that outstripped that of production by some 50 percent during 1983-89, compared to 25 percent in the 1970s.

2/ For the structure of the negotiating mechanism, the objectives and the status of the negotiations in each group, see the Annex to this paper and also World Economic Outlook, op. cit., p. 101.