

Understanding the GATT and the Issues Beyond

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Understanding as well as resolving disputes between trading nations when necessary. It likewise provides a forum where nations can negotiate and work together for the reduction of tariffs and other trade barriers.

The GATT was first entered into by 23 countries in 1947. Currently, it has a total of 120 Contracting Parties and Observers which account for 90 percent of world trade. The Philippines acceded to the GATT only in January 1980, but was a provisional member from 1973

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The General Agreement on Tariffs and Trade (GATT) is the only multilateral contractual instrument that lays down agreed rules for international trade. Its role includes administering the application of the rules established by the General Agreement and inves-

**On December 14, 1994, the Philippine Senate ratified the GATT-UR. This paper was written before the ratification. Earlier copies were sent to members of the Senate Committee of the Whole on GATT, with the hope of contributing, albeit indirectly, to the clarification of certain issues affecting the debate on whether the Philippine government should ratify the GATT-UR or not.*

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Editor's Notes

Opportunities knock only once, they say, and the GATT has been on our doorstep for quite a long time. What do we do about it? The Philippine Senate is set to ratify the controversial agreement this December but still, a number of questions remain in the minds of several sectors. It is in this light that we present our main feature article for this issue. Hopefully, it can shed more light on the issues about GATT and what we have to face in the coming years.

According to the authors of our cover story--Research Fellow and Research Associate, respectively, at the PIDS--the GATT has much to offer and we stand to lose more if the agreement is rejected. There are always costs in every decision and the risks are worth taking, they say, if the country gains so much more in return.

A small developing country like the Philippines needs every possible leverage it can get to have access in a world market that is dominated by developed countries who take turns in controlling the global economy. For one, the GATT will do away with the preferential treatment accorded to stronger countries and allow weak ones--admittedly, our country belongs to the second category--to be "assured of fair treatment in international trade."

In relation to the GATT issue, one article talks on the country's eventual shift from the Home Consumption Value (HCV) used in the valuation of imports to the Transaction Value, which is crafted from the GATT Agreement on Customs Valuation. Another article gives light on the organization, the World Trade Organization (WTO), that will take the place of GATT after all transition arrangements have been made by member nations.

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to December 1979 during the GATT Tokyo Round. The Uruguay Round is the eighth in a series of GATT Multilateral Trade Negotiations. The Final Act was signed on April 15, 1994 in Marrakesh, Morocco. As a signatory to the Final Act, the Philippines is undergoing the process of ratifying the GATT Treaty and passing legislations to implement its results.

The GATT Treaty has recently been the subject of intense debate in the country. The Philippine Senate is currently studying it and, in the process, is conducting public hearings on its costs and benefits. The Senate is expected to vote soon and the Ramos Administration is optimistic that the Senate will ratify the treaty before the year ends. The World Trade Organization (WTO), the international body that will replace GATT and implement the Final Act, will be formed in January 1995. The Final Act will be fully implemented in year 2005, giving signatories ten years to gradually remove trade restrictions as committed.

There are two opposing views that emerge from the discussions. GATT supporters on the one hand maintain that joining the WTO will open vast opportunities to global trade access. This is necessary if the country is serious in pursuing an export-oriented strategy that will sustain economic growth. Government economists claim that the ratification of the GATT Treaty will boost Philippine exports by about US \$2.7 billion per year and create around one million jobs (*Phil. Daily Inquirer August 29, 1994*). On the other hand, GATT opponents argue that the GATT favors rich countries while keeping poor countries from achieving industrialization. This group contends that once GATT is implemented, at least 500,000 agricultural workers will be displaced and the Philippine market will be

flooded with cheaper products from abroad which will eventually lead to the death of local industries.

This short paper is another attempt to contribute to a clearer understanding of the issues and misconceptions surrounding the GATT accord, particularly its trade liberalizing effects. It shows that although there could be short run adjustment cost, the Philippines stands to gain much more from a more effective WTO and from the increased opportunities it offers in terms of new markets. This would, hopefully, help our policymakers toward a more fruitful understanding of the impact of the GATT on the economy.

The GATT Legal System: Scope and Functions

Basic Principles. The GATT legal system is generally regarded as a set of norms and procedures which governments have accepted to create order and predictability in international trade relations (Roessler 1989). To guide the trading system, the GATT sets forth three basic principles. The first is the principle of *nondiscrimination*, which means that each contracting party has to treat the trade of all other contracting parties equally. This treatment, called the most favored nation (MFN) treatment, mandates that the trade concessions provided by a member country should be available to all GATT member countries. The second is that of *open markets*. This principle is realized by the General Agreement through a prohibition of all forms of protection except customs tariffs and the establishment of a procedural framework for tariff negotiations. The third is called the principle of *undistorted competition*. The General Agreement prohibits export subsidies on manufactured products and also limits the use of export subsidies on primary products.

It is often held that without the GATT system of rules, governments

would--as the 1930s have amply demonstrated--engage in beggar-thy-neighbor policies. Each country would attempt to obtain economic advantages at the expense of others by restricting imports and subsidizing exports. These attempts often trigger a spiral of retaliatory actions leading to a reduction in world welfare. With the GATT legal system in place, these mutually destructive policies are averted (Roessler 1989).

Multilateralism vs. Bilateralism.

The principal function of the GATT as a system of rules is to resolve conflicts of interest among nations. As a multilateral agreement involving a large number of countries, the GATT provides the best negotiating forum where countries can defend their national economic interest and negotiate trade rules and agreements. With one vote for one country, countries can compete with one another or countries with common interests can form coalitions and come up with results that are mutually and globally beneficial. Global economic prosperity can be best achieved by pursuing strong multilateral trade rules and their vigorous enforcement.

Although one cannot deny the usefulness of the bilateral approach, one must not lose sight of its limits. Bilateral solutions are often formulated without taking into account the interest of others whose well-being is affected by the decisions made. Bilateralism is based on power play in which small countries have very little say. The main danger of bilateral solutions is that concessions, which are often unconditional, are subject to sudden withdrawal. Moreover, bilateral arrangements often entail trade diversion, which misallocates scarce resources.

Considerations such as this underscore the danger of abandoning the multilateral approach in favor of bilateral options (Ariff 1993). It is, clearly, in the best interest of small countries to have a world trade regime

that is based on rules rather than one based on power relationship. The smaller and weaker the country, the more value there is in multilateral discipline, for it is only through such discipline that small countries can restrain the behavior of larger and more powerful governments (Whalley 1989).

Changing Attitudes of Developing Countries Toward GATT

The Climate Prior to the Uruguay Round. Seven rounds¹ of GATT trade negotiations preceded the Uruguay Round. These seven previous rounds made only limited progress in achieving negotiated trade liberalization between developed and developing countries. This was partly due to the climate of mistrust over trade issues, which had evolved between the two groups of countries. On the one hand, developed countries wanted developing countries to take on more international discipline over their own trade policies. On the other hand, developing countries questioned the credibility of multilateral commitments developed countries have made (Whalley 1989).

In the previous seven rounds, large developed countries have been the major participants and have also been the countries which have liberalized most in terms of reducing and binding tariffs. Under the GATT MFN provisions, tariff reductions in developed country applied to developing countries as well. However, developed countries retained or reintroduced a significant number of trade barriers on manufactured products of major export interest to developing countries such as the use of contingent protection measures (countervailing and anti-dumping duties) and various devices like voluntary export restraints (VERs) in textiles, steel, and other "import-sensitive" products developed outside of GATT rules to control imports. All

On the Shift from HCV and the GATT Valuation

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The current basis for customs valuation of imports to the Philippines is the home consumption value (HCV). This system mandates that ad valorem import duties be computed on the basis of the fair market price of the traded item in its country of exportation. The shift to HCV was undertaken in 1972 because it was then seen to be superior to other more commonly used prices (such as the export price) as a valuation base, owing mainly to the perception that it was easier to verify, thus facilitating customs ascertainment of the truthfulness of import declarations.

A concerted effort over the years, however, on the part of major industrialized nations to formulate an alternative to the rather loosely defined Brussels Definition of Value (BDV), which is the basis of the HCV, resulted in the crafting of the General Agreement on Tariffs and Trade (GATT) Agreement on Customs Valuation imposing the adoption of the Transaction Value as a basis for valuation among signatory countries. Most developed nations have since adhered to the GATT Agreement leaving a small minority with the BDV. The Philippines is now the sole user of the HCV.

While the HCV may facilitate customs work, it is a disadvantage to businessmen who need to adjust to a system of transactions costs unique only to the Philippines. Although the system's dampening effect on business has not been quantified, it is nevertheless one which the nation could very well do without, especially when viewed against recent efforts to attract foreign investments.

As early as a year or two ago, Memorandum Circular No. 47 which directs the formulation of a work plan for the shift from HCV to an

internationally-accepted valuation system was issued. Thus, even way before the GATT became a controversial issue, the government has been reviewing the process of shifting away from HCV with the GATT Valuation as one alternative.

At present, there are two systems on customs valuation of imported goods which are governed by international conventions: the Brussels Definition of Value (under the Convention on the Valuation of Goods for Customs Purposes and herein referred to as the Definition) and the Agreement on the Implementation of Article VII of the General Agreement of Tariffs and Trade (henceforth, the Agreement).

The Definition, based on a single, theoretical, standard of value, is the price the goods would fetch on a sale in the open market under specified conditions and gives contracting parties ample leeway in their valuation systems. The Agreement, on the other hand, is founded on a positive concept and is the price actually paid or payable for the goods when the sale meets specified conditions.

The Agreement is seen to favor trade facility in that it effectively limits the discretion exercised by customs in the valuation process by specifying the steps to be taken, and the valuation bases to be used with little room for deviation. The transparent process of the system enhances predictability in terms of the administrative requirements involved and the duties that would have to be paid at the border -- characteristics which traders and businessmen favor.

However, customs may find difficulty in the shift because of the lack of provisions for the adoption of

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measures that would deter undervaluation and safeguard revenues. The skills and training required in the shift are also yet to be acquired.

The Definition, therefore, appears to be more implementable even if it may not have the same trade-facilitating effects as the Agreement. But the more serious and overriding objection to the shift from HCV to a transaction valuation base is the possible revenue impact.

Revenue Impact of Switching to Transaction Value

A study by Medalla et al. (1993) estimated the possible revenue effects of moving away from HCV using the elasticities approach (import demand elasticity). It noted that the estimated change in revenues is the net effect of the loss in revenues due to the change in valuation from HCV to IV (invoice value, which would emerge under a system using invoice or transaction value such as GATT) and the revenue gains due to an increase in imports arising from a lower price of imports.

Results show high variations in the HCV/IV ratio, implying an uneven (and thus, distortionary) impact on the overall protection structure. The study found, however, a low weighted HCV/IV ratio, which is due to a high proportion of the value of imports. This yields an estimated revenue impact in the change from HCV to IV of around four percent (estimate may range from 2 to 6 percent) which translates to around P2.8 billion based on 1992 revenues, or around P4.1 billion based on targeted tariff revenues of P106 billion for 1994.

Further Qualifications

While the estimate in the revenue impact is not quite as large as other estimates, the amount is still substantial enough to cause worry to the government, considering the budget-

ary requirement. As such, some points need further clarification.

First, there is a possibility that the IV would fall below that estimated under the HCV regime. This may mean a revenue loss that is higher than the estimate of Medalla et al. At the same time, another possibility is that increased trade facilitation, removal of the uncertainties and arbitrariness, and reduction in the transactions costs of importing as a result of the shift could make imports more elastic and push down the estimate. It cannot be quantified, however, which one would have a stronger influence. Still another point is that the other costs of enforcing an HCV system are not taken into account when looking at the possible revenue impact.

What are these costs? First and foremost is the distortion on the protection system. Second is the additional cost of doing business in the Philippines. The HCV system has a nuisance effect on the flow of foreign direct investments because investors have to adjust to a very different system (especially in the case of new investors not used to an HCV system), the Philippines being the only country using such a system. Third, the HCV system is very much dependent on a private, foreign agency, the Societe Generale de Surveillance (SGS), to effectively gather the needed HCV data (this is one of the often neglected things) while the GATT valuation system is not. The services of the SGS cost the Philippines around P960 million in 1991 and P1.6 billion in 1992. During the transition period, the services of an agency such as the SGS would probably still be needed but once the GATT valuation system is solidly in place, there will be no need for their services in HCV data collection. The different requirements of a GATT system need a very different expertise which our own Bureau of Customs (BOC) could most likely handle better. Thus, the projected revenue loss would be drastically minimized, if not altogether eliminated.

We envision improvements in the BOC and Bureau of Internal Revenue (BIR) administration in the coming years with their planned computerization that will allow the effective cross-referencing of the BOC and BIR databases and, thus, drastically increase the probability in detecting tax evasion. Imports are normally inputs to either a trading or manufacturing process, and import undervaluation shall bring about increased profit for the firm as a result of lower input costs. Effective cross-referencing therefore allows the BIR to correctly tax such profits and effectively nullify the previous successful efforts at tax evasion. The projected revenue loss may even be lower.

Shifting away from the HCV may not really cost that much in terms of revenue losses; the gains, however, remain.

The Bottomline is...

If ever the net revenue impact has indeed been underestimated, which is unlikely, considering all those other factors mentioned, the other positive benefits of moving away from HCV are enough incentives.

The worry on the drastic revenue loss in the short run, however, still remains. A possible option to consider is to shift to the GATT valuation with the adoption of safeguards in the transition as maybe necessary to deter fraud. This may initially result in the adoption of the same onerous HCV provisions but it will afford customs the opportunity to start the adjustment process, as well as the time it needs to properly undertake the shift without compromising revenue. It also offers the industry sector an opportunity to look forward to eventually enjoying the trade-facilitating effects provided by a shift to the GATT transaction valuation, not to mention the other advantages to be gained in joining the mainstream of nations in this area. DRN

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these led developing countries to believe that developed countries did not observe GATT rules and discipline and that they had little power to achieve better enforcement. The GATT was also perceived as a "rich man's club" in which developing countries had hardly any legitimate role to play. They therefore opted to stay in the sidelines and pick up whatever was offered.

Developing Countries' Change of Mind. After seven years of stormy negotiations, the GATT Uruguay Round launched in 1986 was finally concluded. This was not simply because countries wanted the potential economic gains but because countries realized that the consequences of failure would be disastrous---a steady breakdown of rules and discipline in international trade, mounting protectionism, and pressure for the formation and fortification of trade blocs. These events are damaging to both developing countries and those countries in the process of transition from centrally-planned to market economies. These could stifle the hard-won benefits of economic reform and undermine political support for newly democratic governments (EIU 1994).

The Uruguay Round is, by far, the most ambitious in the series of Multilateral Trade Negotiations (MTN) undertaken by the GATT. It covers not only conventional GATT issues, including tariffs, but also areas of trade policy which lie outside of GATT discipline - agriculture, textiles, and VERs, as well as new areas - services, intellectual property and investment. It will also transform GATT into a more effective body through the creation of the World Trade Organization (WTO). The WTO will implement the Uruguay Round accords and will supervise future trade negotiations (*see related story on page 8*).

One striking feature of the Uruguay Round was the active participation and enthusiasm of developing countries in the negotiations. This dramatic change in attitude is an indication of the importance that they attached to the eighth MTN round. Among other factors, this change can be explained by the economic downturn experienced in the early 1980s. The decline in the external demand for developing countries' exports was aggravated by the protectionist trends in developed countries. With recessionary and protectionist forces reinforcing each other, developing countries realized that their own economic prosperity is influenced by international events.

A second explanation is that GATT has become increasingly relevant to the trade liberalization occurring in developing countries. The argument that increasing exports as a way of raising growth rates now plays an important role in development thinking, in contrast to the 1960s and 1970s when views on export pessimism and import-substitution prevailed. As a result, an open trading system is seen as more necessary for development.

Conscious of the fact that their tariff and nontariff barriers are inconsistent with their outward-looking strategies, a large number of developing countries (Philippines, Costa Rica, China, Mexico) have unilaterally liberalized their trade restrictions. It has become increasingly evident that structural changes at home cannot be implemented without considering the international constraints within which open economies must operate. It is no secret that developing countries want to follow the footsteps of the NICs. However, they are concerned that the relatively liberal world trade regime, which permitted the NICs to take off, is threatened by the growth in the use of protectionist measures and the formation of trade blocs as reflected in NAFTA, EU, and AFTA. With their

increasing stake in the international economy, developing countries are worried that their trade interests might not be addressed in trade negotiations left entirely to developed countries.

Hence, today, the GATT is no longer regarded as an exclusive club but a vehicle which can help keep the trading system open. In contrast to their approach in earlier rounds, the focus of developing countries was less heavily weighted towards demands made upon developed countries, and more toward seeking out concrete steps that they could take to influence the outcome of the negotiations (Whalley 1989). With the end of the Cold War and the rise of the developing world, there is no country today that has the dominant economic and political position enjoyed by the US at the time the GATT was founded in the late 1940s.

Why Ratify the GATT Uruguay Round?

Common Fears. In general, the major fears about the ratification of the new GATT (WTO) are related to two issues: (1) the trade liberalizing impact of the new GATT and (2) the intellectual property rights (IPR). Of the two, the former is of greater concern to many.

Impact of Liberalization on Industry. Trade liberalization is the government policy thrust in line with the objective of achieving world competitiveness. This policy thrust has very strong economic basis as borne out by the findings of past studies on trade and industrial policy (e.g., Bautista and Power 1979) whose principal conclusions are:

- ▲ That the more than three decades of protection has been very costly in terms of its inherent penalty to exports, its serious adverse

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impact on resource allocation and dynamic efficiency losses arising from lack of competition, and

- ▲ That a reform towards a more liberal and neutral trade policy is necessary to propel the economy to a higher level of industrialization.

Thus, not only is the new GATT consistent with the current policy thrust and sound economic policy, it is also catalytic to the achievement of our development goals. The openness of the international economy which is brought about by the new GATT would ease the possible constraints to export orientation. A more open international economy provides freer market access for our products. Freer market access calls for lower tariffs and subsidies, reduced nontariff barriers, greater transparency of tariff measures, nonselectivity, and stricter adherence to GATT rules and discipline.

There is no denying that a ratification of the treaty could entail some short-run adjustment costs arising from the tariff reductions, tariffication of quantitative restrictions, and the shift from the Home Consumption Value (HCV) system to the Transaction Value (TV) system (see related story on page 3). However, such fears about huge short-run adjustment costs are usually greatly exaggerated. Two points must be considered:

- ▲ the economy went through greater and unilateral trade liberalization in the 1980s, and
- ▲ this liberalization was encouraging because it resulted in improvements in the overall performance of the manufacturing sector.

On the first point, the 1980s witnessed the unilateral liberalization

episodes in the Philippines, particularly during the period 1986 to 1988. Between these years, the weighted average tariff² for importables declined from 43.2 to 40.7 percent which was further reduced to 37.6 percent in 1993. The number of items covered by nontariff barriers decreased from 33 percent in 1983 to 11 percent in 1988 and finally to six percent in 1993. Between 1986 and 1988 alone, the country liberalized the importation of 1,401 items. Compared with the tariff bindings that we committed under the new GATT, the final rates of EO 470 are generally higher. A binding commitment is a promise not to raise tariffs beyond a specified rate. In general, the

the positive effects of trade liberalization. NSO data revealed the significant increase in the number of firms between 1983 and 1988 from 5,593 to 9,141 and the entrance of smaller and relatively more efficient establishments.

The domestic resource cost (DRC) as a ratio of the shadow exchange rate (SER) was used by the authors as a measure of efficiency and competitiveness of the manufacturing sector.³ A DRC/SER ratio that is less (greater) than one indicates an efficient (inefficient) conversion of resources. In general, the higher the ratio, the more inefficient and uncompetitive an industry is.

Box 1: Impact of Trade Policy Reforms

The trade liberalization policy between 1983 and 1988

- heightened both import competition and competition among domestic firms;
- improved export performance;
- was accompanied by a deconcentration of the manufacturing sector as reflected in the sharp decline in the four-plant value added concentration ratio from 70 to 63;
- led to significant decline in the average employment size of manufacturing plants from 125 to 92 workers per plant;
- reduced the bias in the protective system against SME and this did not involve a tradeoff in efficiency inasmuch as small and medium enterprises have been found to be at least as efficient as the large scale plants; and
- helped to decongest the MM-NCR with the share of MM to manufacturing-sector output declining from 45 to 41 percent.

Source: Medalla, Tecson, Bautista and Power, "Trade and Industrial Policies for Philippine Development," September 1994 (first draft of the Development Incentives Assessment or DIA study).

country bound tariffs at a ceiling rate of 10 percentage points above the 1995 applied rate. The Philippines committed to bind tariffs on 2,800 industrial tariff lines while committing tariff reductions in only 24 textile and clothing products.

Regarding the second point, in analyzing the impact of trade liberalization, the study by Medalla et al. (1994) dispelled the fears about huge layoffs and plant closures. The authors found strong empirical evidence on

For the whole manufacturing sector, the DRC/SER ratio dropped from around 1.7 in 1983 to around 1.5 in 1988, clearly an indication of an increase in the overall level of efficiency and competitiveness of the manufacturing sector. The share of establishments whose DRC/SER ratio fall within the range of zero and one (or those with allocative efficiency) rose substantially between 1983 and 1988, in terms of both output value and the number of firms---an undeniably strong evidence of the favorable impact of

trade reform. (See Box 1 for the highlights of the findings of the DIA Study.)

Impact of Liberalization on Agriculture. It is, of course, the impact of trade liberalization on the agricultural sector which worries most. The Philippines committed to bind its tariffs on 744 agricultural tariff lines and reduce its tariffs on 42 lines. However, there is no major reason why what works for improving the competitiveness and performance of the industrial sector would not serve the agricultural sector as well. Indeed, the local agricultural economists have called for similar reforms as the GATT provisions on the agricultural sector and likewise have observed that the reforms required by GATT are minimal (David 1994).

If the fears about the impact of trade liberalization on industry proved to be grossly exaggerated, so would most likely much of the imagined short-run adjustment costs of GATT provisions on agriculture. This is not to belittle the need to support the agricultural sector but mainly to caution and moderate the hysteria which could cloud the government's judgement about what needs to be done. This particularly refers to "safety nets" being proposed in response to GATT. As David (1994) points out, support to agriculture should be viewed within the context of improving the competitiveness of Philippine agriculture and not simply as "safety nets" in response to GATT. Indeed, it is the task of the government to provide the necessary services and infrastructure for this purpose with or without GATT.

Intellectual Property Rights. Some would attribute the achievements of Taiwan and other successful Asian countries to the absence of intellectual property rights (IPR) which allowed them to duplicate and imitate foreign products and technologies, thereby accelerating their own industrialization. Doubtless, it helped these economies in their development

process. However, studies show that their success did not hinge on enjoying "free" intellectual property rights but rather on sound macroeconomic policies, export-orientation, human

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resource development and highly skilled and disciplined work force (World Bank 1993). There are obvious benefits to "free-riding" on the intellectual property rights of the developed countries. The question, however, is: Are these benefits enough to warrant not only (1) losing the benefits derived from GATT ratification but also (2) risking the costs of not ratifying GATT?

There are benefits as well as costs from IPR protection. These benefits come from (1) the disclosure effect of patents which encourages technology diffusion, (2) encouragement of research and development (R and D) activity (which is found to have high private, and even higher social returns), (3) attraction of foreign investment (the absence of IPR protection is perceived as an obstacle to foreign investment), and (4) IPR protection for our export products (e.g., design patent).

The next question is: Without IPR in GATT, will the Philippines be able to maximize the benefits from the "free" use of other countries' intellectual property rights? Even if the answer is yes, again we should bear in mind that such free use of the IPR is not a necessary nor sufficient condition for economic development. It is only one of the many factors which might help. Furthermore, nothing prevents our trading partners to apply bilateral pressures to enforce IPR on the

Philippines. Finally, we are already a signatory to the Paris Convention (industrial property rights).⁴

There are, of course, other difficulties involved in the issue of IPR, both in terms of technical questions and enforcement problems. There are gray areas which need to be discussed and redefined, given the greater complexities in biological and technological advancements.

Textiles. Multifibre Arrangements (MFAs) are a gray area in trade measures. These have provided a sheltered, albeit limited, market for developing countries' exports of textiles and clothing. From 1974 and 1977, MFA I allowed a quota increase of 6 percent per year, while the next phase, MFA II, for 1978 to 1981, left quota increases to bilateral negotiations between exporting and importing countries. The third (1982 to July 1986) was even more restrictive than the preceding phases while the current has wider coverage with increasing numbers of textiles and clothing items being subjected to greater control.

MFAs have been criticized because the distortions that they create are far more serious than those inflicted by tariff equivalents. Furthermore, MFAs tend to benefit only certain producers, encourage rent-seeking activities, put up barriers to new entry, and obstruct structural adjustment (Ariff 1993). The Uruguay Round requires the phase-out of the MFA over ten years beginning in 1995. The phase-out will involve three stages and by July 2005, all remaining quotas and restraints will be abolished.

Previous studies have shown that developing economies gain from the removal of both the bilateral MFA quotas and developed country tariffs. Estimates by Whalley suggest that the gains to developing countries from improved market access more than offset losses from foregone rent

The GATT Rounds: Making Way for the WTO



nce the World Trade Organization (WTO) supersedes the temporary arrangements reached by nations under the General Agreement on Tariffs and Trade (GATT) negotiations, would membership in it bring more benefits than costs to the Philippines? Dr. John Whalley, professor of economics at the University of Western Ontario and director of the Centre for the Study of International Economic Relations in Canada, thinks so.

In a seminar-discussion held last November 1994, Dr. Whalley identified the developments in trade agreement made in the eighth round of GATT talks and explained how past negotiations relate to the newly created WTO. He also gave insights on GATT and the Philippines.

Now that the GATT rounds will give way to the creation of the WTO, nations are faced with two choices: To ratify or to reject the Uruguay Round.

If countries decide not to ratify all the agreements reached in the last Round, they automatically waive their option to become members of the WTO. This means exclusion from a trading circle wherein member-countries vow to give each other nondiscriminatory access to exports. If they choose to ratify the agreements, previous trade obligations and benefits received from earlier GATT rounds must then be disregarded.

Herein lies the Philippines' dilemma. "It seems to me that in the Philippines, the key issue is not simply whether to accept or reject the decisions of the Uruguay Round," said Dr. Whalley. The question runs deeper. The country will have to rethink whether it stands to lose more if it ratifies the GATT or not.

In Dr. Whalley's evaluation, the Philippines will forego more opportunities if it rejects the GATT agreements.

Assessing the Last Round

What more are to be expected from the GATT and the WTO?

Whalley cited a number of headways in trade reached during the Uruguay Round, the longest-running round of trade talks in the post-war period. Initial model-based analyses showed that global gains will be from US\$70 billion to US\$500 billion, or an increase from 0.3 to 1.4 percent of the gross world product (GWP). World trade will expand from four to 15 percent with most of the estimated benefits coming from agriculture and textiles.

Developed countries are likely to get most of the benefits from the latest GATT rounds mainly because the largest interventions in agriculture reside in these nations, particularly those in the European community.

There are also other areas in trade that will experience a change, although the impact may still be difficult to quantify. For instance, it is not yet clear what changes in barriers in agriculture and textile--two of the areas that have been long outside formal GATT disciplines until recently--will be effected hereon, despite the agreements reached in the last Round.

If there is one thing developing countries have succeeded to do, however, it is putting forward their own agenda for more in-depth discussions. Among these concerns are the so-called backlog issues, i.e., problem areas of international trade where barriers have managed to slow down trade despite the concluded negotiations among these countries.

Developing countries have also pressed for stronger GATT systems because of two fears: the erosion in discipline in the trading system and an exclusion from the export market. Related to such concerns is the perceived inward-focus trading system of bigger nations and regional trading blocs.

Small- and medium-sized countries, thus, called for stronger and clearer trade rules that will guarantee them nondiscriminatory access to other markets. Systems-strengthening, therefore, became their cry.

The talks paid off. The Round produced various outcomes that can be lumped in four categories: changes in structures within which trade discussions take place, agreements are reached and, more significantly, disputes are settled; changes in access to international markets, principally, regarding trade barriers; changes in existing GATT rules; and the unfolding of new issues in GATT discussions.

Stronger, Better, Faster

Institutional changes top the list of achievements made in the latest Round which saw the creation of the WTO and the strengthening of its

dispute settlement mechanisms. Although the WTO was initially intended to merely "grandfather" all arrangements reached by countries in past rounds, it has, according to Whalley, recently taken a life of its own. Unlike arrangements reached in past GATT negotiations (where countries can indicate which negotiations to agree upon and which ones to reject), nations who accede to the WTO are now required to accept the **whole package** of arrangements put forth during the last Round.

It is also in the area of dispute settlement where substantial developments are found. In the past, it was possible for a rich nation to block the GATT dispute panel where a complaint has been lodged against it. Thus, smaller nations, feeling the process will bring them nowhere, seldom bring their complaints to the GATT panel.

Lately, the settlement process has been strengthened. First, time limits have been set. Second, new rules demand that a reported complaint against one country can be dropped by the GATT panel only if a consensus has been reached. These changes give smaller countries a chance to be heard and to enforce their rights under the GATT in a manner they never had before.

Smoothing the Rough Edges

Another achievement of the Round is its success to bring to centerstage the "new issues"—concerns that were never given enough attention in earlier rounds. Among these are those concerning services, trade-related investment measures, and intellectual property rights.

Of course, the talks also gave countries access to more markets, primarily in agriculture and textiles. There is a new policy, for example, that will eliminate multifibre arrangements

"...Her integrative mind and the breadth of her intellectual vision were nurtured by a lifetime involvement in development concerns..."

Thus said University of the Philippines President Emil Q. Javier of renowned social scientist Dr. Gelia Castillo in a testimonial lunch during a two-day symposium held in her honor last September at the Philippine Social Science Council building in Diliman, Quezon City. He saluted Castillo's brilliant accomplishments, specifically her courageous attempts to bridge the gap between the social and natural scientists, and her upholding the cause of the farmers and the poor in the countryside.

Gelia Castillo was among the first to be appointed in May 1981 by then UP President Dr. Jose Abueva to the highest rank of University Professor for achieving excellence and recognition in her field both here and abroad. A consistent top honor student since her elementary days, Castillo had served in various positions in national and international professional activities, including membership in the PIDS Board of Trustees, collecting numerous honors and awards along the way. The latest in her long list of recognition was the confirmation of the Degree of *Doctor of Science Honoris Causa* by the Ateneo de Manila University in 1994 for her contributions as a pioneering social scientist and a learned and progressive thinker, among others.

Dr. Javier spoke highly of Castillo's contributions to social science, as apparent in her scholarly works such as the books *All in a Grain*

of Rice; Beyond Manila: Philippine Rural Problem in Perspective; and How Participatory is Participatory Development?; research reports; and numerous articles in books and journals.

Although absent from the symposium, current governor of The Central Bank of China in Taipei, Dr. Samuel C. Hsieh, with whom Castillo has maintained a close professional relationship, relayed his appreciation for her accomplishments. He considered the honoree as one of the top rural sociologists with a "worldwide perspective and solid experience in interpreting the sociological aspects of agricultural development and their implications for national policy." Dr. Hsieh first met Castillo when the former was a visiting professor at the UP Los Baños back in 1967.

Honoring Gelia Castillo

In her response, Castillo dwelt on two issues closest to her heart. She decried the categorical definition of rural as that which is not urban. While strongly denying that agricultural and rural development have become passe, she nevertheless accepted that rural development may be fighting a losing battle.

As proof, issues in international dialogues and national development plans had veered away from

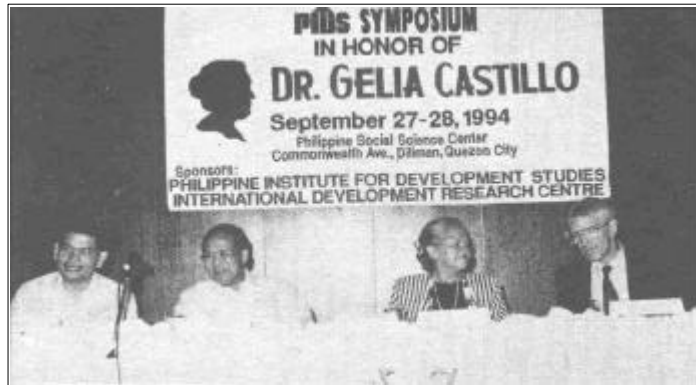
Honoring Gelia...

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agriculture, the rural poor and rural development toward environment urbanization and the urban poor. It was obvious, she stated, that studies on the positive gains from rural

ears. She cited that urban reclassification had become a usual consequence of a successful rural development.

"Productivity, growth and income increases are inadequate indicators of rural development particularly if they have been achieved through *mining* rather than *husbanding* of the resource," she further added. Agriculture, on the other hand, is "not a finished task" even though a higher proportion of population has been classified as *urban*.



From left: PIDS President Dr. Ponciano Intal, Jr.; UP President Dr. Emil Javier; the honoree, Dr. Gelia Castillo; and IDRC Regional Director, Dr. W. Randy Spence.


development and the physical and social infrastructure that accompany such a development had fallen on deaf

President Dr. Jose Abueva, UP Sociology Professor Randolph David, Rob Beadle of the Canadian International

Development Agency (CIDA), Philippine Institute for Development Studies (PIDS) President Dr. Ponciano Intal, Jr., and International Development Research Centre (IDRC) Regional Director Dr. W. Randy Spence. The honoree was accompanied by her husband, Dr. Leopoldo S. Castillo, an Emeritus Professor himself at the Institute of Animal Science of the University of the Philippines in Los Baños.

Twelve papers were presented by Castillo's colleagues during the symposium, dealing with issues on the poor, women, rural development, education, agriculture and the environment. All were of special interest to the honoree (see related article below).

Dr. Castillo, who retired from UP last year, contributed a lot, too, to the development of the PIDS research agenda and the build-up of the PIDS linkages with various institutions during her term as a member of the PIDS Board of Trustees for many years. The Castillo symposium was sponsored by the PIDS and IDRC.

GEM 

Issues of Interest to a Social Scientist

A symposium in honor of noted social scientist and retired University of the Philippines professor Gelia Castillo was held last September 1994 at the Philippine Social Science Council building in Diliman, Quezon City wherein twelve papers delving on issues that were of special interest to the honoree were presented by other top social scientists.

After each separate presentation, guests took part in a free-flowing exchange of ideas and commented on some points put forward by the authors. Below are some of the ideas, recommendations and comments gathered from the presentors, commentators and the forum participants themselves.

Sociologists will be facing major challenges in the 1990s, one of which, according to Dr. Cynthia Rose Bautista of the University of the Philippines Sociology Department in her *Reflections on Philippine Sociology in the 1990s*, is the undertaking of a research that will link the sociologists to other social scientists in the field, thus allowing them to address particular issues and

problems. Dr. Sylvia Guerrero, dwelling on the linkage between sociology and other fields, commented that there can be no stimulation of theoretical production if communities of sociologists are *de-linked*.

"We have to link the different fields of specialization because some of the raw data and materials are found in other fields," Guerrero suggested.

The central message of Dr. Romeo M. Bautista's paper, *Dynamics of Rural Development: Analytical and Policy Issues*, tells of the importance of the expansion of rural nonagricultural activities. Such an expansion will make the development process self-sustaining and equitable. In relation to investments in the rural areas and the alleviation of rural poverty, a comment on the prioritization of corresponding policies that will improve human capital and infrastructure was made. Improving the rural economy meant investments in electrification and irrigation, among others. Dr. Bautista is a Research Fellow at the International Food Policy Research Institute in Washington, D.C.

Reacting to UP Public Administration Professor Dr. Ledivina Cariño's paper on *The Study of a Social Phenomenon the Natural Science Way*, meanwhile, Dr. Jose Abueva, former UP President, noted that the human factor should be considered in any research. He agreed with Cariño's assertion that every public policy or public intervention is a hypothesis and that caution should always be present since there might be dysfunctional effects resulting from any objective---however noble it may be.

In *GATT and Philippine Agriculture: Facts and Fallacies*, Dr. Cristina David, PIDS Research Fellow, stated that technological change will increase agricultural productivity and enhance the sector's competitive advantage. She proposed that the research and development system be given top priority in a program of

action---that will include institutional reforms, program formulation, and budget rationalization---based on a comprehensive assessment of the government's agriculture-specific support services. This should be implemented with or without the GATT, according to her.

Meanwhile, studies included in Dr. Mercedes Concepcion's *Social Science Research on Reproductive Health in the Philippines* implied the importance of a well-planned information, education, communication and motivation campaign aimed to correct the myths and misinformation on modern family planning methods known to Filipinos. She recommended for a revitalized training program as well as an upgraded incentive system for workers in the family planning sector.

In response to a query, Dr. Mario Lamberte, PIDS Vice-President, explained that the oligopolistic structure of the credit market is a result of the greater number of end-users as against the lesser number of banks and nongovernment organizations (NGOs). He pointed out that borrowers are more concerned on access to credit than on the level of interest rate, thus the prevalence of high interest rates in the credit market. Lamberte's paper was on *Policy-based Lending Programs*.

Dr. Alejandro Herrin (in *Population, Health and Women*) compared wanted fertility (fertility that would result if all unwanted births are prevented) to the actual fertility rate and came out with the implication that if women bear only the number of births they desired in the first place, fertility rates will decline by 30 percent. He further stated that meeting women's needs for safe motherhood will improve their

own and their children's health as well as contribute to the achievement of replacement fertility (levels close to demographic objectives). A change in the reproductive behavior of married couples can also reduce health risks in childbearing and in the rate of infant and child mortality. Dr. Herrin is a professor at the UP School of Economics (UPSE).

Food subsidies are common safety nets intended to reduce possible adverse effects of macroeconomic adjustment programs, such as price increases, on the poor. However, food subsidies are not given a generous budget due to tight fiscal constraints. Dr. Arsenio Balisacan's *Targeting Transfers to the Poor: The Case of Food Subsidies* tackled the need to design food subsidy programs that maximize, within a given budget, the reduction in aggregate poverty. The need was felt in the light of the National Food Authority's experience with its price subsidy program for corn and rice, wherein there was a high leakage of benefits to the nonpoor. The outcome of the program defeated the main purpose of food subsidies, that of alleviating the plight of the poor. Part of the discussion was also on the



Dr. Gelia Castillo was among the first to be appointed to the highest rank of University Professor at the University of the Philippines.

difficulty in identifying target beneficiaries of food subsidies. Balisacan is an associate professor at UPSE.



Dr. Romeo Bautista (middle) presents his paper on rural development while Dr. Gilberto Llanto and Dr. Gwendolyn Tecson listen.

Issues of Interest...

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There exists an important relationship between the resources of the upland and coastal ecosystems. Dr. Marian S. delos Angeles, PIDS Research Fellow, showed this in *Sustaining Resource Use in Upland and Coastal Communities*. She likewise noted that population movements and whatever potential income gains from the resources therein should be in focus when tackling the rehabilitation of both systems.

On the other hand, UPSE Professor, Dr. Edita Tan, in her paper *Access to Quality Education in Provincial Areas*, reaffirmed the fact that the poor, especially those in the rural areas, have less access and opportunities to quality social services, especially education. She recommended for a direct intervention in the rural poor's access to education and called for the improvement of state universities and colleges (SUCs).

Dr. Ponciano Intal, Jr., PIDS president, and Paul Quintos' *The New Trade and Environment Paradigm* aims to advance sustainable development in the country by probing into the linkages between environment and trade, within and outside of the perspective of the Philippines. Adopting more outward-oriented economic policies as well as stronger


domestic environmental management will largely benefit the country. In addition, investments on basic infrastructure such as sewerage, sanitation and drainage systems are necessary steps toward environmental protection.

A community-based monitoring system, according to PIDS Research Fellow, Dr. Celia Reyes, in *Monitoring Systems for MIMAP*, would "provide regular and frequent information on the welfare status of the vulnerable groups" and thus allow our policy makers to design appropriate and cost-effective policies.

Empowerment, the catchword of the 1990s, might just be the answer to most Filipinos' dream of owning a house and lot.

In the study "*Alternative Self-Help Financing Schemes for Housing: An Exploratory Study on Indigenous, Voluntary, Community-Based Groups in Urban Areas*" by Ma. Lourdes Rebullida and Roberto Enriquez Reyes, a look at alternative methods of financing housing loans that tap community involvement and self-help traits, shows some promise.

For unskilled laborers, squatters, vendors, stevedores and drivers with a monthly earning of P2,000 to P3,000,

All these 12 papers, along with Dr. David Glover's *Policy Researchers and Policymakers: Never the Twain Shall Meet?*, Robert Evenson's *Marriage in Rural Philippine Households*, Dr. Bruce Koppel's *Old Images and New Challenges: Rethinking the Mission of Agricultural Support Systems in Asia*, and Dr. Exaltacion Lamberte's *Beyond Socio-economic Status: Some Implications for Planned Health Interventions Among the Poor*, will be published in a special volume of the Philippine Institute for Development Studies' (PIDS) 1994 *Journal of Philippine Development*. Dr. Glover is with the Economic and Environment Program for Southeast Asia of the International Development Research Centre, Dr. Evenson, with the Economic Growth Center of Yale University, Dr. Koppel, with the East-West Center in Honolulu, Hawaii, and Dr. Lamberte, with the De La Salle University. *GEM* 

amortization will hardly figure in the household's budget. Existing literature concede that there are yet other issues hindering low and even middle income groups from realizing their dreams of a house and lot. Foremost among these is the lack of access of the poor to financial mechanisms; for instance, formal sources of housing loans such as banks are not always accessible to all.

There are yet more reasons: inadequate or low income levels compared to the costs of government and private sector housing; ineffective implementation of low cost housing and of the government's social housing programs; lack of institutional

Owning a House and Lot,

framework to support housing plans; and lack of attention on the housing need and demand of middle income groups.

To date, government financing consists of three types:

- ▲ individual homeowner financing;
- ▲ community financing; and
- ▲ developers' financing.

Programs that help the poor include direct housing construction and slum upgrading.

However, the government still has to deal with an estimated three million homeless Filipinos, not to mention 500,000 dwelling units that are needed yearly.

Rebullida and Reyes' study of the programs and activities in eight housing projects associated mainly with people's organizations (POs) and nongovernmental organizations (NGOs) shows that there is still a way out for the nonpropertied Filipino—a way that emphasizes self-help, volunteerism and community spirit. The authors suggest "alternative financing schemes." Under these schemes, the poor and marginalized are not made to rely solely on government-sponsored housing institutions and banks for funding for their housing needs.

Housing Cooperatives

Today, one alternative for the poor in the Philippines is the housing cooperatives. These cooperatives undertake one or a combination of the following functions: provide for housing as a common need; provide loans for housing; provide housing-

related services; and provide housing in the context of a community with concerns for good neighbors and facilities. Financing help extended may be for purchase of house and lot, or one of these; land development; or house improvements, among others.

What sets housing cooperatives apart from regular housing development programs is that the former do away with developers and private construction groups. They lower the cost of the house and lot by undertaking the planning, management and distribution of housing units themselves. Cost efficiency rather than profit is the aim.

Consider these facts on eight housing cooperatives in Davao City, Cebu City, Baguio City, and Tondo studied by the authors: poor communities were able to own lots ranging from 100 sq m to 414 sq m; face low or no downpayment costs; pay low interest rates, from three to five percent, and monthly amortization of between P65 to P100.

Indigenous with an I

There are housing organizations that are referred to as indigenous because of their propensity to identify with and use Filipino cultural traits in community life. For instance, in some alternative housing programs, capital in the form of "sweat equity" or work inputs are recognized, thus, encouraging the *bayanihan* spirit among community members. The support system can also be relied on when a member cannot meet his monthly amortization, as in the case of communities that have livelihood and income-generating projects.


Rebullida and Reyes thus ask: *How can government tap or replicate the successes of these "alternative" housing communities?*

First, their study of these communities shows two financing models. Model A refers to communities that tap and mobilize resources from the endusers-beneficiaries and the private sector, and *do not directly avail of government housing programs*. Model

Under the "alternative financing schemes," the poor and marginalized are not made to rely solely on government-sponsored housing institutions and banks for funding for their housing needs.

B, on the other hand, mixes the resources from the enduser-beneficiaries, private sector and government housing programs.

Thus, it is in the second model where there is an interphase between the NGOs and government agencies such as the Development Bank of the Philippines, the Home Development Bank of the Philippines and the National Home Mortgage Finance Corporation.

The government can learn a lesson or two from or even link up with POs/NGOs as far as providing financing schemes and money saving/lending systems for housing are concerned. Better yet, government ought to recognize that Filipinos have innate values that can work for them. Following the successes of PO/NGO-assisted housing cooperatives, the government will surely be able to address some of its nagging housing problems by learning how to apply empowerment, cooperation and accountability among beneficiary members of its housing programs in fund management and the setting up of credit unions. SDT 

the Indigenous Way

Understanding the GATT...

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transfers as quotas and tariffs are abolished. The authors estimated a welfare gain of US\$173 million (1986 prices) for the Philippine economy, dispelling the fear that with the abolition of the MFA, our assured markets will be gone. Nevertheless, the garments industry must implement adjustment measures to further improve its price, quality, and competitiveness which are necessary to be able to take advantage of the benefits resulting from the phase-out.

There is much to gain in the long-run if the textile and clothing trade is subjected fully to the GATT rules and discipline. Open-market competition will allow entry into new markets and will also pave the way for more structural changes to be undertaken particularly in the Philippine textile industry.

Overall Assessment: What Needs to be Done?

The Philippines committed to bind its tariffs on 2,800 industrial tariff lines and 744 agricultural lines. These commitments would however reduce tariffs only on 24 textiles and clothing products and 42 agricultural products which include oranges, apples, sugar confectionery, chocolate preparations, orange juice, tomato catsup, beer, wines, among others. The tariff reductions range from 10 percent to 30 percent of the 1995 applied rates and will be effected over a period of ten years.

In exchange for the above concessions that we made, we received tariff concessions from our major trading partners. The Uruguay Round reduced overall tariffs across the board by at least 33 percent. Table 1 shows the 1992 value of these products which received tariff concessions from our major trading partners. The tariff

reductions range from 21.9 to 52.4 percent for industrial products and from 15.7 to 53.7 percent for agricultural products. The industrial products include artificial flowers, articles of porcelain, electronics, furniture and parts, textiles and clothing, footwear, basketwork and wickerwork, articles of wood, plywood, leather gloves, shrimps and prawns, tuna, christmas

Table 1: Gain, Not Pain

Value of Philippine Products Granted Concessions by Selected Countries Under the Uruguay Round, 1992 (In million FOB US dollars)			
	Agriculture	Industry	Total
USA	591	3,122	3,713
Japan	442	1,296	1,738
EU	356	1,438	1,794
Hong Kong	60	403	464
Canada	38	122	160
Australia	20	93	113
Korea	60	116	176
European Free Trade Area	13	36	48
New Zealand	4	8	13
Subtotal	1,584	6,634	8,128*
Total world			9,824

*83.65 percent of total world trade
Source: Buencamino, J.A. "Philippine Industry in the Context of the GATT," DTI Primer.

decors, and worked mother of pearls. The agricultural products granted concessions include crude coconut oil, industrial fatty alcohols, coconuts, bananas, dried bananas, mangoes, preserved pineapples, pineapple juice, and tobacco.

The GATT treaty provides not only market access concessions, but a set of rules and discipline to govern trade, as well as the development of an institution (WTO) to strengthen the multilateral trading system. All these could lead to a world economy that works better, which in the long-term could bring dynamic gains and substantial benefits.

There are opportunities which we must not miss, and there may well be costs. The GATT offers fresh hopes for

freer market access for our exports. The key to freer market access is the reduction of tariffs and other forms of protection which is essentially what the GATT treaty is aiming for. Seen from this angle, the GATT presents a golden opportunity and there is clearly far too much at stake for us to completely ignore it. The success of our export program will depend critically on whether foreign markets remain open. Given the improved rules on

anti-dumping and countervailing measures, the uncertainty and transaction costs associated with exporting will be reduced. This is expected to stimulate new investments and create more employment.

Rejecting the treaty means that the status quo will not be maintained. The same rights and privileges which the country is cur-

rently enjoying within the system cannot be expected to remain. In particular, the country could lose MFN treatment. This implies that tariff rates imposed on our exports by our trading partners will be higher than what our competitors, which are WTO members, will get. Our exports will be priced out resulting in a reduction in our export income. In short, there are heavy losses in rejecting the GATT. These losses are likely to be much more than what we could possibly lose in terms of the short-run adjustment costs to GATT ratification.

The only option left if the GATT is not ratified would be for us to rely on bilateral negotiations with our trading partners. But as earlier discussed, bilateralism is difficult for a small country owing to its very little leverage.

Given our small bargaining power, it is uncertain whether we can obtain meaningful gains outside the GATT system. A world trading system that is governed by rules can best protect us from the arbitrary dictates of economic superpowers. The US, for instance, reinstated the "Super 301" clause⁵ in its trade law that permits trade retaliation against allegedly unfair traders. With the WTO which is better equipped than GATT, the US and other would-be unilateralists are kept on the multilateral rails (EIU 1994).

Opting to wait for two more years before we ratify the treaty will imperil the Philippines' overall trading interests. Only those countries which have joined the WTO by January 1, 1995 will be able to trade with the major trading nations on the basis of the Uruguay Round tariffs. Acceptance after the two-year period will entail renegotiation with all the WTO members. The entrance fee for delayed acceptance will be much higher than the concessions we made in the Uruguay Round.

To date, 26 countries⁶ have already ratified the GATT-UR treaty. The US, Japan, and the other G-7 countries are not yet in the list of early players. In the US Senate, there is a close fight between those who are for and against it. Indeed, the GATT entails some costs on their side as well. Is this not an indication that the GATT treaty is not as lopsided nor in favor of

developed countries as GATT opponents in the Philippines argue? Otherwise, why are they not rushing to ratify it?

In sum, the ratification of the GATT treaty can deliver benefits at reasonable costs. GATT should be seen as a vehicle to speed development. In the long-run, it can lead to a better allocation of resources which is important for economic growth. The GATT presents an opportunity for us to maximize the benefits of our new export drive and to enhance our comparative advantage. These can facilitate our attainment of growth and macroeconomic stability. DRN

Endnotes

¹1947: Geneva Round, 1949: Annecy Round, 1950: Torquay Round, 1956: Geneva Round, 1960-61: Dillon Round, 1962-67: Kennedy Round, 1973-79: Tokyo Round.

²The weighted average tariff includes tariff equivalents of import controls for those items where price comparisons between border and domestic prices could be found (Tan 1994).

³The DRC is the amount of domestic resources, valued at their opportunity costs, used to earn or save a net unit of foreign exchange. The SER indicates how society values foreign exchange, which need not be the official or market exchange rate. If, for example an import-substituting industry uses, in effect, P60 worth of resources to save a net unit of foreign exchange and the SER is P30 per unit of foreign exchange, then, the activity is converting domestic resources at a ratio of 2 to 1 ($DRC/SER = 60/30 = 2$). This is clearly an inefficient use of resources. In general, $DRC/SER > 1$ implies inefficiency while $DRC < 1$ implies efficiency. Furthermore, the higher the ratio is, the more inefficient the industry is.

⁴We acceded to the Berne Convention (copyright) in 1951 but later revoked our accession in the early 1970s.

⁵This amended Section 301 of the 1988 Omnibus Trade and Competitiveness Act. Section 301 (originally part of the US 1974 Trade Act) authorizes unilateral action on the part of the US Trade Representative against any country violating international trade agreements or inhibiting US commerce. Section 301 requires the US Trade Representative to designate "priority foreign countries" which impede US exporters. 1989: Japan, India, and Brazil listed. 1990: Japan and Brazil removed from list (EIU 1994).

⁶These include Austria, Bangladesh, Barbados, Belize, Central African Republic, Cuba, Dominican Republic, Gabon, Germany, Greece, Guinea Bissau, Guyana, Kuwait, Malaysia, Mali, Mauritania, Mauritius, Mexico, Morocco, Namibia, Qatar, Sri Lanka, Surinam, Uganda, United Kingdom, and Zambia.

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The GATT Rounds...

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(MFA) over a certain period. That is, in 10 years, all quotas and restrictions on textile and apparel against developing countries are supposed to be phased out.

Finally, new trade rules from the Round were strengthened to preserve

the principles of the GATT such as the "principle of nondiscrimination."¹ Existing provisions that allow countries to be exempted from such principles were thus reexamined and revised. An example of these exceptions is the clause that gives countries a right to use trade restricting measures in case import surges occur. New rules amend

¹Meaning, a nation should treat all its trading partners equally.

such exceptions by now including plans to eliminate existing voluntary export restraint (VERs) agreements over a four-year period.

Beyond the Round

Whalley concedes, however, that there will be a lengthy and complex implementation process after the

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conclusion of the Uruguay talks. Liberalization of textile, for one, is expected to take 10 years. Talks on agriculture will take up to five years before implementation of the ensuing agreements takes place.

Possible "new-new" issues that may be taken up in future talks are (a) the competition policy; and (b) trade in relation to environmental concerns--- issues that, Whalley noted, have potential implications particularly on economies of developing countries.

Nations also have to contend with the trend toward regionalism. Certainly, the presence of the North American Free Trade Area (NAFTA),

ASEAN Free Trade Area (AFTA), Asia-Pacific Economic Council (APEC) and European Community (EC) will bring forth a strategic interplay between regional interests and opportunities, and negotiating positions in the Round. According to Whalley, however, it is yet uncertain whether these regional pressures stemming from the trading blocs will be diluted now that the GATT negotiations have been concluded and decisions ratified.

Finally, nations wonder too whether the WTO will usher in the age of multilateralism or simply function like the GATT. Will it change the status quo? The years ahead will tell. *SDT*