Section 6

IMPROVEMENTS IN MARKET ACCESS AND NEW RULES APPLICABLE TO THE TRADE IN TEXTILES AND IN AGRICULTURAL PRODUCTS

CHAPTER 13

Market access negotiations in the industrial and agricultural sectors (Agreements on Textiles and Clothing and on Agriculture)

Summary of results

The preceding sections noted the main features of the strengthened legal system that has emerged from the Uruguay Round and how business persons can use their knowledge of the system to promote and develop their trade. The Round has also significantly improved market access, opening up additional and new opportunities for enterprises to sell abroad.

The previous rounds of GATT negotiations, particularly the Tokyo Round, had considerably reduced the tariffs applied by developed countries to industrial products. However, they made very little progress in the removal of quantitative restrictions and other non-tariff measures on imports. For instance, in the industrial sector, the developed countries' discriminatory quantitative restrictions on imports of textile products and clothing continued to be applied under the legal cover provided by the Multi-Fibre

Arrangement. The previous Rounds had also failed to modify the highly protectionist agricultural policies pursued by some developed countries which had almost closed their markets to competitive imports. Furthermore, no changes were made in their policies of subsidizing exports, which distorted conditions of competition in international trade.

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

- *The **tariff cuts** countries have pledged to make on industrial products are much higher than those of the Tokyo Round.*

- *By adopting the **Agreement on Textiles and Clothing**, countries have agreed to phase out the restrictions maintained under the Multi-Fibre Arrangement within a period of 10 years, i.e. by 1 January 2005.*

- *The **Agreement on Agriculture** has created a framework for gradually bringing trade in agricultural products under GATT discipline and for liberalizing trade in this sector.*

- ***Developing countries** and **economies in transition**, which participated actively in the negotiations, have reduced their tariffs on both industrial and agricultural products.*

- *Almost all tariffs of developed countries have been bound against further increases; in developing and transitional economy countries, the proportion of tariffs that have been bound has risen significantly.*

1. General

This chapter describes first the liberalization commitments made in the industrial sector and the gradual phasing out of restrictions applicable to textiles in accordance with the provisions of the *Agreement on Textiles and Clothing (ATC)*. This is followed by a description of the framework of the new rules that have been adopted for trade in agricultural products under the *Agreement on Agriculture* and of the liberalization commitments that countries have undertaken in pursuance of the provisions of the Agreement. The chapter concludes by describing the steps that the business person will have to take to derive full advantage from these liberalization measures.

2. Industrial products

2.1 Reduction in tariffs

In the Uruguay Round, developed countries agreed to cut their tariffs by an overall percentage of 40%, and the developing countries and transitional economies by 30%.

These tariff cuts are to be made in five equal stages so as to reach the final agreed rate applicable at tariff line level by 1 January 2000. Tables 1 to 3 of the annex to this chapter show, for selected developed, developing and transitional economies, the weighted average tariffs in the pre-Uruguay Round period and those that will be applicable by 1 January 2000, the date set for the full implementation of the reductions agreed in the Round.

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

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

2.2 Binding of tariffs

Another important aspect of the Uruguay Round negotiations was the progress made in binding tariffs. Virtually all imports into developed countries will now enter under bound rates; the proportions for developing countries and transitional economies are 73% and around 98% respectively. As has been noted in chapter 2, one of the major advantages of binding is the security of access it provides to foreign markets. Enterprises can plan the development of their trade without fear of duties being increased or access being restricted by quantitative restrictions.

2.3 Removal of quantitative restrictions

Equally important from the point of creating improved opportunities for trade are the provisions for phasing out quantitative restrictions on industrial products. The Agreement on Textiles and Clothing provides for the gradual elimination of restrictions on textiles and clothing; the Agreement on Safeguards will remove VERs and other grey area measures.

2.3.1 Agreement on Textiles and Clothing (ATC): background to the negotiations

World trade in textiles and clothing has been subject to an increasing array of bilateral quota arrangements over the past three decades. The range of products covered by quotas expanded from cotton textiles under the Short-Term and Long-Term Arrangements of the 1960s and early 1970s to an ever-increasing list of textile products fashioned from natural and man-made fibres under five extensions of the Multi-Fibre Arrangement (MFA).

At the end of 1994, when the Arrangement was terminated, MFA had a membership of 39 countries. Eight of these were developed countries and were designated as "importers"; the remaining 31 developing country members were considered "exporters". MFA encouraged exporting and importing countries to enter into bilateral arrangements requiring exporting countries to restrain their exports of either all or certain categories of textiles and clothing. In entering such bilateral agreements, the countries were expected to adhere strictly to MFA rules:

- For the determination of quotas and categories;
- For restraint levels; and
- For the inclusion of such provisions as annual growth rates, carry-over of unutilized quotas from the previous year and carry-forward of part of the current year's quota for use in the following year.

When the Agreement on Textiles and Clothing became operational on 1 January 1995, several importing countries/areas (the United States, Canada, the European Union, Norway, Finland and Australia) had a total of 90 bilateral restraint agreements with exporting countries. In addition, there were 29 non-MFA agreements or unilateral measures that imposed restrictions on imports of textiles.

2.3.2 Integrating trade in textiles into GATT

From the strictly legal point of view, the maintenance of these restrictions was not consistent with GATT rules. However, MFA provided a legal cover for derogation from GATT discipline. The basic aim of the Agreement on Textiles and Clothing is to integrate the trade in textiles into GATT by requiring member countries maintaining the restrictions to phase them out over a period of 10 years. After the expiry of the 10-year period, i.e. from 1 January 2005, it will not be possible for any member country to maintain restrictions on imports of textiles, unless it can justify them under the safeguard provisions of the Agreement on Safeguards. In other words, an importing country can impose restrictions only when, after carrying out investigations, it can establish that increased imports are causing its domestic textile industry *serious injury*. Furthermore, such restrictions will have to be applied to imports from all sources, and not on a discriminatory basis to imports from one or two countries as is the case with MFA-type restrictions.

2.3.3 Methodology for integration

Agreement on Textiles and Clothing (ATC), Article I, and Annex

The methodological base for integrating the textile trade into GATT is the list of textile products contained in the annex to the Agreement. The list covers all textile products, whether or not they are subject to restrictions. The integration process is to be carried out in four stages. At each stage, products amounting to a certain minimum percentage of the volume of the country's imports in 1990 are to be included in the integration process. These percentages are:

ATC, Article 2.8

- 16% of the products on the list, on the date of entry into force of the Agreement (i.e. 1 January 1995);
- 17% at the end of the third year (i.e. 1 January 1998);
- 18% at the end of seven years (i.e. 1 January 2002); and
- 49% at the end of the tenth year (i.e. 1 January 2005).

In assimilating products into the integration process, countries are under no obligation to limit themselves to products subject to restrictions. The only constraint the Agreement places is that they include products from each of four segments, namely, tops and yarn, fabrics, made-up-textile products, and clothing.

In the case of the United States and the European Union, in 1990 (the base year to be used for integration) the percentage of imports of products not covered by restrictions was around 34% and 37% respectively. For other countries maintaining restrictions the percentage was much higher. Notionally therefore, it may be possible for these major restraining countries to meet their obligations to integrate the textile trade in the first two stages without significantly removing restrictions. That they may in practice do so is borne out by the fact that both the United States and the European Union have refrained from including any restricted textile product and clothing in the first integration measures taken on 1 January 1995. There are therefore apprehensions that serious steps to remove restrictions will be taken only when the third stage begins in 2002, and that the bulk of the restrictions will be removed on the last day of the 10-year transitional period.

The Agreement, however, tries to provide improved and enlarged access for textile products that may continue to be restricted during the transitional period. It seeks this by requiring that the *growth factors* provided for annual increases in the quotas fixed for each category of textile products under bilateral agreements should be increased at escalated rates. Thus if the annual growth rate for a rise in the quota for a textile product (say, shirts) is fixed under a bilateral agreement at 3%, it will have to be increased by:

ATC, Articles 2.13, 2.14

- 16% per year in the first three years;
- 25% per year in the next four years; and
- 27% in the next three years.

This will raise the growth rate to 5.52% in the tenth year. If the size of the quota is 100 tons at the beginning of the transitional period, it will more than double to around 204 tons in the tenth year.

2.3.4 Integration of non-MFA restrictions

The Agreement on Textiles and Clothing also requires countries applying non-MFA restrictions to phase them out in a period of 10 years. The programme for the gradual phasing out of such restrictions is to be prepared by the importing country and

ATC, Article 3

presented to the Textiles Monitoring Body (TMB). The Body has been established under the Agreement for the surveillance of its operation.

2.3.5 Transitional safeguard measures

ATC, Article 6

It is interesting to note that even though the aim of the Agreement is to facilitate the removal of restrictions on textiles, it permits countries to take *safeguard actions* during the transitional period. Such transitional safeguard actions can be taken only in respect of textile products that are not integrated into GATT, and if the importing country determines that:

- The product is being imported in such increased quantities as to cause serious damage or actual threat thereof to the domestic industry producing the like product, and
- There is a causal link between such serious damage to the domestic industry and sharp and substantial increase in imports from the exporting country or countries whose exports are to be restrained.

Such restrictions can ordinarily be imposed only after consultations and after reaching agreement with the exporting countries on the level of imports. However, the Agreement permits countries to impose restrictions even in the absence of an agreement provided the matter is referred to the Textiles Monitoring Body. The importing country is expected to abide by the TMB decision.

2.3.6 Removal of grey area measures

In addition to removing restrictions applicable to textile products, countries are committed, under the provisions of the Agreement on Safeguards, to eliminate VERs and other grey area measures that apply on a discriminatory basis to imports from a few selected countries, or to bring them in conformity with the Agreement's provisions. These grey area measures are applied to such products as travel goods, footwear, machine tools, electric equipment and appliances, television sets and television tubes.

3. Agricultural products

3.1 General

This section now turns to a description of the measures that countries have agreed to take to liberalize trade in agricultural products.

It is common practice to divide agricultural products into two groups, viz. tropical products and others. Though there is no agreed definition of tropical products, beverages like tea, coffee and cocoa; cotton and hard fibres like jute and sisal; fruits like bananas, mangoes and guavas; and other products that are almost predominantly produced in developing countries are treated as tropical products. In the years following the establishment of GATT, these products were subject to both high tariffs and internal taxes in most developed countries. As these products are predominantly of export interest to developing countries, priority was given in the past rounds of GATT negotiations to the removal of barriers affecting the trade in such products. As a result, even before the Uruguay Round, a large number of these products, in both raw and processed forms, were entering developed markets either on a duty-free basis, at low rates on MFN terms, or under preferential arrangements.

Most developed countries, however, continued to apply to imports of other agricultural products — like wheat and other grains, meat and meat products and dairy products — both high levels of tariffs and non-tariff measures such as quantitative restrictions, discretionary licensing and variable levies. The governments' basic objective in providing protection to such products (which are often referred to as temperate zone products) was to guarantee domestic producers prices that were much higher than world prices, in order to assure them reasonable incomes. These policies, apart from reducing trade opportunities for competitive foreign producers, also put heavy burdens on the budgetary resources of governments. This was inevitable, as the high cost of production in excess of domestic requirements could be disposed of in international markets only through export subsidies.

Though agriculture is not as highly protected in developing countries, many of them impose high tariffs and restrict imports through quantitative restrictions. Imports of food and other essential requirements are sometimes channelled through State trading organizations.

Agreement on Agriculture (AG), Preamble

The Agreement on Agriculture that has been negotiated in the Uruguay Round establishes a programme for the gradual reform of trade in agriculture. The programme aims at establishing "a fair and equitable market-oriented agricultural trading system" by requiring countries to adopt new disciplines governing both:

- The use of border measures to control imports;

- The use of export subsidies and other subsidies that governments grant to support the prices of agricultural products and assure a reasonable income to farmers.

3.2 Border measures

3.2.1 Tariffication

AG, Article 4 and footnote 1

The most important aspects of the Agreement on Agriculture are the new rules. These require countries to abolish non-tariff measures (such as quantitative restrictions, discretionary licensing and variable levies) by calculating their *tariff equivalents* and adding these to the fixed tariffs. As a result, developed countries have established new higher rates of tariffs for products (mostly temperate zone) to which they previously applied non-tariff measures. The tariff equivalent of non-tariff measures was calculated on the basis of average world market prices for the product subject to non-tariff measures and its guaranteed price in the importing countries. Tariff rates resulting from such *tariffication* as well as tariffs applicable to other products have been bound against further increases.

AG, Article 4, footnote 1

The obligation to tariffy quantitative restrictions does not apply to restrictions maintained by developing countries in balance-of-payments difficulties, under the GATT provisions permitting them to impose such restrictions. Developing countries, including those in balance-of-payments difficulties, were, however, required to bind their tariffs. In response, they often gave *ceiling bindings* at rates that were in most cases higher than their then current tariff rates.

3.2.2 Percentage reductions in tariffs

Countries have agreed to reduce such bound rates by fixed percentages. The developed and transitional economy countries have undertaken to reduce tariffs by an average of 37% and developing countries by 24%. Such reductions are to be made by developed countries over a period of six years and by developing countries in 10 years. The least developed countries, even though they have bound tariffs at higher ceiling rates, were not required to reduce them.

The rules further require that a tariff on a particular product must be reduced by at least 15% by developed countries and 10% by developing countries.

3.2.3 Results of the negotiations on tropical products

In view of the importance of tropical products to the export trade of developing countries, negotiations on the reduction and elimination of tariffs and other restrictions applicable to these products were given priority attention and held separately. The negotiations brought about further progress in the removal of the remaining MFN tariffs and other restrictions applicable to these products in developed countries. Developing countries also reduced their duties on these products. Most countries implemented the reductions without staging.

3.2.4 Results on temperate zone products

For temperate zone products, the rates of tariffs that now apply, after tariffication, reflect the level of protection extended by non-tariff measures earlier. As this level was high, the new rates applicable to such products in some countries generally range between 60% and 100%; for some tariff lines they are as high as 300% to 350%. One of the basic objectives of requiring countries to tariffy their non-tariff measures was to add transparency to the protection granted. The objective has not been fully achieved as, for a number of products, countries have imposed not *ad valorem* but specific duties. These are payable in some cases on the basis of either minimum values or reference prices.

For some products with a high protection level, there was a danger that the tariffication process by itself would not have a significant liberalizing effect even after implementation. The techniques of *current* and *minimum* access commitments were therefore adopted to complement the tariffication process. (See box 25 for details.)

3.3 Export subsidies and governmental support measures

Apart from high levels of protection, distortions in the international trade in agricultural products are caused by subsidy practices mainly in developed countries. While over the years GATT was able to develop rules for subsidies on industrial products, it had failed to bring under discipline subsidies granted by governments to the agricultural sector. The Agreement on Agriculture, for the first time, makes a systematic effort to lay down rules for subsidies on agricultural products.

These rules differ from those applicable to industrial products. The Agreement on SCM, which deals with industrial products, divides subsidies into three categories according to the traffic light system: red, amber and green. Red subsidies are those that are prohibited; they include *export subsidies*. The rule against the use of export subsidies on industrial

Box 25

AGRICULTURAL PRODUCTS: CURRENT AND MINIMUM MARKET ACCESS COMMITMENTS

(Agreement on Agriculture, Article 5.2)

Current access commitments

A number of countries had special arrangements for imports of meat and other mainly temperate zone products up to quota limits on either a duty-free or a preferential basis. In order to ensure that such imports are not affected by the application of higher rates resulting from tariffication, importing countries have given *current access commitments* by establishing tariff quotas to cover imports that were entering the market at lower duty rates. As a result of these commitments, imports up to quota levels are allowed at the lower existing rates. The higher rates ensuing from tariffication are applicable to imports over and above quota limits.

Minimum access commitments

For products for which little or no imports took place in the past because of the highly restrictive nature of the then-existing regime, countries were required to give *minimum market access opportunity commitments.* The commitments provide for the establishment of *tariff quotas* equal to 3% of domestic consumption in the base period 1986-1988 and rising to 5% by the end of 2000 for developed countries and 2004 for developing countries. Lower rates (specified in the national schedules but generally not greater than 32% of the bound tariffied rates) are applicable to imports up to the quota limits, while the higher rate resulting from tariffication will apply to imports over quota limits. As a result of these minimum access commitments, countries will have to import modest amounts of their most restricted products. Table 4 in the annex to this chapter lists the products subject to minimum access commitments. In addition to meat, the commitments cover dairy products, and specified fresh vegetables and fruits.

products, previously applicable only to developed countries, now covers developing countries. However, the latter countries have a transitional period of eight years to implement the rule. Amber subsidies are subsidies that are permissible but are actionable by importing countries. Green subsidies include subsidies that are both permissible and non-actionable.

In the categorization used in the Agreement on Agriculture, there are no red or prohibited subsidies. Its approach is to require governments to reduce the use of subsidies. From this perspective, the Agreement divides subsidies into two categories: green and amber. Green subsidies are those which are permitted to be used, and to which reduction commitments do not apply. Amber subsidies include subsidies to which reduction commitments apply.

3.3.1 Green subsidies

AG, Annex 2:1

All subsidies that have "no, or at most minimal, trade-distorting effects or effects on production" and do not have the "effect of providing price support to producers" are treated as green subsidies and are exempt from reduction commitments. Thus the Agreement does not unduly restrict the rights of governments to grant subsidies for the improvement of productivity and efficiency of agricultural production or to adopt suitable measures to provide support to farmers. Box 26 contains an illustrative list of subsidy practices that are exempt from reduction commitments.

3.3.2 Amber subsidies

3.3.2.1 Domestic support

AG, Article 1(a), Article 6

Amber subsidies mainly cover domestic support subsidies. The Agreement establishes a ceiling on the total domestic support (calculated as the Aggregate Measurement of Support, AMS) that governments may provide to domestic producers. In addition, it requires that AMS should be reduced by developed countries by 20% over a period of six years from the average level reached in the base period 1986-1988. Developing countries are required to reduce AMS by 13 1/3% over a period of 10 years.

Box 26

ILLUSTRATIVE LIST Of GOVERNMENT SUBSIDIES GRANTED TO PRODUCERS THAT ARE EXEMPT FROM REDUCTION COMMITMENTS

(Agreement on Agriculture, Annex 2)

The following subsidy practices are exempt from reduction commitments, if the specific conditions prescribed by the Agreement are met:

- Government expenditure on agricultural research, pest control, inspection and grading of particular products, marketing and promotion services.
- Financial participation by governments in income insurance and income safety-net programmes.
- Payments for natural disaster.
- Structural adjustment assistance provided through:
  - Producer retirement programmes designed to facilitate the retirement of persons engaged in marketable agricultural production;
  - Resource retirement programmes designed to remove land and other resources, including livestock, from agricultural production;
  - Investment aids designed to assist the financial or physical restructuring of a producer's operations.
- Payments under environmental programmes.
- Payments under regional assistance programmes.

AMS is calculated on a product-by-product basis by using the difference between the average external reference price for a product and its applied administered price multiplied by the quantity of production. To arrive at AMS, non-product-specific domestic subsidies are added to the total subsides calculated on a product-by-product basis.

The green subsidies described above are exempt from inclusion in AMS. In addition, direct payments to producers under production-limiting programmes are exempt if certain specified conditions are met. Further, where support granted to a particular product is less than 5%, expenditure on subsidization of that product is excluded. Similarly, a non-product-specific domestic subsidy is to be excluded from the calculation if it does not exceed 5% of the value of agricultural production. For developing countries, these *de minimis* percentages are 10%.

Even though AMS is calculated on a product-by-product basis, the commitments for reductions apply to the aggregate amount. This enables countries to maintain their flexibility and to shift support between products so long as they stay within the overall ceiling resulting from the commitments. The reductions to be made in domestic support to agricultural products are shown table 5 of the annex to this chapter.

3.3.3 Export and import subsidies

AG, Article 9

The Agreement further establishes a ceiling on both the value and the volume of subsidized exports of agriculture products. Developed countries are expected to reduce their export subsidy expenditure by 36% in six years, in equal instalments (from 1986-1990 levels). The volume of subsidized imports must also be cut by 21% over six years, in equal annual instalments, from the same base period. For developing countries the percentage cuts are 24% and 14% respectively, in equal annual instalments over 10 years. The Agreement also specifies that for products not subject to export subsidy reduction commitments, no such subsidies can be granted in future.

These reductions are of particular significance to world trade in heavily subsidized products such as wheat, coarse grains, meat, dairy products and sugar. The total outlay on export subsidies for agricultural products by the end of the implementation period will be reduced from $22.5 billion to $14.5 billion, of which the European Union will account for half. Table 6 of the annex to this chapter shows the outlay on export subsidies in different countries, its allocation among different products, and the level to which it has to be reduced.

Box 27 summarizes the main features of the market access commitments assumed by countries.

4. Assessment of the liberalization gains

A number of studies have been made at the macroeconomic level by international organizations and other research organizations to assess the impact which the implementation of these commitments could have on world trade and world income. All the studies agree that reductions in trade protection will lead to an increase in both world trade and income. The debate on these estimates centres on the magnitude of the gains and on the distribution of these gains among different product groups and different countries. Variations in estimates arise from differences in the methodology used, assumptions made as well as the data and information available to researchers when the various studies were being prepared.

4.1 Income gains

The WTO secretariat has estimated that by using models with static specifications (that is, ignoring the impact of income increases on the level of savings and investment) the *annual gain in world income* will be in the range of $110 billion to $315 billion in 2005. The dynamic model (which

Box 27

SUMMARY OF MARKET ACCESS COMMITMENTS

Industrial products

- Reduction of tariffs: 40% in developed countries, 30% in developing and transitional economy countries.
- Binding against further increases of almost all tariffs of developed countries and a high proportion of the tariffs of developing and transitional economy countries.
- Phasing out of restrictions under MFA and other restrictions applicable to textiles over a period of 10 years in accordance with the provisions of the ATC.
- A greater percentage increase in MFA quota levels during the phase-out period to provide improved access.
- Phasing out of VERs applicable to other products over a period of four years (i.e. by 1 January 1999).

Agricultural products

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

assumes that a share of income gain is saved and invested in new capital) shifts the range upwards by some 60% to between $185 billion and $510 billion.

4.2 Gains for international trade

Of more direct relevance for the purpose of this Guide are the gains which liberalization is expected to bring to world trade in goods and how these gains will be shared by the industrial and agricultural sectors and by different product groups in each of these sectors. Here again the estimates vary. Box 28 shows the WTO estimates of increase in total merchandise exports and in main product groups expected in 2005 as a result of the implementation of the results of the Uruguay Round. Total merchandise trade will be higher by anywhere between 9% to 24%, depending on the version of the computable general equilibrium (CGE) model used. In the industrial sector, higher growth rates are expected for:

- Textiles and clothing;
- Transport equipment;
- Fishery products; and
- Other manufactures (including lumber and wood products, leather and leather products, and non-electrical machinery).

In the agricultural sector, higher growth rates will be achieved in:

- Forestry products; and
- Certain agricultural products (meat and meat products, horticultural products, etc.).

These estimated growth rates are over and above the annual increase of 4% in world trade that is expected to take place even if the Uruguay Round results are not implemented.

4.3 Factors that may affect the realization of gains

It is important to note that all these assessments assume that, in order to benefit fully from liberalization, countries will have to maintain liberal

Box 28

ESTIMATED INCREASE IN MERCHANDISE EXPORTS AS A RESULT OF THE IMPLEMENTATION OF LIBERALIZATION OF TRADE IN GOODS: MAIN PRODUCT GROUPS (percentage change in volume)

	VERSION OF THE CGE MODEL			
	Version 1	Version 2	Version 3	Actual value of exports in 1992 (billions of dollars)
All merchandise [a/]	**8.6**	**9.6**	**23.5**	**2,843.0**
Grains	4.1	4.4	4.6	24.2
Other agricultural products [b/]	21.1	21.0	22.1	73.8
Fishery products [b/]	13.0	12.9	13.5	26.5
Forestry products	3.7	4.1	5.6	7.7
Mining	1.6	1.8	3.1	328.4
Primary steel	8.3	8.4	25.5	76.7
Primary non-ferrous metals	3.6	3.9	14.2	52.4
Fabricated metal products	5.3	5.4	16.0	57.2
Chemicals and rubber	5.2	5.4	21.4	251.3
Transport equipment	11.7	13.6	30.1	320.2
Textiles	17.5	18.6	72.5	93.9
Clothing	69.4	87.1	191.6	105.6
Other manufactures	4.7	4.7	12.7	1,425.1

Source: GATT Secretariat, *The Results of the Uruguay Round of Multilateral Trade Negotiations, Market Access for Goods and Services: Overview of the Results* (Geneva, November 1994).

a/ Excluding intra-European Union trade, and including trade in petroleum.

b/ The marginally smaller gains under the second version of the model, relative to the first version, are the result of resources shifting into production of those product groups whose production was stimulated by the introduction of increasing returns to scale.

Version 1: assumes constant returns to scale (no economies of scale), and perfect competition.

Version 2: assumes increasing returns to scale in industrial sectors, and perfect competition.

Version 3: assumes increasing returns to scale and monopolistic competition in industrial sectors.

and open trade policies to ensure a more efficient use of domestic resources. Enterprises in countries which — because of factors such as economic downturns, currency crises or the sudden cessation of the flow of foreign investments — find it impossible to maintain the pace of liberalization or are required to take restrictive measures may not be able to take advantage of the liberalization measures to the same extent as those in countries following open market policies. The long-term interest of industries and business enterprises therefore lies in encouraging their governments to pursue liberal trade policies.

The realization of the estimated gains may also be delayed or even blocked if the commitments assumed by countries in the negotiations are implemented in form rather than in substance. There are growing apprehensions that this may happen, at least in relation to some of the liberalization commitments undertaken in the Uruguay Round. For instance, in the industrial sector, where tariffs in developed countries are low, the increase in imports is expected to occur mainly as a result of the removal of restrictions applicable to textiles and clothing and those applied to other products under VERs or other similar measures.

As regards textiles, as has been noted, it is possible for the restraining countries to plan their programmes for the integration of textiles and clothing without including any significant number of products subject to restrictions until about the third stage, i.e. the seventh year of the phase-out period. That these countries may be compelled to do so because of pressures from their domestic textile industries or for political reasons is evident from the fact that both the United States and the European Union have not included any textile or clothing products that are subject to restrictions in their integration package for the first stage that was implemented on 1 January 1995. If this trend continues and if the bulk of the restrictions are removed only during the last stage or on the date of the termination of the Agreement on Textiles and Clothing, the estimated dramatic increase in imports may prove to be illusory at least during the first half of the 10-year period.

In relation to VERs, the Agreement on Safeguards provides two options to countries maintaining restrictions. They may eliminate these restrictions in five years or bring them in conformity with the rules of the Agreement, i.e. apply them on an MFN basis to imports from all sources. The choice of the latter option, even though legally permissible, would only broaden the restrictive effects of the measures to imports from countries to which such restrictions did not apply in the past.

In the area of agriculture, taking into account the more recent information available, some researchers now point out that their earlier estimates of increase in trade in agriculture might have been optimistic. Two factors are responsible for this revised lower assessment of benefits. First, a large number of tropical products in which developing (and particularly least developed) countries had an export interest were entering the markets of developed countries duty free or at low duty rates on either an MFN or a preferential basis. Consequently, further reductions may not by themselves have a perceptible influence on the trade in these products. Second, as regards temperate zone agricultural products like cereals and meat, it now appears that in calculating tariff equivalents there has been in some cases an over-estimation of the incidence of non-tariff measures (this is often referred to as dirty tariffication). The result is that, for a number of products, the level of protection provided by the new tariff rates even after reductions are made, may be considerably higher than that existing previously.

4.4 Business implications

Despite such partial backsliding in implementation, the Uruguay Round package will result in significant growth in world trade and income. The growth rates achieved may, however, be lower than those estimated by macroeconomic studies. In practice also, at least for some products, the implementation of commitments could have a different impact on exports from different countries. Thus exporting enterprises from developing countries that enjoy preferential access in their major developed import markets may find that the preferential margin on their export products has been reduced as a result of reductions in MFN tariffs. This possible adverse impact will depend on how far the preferential access was meaningful in trade terms, taking into account such factors as the product's quality and price. Likewise in the case of textiles, where MFA restrictions apply on a discriminatory basis, the impact of the removal of restrictions could vary for different supplying countries. This is well brought out by the case study presented in box 29.

These considerations emphasize the need to supplement the macroeconomic studies with analyses at the micro-level to take into account the possible differing impact of the implementation of the Uruguay Round commitments on some products. The information required for such analytical studies is contained in the national schedules of concessions made by each country, which are available on CD-

Box 29

CASE STUDY OF THE IMPACT OF THE REMOVAL OF MFA RESTRICTIONS ON TEXTILE PRODUCTS

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

The imposition of restrictions on imports leads to a rise in the prices of imported products, as the quantities imported are less than those demanded by consumers. Import restrictions thus penalize consumers, who pay higher prices. As to whether the importer or exporter benefits from the premium resulting from the high price depends on where the licensing system is administered. If it is at the importing end, the importer is able to capture part of the difference between the normal import price and the wholesale price in the importing country. On the other hand, if the licences are issued by the exporting countries, exporters are able to appropriate part of the premium, by charging higher export prices.

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

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

ROM. Appendix III indicates how such and other relevant information can be obtained by interested business enterprises.

Studies at the micro-level will have to be supplemented by subsequent research on, and analysis of, potential demand in liberalizing markets. Such analyses of demand should enable enterprises to determine the plan and strategy that they will have to adopt to take advantage of the new opportunities and, where necessary, to meet the conditions of competition as they change with the gradual implementation of the Uruguay Round commitments.

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

5. Potential for expanding trade with developing countries

In this context, it is necessary to bear in mind an important aspect of the Uruguay Round. This is the further stimulus it has provided to the liberalization process in both developing and transitional economy countries. As has been noted, the launching of the Uruguay Round almost coincided with a change-over to more open and liberal trade policies, even in developing countries which until then had followed more restrictive trade policies. By about the same time, the transitional economies were taking initial steps towards market reform, privatization and the reorientation of economic and trade policies. Both groups of countries have consolidated in the Uruguay Round their earlier unilateral tariff reductions either by binding them at reduced rates or by giving ceiling bindings (see annex, tables 2-3). These tariffs are expected to fall further, in some cases even below the reductions agreed in the Uruguay Round. This will result from the additional liberalization measures that a number of countries are taking or propose to take in pursuance of their policies to promote export-oriented growth.

The reductions in tariffs on an MFN basis could, in certain cases, lead to a decline in the preferential margins on products that are covered by regional preferential arrangements[20] or by intraregional arrangements among developing countries[21]. The MFN rates of tariffs of most developing countries participating in such preferential systems will, however, continue to be relatively high even after reductions, with the result that the preferential margins, though narrower, may still provide meaningful trade benefits.

But more important than tariff reductions are the steps taken by developing countries to liberalize their non-tariff measures. These reduce or remove quota restrictions on, and licensing requirements for, imports, and provide for the liberal allocation of foreign exchange to the import trade. In the past,

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20 Such as the Preferential Trade Area for Eastern and Southern African States or PTA (now known as the Common Market for Eastern and Southern Africa) and the Economic Community of West African States (ECOWAS) in Africa, the Association of South-East Asian Nations (ASEAN) in Asia, and the Asociación Latinoamericana de Integración (ALADI) in Latin America.

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

non-tariff restrictions blocked the development of trade in products on which preferential concessions were exchanged under regional or intraregional preferential arrangements. The liberalization of import regimes could provide a new stimulus for the expansion of this trade on both MFN and preferential terms.

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

ANNEX

Tables on various market access commitments

Table 1 **Pre- and post-Uruguay Round weighted averages of tariffs applicable to industrial products[a/] in individual developed countries (in millions of US dollars and percentages)**

Developed country	Trade-weighted tariff averages	
	Pre-Uruguay	Post-Uruguay
Developed countries	**6.3**	**3.8**
Australia	20.1	12.2
Austria	10.5	7.1
Canada	9.0	4.8
European Union	5.7	3.6
Finland	5.5	3.8
Iceland	18.2	11.5
Japan	3.9	1.7
New Zealand	23.9	11.3
Norway	3.6	2.0
South Africa	24.5	17.2
Sweden	4.6	3.1
Switzerland	2.2	1.5
United States	5.4	3.5

Source: WTO.
a/ Excluding petroleum.

Table 2 Pre- and post-Uruguay Round weighted averages of tariffs applicable to industrial products[a/] in selected developing countries (in millions of US dollars and percentages)

Developing country	Trade-weighted tariff averages	
	Pre-Uruguay	Post-Uruguay
Argentina	38.2	30.9
Brazil	40.6	27.0
Chile	34.9	24.9
Colombia	44.3	35.1
Costa Rica	54.9	44.1
El Salvador	34.5	30.6
India	71.4	32.4
Korea, Republic of	18.0	8.3
Malaysia	10.2	9.1
Mexico	46.1	33.7
Peru	34.8	29.4
Philippines	23.9	22.2
Romania	11.7	33.9
Singapore	12.4	5.1
Sri Lanka	28.6	28.1
Thailand	37.3	28.0
Turkey	25.1	22.3
Venezuela	50.0	30.9
Zimbabwe	4.8	4.6

Source: WTO.

a/ Excluding petroleum.

Table 3 Pre- and post-Uruguay Round weighted averages of tariffs applicable to industrial products[a/] in individual transitional economy countries (in millions of US dollars and percentages)

Transitional economy country	Trade-weighted tariff averages	
	Pre-Uruguay	Post-Uruguay
Transitional economies	**8.6**	**6.0**
Czech Republic	4.9	3.8
Hungary	9.6	6.9
Poland	16.0	9.9
Slovak Republic	4.9	3.8

Source: WTO.

a/ Excluding petroleum.

Table 4 Increases in market access under minimum access opportunity commitments: selected products (in thousands of metric tons)

Product	Increases in access opportunities between period base and end of implementation period	
	Total	Selected sub-categories
Coarse grains	1,757	Maize (1,065); barley (552)
Rice	1,076	
Wheat	807	
Dairy products	729	Milk and cream (305); milk powder (147); cheese (132); whey powder (83)
Meat	421	Bovine meat (186); pigmeat (133); poultry (94)
Vegetables	355	Potatoes (197); onions, garlic (39); cabbages (32)
Sugar	292	
Eggs	252	
Fruits	130	Citrus (64); apples, pears, peaches, plums, cherries (28); bananas (13)
Oilcakes and oilseeds	126	
Vegetable oils	110	
Cotton	61	
Coffee	21	
Chocolate	19	

Source: WTO.

Notes:

1. Selected from schedules of commitments, which contain also commitments on additional products. Figures adjusted for base period imports.
2. Countries having provided for increases in quota levels from base levels include Austria, Canada, Colombia, Costa Rica, Czech Republic, El Salvador, European Communities, Finland, Guatemala, Hungary, Japan, Republic of Korea, Mexico, Morocco, New Zealand, Nicaragua, Philippines, Poland, Romania, Slovak Republic, South Africa, Switzerland-Liechtenstein, Thailand, United States and Venezuela.
3. As products are expressed at different stages of processing in the schedules, the totals given above are only indicative.

Table 5 Reductions in domestic support to agricultural producers (in millions of US dollars)

Participant	Base [a/]	Final	Reduction
Total	**197,721**	**162,497**	**18**
European Union	92,390	76,903	17
Japan	35,472	28,378	20
United States	23,879	19,103	20
Mexico	9,669	8,387	13
Canada	4,650	3,720	20
Finland	4,186	3,349	20
Poland	4,160	3,329	20
Korea, Republic of	4,086	3,543	13
Switzerland	3,769	3,016	20
Sweden	3,429	2,743	20
Austria	2,534	2,027	20
Norway	2,247	1,797	20
Venezuela	1,305	1,131	13
Brazil	1,053	912	13
Thailand	866	745	13
Czech Republic	717	574	20
Israel	654	569	13
New Zealand	210	268	20
Hungary	613	490	20
Australia	460	368	20
Slovak Republic	435	348	20
Colombia	398	345	13
Iceland	222	177	20
Cyprus	127	110	13
Morocco	93	81	13
Tunisia	76	66	13
Costa Rica	18	16	13
South Africa	3	2	20

Source: WTO.
a/ Indicate subsidies granted in 1986 to 1988.

Table 6 Export subsidy reduction commitments by country (in millions of US dollars)

Participant	Export subsidies			Product composition of export subsidies
	Base	Final	Change	
European Union	13,274	8,496	- 36	Bovine meat (19%), wheat (17%), coarse grains (13%), butter (13%), other milk products (10%)
Austria	1,235	790	- 36	Live animals (45%), wheat (14%), bovine meat (13%), cheese (12%)
United States	929	594	- 36	Wheat (61%), skim milk powder (14%)
Poland	774	493	- 36	Meat preparations (39%), fruits and vegetables (21%)
Mexico	748	553	- 26	Sugar (76%), cereal preparations (21%)
Finland	708	453	- 36	Butter (25%), coarse grains (22%), other milk products (13%)
Sweden	572	366	- 36	Pigmeat (21%), wheat (21%), coarse grains (17%)
Canada	567	363	- 36	Wheat (47%), coarse grains (18%)
Switzerland	487	312	- 36	Other dairy products (65%)
Colombia	371	287	- 23	Rice (32%), cotton (20%), fruits and vegetables (23%)
South Africa	319	204	- 36	Fruits and vegetables (24%), cereal preparations (14%), wheat (13%), sugar (10%)
Hungary	312	200	- 36	Poultry meat (30%), pigmeat (26%), wheat (11%), fruits and vegetables (19%)
Czech Republic	164	105	- 36	Other milk products (38%), fruits and vegetables (10%)
Turkey	157	98	- 37	Fruits and vegetables (36%), wheat (23%)
New Zealand	133	0	- 100	Not available
Norway	112	72	- 36	Cheese (54%), pigmeat (19%), butter (12%)
Australia	107	69	- 36	Other milk products (32%), skim milk powder (27%), cheese (25%), butter (16%)
Brazil	96	73	- 24	Sugar (56%), fruits and vegetables (30%)
Slovak Republic	76	49	- 36	Other dairy products (19%), cereal preparations (13%), bovine meat (13%)

Table 6 (cont'd)

Participant	Export subsidies			Product composition of export subsidies
	Base	Final	Change	
Israel	56	43	- 24	Fruits and vegetables (59%), plants (22%), cotton (17%)
Indonesia	28	22	- 24	Rice (100%)
Iceland	25	16	- 36	Sheepmeat (78%), other dairy products (22%)
Cyprus	19	14	- 24	Fruits and vegetables (67%), alcohol (16%)
Uruguay	2	1	- 23	Rice (83%), butter (12%)

Source: WTO.

Notes:

1. Commitments converted to US dollars using 1990-91 average exchange rates. Reduction commitments apply to individual product categories as defined in this table.
2. Participants having submitted schedules which do not maintain export subsidies include: Algeria, Antigua and Barbuda, Argentia, Bahrain, Barbados, Belize, Bolivia, Brunei Darussalam, Cameroon, Chile, Congo, Costa Rica, Côte d'Ivoire, Cuba, Dominica, Dominican Republic, Egypt, El Salvador, Fiji, Gabon, Grenada, Gambia, Ghana, Guatemala, Guyana, Honduras, Hong Kong, India, Jamaica, Japan, Kenya, Korea, Kuwait, Macau, Malaysia, Malta, Mauritius, Morocco, Namibia, Nicaragua, Nigeria, Pakistan, Paraguay, Peru, Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Singapore, Sri Lanka, Suriname, Swaziland, Thailand, Trinidad and Tobago, Tunisia, Zambia and Zimbabwe. Least developed countries are exempt from export subsidy reduction commitments.