

Toward New WTO Round Negotiations — Japan's Position

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Significance of Multilateral Trade System

The General Agreement on Tariffs and Trade (GATT) was established in January 1948 to underpin the postwar free economy and international trade. For 50 years after the end of World War II, GATT generally achieved its objective as the sole multilateral trade regulator. And under its authority, eight "rounds" of multilateral trade negotiations have been conducted.

The basic rules of free trade are indiscriminate treatment and the removal of export and import restrictions. In principle, only tariffs are recognized as an export/import curb. Lowering tariffs internationally, of course, helps to expand trade and make the distribution of resources efficient. Although there is a term "trade war," trade in itself is not a zero-sum game. The efficient utilization of resources is promoted through trade and the prices of goods and services are reduced to increase real income; these are advantageous for all consumers. If the international competitive environment can be enhanced, productivity will increase and economies will be invigorated. For a country to reduce its tariffs primarily benefits its economy.

Generally speaking, the biggest function of tariffs is to protect industry. In reality, liberalization incurs the strong resistance of industries protected by domestic tariffs. But if tariffs on highly competitive commodities are mutually cut as compensation for the mutual reduction of tariffs on non-competitive goods, the countries involved will judge such tariff cuts are beneficial so long as benefits (short-term) and disadvantages add up to produce a plus. And such tariff cuts become more significant if they take place not only bilaterally but in the global



Photo: AP/WMP

Agricultural Exporters Meeting, Uruguay, 1986

mechanism of trade. In GATT, tariffs arranged bilaterally must be applied to all other member countries. This means that cutting tariffs has a major impact on world trade. In past rounds, tariff-cutting negotiations have been conducted on a large scale. Through several rounds, the average tariff rates on industrial goods were cut to 4.7% from 40% at the time of GATT's founding, bringing about an average annual increase of 8% in world trade in the 1950s and 1960s.

It is also worthy of special mention that GATT offered a forum for handling grievances, making it possible to settle trade disputes without allowing them to become political issues.

Uruguay Round

But the days when countries could afford to indulge in tariff-cutting negotiations are gone amid a globalization of economies and the proliferation of economy-related software. With the tariff reductions progressing, attention has begun to shift to non-tariffs. The Uruguay Round took about eight years from 1986 to 1994 to be completed. During the round, liberalization talks, of which tariff cuts were representative, were conducted, and a wide range of trade problems, including establishing new rules concerning such fields as services, intellectual property and investment, were addressed.

As achievements in the Uruguay Round, the following may be cited:

(1) Liberalization made progress in the trade of goods and services. This provided support for overseas deployment of Japanese companies that were heading for rapid globalization. In addition, this spurred the integration into GATT of such traditional fields as agriculture and textile industries, which had been outside GATT authority.

(2) The sphere of rules covering services and intellectual property was expanded, and anti-dumping disciplines were strengthened. And several plurilateral agreements were converted into broader-based multilateral ones. Fair rules that do not allow a free ride, in principle, were realized, improving the outlook for international business environments.

(3) The World Trade Organization (WTO) was founded as an official organ. GATT stands for an agreement and had only a provisional secretariat. The WTO is the embodiment of the wish cherished by the free trade school since the ITO (International Trade Organization) Plan was drafted under the Havana Charter. With the WTO's grievance handling function strengthened, actions based on regulation-oriented standards took root internationally, and tightened rules have come to curb unilateral actions.

On the other hand, there was a limit to what could be done by the Uruguay Round and many problems were left pending or unresolved. As for agriculture and services, next negotiation schedules were built into the Uruguay Round agreement. There is the opinion that the task of tightening anti-dumping rules still leaves much to be desired. Full-scale implementation of the TRIPS (Trade-Related Aspects of Intellectual Property Rights) is to begin in 2000, and its efficacy needs to be watched in the future. There remain a host of problems, such as specific intellectual property rights in the United States, the problem of illegally produced goods and measures to deal with the advance of information technology and

biotechnology. The Uruguay Round tackled the investment problem for the first time, but the results did not necessarily reach a satisfactory level.

Tasks Left Undone and New Tasks

The Uruguay Round came to an end with remarkable achievements. Since reference was made earlier to the tasks left undone, fields tagged as new areas but not fully tackled during the Uruguay Round and problems that came up for discussion after the round are introduced here.

The first task concerns multilateral rules on investment. As corporate activity globalizes, there has been a growing need for comprehensive investment rules. As a result of the Uruguay Round, the TRIM (Trade-Related Investment Measures) agreement was concluded, but, as regards the limitation of investments directly restricting trade, it contained provisions concerning only four matters — demand for the purchase and use of domestic products (local content), demand for an export/import balance, exchange controls and export restrictions. It lacks comprehensive rules, such as the removal of restrictions on foreign-capital ratios and other measures for investment liberalization. In addition, negotiations have been conducted at the Organization for Economic Cooperation and Development (OECD) for the institution of the Multilateral Agreement on Investment (MAI), a high-standard accord concerning extensive liberalization of investment, its protection and grievance settlement, but France withdrew from the negotiating table in October 1998, virtually bringing the task to a halt. As regards the services field, however, there is the General Agreement on Trade in Services (GATS). This may be taken as the presence of a certain regulation covering investment activity by the services industry since "investment" constitutes the core of trade in services. Furthermore, bilateral investment agreements have been concluded in recent years, among

which is a high-standard agreement that is part of the North American Free Trade Agreement (NAFTA). Japan, however, is a party to only six bilateral investment agreements. The core of rules is protection, and not liberalization. Japan attaches importance to the drafting of multi-investment regulations in connection with the next round of negotiations.

The second task relates to trade and competition policies. As tariff and other "water's-edge" measures shrink and liberalization and deregulation make strides internationally, the importance of competition rules, as market regulations, leap into the spotlight. The argument is that competition-restrictive acts in the private sector could restrict the access of imports. Japan, too, views the improvement of the competitive environment as one of the important pillars in economic structural reform. But only 70 countries have international competition laws in place. Contrary to economic globalization, basic rules for international competition are far from adequate. It will become important to structure a system whereby these countries may be made to diffuse competition rules and to create systems to make more effective use of market functions, such as price cartels, market division and a ban on behind-the-scene deals among companies. As corporate activity globalizes, it will become necessary to build up cooperative mechanisms between competition authorities.

There have been an increasing number of cases in which anti-trust laws are applied outside the region. Anti-trust laws, if invoked outside the region without consensus on globally applicable international rules, will possibly bridle corporate activities. Especially when such laws are applied as a weapon to attack a competing market to safeguard exporters' benefits, there will be a danger of their becoming protectionism in a changed form. Furthermore, outright attention should be paid to the reality that trade measures, represented by

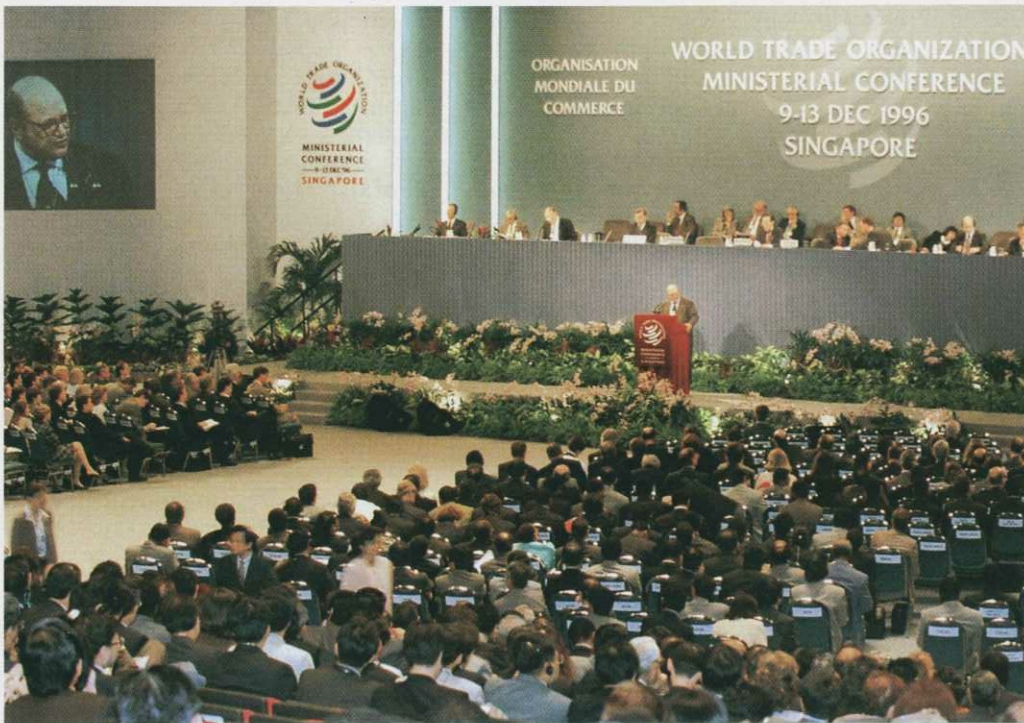


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The opening session of the first WTO ministerial conference in Singapore, December 9, 1996

anti-dumping measures, are being used to restrict competition.

The third task concerns trade and the environment. Environmental degradation is not necessarily confined to one country. Problems like global warming, the protection of the ozone layer and acid rain are spreading across borders. It is therefore possible that restrictive trade measures will be incorporated into multilateral environmental treaties, as a means of environmental protection. There already exist several international treaties that stipulate trade restrictions from the viewpoint of environmental protection, of which the Washington Treaty, Basel Treaty and the Montreal Protocols are representative. On the other hand, the WTO agreement provides for free, limitless trade. A conceptual gap exists between the international environmental treaties and the WTO agreement. There are always fears that complaints will be filed against trade restrictions by those WTO members who are not parties to environmental treaties, but there is no

rule that sheds light on this problem. There also is the problem of how to handle eco-labeling. The conundrum is whether such eco-labeled goods, which although they are the same as ordinary goods, should be treated differently simply because of their different environmental load in the process of production.

The fourth task involves trade and labor standards. The question is how to conceive the use of trade-restrictive acts as a means of settling problems related to basic labor standards as extensively seen in developing countries.

The fifth task concerns trade rules pertaining to electronic commerce. The development of the Internet has sparked an explosive increase in electronic transactions. But there is still no fixed rule as to how electronic commerce should be positioned from the angle of trade. There is a provisional agreement that exempts such transactions from tariffs. However, there is no international consensus about the introduction of

GATT-level rules into the field of electronic commerce despite the fact that it is desirable for the purpose of maintaining the environment for free electronic commerce. There remain many themes to be reconciled, such as the protection of privacy, safeguarding intellectual property rights and the competitive relationship.

Regarding these tasks, working parties, set up at a WTO ministerial conference in Singapore (in December 1996), continue to study these five fields vis-à-vis investment and competition. As regards the environment, a working party was established under the Marrakech Agreement. The rela-

tionship between the WTO rules and electronic commerce came up for discussion at a ministerial meeting in Geneva in May 1998. A report is expected to be produced toward the end of June this year. Japan has played a positive role in this study.

Significance of the New Round

It has been agreed that a new round of trade negotiations of some sort will be conducted from 2000, with at least services and agriculture on the agenda. The problem is how the talks will be conducted and on what scale. There have been international calls that other fields as well as these two should be negotiated in a package. At the outset of this article, it was stated that the liberalization of trade and investment contributes to the efficient distribution of resources and the bolstering of real incomes, and vitalizes economies through the improvement of the international competitive environment. However, trade liberalization carries with it the pain of domestic structural

readjustment. Each country, therefore, needs to secure through negotiations the wherewithal to convince its people of the necessity, and eventual rewards, of this discomfort. So it may try to draw as favorable a compromise from other countries as possible. Some countries participating in the dialogue may not have services and agriculture on their priority lists. They will probably try to negotiate these fields in a package with other fields that are of greater benefit to them. The negotiations are thus bound to be considerably large in scale, and it is taken for granted that the talks, scheduled for 2000, will become a "new round."

For Japan and the world economy, the new round is significant for three reasons.

First, liberalization will make further progress in keeping with globalization. The free trade system provides an essential base for the growth-oriented management of the world economy. The round is expected to provide an opportunity to correct comparative predominance distorted by regulations and realize an efficient distribution of resources. History shows that Asian and other countries, have grown by active liberalization of trade and investment.

Second, the establishment of rules will progress through the WTO, which is a system of liberalization, and, at the same time, a system of rules. The formation of rules governing new fields, as well as the steady implementation of the existing rules, fine-tuned through the Uruguay Round, strengthens the legal grip on world trade order. It helps stabilize the multilateral trade system that orbits around the WTO. The harmonization of international rules will add to the feasibility of globally operating enterprises. And through the control of rules, disputes over trade and investment can be handled neutrally and non-politically, thereby preventing major powers from tyrannically taking unilateral measures and the world economy from turning into a survival-of-the-fittest race.

Third, the new round will help stem the rise of protectionism. The Asian crisis engenders the danger that the relationship between liberalization and the crisis will be misconceived, and a rapid rise in imports by advanced nations will court protectionism. There are already signs of such phenomena. Continued efforts for liberalization are important in preventing protectionism and supporting free trade. The new round will be a golden opportunity to that end.

Japan's Way of Thinking

Japan believes that not only the services and agriculture fields but the global lowering of tariffs on mining and industrial products, and the drafting of investment rules should be placed on the agenda of the next round.

It goes without saying that services constitute an important field on the built-in agenda since the tertiary industry has a two-thirds share of the Japanese economy.

The lowering of tariffs on mining and industrial products has played a landmark role in the past rounds, as a result of which the average tariff rates of advanced countries have dropped to several percent. Amid such a wide swing of exchange fluctuations, tariffs do not assume as much significance in the world economy as they once did. With the reduction of tariffs, the focus has shifted to the non-tariff field. Yet, tariff cutting still yields much weight in the negotiating arena as a symbol of trade liberalization. Internationally, there remain many high tariffs, and how to reduce them while working for smooth structural adjustment continues to be an important task.

The drafting of investment rules is an urgent task, given that direct overseas investment is recently outgrowing trade. Japanese investors are need to improve the investment system of developing nations in terms of stability and transparency. Direct investment has been shrinking since the Asian economic crisis. Its

recovery through rule-based improvement in the investment system will give Asian countries an incentive for growth.

In addition, Japan is considering taking up in the new round such subjects as the prevention of the abuse of anti-dumping measures, rule-making on competition policy, increasing the transparency of government procurement operations, tightening intellectual property rights agreements and securing the environment for free electronic commerce.

Any act of linking trade and labor standards should be avoided since it could lead to the emergence of disguised protectionism. Developing countries should not be deprived of their advantage of being a cheap labor supplier. The enhancement of labor standards should be undertaken through the International Labor Organization (ILO), primarily an international organ for that purpose. Markets should rather be secured for developing countries through the round, and labor standards bettered by furthering their growth.

Future Approaches

In Geneva, various countries will discuss by the summer how to constitute the new round and get down to the process of proposing the scope, method and length of negotiations. In the autumn, work will commence to draft a declaration for a ministerial conference scheduled for late November.

Furthermore, it is important that efforts will be made at a Quadrilateral Trade Ministers Meeting to form a consensus among major industrialized nations about the round while dialogue is promoted with developing countries through such regional forums as the Asia-Pacific Economic Cooperation (APEC) forum and the Asia-Europe Summit Meeting (ASEM). Japan is prepared to lead the discussions to make the new round a fruitful one.

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