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Testimony

Before the Subcommittee on Trade, Committee on Ways and Means, House of Representatives

For Release on Delivery
Expected at
10 a.m., EST
Tuesday,
February 22, 1994

INTERNATIONAL TRADE

Observations on the Uruguay
Round Agreement

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059106/150828

INTERNATIONAL TRADE:
OBSERVATIONS ON THE URUGUAY ROUND AGREEMENT

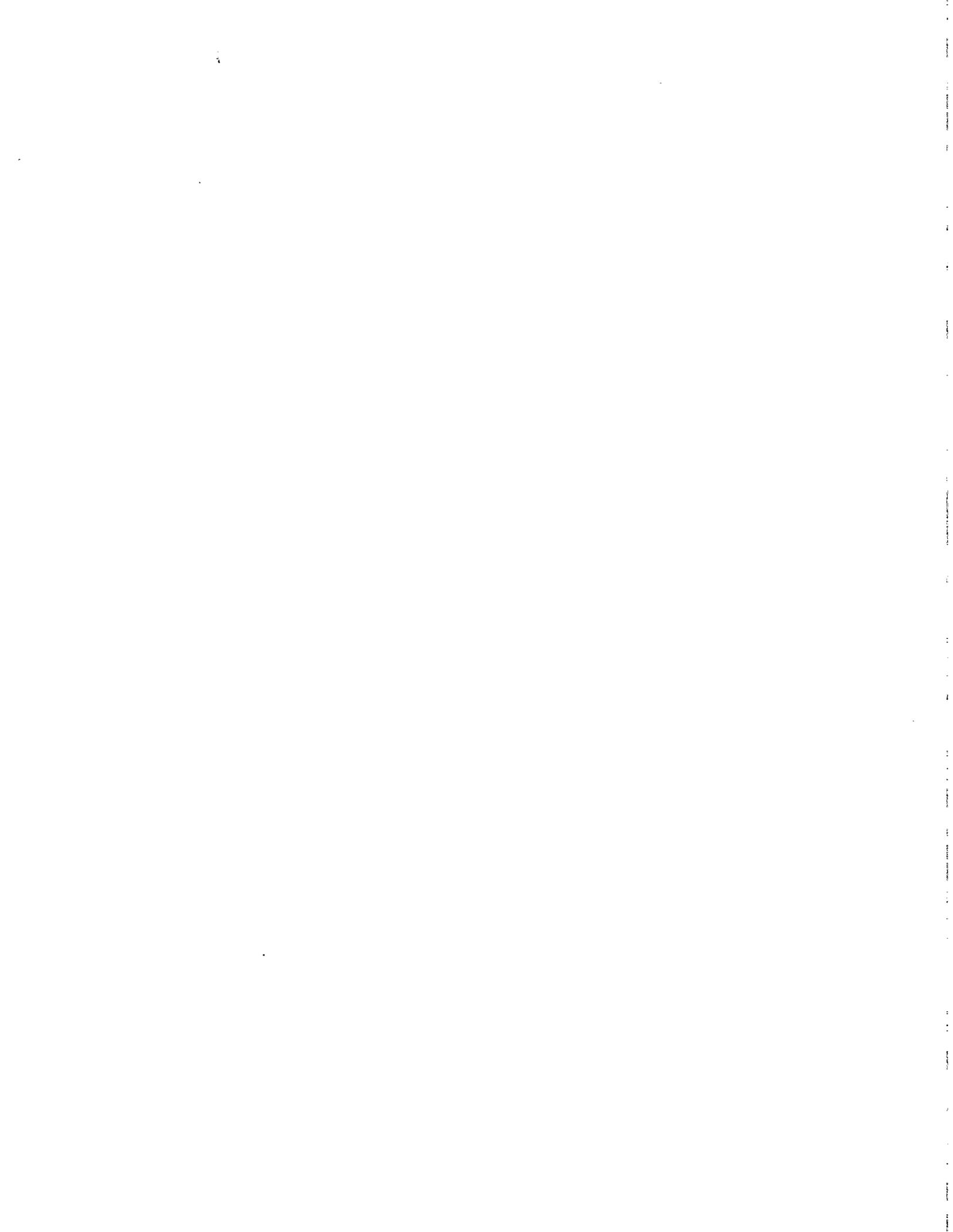
SUMMARY OF STATEMENT BY JAYETTA Z. HECKER, DIRECTOR
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After 7 years of negotiations, the Uruguay Round of the General Agreement on Tariffs and Trade (GATT)--the most comprehensive set of trade negotiations ever--has been concluded. While some specific tariff negotiations are still being finalized, from an overall perspective it appears that the agreement should promote U.S. national interests, for the following reasons:

- The United States substantially achieved its most important negotiating objectives. Areas not previously covered by the GATT, such as services and intellectual property rights, are now made subject to important GATT principles. For the first time, agriculture will be subject to GATT disciplines. Dispute resolution mechanisms have been strengthened. And markets have been opened for a variety of competitive U.S. providers of goods and services.
- Most economic studies done to date indicate that the agreement will promote economic growth, both in the United States and the rest of the world, amounting to billions of dollars annually.
- Numerous experts agree that failure to reach agreement would have led to a deterioration of world trading conditions.

Broad-based private sector advisory groups have analyzed the agreement, and from an overall perspective are generally supportive. However, the advisory groups' reports also reflect a variety of industry views revealing their different perceptions of the results. Some are not happy with what they perceive as inadequate access to overseas markets, and some are concerned about losing protections provided by U.S. trade law. In addition, although trade liberalization benefits the economy as a whole, some industries--notably textiles--and their workers will bear the costs of adjustment. Properly designed and adequately funded adjustment assistance programs should be in place to help those workers.

It is important to note that not all the effects of such a wide-ranging agreement will become apparent in the near term. For example, precisely how the new dispute resolution mechanisms will affect the U.S.' ability to use its own trade laws cannot be known until disputed practices are considered under the new processes. Thus, should the new agreement be approved, there will be a need for future evaluations to ensure that U.S. interests are not compromised.



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify on the recently concluded Uruguay Round of the General Agreement on Tariffs and Trade (GATT). My statement is based on our analysis of the negotiations and of the agreement reached as of December 15, 1993.

After 7 years of negotiations, the Uruguay Round has been concluded. While some specific tariff negotiations are still being finalized, on balance the agreement reached to date appears to be in the overall U.S. interest because (1) the U.S. achieved its most important negotiating objectives, (2) most studies project a net economic gain to the United States and the world economy, and (3) experts generally agree that rejection of the agreement would likely lead to deterioration of world trading conditions.

Notwithstanding the positive overall benefits, the agreement is so complex and far-reaching that Congress will hear a wide range of views and concerns. Some industry groups cannot determine the likely impact of the agreement on their businesses until specific tariff rates are finalized. Other industries, particularly the textile industry, are anticipating disruptive effects from the agreement. This situation reflects the fact that trade liberalization imposes costs on some specific industries and their labor forces. Effective and adequately funded programs must be in place to address such dislocations. In addition, some effects of the agreement will only become apparent over time, such as how the new dispute resolution mechanisms will affect U.S. interests, and the breadth and significance of the World Trade Organization (WTO).

IMPORTANT NEGOTIATING OBJECTIVES ACHIEVED

The agreement to date has achieved the most important overall objectives, representing the most comprehensive trade accord ever reached. Our assessment is based on the objectives set out by the GATT ministerial conference in 1986; parallel objectives set out by the Congress in the 1988 Omnibus Trade and Competitiveness Act (P.L. 100-480); and GAO's 1985 assessment of improvements needed in the multilateral trade system. In 1986, the GATT ministerial conference--with strong leadership from the United States--launched the Uruguay Round of negotiations with what was acknowledged to be an ambitious set of objectives. The ministers intended to extend GATT principles to areas not previously covered, such as services, investment, and intellectual property rights; to extend more effective disciplines to agricultural trade; to strengthen international disciplines and procedures dealing with unfair trade practices; and to open markets by reducing tariffs an average of one-third and eliminating nontariff barriers and subsidies.

The U.S. Congress supported these broad negotiating objectives in the 1988 Omnibus Trade and Competitiveness Act. For example, the United States wanted to extend GATT coverage to services, a sector that yielded about a \$60-billion trade surplus in 1992. The United States sought to reduce trade-distorting and unfair trade practices in a variety of sectors by seeking to control foreign government subsidies and by adopting more timely and effective dispute resolution mechanisms. The United States also wanted to increase protection against unauthorized use of patented and copyrighted products, and thus sought to extend coverage of GATT disciplines to the protection of intellectual property rights. And it hoped to achieve better market access for competitive U.S. industries by reducing both tariff and nontariff barriers.

In 1985, GAO, in its assessment of issues for future multilateral trade negotiations, concluded that the evolving global economy required that the coverage of the GATT system be expanded. We specifically concluded that both agriculture and services ought to be brought effectively under GATT disciplines.¹ In a 1987 report, GAO said that general agreement existed that the GATT dispute settlement process was too long and needed improvement.² The agreement reached has substantially achieved these important objectives. Significant areas not previously covered were brought under the GATT framework, including services, investment, and intellectual property rights. This achievement set meaningful precedents by applying to those areas (with some designated exceptions) the basic GATT principles of most-favored-nation (MFN) and national treatment, which are the primary tenets for eliminating discrimination in international trade. In agriculture, the agreement extends GATT disciplines to agricultural products for the first time: Subsidies are to be lowered over time, markets opened, and nontariff barriers converted to tariffs. The services agreement provides for secure access to foreign markets for our increasingly competitive service industries, such as advertising, information and computer services, engineering, and tourism.

International dispute resolution mechanisms were strengthened by specifying detailed procedures and setting definite time limits at various stages of activity. A surveillance mechanism has been designed to ensure that offending parties abide by decisions against them, and new voting procedures will prevent parties to a dispute from blocking decisions. The agreement on trade-related intellectual property rights (TRIPS) offers better protection for

¹See Current Issues in U.S. Participation in the Multilateral Trading System (GAO/NSIAD-85-118, Sept. 23, 1985).

²See International Trade: Combatting Unfair Foreign Trade Practices (GAO/NSIAD-87-100, Mar. 17, 1987).

U.S. patents and copyrights through strengthened enforcement at national borders and the application of dispute settlement procedures. Creation of the WTO brings together disciplines applying to goods and services, along with coverage of intellectual property rights, and offers opportunity for "cross-retaliation" to enforce agreement--that is, an opportunity to deal with unfair practices in one sector by retaliating in another.

Overall, it appears that tariffs will be substantially reduced or eliminated, particularly in industries important to the United States such as construction equipment, agricultural equipment, medical equipment, steel, beer and distilled spirits, pharmaceuticals, paper, toys, and furniture. Though specific tariff schedules have not been finalized, the GATT Deputy Director General who oversees market access issues estimated that tariffs would be reduced by about one-third overall. More countries set maximum tariff rates for the first time on a wider variety of goods, creating greater predictability in international business transactions.

Thus, viewed from an overall national perspective, it is clear that important markets will be opened and tariffs will be reduced. However, some time will be needed to analyze individual country offers to determine the extent to which the United States achieved specific market access liberalization in such sectors as services and agriculture. In addition, negotiators agreed to defer negotiations in selected areas, including basic telecommunications, steel, financial services, maritime services, and civilian aircraft, beyond this round. And differences in the audiovisual sector remain unresolved, largely because of disagreements between the United States and the EU over access to European broadcast markets.

MOST STUDIES FORECAST ECONOMIC GAINS

The significant tariff reductions and broader coverage achieved in the round are expected to expand both the U.S. and the global economies. In general, benefits are anticipated from resources being allocated to more efficient sectors, and from consumers having access to better products at lower prices (static gains). Benefits are also expected from a more confident business environment and increased productivity due to wider exposure to more competition (dynamic gains).³

³Though economists believe that dynamic gains from trade liberalization can be substantial and even more important than static gains, the dynamic gains are not yet well understood and cannot be easily estimated.

Several studies have tried to quantify the anticipated benefits of the Uruguay Round. The GATT Secretariat, for example, estimated that world merchandise trade would increase about 12 percent by the year 2005 (\$745 billion in 1992 dollars) due to the agreement. It also estimated that world income would be about \$230 billion (1992 dollars) more by the year 2005 than it would have been without the agreement (less than 1 percent of likely total world income). Similarly, the Organization for Economic Cooperation and Development (OECD) estimated a \$274 billion gain (1992 dollars) in world income realized gradually by the end of a projected 10-year period. These studies, which used computable general equilibrium models, may underestimate benefits because they generally do not attempt to measure either increased trade in services or potential dynamic gains.⁴

The Office of the U.S. Trade Representative (USTR), working with the Council of Economic Advisers (CEA), concluded that in the year 2000, U.S. gross national product (GNP) would be about \$219 billion more (1989 dollars). This amount is equivalent to an increase in GNP of 3 percent. The USTR/CEA report included in their analysis the effect of dynamic gains, which constitute about two-thirds of the total increase projected.

One negative assessment of the economic impact of the GATT agreement on the United States was developed by the Economic Strategy Institute (ESI). ESI's analysis was based on sectoral estimates of the impact of the GATT on U.S. imports and exports. ESI estimated that the U.S. trade deficit would increase between \$32 billion and \$37 billion and U.S. gross domestic product (GDP) would decline as a result between \$36 billion and \$62 billion per year. The ESI study is the only one that forecasts an increase in the U.S. deficit and a reduction in GDP.

Nevertheless, while economic forecasts of the effects of the agreement are not precise and vary somewhat, most studies we examined project consistent net gains in income and trading activity for both the world and the U.S. economies.

⁴These studies used certain assumptions about the level of tariff cuts in calculating results. The GATT Secretariat study used the pattern of cuts proposed in the Uruguay Round draft agreements as of November 19, 1993. OECD assumed a 36 percent cut in tariffs and agricultural subsidies. As stated earlier, the GATT Deputy Director General who oversees market access negotiations told us that the cuts already proposed as of December 15, 1993, represent about a one-third reduction in tariffs overall.

REACHING AGREEMENT IMPORTANT TO
REVITALIZATION OF MULTILATERAL TRADE REGIME

By the mid-1980s, trade experts felt that the multilateral trade regime of the GATT was deteriorating. As we pointed out in our 1985 testimony before the Senate Committee on Foreign Relations, Subcommittee on International Economic Policy, Oceans and Environment,⁵ nations--including the United States--were using bilateral and unilateral actions that undermined some important GATT principles. The World Bank noted similar problems, stating that "widely held perceptions in government and business circles are that GATT has become largely irrelevant to today's world and that, where it is relevant, its rules are more honored in the breach than in the observance."⁶

Other experts agreed that revitalizing the GATT was essential to promoting economic growth. Because the United States was--and still is--the world's largest exporting and importing country, and because trade is becoming more important to the U.S. economy (constituting about 10-12 percent of its GDP in 1993), we stated in our 1985 testimony that having a strong multilateral trade regime was in this nation's overall best interests. The World Bank also noted that, if the Uruguay Round were to fail, there likely would have been "an acceleration in the trends toward protectionism, discrimination, bilateral deals, regional arrangements, and cartel-like 'orderly marketing arrangements'." It likened these possible events to the disastrous worldwide policies in the 1930s that led to the global depression. Moreover, GATT Secretariat officials and heads of foreign government missions to the GATT--including Japan and the EU--told us that failure to successfully conclude the Uruguay Round would have seriously undermined the multilateral trade regime.

DESPITE OVERALL GAINS, SPECIFIC
INDUSTRIES' CONCERNS REMAIN

In reports prepared analyzing the December 15, 1993, agreement, broad-based private sector advisory groups generally supported

⁵See United States Participation in the Multilateral Trading System, statement of Allan I. Mendelowitz, Associate Director, National Security and International Affairs Division (Sept. 26, 1985).

⁶The Uruguay Round: A Handbook on the Multilateral Trade Negotiations, ed. by J. Michael Finger and Andrzej Olechowski, The World Bank (Washington, D.C.,: Nov. 1987), p. 7.

the GATT.⁷ The groups stated that the agreement will significantly strengthen and improve the GATT system. They also felt that implementing the agreement will expand international trade and investment and create a more orderly and predictable global business environment.

However, these reports revealed that opinions on different aspects of the agreement often vary by industry. In the antidumping area, for example, the United States achieved most of its negotiating objectives, designed to align GATT dispute settlement procedures with U.S. antidumping laws and practices. The IPAC views were split between companies that perceived their primary interest in terms of exporting (which exposes them more to other nations' antidumping regimes), and companies that perceived an effective domestic antidumping law as in their and the nation's best interests. In general, the former group was more supportive without qualification of the current agreement, believing that it was in the U.S.' overall economic interest. The latter group, with production based primarily in the United States, believed that dumping "poses a special threat to U.S. companies given the relative openness of the U.S. market." While acknowledging that the agreement's provisions largely reflect the adoption of concepts and procedures in U.S. law, this latter group found wide variances that diminished the benefits of that law to domestic industries.

Most of the reports issued by other, more industry-specific advisory groups also tentatively supported the agreement. Yet these reports also pointed to varied concerns. For example, the Agricultural Technical Advisory Committee for Poultry and Eggs predicted that the agreement will "have a devastating effect on U.S. subsidized egg exports." Two industry advisory committees on services noted that the agreement did not yield significant trade liberalization in several service industries, such as telecommunications, audio-visual, and financial services, that

⁷The Trade Act of 1974 (P.L. 93-618), as amended by the Trade Agreements Act of 1979 (P.L. 96-39), established a program to provide private industry consultations on trade negotiations and trade policy. Among other organizations, the program structure includes an Advisory Committee on Trade Policy and Negotiations (ACTPN), a high-level group that covers a variety of industries, labor organizations, environmental and consumer groups, and other interests; the Industry Policy Advisory Committee (IPAC), comprised of business leaders representing manufacturing, service, and agricultural sectors, as well as an environmental representative; and Industry Sector Advisory Committees (ISACS) representing more specific industry groupings. These committees and others in the Consultations Program analyzed the December 15, 1993, agreement and submitted reports in January 1994 to the President, the Congress, and USTR.

constitute a substantial portion of the service exporting sector. The Industry Sector Advisory Committee on Chemicals and Allied Products for Trade Matters' report did not support the market access agreement because the committee believes that not enough countries have agreed to harmonize tariffs to agreed-upon levels and that other essential objectives, such as the elimination of nontariff measures and the special treatment of import-sensitive products, had not been met. The Industry Functional Advisory Committee on Intellectual Property Rights for Trade Matters expressed concern that the agreement contains overly long transition periods for developing countries (5 or 10 years) and fails to eliminate harmful derogations to national treatment (which allow the EU to continue to deprive U.S. interests of funds from blank tape levies.)

NEED FOR WORKER ADJUSTMENT ASSISTANCE

While liberalized trade is generally considered important to the future health of the U.S. economy, it may also lead to disruptions that require economic adjustments. A healthy economy must have the ability to change and redirect economic resources and people to its most efficient and productive sectors in order to grow and create new employment. These overall benefits, however, are necessarily accompanied by costs, some of which may fall heavily on certain sectors of the economy and the labor force. Consequently, trade liberalization without programs to help those who are injured means that the benefits are spread broadly across the economy, while certain groups bear a disproportionate share of the cost.

Some large industries fear significant job losses from increases in lower-priced imports due to the GATT. The Industry Sector Advisory Committee for Textiles and Apparel, for example, feels that phasing out quotas established under the Multifiber Arrangement (MFA), as currently agreed, would "cause the loss of hundreds of thousands of U.S. textile and clothing jobs, reduce U.S. production and adversely impact U.S. cotton, wool and manmade fiber producers."

Consequently, we believe that a comprehensive reemployment assistance program, aimed at dislocated workers, is needed. Such a program should provide the full range of services required by displaced workers to facilitate their reemployment and should be available to all such workers regardless of the reason for their dislocation. It should be different from the current patchwork of programs that, in some cases, are more narrowly targeted and that provide services based only on the reasons for the dislocation.

CONTINUED MONITORING NEEDED
DURING IMPLEMENTATION

If the Uruguay Round agreement is approved, some important issues will evolve over a period of years during the GATT's implementation. They will need to be monitored to assure that commitments are fulfilled and expected benefits of the agreement are realized. Among these important issues are the following:

- **Dispute Resolution.** The new dispute resolution mechanisms and the operations of the newly created WTO will need to be studied. Some industries and Members of Congress have expressed concerns that under the new regime, the United States has reduced its ability to use domestic trade laws to combat unfair trade practices by foreign entities. Concerns also exist about how U.S. interests will fare before dispute panels using new decisionmaking rules in the WTO and the new dispute resolution mechanism. While USTR officials maintain that the agreement is in the U.S. interest and that the United States has not weakened the primacy of domestic U.S. laws, some experience will be needed to fully evaluate the effects. U.S. participation in this institution will have to be carefully managed to assure that U.S. interests are not compromised.

- **Government Subsidies.** Foreign government use of subsidies should be evaluated. Subsidies have historically been a troublesome area for negotiation because of the need to balance governments' legitimate rights to advance internal social policies against the potential trade distortions they could cause. Several industry advisory committees and Members of Congress have voiced concern that some nations could broadly interpret the category of permissible, nonactionable subsidies (called "green-lighted" subsidies) to gain a competitive advantage.

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Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be pleased to respond to any questions you may have.

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