烏拉圭回合談判與協定的歷史與意義

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中文摘要

烏拉圭回合（Uruguay Round）談判為二次世界大戰後於關稅暨貿易總協定（簡稱 GATT 或關貿總協）架構下的第八次多邊貿易協議。自 1950 年代歐洲經濟共同體成立後，共有三回合多邊貿易談於關貿總協下舉行。

第一回合是 1963 年至 1967 年的甘迺迪回合談判（Kennedy Round），起因為美國政府為因應歐洲共同體成立造成的影響。1973 年至 1979 年的東京回合（Tokyo Round）談判是因應美國決定放棄布萊敦森林（Bretton Woods）體制下的黃金美元固定匯率政策。這兩回合談判皆起因於強國的大規模政策轉變。

與此相比，烏拉圭回合談判並無相同因素。烏拉圭回合談判面對的是全球經濟衰退與各國對世界經濟成長的不確定感，因此促成烏拉圭回合談判的因素並不如前兩回合明顯，遑論促成最終結論的原因。

本文主旨在探討促成烏拉圭談判啓動的因素以及導致烏拉圭回合談判達成協議的壓力。特別著重於國際體系的因素而非來自特定國家的影響。作者發現烏拉圭回合始於一系列的關切但卻以另一系列的關切結束。該回合啓動的原因是各國一方面面臨世界經濟成長的減慢，一方面體認到貿易議題愈趨重要。而亟待解決的農業、服務業、紡織業等貿易問題以及已開發國家與開發中國家間的關係都已拖到不能再拖的地步。由於各國體認到世界經濟已經全球化，而 GATT 貿易規範需要做徹底的大翻修以因應已發生變化的國際環境。換言之，烏拉圭回合談判可視為國際成員對此轉變的集體應對措施。在此回合協商過程中，各國決策制訂者似乎皆認知到國際經濟對國內經濟的重要性。因此，可在國際經濟問題與各國處理國際經濟問題間找到連結。

此外，作者亦指出烏拉圭談判就如同克魯曼（Paul Krugman）所宣稱的「政策很少是對所見到的問題給予一貫的回應，而在大多數的情況下，都是團體間談判與磨合的結果。」烏拉圭回合是項擁有眾多議程的極為艱鉅的多邊協商。當然很合理地預期談判結果只不過是權宜交換的廣泛集合，與全球經濟裡運作的較廣泛的勢力罕有關連。至於對政策問題的回應一致性，參與 GATT 協商者沒有一個人會聲稱協商過程中存在著強而有力的凝聚力。然而即便如此，烏拉圭回合的確產出一些與當時所見到的問題相關的結果，決策者於此回合做出的正確的抉擇。儘管 WTO 舉步艱難，但是迄今並無對烏拉圭回合協議有所重大的詆毀。

History and Significance of the Uruguay Round Negotiations and Agreements[1]

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I. Introduction

The Uruguay Round negotiation was the eighth postwar multilateral trade negotiation conducted under the General Agreement on Tariffs and Trade (GATT). Its purpose as with other GATT negotiations was to liberalize trade. One might have expected the Uruguay Round, as with other GATT negotiations, to continue the steady movement toward a more open and predictable international trade regime. It did not do this. Instead, the Uruguay Round produced a profound alteration of the trade regime in response to an equally profound transformation of

[1] Paper presented at the "International Conference on WTO, FTA and RTA", National Chengchi University (NCCU), Taiwan, April 22, 2005. An earlier version of this paper has been published in Patrick F. J. Macrory, Arthur E. Appleton, and Michael G. Plummer (Eds.) *The World Trade Organization: Legal, Economic and Political Analysis* (Volume I, Springer, 2005, 3-25.

international economic relations. It amounted to system change in the world economy.

The task for this chapter is to examine what factors precipitated the Uruguay Round, and what pressures led to its successful conclusion. This examination is less straightforward than would be the case regarding other negotiations held under the General Agreement on Tariffs and Trade (GATT). Since the formation of the European Economic Community (EEC, or Common Market) in the late 1950s, there have been three multilateral trade negotiations under GATT auspices. The first was the Kennedy Round of 1963-67. The Round was initiated by the Kennedy Administration in response to the creation of the EEC and the fear that American products would be shut out of an integrated European market.[2] The second negotiation was the Tokyo Round of 1973-79. It was established in the wake of the U.S. decision in 1971 to abandon the Bretton Woods link between the dollar and gold, which created a crisis in the postwar system of fixed exchange rates.[3] As part of this decision, the United States applied a surcharge on imports and demanded international action to address its first trade deficit in the 20th century.

[2] Ernest H. Preeg Traders in a Brave New World: the Uruguay Round and the Future of the International System (Chicago: University of Chicago Press, 1995) 28

[3] International Trade 85-86 (Geneva: GATT, 1986) 26. See also Gilbert R. Winham International Trade and the Tokyo Round Negotiation (Princeton: Princeton University Press, 1986).

Both the Kennedy and Tokyo Rounds were induced by large-scale policy change in leading countries. By comparison, there was no comparable challenge to the multilateral trade system by a leading actor in the run-up to the Uruguay Round. Instead, the early 1980s in which the Uruguay Round was conceived was a recessionary period that affected all countries, and it contributed to widespread uncertainty about the performance of the world economy. In these circumstances, the factors that led to the Uruguay Round negotiation were less evident than were those that precipitated the Kennedy or Tokyo Rounds. As well, the reasons that led to its eventual successful conclusion were also opaque.

Therefore, this chapter will explore the reasons that the Uruguay Round was initiated, and why it was concluded some eight to twelve years later. It will focus on systemic factors that affected the trade policies of all countries, and not those factors that were specific to individual countries. The chapter will make the argument that the world economic system underwent profound changes in the 1980s and early 1990s, and that the Uruguay Round can be seen as a collective adaptation to those changes.

II. Resume of the Uruguay Round

(i) Overview

How significant was the Uruguay Round? One way to assess the Uruguay Round is to compare it to the Tokyo Round of 1973-1979, which in its time was regarded as the most significant multilateral negotiation undertaken within the GATT.

The significance of any negotiation is a function of the parties, issues, and results of the negotiation. The active parties in the Tokyo Round were mainly developed countries; the developing countries were less involved, and by the conclusion of the Round few developing countries had signed at least one of the various codes produced in the negotiation. By contrast, the Uruguay Round produced mainly a single set of agreements (the "single undertaking") which was accepted by 111 countries, the majority being developing countries participating in the negotiation. Developing countries were active in all phases of the Uruguay Round, and their involvement broadened the potential for tradeoffs and the package deal that ultimately was agreed upon. The strong support of developing countries was instrumental in encouraging the major parties--the United States and European Union--to settle. It is true that the diplomatic behaviour of the Uruguay Round still reflected the bipolar structure that had characterized the Tokyo Round, but the former was nevertheless impacted by new actors that had the capacity to force changes in the process and outcome of the negotiations.

The issues negotiated seriously in the Tokyo Round included tariffs--which had been exclusively the subject of most previous GATT negotiations--and a number of non-tariff measures, including government procurement which was not previously addressed in GATT negotiations. In the Uruguay Round, participating countries took up all of the issues that had been on the Tokyo Round agenda, plus the "new" issues (services, intellectual property and investment), institutional issues (dispute settlement and the WTO), and textiles, which had been excluded from GATT multilateral disciplines. Finally, agriculture and safeguards, which failed in the Tokyo Round, were again dealt with on the Uruguay Round agenda. The conclusion is that negotiators attempted a much broader and more significant agenda in the Uruguay Round than they did in the Tokyo Round.

The main results of the Tokyo Round were multilateral tariff concessions plus six codes on non-tariff measures. With the exception of government procurement, these codes mainly extended existing GATT articles. By contrast, the results of the Uruguay Round were remarkable on several dimensions. Not a person for overstatement, the late Professor Raymond Vernon observed shortly after the conclusion of the Uruguay Round that "The agreements, if taken at their face value, show promise of reshaping trade relationships throughout the world."[4] Vernon's statement, if taken at face value, reflects the stunning accomplishment of the negotiation.

One dimension of the Uruguay Round results was the creation of a new international organization, the World Trade Organization (WTO), that completed in form the work begun with the aborted International Trade Organization (ITO) of 1948. Prominent in the new organization was the dispute settlement system that operationalized the concept of compulsory arbitration in trade disputes between Members. Second, liberalizing agreements were established in agriculture and textiles, two areas that are critical to developing countries and other primary products exporters, and which had been carved out

[4] Raymond Vernon "The World Trade Organization: A New Stage in International Trade and Development" Harvard International Law Journal Vol. 36:2 (Spring 1995) 329-40.

of GATT disciplines for most of the post-war period. In agriculture particularly the agreements placed limitations on internal support programs and export subsidies, and provided for improved market access. Third, the Uruguay Round produced agreements in new areas such as services and intellectual property, thereby sharply expanding the scope of the old General Agreement and keeping it abreast of new developments in the international economy. Overall, the Uruguay Round substantially deepened the obligation of countries to practice more liberal trade policies.

In sum, the accomplishments of the Uruguay Round dwarfed those of the Tokyo Round. The Tokyo Round was an important achievement, but it should be understood mainly as a methodological breakthrough in that it developed in the GATT the capacity to define and negotiate non-tariff measures.[5] By contrast, the Uruguay Round was a substantive breakthrough; it successfully applied the Tokyo Round methodology of non-tariff negotiation to the broad range of trade issues that arose in the 1980s. The Uruguay Round represented a major deepening of the international trade regime, and was perhaps as significant as the creation of the GATT itself.

(ii) Chronology[6]

[5] See Chapter 2 "Background: Creating the Capacity to Negotiate" in Gilbert R. Winham International Trade and the Tokyo Round Negotiation (Princeton, NJ: Princeton University Press, 1986).

[6] The reader is encouraged to consult two excellent histories and two excellent memoires: John Croome Reshaping the World Trading System: A history of the Uruguay Round (Geneva: The World Trade Organization, 1995); Ernest H. Preeg Traders in a Brave New World: The Uruguay Round

The chronology of the Uruguay Round unfolded in stages, which is typical of the negotiation process. Stages are usually delineated by important events, or stopping points, in a negotiation, but their main analytical value is that they signal a change in the behaviour of the parties, and hence a change in process. In the Uruguay Round, there were five such stages. This is not counting the pre-negotiation (1981-86), which was a process with a different objective.

The Uruguay Round commenced formally on September 20, 1986 with the adoption of the Uruguay Declaration at a Ministerial Meeting of the GATT Contracting Parties held in Punta del Este, Uruguay. However, the impetus for this action had begun in the United States after 1979, when a domestic campaign got underway to promote the inclusion of services in a new GATT negotiation. This campaign was carried by US diplomats to the OECD and the GATT, where European Community officials that were initially sceptical gradually became proponents of a new negotiation that would include trade in services. In 1982, after sustained pressure by the United States and its supporters, a GATT Ministerial Meeting was held ostensibly to examine the multilateral trading system, but also to consider initiating a new negotiation. The Meeting failed to find

and the Future of the International Trading System (Chicago: University of Chicago Press, 1995); Alan Oxley The Challenge of Free Trade (New York: St. Martin's Press, 1990); and Hugo Paemen and Alexandra Bensch From the GATT to the WTO: the European Community in the Uruguay Round (Leuven: Leuven University Press, 1995).

consensus on the latter point, but it did produce a Work Program that permitted analysis of negotiable issues to continue.

The main cause of division at the 1982 Ministerial Meeting was the opposition by developing countries to a new negotiation that would include services and other new issues before adequate progress had been made on traditional issues such as textiles and agriculture. This opposition led to one of the severest tests of the trading system in GATT history, and was only partially reconciled by the time the Uruguay Round got underway. In the Uruguay Declaration of 1986, following a difficult week-long Ministerial Meeting that produced a tenuous consensus between developed and developing countries, a formula was accepted that called for services to be negotiated separately from goods. This formula permitted the Uruguay Round to begin, but it became progressively ignored as the negotiation took shape after 1986.

The first stage of the Uruguay Round negotiation, from September 1986 to December 1988, encompassed the initiation of the negotiation through to the Mid-term Review of December 1988, an event negotiators intended as a stocktaking session to prepare for the final movement toward an agreement. The main effort of negotiation at this stage was the exploration of country positions, and the development of policy mechanisms (such as the concept "aggregate measure of support" in the negotiations on agriculture) to discipline national trade practices. The Mid-term Review established solid progress in many areas (eg, dispute settlement), but it failed to produce an acceptable interim position on agriculture, with the result that four extra months were needed to regain forward momentum in the negotiation.

The second stage, from December 1988 to December 1990, was a drive toward final agreement, and was marked by an effort to produce definitive wordings in legal drafts, and to settle a myriad of bilateral and multilateral issues between parties. The negotiations were largely technical and were intended to conclude at the Brussels Ministerial Meeting in December 1990; however, failure began to become evident by the summer of 1990 as countries were unable to establish the convergence necessary for negotiations to reach closure. The momentum of the negotiations required that the Brussels Meeting be carried out, but it was clear before it began that the absence of convergence in the draft agreements insured that the meeting would be a failure. Again the Uruguay Round recorded a failure, with the result the negotiators were forced to realize the full enormity of the task before them.

The third stage, from December 1990 to December 1991, began with a sustained political effort by Director General Arthur Dunkel to restart the negotiation, which produced an agreement on a revised formula for the agricultural negotiation. Following this, the third stage picked up where the second stage left off, and was mainly a continuation of technical negotiation. Draft texts were under construction in most areas, and bracketed text, indicating disagreement, was removed in a step-by step process. A deadline was set for December 1991, but again it became apparent by autumn that the needed political decisions were unlikely to be forthcoming to allow completion of the negotiation. In December, 1991, the negotiations were halted, but in a remarkable move, the GATT Director General--in the absence of general political agreement between governments--asked the chairmen of negotiating groups to table a document

that represented their own view of a consensus text in their area of responsibility. These documents, which were partially but not completely negotiated texts, were compiled in the (**XXX**) page "Draft Final Act (DFA) Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations". Faute de mieux, the DFA was the point of departure for much of the remaining negotiation in the Round. The DFA symbolized the power, but also the limitations, of the technical side of negotiation to shape the political decisions that lie behind negotiated agreements.

The fourth stage, from December 1991 to June 1993, was wholly different from the preceding stages. In complex negotiation there has to be a balance between progress on technical and political decision making. By January, 1992, it was clear that the former had occurred, but the latter was seriously in arrears, with the result that the Round essentially stalled in Geneva. The cause was the agricultural negotiation. In many countries agricultural trade is an insoluble problem, but in the Uruguay Round, the inherent difficulties of the agriculture portfolio became compounded by the fact that this issue pitted the interests of the major players--the United States and the European Union--against one another. The negotiation thus turned into a politicized contest between superpowers, and for eighteen months the main activity of the Uruguay Round was a series of bilateral encounters between US and EU officials. This blockage halted progress in areas other than agriculture, and even between other countries. Before the end of this period, the European Union and the United States reached a partial resolution of their difficulties in the "Blair House" accord on agriculture, but agriculture continued to be the major stumbling block to a general agreement until very late in the negotiation.

The fifth stage, from June to December 1993, was relatively brief. It started with a preliminary agreement on market access reached between the United States, European Union, Japan and Canada at the Tokyo Economic Summit in July 1993, and continued with an accelerated negotiation process in Geneva under the leadership of newly-appointed GATT Director General Peter Sutherland. Tariff reductions and service access commitments received disproportionate attention as the negotiation moved toward a conclusion: these issues represented calculable monetary concessions offered to trade partners, and were therefore among the last issues to be negotiated. Encouraged by the Director General, the negotiation was conducted at a higher political level than had been the case previously. The US-EU dispute over agriculture continued to be problematic, and was only resolved in a second "Blair House agreement" on December 5, 1993. This agreement paved the way for a frantic final round of multilateral tariff and service concessions, and for final agreements in troublesome areas such as anti-dumping and audio visual services. The negotiation concluded on December 15, 1993, the deadline that had been announced by Director General Sutherland the previous September.

In reflecting on the events of the Uruguay Round, one is struck by two features of this negotiation: first, it was extraordinarily difficult to get the negotiation started; and second, the main lines of the agreements were effectively settled about 18 months before the negotiation could be concluded politically. Both these features suggest that even though the Uruguay Round was a hard fought bargain between parties, it was even more a

contemplative decision by all parties, especially the major parties, to move toward a substantially changed regime in their trade and economic relations. These features direct the main explanation of the Uruguay Round to factors that lie outside the immediate exchange of proposals by the parties. The factors that most influenced the outcome of the negotiation lay in the world economy itself, especially the changes that were occurring in that economy before and during the negotiation of the Uruguay Round.[7]

III. The Launch of the Uruguay Round Negotiation

Nations enter negotiations with certain national objectives, and these were summarized in the early period by the delegates to the Uruguay Round. For example, consider the statement of the U.S. delegate to a GATT preparatory session in 1985. As recorded in the minutes: "The representative of the United States...accepted certainly what the representative of India had said that the real objective [of a new negotiation] was to re-establish confidence in the multilateral system."[8] But what had

[7] Odell has examined market conditions as an explanation for international economic negotiations, which is analogous to the argument presented here. See John Odell "Understanding International Trade Policies: An Emerging Synthesis" World Politics Vol. 43:1 (October 1990) 139-67.

[8] Senior Officials Group, Record of Discussions: Note by the Secretariat (GATT doc., SR.SOG/2 of 22 November 1985) 17. This observation was supported by the Chief Negotiator of the European Union: "Its [the Uruguay Round] aim was quite simply to carry out a complete overhaul of the multilateral trading system, whilst at the same time broadening and deepening its scope." Hugo Paemen and Alexandra Bensch From the GATT to the

caused countries to lose confidence in the system in the first place? In short, what events propelled countries to commence an undertaking as far-reaching as the Uruguay Round eventually became? The most plausible explanation is that the Uruguay Round was initiated because countries recognized that the early 1980s were a turning point for the world economy, and that fundamental changes were occurring that would call into question the traditional GATT structure. This recognition led the United States to take the lead in calling for a new negotiation, but other countries, especially Japan, the small developed countries and some developing countries, also supported the early U.S. initiative.[9] These countries were motivated by diverse concerns, as noted below, but they shared a common goal to preserve the multilateral trading system and to make it more responsive to the economic problems they faced in their domestic economies.

(i) Declining Performance of the World Economy

In the discussions leading up to the Uruguay Declaration, GATT parties had been concerned about the slowing of the world economy which became evident in the 1970s. From the

WTO: the European Community in the Uruguay Round (Leuven: Leuven University Press, 1995) 89.

[9] A former Australian Head of Delegation to the Uruguay Round has observed: "When the United States started advocating a new trade round, its first supporters were Japan, the smaller industrialized countries and some of the Latin Americans, mainly the agricultural exporters. The European Community was ambivalent." Alan Oxley The Challenge of Free Trade (New York: St. Martin's Press, 1990) 97.

early 1950s onward, the international economy enjoyed a period of prosperity that was hitherto unknown in the 20th Century. For example, in a study of 32 countries (including 15 developing countries), Angus Maddison found that the average annual compound growth rate for the period 1950-73 was 5.1 per cent, approximately double the rates of two earlier periods in the century.[10] For developing countries, the rate was even higher at 5.3 per cent for the period. Growth rates of trade were also exceptionally high in the 1950-73 period, and arguably contributed strongly to general economic growth. Underlying both trade and economic growth were annual increases in productivity (GDP/man hour), which in OECD countries rose to 4.5 per cent for 1950-73 period, from an average of 1.9 per cent in the first half of the century.[11]

The economic strength of the period from 1950 onward resulted from the stability of the postwar international economic system, coupled with the domestic and international policies pursued by the major countries. The international system explicitly promoted development, as evidenced by steady flows of capital, including foreign aid, to developing countries. Domestic policies in developed countries were directed toward an expansion of demand and employment. Capital investment was everywhere emphasized, and where it occurred overseas in

[10] Angus Maddison The World Economy in the 20th Century (Paris: OECD Development Centre, 1989) 36, 67.

[11] Ibid., 88.

the form of foreign investment, it promoted technology transfer and it accelerated economic development.[12]

After 1970 the situation changed. The growth in world production and exports slowed to 3.4 and 4.5 per cent respectively in the period 1973-87, down from a high of 5.1 and 7.7 per cent in the 1950-73 period.[13] Data compiled by the GATT itself confirm Maddison's generalizations, and present an even starker picture of declining economic performance as the 1960s gave way to the 1970s. For example, GATT figures show that world production and world exports grew yearly at 6 per cent and 8.5 per cent over the period 1963-73, but fell to 2.5 per cent and 3.5 per cent over 1974-85, the period immediately preceding the Uruguay Round negotiation.[14] These figures reflect especially the serious impact of the recession of the early 1980s on international trade. The conclusion to be drawn is that by the mid-1980s the world economy was going from bad to worse.

Inflation was contained in the 1960s, but it commenced after the breakup of the Bretton Woods monetary system in 1971, and then accelerated rapidly with the shock of increasing oil prices after 1973. The oil shock had an immediate effect on

[12] Sylvia Ostry The Post-Cold War Trading System: Who's on First? (Chicago: University of Chicago Press, 1997), esp. Chapter 5 "The East Asian Challenge".

[13] Maddison, op. cit., 67.

[14] Data compiled from GATT, International Trade, Vols 1981/82, 1983/84, 1985/86, and 1986/87.

production and trade in OECD countries, but other less dramatic factors had even greater impact. Productivity growth which had been at historic high levels began to slip, and the average annual growth rate of 4.5 per cent for the period 1950-73 fell to 2.2 per cent for the period 1973-86.[15] A further factor was domestic economic policy, which gradually shifted from maintaining high demand to fighting inflation. The focus on inflation--with attendant high interest rates--forced countries to accept a slowdown of growth and an associated rise in the level of unemployment.[16]

World production recovered sharply in 1976, but then trended downward for the next six years to conclude in the recession of 1982. Trade performance was equally dismal. The combination of high interest rates, a further oil price escalation, and reduced trade and investment flows, brought many developing countries to the brink of fiscal collapse and focused attention on emergency programs for debt restructuring and relief. In sum, by the early 1980s, it appeared to many that the world economy was performing poorly for developed countries, and contributing to crisis and dislocation in developing countries. This situation created an incentive for governments to re-examine international trade policy.

(ii) The Decline of Agriculture

[15] Maddison, op cit, 88.

[16] Paul Krugman The Age of Diminished Expectations: U.S. Economic Policy in the 1990s (Cambridge, MA: MIT Press, 1992) Chapter 3.

Agriculture was an historic and politically important component of trade, and its decline was a central concern for those countries that sought a new trade negotiation. By the 1980s, agriculture had long since fallen to a small proportion of industrialized country economies, but it continued to be a major component of the economies of developing countries. However, its share of the domestic economy in both developing and industrial countries had been dropping in recent decades. As for international trade, agriculture represented almost half of world merchandise trade in 1950, but its share had declined to about 14 per cent by the mid-1980s.[17] This decline was relative and not absolute, and is explained by the failure of agriculture to keep up to the very rapid rates of growth in trade in manufactures in the postwar period. The natural decline of agricultural trade was compounded by an increase of protectionism by major importers, particularly the European Community, as exporters brought increasing pressure on domestic producers in a slow-growing market.

The effect of slow growth in agricultural trade was especially felt in certain countries. For example, in an agricultural exporter like Argentina, exports as a percentage of GDP grew only from 8.4 in 1950 to 8.7 in 1986, while in Australia the equivalent ratio actually fell from 22.0 to 13.5.[18] As a result, both countries thus failed to benefit from a major source of growth enjoyed by many countries in the postwar period. Thus the continuing decline of agricultural trade

[17] GATT, International Trade, Vol. 1987/88, 29.

[18] Maddison, op. cit., Table D-6, 143.

motivated agricultural exporters from Argentina to the United States to try again to liberalize agricultural trade in the Uruguay Round.

Attempts had been made to liberalize trade in agriculture in the Kennedy and Tokyo Rounds, but they failed mainly because of the unwillingness of the European Union to modify the protection afforded by its Common Agricultural Policy. By the 1980s, liberalization of agriculture had become a litmus test for many countries of the ability to achieve any reform of the multilateral trade system. As the representative of New Zealand stated: "The longer a gross imbalance against agriculture in the international trading system remained the greater was the threat to the credibility of an international trading system committed to non-discriminatory treatment and maximizing opportunities for trade. Agriculture was a sector of key importance for developed and developing countries alike. It had assumed the touchstone of commitment to the new round proposal."[19] The statement of New Zealand, which was echoed by many other countries, made it clear that the demand for the liberalization of agricultural trade created pressure for a new multilateral negotiation.

(iii) Trade in Services

In the run-up to the Uruguay Declaration, the negotiation focussed very much on services. The role of services in the international economy is by now well known, but in the early 1980s the situation was much more opaque. Services such as

[19] Senior Officials' Group, op. cit., (GATT doc. SR.SOG/4 of 22 November 1985) 8.

transport costs or insurance were generally categorized as "invisibles", and were treated inconsistently in the current account statistics of different nations. GATT statistics focused on merchandise trade, and not services. However, governments were well aware of the increasing importance of services at the domestic level, and by the mid-1980s this information was being published by the GATT.[20]

As noted earlier, the issue of services divided the developed and developing countries during the pre-negotiation to the Uruguay Round. Data from the GATT indicate that in the thirty years from 1950 to 1980, all countries showed a decline in the work force in agriculture, and a corresponding increase of labour in industry and services.[21] However, the decline of agriculture and the movement into services was much greater in developed as opposed to developing countries. It was recognized that unless trade in services was expanded, there would be little prospect that trade would continue to promote the growth of developed countries in the future, as it had done in the past.[22] A further

[20] See "Services in the domestic and global economy" GATT International Trade 88-89 Vol. I (Geneva: GATT, 1989) 23-43.

[21] GATT, International Trade, Vol. 1988/89, 25.

[22] See William E. Brock "A Simple Plan for Negotiating on Trade in Services" The World Economy Vol. 5:3 (November 1982) 229-240. See also Paemen and Bensch: "For societies keen to retain the privileges of wealth, the limits to the development of the North-North trade in goods provide justification enough for launching a new initiative to conquer new markets. When it comes to expanding markets, the services sector appears to be promising." Paemen and Bensch, op.cit., 17.

issue was that some services (eg, insurance or financial services) were linked to merchandise trade, and failure to liberalize the former would restrict growth of the latter. Finally, although trade data show that trade in services is only about one-fifth of total world exports, statistics from the 1980s showed trade in services growing at 7.5 per cent on average against an average of 5.5 per cent for merchandise for the decade.[23] The unavoidable conclusion from these data was that liberalization of trade in services was necessary to maintain the GATT as a relevant instrument of international trade policy for developed countries.

The United States took the lead in pushing for the inclusion of trade in services in a new GATT negotiation. "In today's world," stated a U.S. representative at a preliminary meeting, "the services sectors were the engine of growth of the world economy and were a major contribution to technological improvement and competitiveness for goods and services."[24] This policy reflected U.S. economic interests, for it had a higher share of services in the domestic economy than other OECD countries.[25] However, the U.S. lead was quickly followed by the smaller industrialized countries, as indicated in a statement from a Swedish representative: "...the Nordic countries...considered that one of the important objectives of a new trade round should be the creation of a system that was capable of handling not only

[23] GATT International Trade 90-91 (Geneva: GATT, 1991) Vol. II, 1.

[24] Senior Officials' Group, Record of Discussions: Note by the Secretariat (GATT doc. SR.SOG/9 of 22 November 1985) 1.

[25] In 1987, the United States had 68 per cent of the GDP in services, 30 per cent in industry, and 2 per cent in agriculture.

the trade policy problems of today but also those of tomorrow."[26] Thus the attraction of adding services to the GATT agenda was that it promised to keep the trade policy agenda consistent with the changes that were already occurring--or about to occur--in actual trade relations between countries.

The United States attempted to convince the European Union in the early 1980s to support a new negotiation centring on trade in services, but it made little headway until the GATT Ministerial Meeting at Punta del Este in 1986. The EU delegation was sensitive to the opposition to services among some influential developing countries, and attempted to find a middle ground. However, what convinced the Europeans was the recognition that Western Europe accounted for over half of the world trade in services by the mid-1980s.[27] Moreover, services were likely to be as much a growth area for Europe as for the United States in the future. The economic interests of the EU clearly supported a GATT negotiation on services.

(iv) Developing countries

Developing countries were instrumental in building momentum toward a new trade negotiation. This was overshadowed by the fact that a group of developing countries

[26] Senior Officials' Group, Record of Discussions: Note by the Secretariat (GATT doc. SR.SOG/9 of 22 November 1985) 6.

[27] GATT International Trade 88-89 Vol. I (Geneva: GATT, 1989) Table 22, 31. Western Europe had 58 per cent of services trade (exports plus imports), followed by Asia with 18 per cent and North America with 14 per cent.

led by India and Brazil conducted a campaign of pitched opposition to the inclusion of some issues like services on the negotiating agenda.[28] The reality, however, was that a changing world economy both made developing countries important to the international trade system, and in turn reform of the system was important to developing countries.

Developing countries were important in two respects. On the one hand, some developing countries were assuming a much larger role in the international trade system by the 1980s than had been the case previously. By 1985, China, Hong Kong, Korea and Saudi Arabia were included among the world's top 20 exporters and importers, while Brazil and Taiwan joined the list as exporters and Singapore joined as an importer.[29] The composition of developing country trade was increasingly industrialized, and by 1987, manufactures accounted for nearly half of developing country exports, up by 20 per cent from 1980.[30] Developing countries were also increasingly becoming a market for developed countries, and by 1987 they took approximately one-third of merchandise exports from Japan, one-fourth of exports from North America, and one-eighth of exports from West Europe.[31] These circumstances motivated

[28] See Gilbert R. Winham "Explanations of Developing Country Behaviour in the Uruguay Round" World Competition Vol. 21:3 (March 1998) 109-34.

[29] International Trade 85-86 (Geneva, GATT, 1986) Table 1.9. 23.

[30] GATT International Trade 87-88, Vol. II (Geneva: GATT, 1988) 39.

[31] Ibid.

developed countries to seek a new negotiation to incorporate developing countries more firmly into GATT rules.

On the other hand, developing countries had their own reasons to seek a new negotiation. The recession and debt crisis of the early 1980s devastated many developing country economies, and resulted in sharply increased debt repayments with consequent falling imports, which constituted the real cost of the debt crisis.[32] The experience of the 1980s led developing country governments to recognize the stake they had in expanded exports and in an open trade system more generally. For example, consider the following extract from the GATT discussions in 1985: "The representative of Brazil said that ....His country was interested in promoting economic growth on the basis of an economy open to foreign trade, and needed to generate trade surpluses in a very large magnitude for the servicing of the external debt which consumed only in interest payments around 40 per cent of export earnings."[33] The position of Brazil was echoed by numerous other developing countries in the preparatory meetings for the Uruguay Round.

(v) The Growth of Trade Dependence

Apart from a specific concerns over their performance in the world economy, some countries had a general concerns over the increasing interdependence between national economies in

[32] GATT, International Trade, 1987/88, Vol. I, 18.

[33] Senior Officials' Group Record of Discussions: Note by the Secretariat (GATT doc. SR.SOG/10 of 22 November 1985) 13.

the world economy. For countries like Switzerland or Austria, this phenomenon had been a factor in economic policy throughout the postwar period, and it led those countries to pursue liberal trade policies.[34] Other effects of increasing interdependence can be seen in Canada's decision to initiate free trade with the United States. Following the recession of the early 1980s, the government assessed Canada's future economic prospects and concluded that Canada's market was too small to stimulate efficient production by itself, and that an increase in productivity--on which the standard of living was based--could only be achieved through freer trade. This assessment led the Canadian Government to support freer trade bilaterally with the United States, and multilaterally in the Uruguay Round.

Increasing interdependence and rising trade to GDP ratios also influenced large as well as smaller industrialized countries. In Europe, the importance of exports grew rapidly. Even in economies where trade volumes were historically low relative to the domestic market, trade dependence increased rapidly after 1950. For example, the export/GDP ratio of Japan more than doubled (4.7 to 10.8 per cent) from 1950 to 1986, while that of the United States went from 3.6 to 5.2 per cent.[35] In the latter country, exports constituted over 20 per cent of industrial output.[36] These figures led many Americans to conclude by the

[34] See Peter J. Katzenstein Small States in World Markets: Industrial Policy in Europe (Ithaca, NY: Cornell University Press, 1985).

[35] Maddison, op. cit., 27

[36] C. Fred Bergsten "The United States and the World Economy" The Annals, Vol. 460 (March 1982) 12

1980s that: "The United States has become heavily dependent on the world economy."[37]

The evidence of increasing trade dependence encouraged officials in the United States as well as in other countries to pursue the option of a new trade negotiation. A rising trade dependence meant that national economies were becoming increasingly externalized, and therefore were more vulnerable to the actions of other governments. Negotiating new international trade rules was a means to promote market access and economic security in the external economy, which is similar to the role governments have often performed in domestic economies.

(vi) The Choice of Reforming or Losing a World Trade Regime.

There was widespread agreement at the start of the Uruguay Round that the objective of the negotiation was to restore confidence in the GATT multilateral trade system. The reason governments felt a need to revitalize the system was the mismatch between the GATT system and the direction the world economy was taking by the early 1980s. The GATT contract was established to expand trade. However, it was questionable whether this purpose was being served, given the slowdown of the international economy in the 1970s and early 1980s; or the inability of the GATT to tackle protectionism in agriculture or textiles; or the development of the service economy.

There were incentives other than developments in the world economy that encouraged countries to negotiate the Uruguay

[37] Ibid.

Round. One was the threat to multilateralism posed by regional trade agreements, especially the expansion of the European Union, and the initiation of a bilateral trade agreement between Canada and the United States. Another was the widespread use of voluntary restraint agreements, or other similar mechanisms, designed to circumvent the fundamental MFN and national treatment requirements of the GATT. Yet a third incentive was the use of unilateral trade sanctions by the United States, inspired partly by the struggle of the U.S. Congress to take control of trade policy from the Executive.[38] All these actions were indicative of a world trade system that was not working well, and they likely did encourage countries to enter a negotiation to improve that system. However, the principal incentive to negotiate was that the world economy was becoming a different entity from the one which the GATT was created for, and trading countries faced a choice either of revitalizing multilateral trade rules or risking their loss altogether.

International negotiations proceed more on the basis of fear than opportunity, and often a sense of apprehension or threat is the catalyst that initiates the process. In the Kennedy and Tokyo Rounds, that catalyst was provided by the actions of large trading actors, which created an incentive to negotiate in their trading partners. In the Uruguay Round, the threat was more diffuse, and it originated with systemic changes in the world economy that were not under the control of any one or several

[38] See Patrick Low Trading Free: The GATT and US Trade Policy (New York: Twentieth Century Fund Press, 1993). Low suggests unilateral actions alarmed U.S. trade partners including the EU and may have created an incentive to negotiate.

countries. The threat took time to comprehend, and as a result it took some six years for the GATT to complete pre-negotiations and to initiate formally a new negotiation. It was clear by the mid-1980s that the direction the world economy was taking, and the concern this created for the relevance of the trade system, were the reasons why governments felt a new negotiation was needed.

IV. The Conclusion of the Uruguay Round Negotiation

There are differences between the beginning and the conclusion of a negotiation. At the start, the parties' relationship to the negotiating environment is a distinctive feature. That environment, and parties' evaluation of it, largely determine whether parties will find benefit in collaboration, or instead will pursue their own solutions to policy problems. At the beginning of a negotiation, there are less likely to be trade-offs, or deals, or possible bargained solutions yet on the table that might distract the parties from an analysis of the general circumstances in which they find themselves.

The conclusion of a negotiation is different: the situation is much more complicated. There are of course the issues on the table, and the behaviour of their negotiating partners in relation to those issues. But then there may be further pressure from the environment. Events do not stand still while negotiators deliberate, even less when these deliberations involve the international economy. As much as the world economy had appeared to change by 1986 when the Uruguay Round was started, there was even greater perception of change between 1986 and 1993 while the Uruguay Round was underway. These

changes were policy reform and globalization. Both these changes generated renewed pressure to settle outstanding issues and conclude the GATT multilateral negotiation.

Policy Reform

The Uruguay Round was negotiated in a period which saw a startling shift in economic ideology toward the free market. The most prominent event of that shift was the breakup in 1989 of the Soviet bloc and Communist governments, which was a defining moment in the long contest between alternative systems.[39] The immediate effect of this event was felt in the easing of security arrangements that had been prominent during the previous forty-plus years of the Cold War. However, the more enduring impacts were political and economic. The fall of communism ensured the ascendancy of democracy as a preferred governing institution throughout the world. With democracy came greater communication with parts of the world that were heretofore isolated, especially a communication based on greater concern for individual rights and representative government. The prospect for world cooperation was expanded, and the danger of division and international conflict was reduced.[40] This was a positive influence on a negotiation striving to reshape trade relations in the world.

[39] Lipsey has noted: "Rarely in human history has such a decisive verdict been delivered on two competing systems." Richard G. Lipsey "Global Change and Economic Policy" in Nico Stehr and Richard V. Ericson (eds) The Culture and Power of Knowledge (Berlin: Walter De Gruyter, 1992) 279-298, 283.

[40] See generally Francis Fukuyama The End of History and the Last Man (New York: Avon, 1992).

In economic terms, the fall of communism also ensured the ascendancy of market principles in the world economy, which are the principles on which the GATT had been founded. Western countries were quick to recognize the value of this turn of events. For example, the Economic Declaration of the Houston G-7 Economic Summit of July 11, 1990 proclaimed unreserved support for "...the increasing recognition of the principles of the open and competitive economy," and it asserted that "...freedom and economic prosperity are closely linked and and mutually reinforcing." The Summit Communique further noted that: "The advance of democracy accompanied by market-oriented reforms is not just a European phenomenon," in reference to reform then taking place in various countries in the developing world. Indeed, the greatest impact of the fall of communism on the Uruguay Round was the loss of model of the command economy, and the further discrediting of government intervention as a means to manage international trade relations. Add to this the loss of the Soviet Union and Eastern Europe as a hegemonic trading bloc, and the resulting pressure for economic change in many countries was intensified.

The enormity of the fall of communism obscured the fact that market-based reform has been occurring in various countries throughout the decade. Prior to the 1980s, developing countries largely pursued economic policies of import substitution industrialization (ISI) following the Second World War. These policies called for import protection to stimulate the rapid development of industry, and led to government interventionism and bureaucratic control of the domestic economy. Most important, ISI policies led developing countries to resist

integration into the world economy by maintaining restrictions on trade, investment and financial flows. Resistance to trade liberalization carried out in GATT multilateral negotiations was also part of this overall economic strategy.

Economic reform began in the early 1980s, although it took on different guises depending on the circumstances of individual countries. It commenced with the move toward deregulation in the domestic economies of the United States and Great Britain.[41] Deregulation only touched selected areas of the economy such as transport (e.g., trucking, air carriers), but it created a strong demonstration effect throughout the economy. Although such reform mainly constituted internal change, the size of the U.S. and British economies insured it would have a wider impact in the international economy.

The recession of 1981/82 produced a crisis in many countries that further hastened economic reform. The Mexican government came perilously close to default on its international payments, and then commenced a rejection of the policy of economic nationalism that it had pursued since the Revolution of 1910. In Canada a similar pattern unfolded. Stung by the recession, the Canadian government established a body--the Macdonald Royal Commission--to examine economic policy for the future. The main thrust of the Commission's report was that

[41] Cerny has defined deregulation as meaning "...the lifting or abolishing of government regulations on a range of economic activities in order to allow markets to work more freely...." Philip G. Cerny "The limits of deregulation: Transnational interpenetration and policy change" European Journal of Political Research Vol. 19 (1991) 173-196, 173.

"we Canadians must significantly increase our reliance on market forces", and this conclusion formed the rationale for the recommendation to negotiate free trade with the United States.[42] The subsequent establishment of a bilateral free trade agreement marked the end of a century of trade protection under Canada's National Policy of 1879.

The need for a larger market to support domestic economic growth was the principal motivation for Canada's initiative for free trade with its largest trading partner. A similar motivation had previously led small European democracies to undertake liberal economic policies,[43] and as well it inspired the export promotion strategies adopted in the 1970s by Taiwan and Korea.[44] By the mid-1980s, the movement toward reform was evident in many countries in the developing world, especially in Latin American countries such as Chile and Argentina, and in the ASEAN countries of Malaysia, Thailand and Indonesia. Reform continued into the 1990s, and in 1991 the largest GATT signatory, India, suffered a crisis in its external payments and responded by liberalizing its domestic and foreign economic policies.

[42] Report of the Royal Commission on the Economic Union and Development Prospects for Canada (Ottawa: Supply and Services, 1985) Vol.I:66.

[43] Peter Katzenstein Small States in World Markets: Industrial Policy in Europe (Ithaca, NY: Cornell University Press, 1985).

[44] Robert Wade Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization (Princeton, NJ: Princeton University Press, 1990).

A similar move toward market reform was launched in the second superpower at the Uruguay Round: the European Union. Concerned particularly about Japanese growth and the prospect that Europe might become a third ranking economic power behind Japan, the European Commission initiated "Europe 1992" as a plan to restructure intra-EU relations more consistent with market principles, and thereby to increase the internal coherence and external impact of the EU itself. The motivation for this action was consistent with reforms undertaken in other countries, for as noted by Sandholtz and Zysman: "In an era when deregulation --the freeing of the market--became the fad, it made intuitive sense to extend the European internal market as a response to all ailments."[45] With the EU thus engaged in market reform, it ensured that the movement toward deregulation was a worldwide phenomenon affecting both developed and developing countries in the world economy. Deregulation was part and parcel of a profound shift in economic values,[46] and in the aggregate could be fairly claimed to have created a revolution in national trade policies.

The move toward deregulation revealed some interesting policy differences between large and smaller countries in the international economy. The larger actors, particularly the United

[45] Wayne Sandholtz and John Zysman "1992: Recasting the European Bargain" World Politics Vol. XLII:1 (October 1989) 95-128, 112.

[46] For example, see Thomas J. Biersteker "The "triumph" of liberal economic ideas in the developing world" in Barbara Stallings (ed) Global Change, Regional Response: The New International Context of Development (Cambridge: Cambridge University Press, 1995).

States and the European Union, were able to achieve reform through their own actions, consequently they directed their efforts toward their internal markets. For smaller countries, with typically a larger ratio of trade to GDP, it was convenient and perhaps necessary to use trade policy to promote change throughout the domestic economy. For example, in Canada the Macdonald Commission clearly underlined the link between trade policy and economic policy with the statement that: "Free trade is the main instrument in this Commission's approach to industrial policy."[47] In the developing world, trade policy served a similar purpose as observed by Alan Oxley, former Australian ambassador to the GATT:

> Trade liberalization will not address all developmental problems. But of all the options available to the industralizing world to address developmental problems over the next decade, it is the one within reach which can have the most dramatic effect.[48]

The conclusion is that for many countries trade policy served as a surrogate for deregulation as they struggled to liberalize their economies and to meet the challenges thrown up by the world economy of the 1980s.

Economic reform was pursued differently from one country to another, but its cumulative effect improved the prospects for a

[47] Report, I: 60.

[48] Alan Oxley The Challenge of Free Trade (New York: St. Martins Press, 1990) 42.

negotiated settlement at the Uruguay Round. What all countries wanted at the Uruguay Round was increased market access from their trading partners, which would be accomplished through the liberalization of trade. The presence of economic reform insured that the demands for change that arose from the Uruguay Round negotiation were consistent with the changes already underway in various countries. Compliance with the actions requested by trading partners was made less onerous by the fact that those actions were already consistent with domestic policy. The Uruguay Round was an international step in a direction that many countries were already moving in their domestic economies.

Globalization

Globalization as a concept became commonplace in the early 1990s, but the term was neither consistent nor clear. Generally it expressed the sense of change and transformation that many perceived were occurring in the world economy. For example, two analysts expressed this perception as follows: "The world economy is changing in fundamental ways. The changes add up to a basic transition...."[49]; while another claimed: "We are living through a transformation that will rearrange the politics and economics of the coming century....There will no longer be national economies, at least as we have come to understand that concept...."[50] The importance of globalization is that it was seen

[49] Cohen and Zysman Manufacturing Matters: The Myth of the Post-Industrial Economy (New York: Basic Books, 1987) 4.

[50] Robert Reich The Work of Nations (New York: Alfred A. Knopf, 1991) 3.

as a threat to national economies and the nation state itself, and it put pressure on national leaders to demonstrate that were still in control of the economic forces that impacted their countries.

There are many factors that created the impression of a globalizing world. Some included "the simple extension of economic activities across national boundaries"[51], such as increasing communication or transportation, or rising proportions of foreign trade in national economies. Other factors involved "The functional integration of...internationally dispersed activities"[52], which could include the changes brought by the combination of foreign investment and modern information technology.

Of the various factors involved in globalization, two stand out as being particularly salient to the economic decision makers of the 1990s: global financial transactions and foreign direct investment (FDI). In both these areas, changes accumulated in the 1980s in a way that made decision makers recognize the need to control change and to subsume it in the context of multilateral rules and governance. It is useful to review these factors to appreciate how changing circumstances increased the incentives for national governments to conclude the Uruguay Round negotiation.

(i) Global Financial Transactions

[51] Peter Dicken Global Shift: Transforming the World Economy, Third Ed. (New York: The Guilford Press, 1998) 5.

[52] Ibid.,5

The international economy underwent great change during the postwar period, but none was more striking than the scale of global finance.[53] From a low point following the Depression and World War II, international financial transactions were re-established by the late 1950s and then began to accelerate in the 1970s. By the 1990s, the daily turnover on foreign exchange markets simply dwarfed figures on global output, trade and overseas production, which were the indicators usually relied upon to measure the extent of the global economy.[54]

The expansion of foreign exchange trading was rapid. For example, in March 1973 during a currency crisis, a high of $3 billion was exchanged to European currencies in one day; but by the late 1970s, daily turnover on foreign exchange markets was estimated at $100 billion, and by the late 1980s the estimate was $650 billion.[55] Goldstein et al. compiled data on the expansion

[53] Cohen has defined global finance as encompassing "...all types of cross-border portfolio-type transactions--borrowing and lending, trading of currencies or other financial claims, and the provision of commercial banking or other financial services. It also includes capital flows associated with foreign direct investment...." Benjamin J. Cohen "Phoenix Risen: The Resurrection of Global Finance" World Politics Vol. 48:2 (January 1996) 268-96, 269.

[54] For example, Goldblatt et al have stated: "The ratio of foreign-exchange turnover to world trade has climbed from 10:1 in the early 1980s to more than 60:1 today." David Goldblatt, David Held, Anthony McGrew and Jonathan Perraton "Economic Globalization and the Nation-State: Shifting Balances of Power" Alternatives Vol. 22 (1997) 269-85, 276.

[55] John B. Goodman Monetary Sovereignty: The Politics of Central Banking in Western Europe (Ithaca, N.Y.: Cornell University Press, 1992) 18.

of foreign exchange trading in ten developed countries over the approximate period of the Uruguay Round negotiation, and show that daily foreign exchange turnover increased by 37 per cent from 1989 to 1992; the estimate for worldwide net turnover was $1 trillion, which was nearly double the total non-gold reserves of all industrial countries (i.e., $555.6 billion) in April 1992.[56]

The reasons for the growth in global finance are complicated and subject to academic disagreement.[57] The explanation likely begins with the movement toward a fluctuating exchange rate system in the early 1970s, which reduced the need for central banks to retain capital controls to defend national currencies at fixed values. Advances in information technology which facilitated the movement of capital between countries also played a role. Whatever the exact stimulus, governments in the 1980s proceeded to liberalize international capital movements, which in turn promoted competition between national financial institutions and greatly expanded the menu of financial instruments available in international commerce.[58] The lending activities of international

[56] Morris Goldstein, David Folkerts-Landau, Peter Garber, Liliana Rojas-Suarez, and Michael Spencer International Capital Markets: Part I. Exchange Rate management and International Capital Flows (Washington, D.C.: International Monetary Fund, April 1993) 24.

[57] Cohen has examined these arguments; Cohen, op. cit.

[58] Examples include central and local government securities, corporate debt, equities, commercial paper, bank certificates of deposit, asset-backed securities, and exchange-traded and over-the-counter derivatives. See Morris Goldstein et al. International Capital Markets: Part I. Exchange Rate

banks accelerated quickly and were particularly instrumental in promoting the expansion of global financial markets. The gross size of the international banking market became larger than the total amount of world trade during the period of the initiation of the Uruguay Round, and was more than double (215.6 per cent) world trade by 1991.[59]

The growth of global finance occurred steadily since the early 1970s, but the impact of this phenomenon was not fully appreciated until the late 1980s when the enormity of the foreign exchange market led to popular speculation about the capacity of the global economy to overwhelm national economies and government policy making.[60] Given the hyperbole associated with global financial markets, it is important to assess what was new and not new about the circumstances of the early 1990s. First, the move toward globalization since mid-century was not a new phenomenon, but largely a reopening of an international economy closed down by depression and two world wars. The period 1870-1913 represented a high point of international integration, during which restrictions on capital movements were minimal, cross-national ownership of securities was high, and

Management and International Capital Flows (Washington, D.C.: International Monetary Fund, April 1963) 2.

[59] World Investment Reoprt: Transnational Corporations, Employment and the Workplace (Geneva: UNCTAD, 1994), 120.

[60] E.g., Howard M. Wachtel The Money Mandarins: The Making of a New Supranational Economic Order (Armonk, NY: M.E. Sharpe, 1990); and Richard McKenzie and Dwight Lee Quicksilver Capitalism: How the Rapid Movement of Wealth Has Changed the World (New York: Free Press, 1991).

capital outflows from investing countries reached very high portions of GDP.[61] Second, however rapid the rise of international financial flows, this did not create a single global market for capital which would be characterized by converging national interest rates. Most investment is financed domestically, and even though capital mobility rose continuously since the 1970s, it still did not reach the levels achieved in the 1920s.[62] Finally, the globalization of finance did not mean an end of power of the state to direct and even control the national economies. Against the constraints introduced by capital mobility and fluctuating exchange rates, the state still retained the fundamental powers to tax, spend, and to direct transfers. In most countries, government spending as a proportion of GDP increased steadily since the 1960s.[63]

What was new about the world economy of the 1990s is that the global financial market included many more players than were present in earlier periods of high globalization, ranging from private actors such as pension funds, to bond-issuing sub-national governments, to national governments that did not exist prior to mid-century. The sheer size of the foreign exchange market in comparison to world trade and output was unique in

[61] World Investment Report: Transnational Corporations, Employment and the Workplace (Geneva: UNCTAD, 1994) 120.

[62] "Capital Goes Global" (Schools Brief) The Economist October 25, 1997, 87. See also Alan M. Taylor "International Capital Mobility in History: The Saving-Investment Relationship" (Working Paper 5743) (Cambridge, MA: National Bureau of Economic Research, September, 1996).

[63] "Survey: The World Economy" The Economist September 20, 1997, 7-8.

historical terms. The foreign exchange market is a largely open market, brought about in part by the liberalizing policies of nation states themselves. The result was that market morality became an inescapable condition and point of departure for actors in the world economy of the 1990s, with which the liberalizing thrust of the Uruguay Round was consistent.

(ii) Foreign Direct Investment (FDI).

Foreign investment has made a profound change in the international economy over the past three decades. The change is less a matter of the simple extension of economic activities across national boundaries, but, increasingly, a matter of the formal integration of geographically dispersed activities. More than any other economic variable, FDI is responsible for the passage from shallow integration to deep integration in the international economy.[64]

Foreign investment takes place when "...an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset."[65] The reference to management is important, and

[64] Shallow integration refers to "the spread of market linkages through greater trade and factor flows", while deep integration involves "participation in the international division of labour at the level of production", and "establishes a more lasting linkage between economic agents located in different countries." World Investment Report, 1994 (Geneva: UNCTAD, 1994) 118.

[65] Trade and Foreign Direct Investment: New Report by the WTO, authored by Richard Blackhurst and Adrian Otten (Geneva: World Trade Organization, October, 1996) 6.

especially it distinguishes FDI from portfolio investment, which consists mainly of foreign stocks, bonds and other financial instruments. Historians generally agree that there were significant flows of FDI before World War I, particularly from Britain to its current or former colonies. However, war in 1914, then depression, and then again war in 1939 brought a retrenchment in foreign investment as it did in financial flows more generally. After 1945, foreign investment resumed in what can be seen from the perspective of the 1990s as a series of three stages.

First, beginning in the 1950s, U.S. companies expanded manufacturing in Canada and Europe, and made heavy investments in oil and mineral production throughout the world. At this time FDI was viewed largely as an American phenomenon, and it stimulated concerns over sovereignty and the takeover of domestic industry by foreign interests.[66] Second, by the early 1970s, FDI flows began to diversify as European companies invested abroad in sectors like textiles, clothing and footwear in order to take advantage of lower labour costs outside Europe. Concurrently, nationalistic objections to foreign investment began to attenuate, in part because European investors helped to diversify concerns away from investment as an American phenomenon, and as well because FDI was becoming increasingly valued as a tool for economic development.

[66] Eg. Servan-Schreiber, Jean Jacques The American Challenge (New York: Atheneum, 1969).

Third, in the mid-1980s a sharp increase occurred in FDI flows, mainly from Japan and Europe, as multinational firms sought to contest global markets by accessing foreign technology and improving economies of scale. The boom in FDI flows started in 1985 following the recession of the early 1980s, continued to 1990, and then resumed after a brief downturn in 1990-91. The impact of surging flows during the 1985-90 boom was to more than double the accumulated world stock of FDI over the decade, from $517 billion in 1980 to $1.6 trillion in 1990.[67]

The 1985-90 FDI boom changed the structure of the international economy. Although FDI is a small proportion of domestic investment in all countries, from 1985 onward the growth of FDI was considerably more rapid than the growth of domestic investment. This indicates an increasing orientation toward the international economy by investors in many countries. Furthermore, the pattern of foreign investment changed. Many countries emerged as sources of foreign investment, including countries like Canada that had traditionally been host states for FDI. As well, developed countries that had mainly been the source of investment became major destinations for FDI; for example, by the late 1980s the U.S. share of outward stocks of

[67] Rutter defined stocks as "the cumulative historical book value of direct investors' equity (including reinvested earnings) in, and net outstanding loans to, their foreign affiliates." Flows are "annual direct investment capital flows (equity, reinvested earnings and intercompany debt)...." John Rutter "Recent Trends in International Direct Investment" (Washington, D.C.: U.S. Department of Commerce, Investment Analysis Division, August, 1992) 1.

international direct investment had fallen, and its share of inward stocks had risen to a nearly equal level.[68] Indeed, the 1985-90 FDI boom was largely a developed country phenomenon, and it was not until the early 1990s that developing countries began to increase their share of FDI inflows. Finally, the FDI boom changed the relationship of global foreign production to trade. For the whole decade of the 1980s, foreign investment flows averaged an annual increase of 30 per cent, which was about three times faster than the growth of world exports and four times faster than growth in the world gross national product. The result is that the global foreign production of companies where ownership and financing lie outside the host country exceeded the total of world trade; for example, in 1992, some 207,000 foreign affiliates generated sales of US$5.8 trillion, while the value of global exports of goods and services was US$4.7 trillion.[69] It is clear that FDI and foreign production had become an equal if not more important route to foreign markets as international trade.

An economic definition of globalization can have many aspects,[70] but the basic mechanism of change is foreign

[68] Rutter, op. cit., 8. In 1989, the U.S. share of world (???) outward stocks of IDI was 27.9%, and its share of inward stocks was 26.85.

[69] Recent Developments in International Investment and Transnational Corporations: Trends in Foreign Direct Investment (Geneva: UNCTAD, February 21, 1995) 5.

[70] For example, Ostry defines it as follows: "The ever tightening and more complex linkages among nation-states, first by trade, then by financial flows, and more recently by a surge of foreign direct investment have greatly enhanced the power and ubiquitousness of the multilateral enterprise in the

investment. As defined by the OECD, the globalization of industry is "...the transborder operations of firms undertaken to organise their development, production, sourcing marketing and financing activities."[71] The essence of globalization is the integration of production across national boundaries, or as Richard Lipsey has observed, a globalized economy is one which "...increasingly integrates both the financial and the production sectors of the economies of many individual countries."[72]

Globalization is important because it affects trade and trade policy. Again as noted by the OECD, "... international trade is being increasingly restructured by international investment and international collaboration between firms, as they expand and organize operations more broadly..."[73] One effect of this in the 1980s was to reorganize trade on a regional basis, but in the 1990s this changed more toward a reorganization across regions.

international arena. This deepening integration of the world economy, fed or even led by the continuing revolution in information and communication technology has reinforced the shift to trade policy inside the border and the latent push to system harmonization." Sylvia Ostry Post-Cold War Trading System: Who's On First (Chicago: University of Chicago Press, 1997) xvi-xvii.

[71] Globalization of Industry: Overview and Sector Reports (Paris: Organisation for Economic Co-Operation and Development, 1996) 15.

[72] Richard G. Lipsey "Global change and economic policy" in Nico Stehr and Richard V. Ericson (eds.) The Culture and Power of Knowledge (Berlin: Walter DeGruyter, 1992) 285.

[73] Globalization of Industry, op. cit., 31.

For example, OECD data indicated that although foreign affiliates generally produced for the markets in which they are located, the sales of U.S. and Japanese affiliates became less regionally concentrated over the 1980s, and increasingly directed toward inter-regional or global markets.[74] This was consistent with statements made about globalization in the auto industry, that: "In a global industry...optimization on only a national or regional basis is not sufficient. Significant competitive advantage accrues to companies which can deploy their core capabilities with facility on a broad geographical scale."[75]

As for the impact of globalization on trade policy, it is undeniable that globalization exerted pressure on governments for more liberal trade policies.[76] This led some to suggest the State is in decline, but as previously noted the evidence on this matter goes in the opposite direction.[77] What does occur,

[74] Ibid., pp. 37, 39 and accompanying tables.

[75] Anderson, op.cit., 3.

[76] The OECD report notes: "[Globalization] reinforces the general policy prescriptions of trade liberalisation and non-discriminatory trade and investment regimes....it also underscores the costly and ineffective character of discriminatory policies at a time when "domestic" firms and products are more difficult to recognise and interlinkages and policy leakages are the order of the day." Globalization of Industry, op. cit, 42.

[77] See "The World Economy: The Future of the State" The Economist, September 20, 1997; and Robert Wade "Globalization and Its Limits: Reports of the Death of the National Economy are Greatly Exaggerated" in Suzanne Berger and Ronald Dore (eds) National Diversity and Global Capitalism (Ithaca: Cornell University Press, 1996) 60-88.

however, is that states will come under pressure from their business sectors to liberalize trade policy, and an example of this pressure has been the demands by business for faster tariff cuts than those established in the WTO (and NAFTA) accords. Beyond liberalization, there were demands for global trade policies that corresponded to the global markets that firms were increasingly engaged with. As noted in the Report of the OECD's Group of Thirty, "...the reality is that global companies competing in global markets ultimately require global rules..."[78] The need for global rules was a powerful incentive to complete the Uruguay Round.

V. Impact of Globalization on the Uruguay Round

The lesson of the past decade was that it had become necessary to think differently about international trade. It was necessary to recognize that trade, which historically had always been the main economic link between national societies, was now being integrated into a broader set of relationships that included foreign investment, corporate alliances and other forms of collaboration. Trade in goods and services has been, and probably always will be, the mainstay of economic relations in the international economy, but it had become an element in a broader picture that had a different dynamic.

Was this lesson understood by the government leaders who directed and negotiated the Uruguay Round? The answer is not clear. It was of course understood by high-level observers, as

[78] Geza Feketekuty The New Trade Agenda, Occasional Paper #40 (Washington, D.C.: Group of Thirty, 1992) 29.

demonstrated by a paper published for the Washington-based Group Of Thirty describing the new policy agenda facing international trade.[79] But for those responsible for the conduct of trade negotiations, the specific (and competitive) issues of the negotiation likely commanded more attention than any broad generalities about change in the world trading system. In the communications between negotiators (especially from the United States and European Union), the focus was on defending the requests and offers previously put on the table, and there was less comment on reasons for concluding the negotiation than there had been previously for starting it. In the context of the heated debates that occur in the endgame of a negotiation, any indication that one regards an agreement as important or necessary can unfortunately be interpreted as a sign of weakness.

On the other hand, in GATT negotiation generally, there is one individual whose task is to get an agreement and who is therefore constitutionally empowered to speak for the importance of reaching an agreement. That individual is the mediator, who in GATT negotiations has traditionally been the Director General of the GATT. In the Uruguay Round, Peter Sutherland served as Director-General for the last six months of the negotiation. He presented a series of speeches over that period, and then spoke out even more vigorously in the year following the Uruguay Round's conclusion as various countries

[79] The report commenced with the statement: "As the Uruguay Round draws to a close...a whole new set of challenges [vis., globalization of production and markets] has emerged since the Uruguay Round was launched." (1). The report concluded: "The multilateral trading system must inevitably adapt to the process of internationalization and globalization." (31).

undertook the critical ratification phase of the agreement. These speeches were designed to win support for a proposed new international trade regime, much as two centuries before the Federalist Papers were written to win support of the American people for a proposed new federal constitution for the United States. Just as the Papers provide clues as to why Americans accepted constitutional government, the Director-General's speeches provide some evidence as to the arguments he felt would convince governments to support the Uruguay Round Agreements. What were the themes invoked by the Director-General?

One theme was the theme of change. "It was undeniable," said Sutherland, "that the GATT and the Uruguay Round are about change...the changes that have, in any event, taken place in the world economy over the past two decades and...the change which will take place in the years to come."[80] That change was external and autonomous, and not something created and forced on governments by the GATT itself. As the Director-General said: "The GATT is an effect [and] not a cause of developments taking place at the most fundamental levels of national life."[81]

What were these changes? In the global economy, argued Sutherland, "...policies relating to money, finance and trade have

[80] "Countdown for the Uruguay Round", Address by Peter Sutherland to the Forum de l'Expansion, Paris, 19 October 1993, 1.

[81] Ibid., 2/3.

become inextricably linked."[82] Stability in finance was necessary for expansion in trade, and a credible trade system was necessary for monetary stability. The system was more integrated, which resulted from the liberalization of exchange and capital restrictions, technological change, and innovations in the organization of international business operations.[83] Finally, led by FDI, the system was globalizing, and that: "Liberalisation of international capital flows was in the vanguard of the current process of globalization of markets."[84]

The challenge presented by global economic change was one of structure and organization. Speaking at Davos, the Director-General said that "...change has certainly outstripped the existing structures for economic cooperation."[85] The result was "...a structural deficit in the world economy, in terms of both

[82] Statement by Peter D. Sutherland, Director-General of GATT, to the Interim Committee of the International Monetary Fund, Washington, D.C., 26 September 1993, 1.

[83] "Economic Relations: A Necessary Basis for Peace", Address by Peter D. Sutherland, Director-General, World Trade Organization, to the Inaugural Conference of UCC 150, University College, Cork, 3 January 1995, 2.

[84] Sutherland went on to say that: "The achievement of the Uruguay Round [was] to extend liberalisation to international markets for goods, services and technology." "Consolidating Economic Globalization", Address by Peter D. Sutherland to the Canadian Club, Toronto, 21 March 1994, 2/3.

[85] "Key Issues in the global economy-how the WTO contributes to global solutions", Address by Peter D. Sutherland, Director-General, World Trade Organization, to senior media representatives, Davos, 29 January 1995, 2/3.

the making of policies and their execution."[86] Trade policy needed to be put on "a sounder institutional footing", in order to address the "increasing mismatch between GATT coverage and the realities of world trade [e.g., the growth of trade in services]."[87]

Finally, the solution was one of rulemaking and governance. Invoking Hayek's language that "where there is no law there is no freedom"[88], the Director-General argued that the multilateral rules represented by the Uruguay Round Agreements "...ensure freedom for economic agents to operate in their commercial interests across national frontiers...[and] also enhance the freedom of governments in their trade policy interventions, by defining the scope of actions permissible within the confines of international law."[89] The purpose of rulemaking was to govern change. "Multilateral trade negotiations are crucial," said Sutherland, "...because change needs to be harnessed and encouraged against the background of reasonable multilateral

[86] Ibid., 9.

[87] "Leaders and Choices: What the Uruguay Round Needs to Succeed", Address by Peter D. Sutherland to the National Conference of the Confederation of British Industry, Harrogate, 15 November 1993, 5.

[88] "A New Framework for International Economic Relations", Third Hayek Memorial Lecture by Peter Sutherland, Director-General GATT to the Institute of Economic Affairs in London, 16 June 1994, 6.

[89] Ibid., 6, (italics in original).

rules and disciplines. Without the GATT, the change will take place anyway but the law of the jungle will prevail."[90]

To sum up, the Director-General of the (then) GATT presented a coherent line of argument in support of the Uruguay Round Agreements, based on the developments that had occurred and were occurring in the world economy. In the absence of evidence to the contrary, and given that the Uruguay Round succeeded, one can assume that the Director General's arguments were not only influential, but likely represented what national delegations may have felt but were constrained by the circumstances of the negotiation from voicing. The arguments were profound, and went to the heart of the problem of governance of the world economy. As observed in the Wall Street Journal on the eve of the successful conclusion of the negotiation, "...the [Uruguay Round] is not just a matter of pettifogging trade rules, it represents a fundamental decision about the direction of politics in the 21st century."[91]

VI. Conclusion

The Uruguay Round began with one set of concerns and ended with another. It started with the fear that the world economy was slowing while at the same time trade was becoming more important, and that trade problems such as agriculture, services and textiles--as well as relations between developed and developing countries--were long past the point

[90] "Countdown for the Uruguay Round", op.cit., 2/3.

[91] Editorial, Wall Street Journal, December 15, 1993.

where they needed urgent attention. It concluded with the recognition that the world economy was becoming globalized, and that the GATT trade regime needed a fundamental overhaul for it to be relevant to a changed international environment. In this negotiation, national decision makers appeared to appreciate the importance of the international economy for national economies. Presumably there was a link between problems in the international economy and the policies designed to address them.

On the other hand, there is an argument that in analyzing government actions, one often assumes more order exists in policy making than was the case when the decisions were made. Thus Paul Krugman has observed that:"Policy is rarely a coherent response to perceived problems; more often it represents the outcome of bargains and struggles between groups...." [92] The Uruguay Round could well have been an example of Krugman's observation. It was a hard fought multilateral negotiation with an enormous agenda: surely it would be plausible to expect the outcome would be simply a vast collection of expedient exchanges, with little if any reference to the broader forces at work in the world economy. As for being a coherent response to policy problems, no one associated with negotiations in GATT would claim that coherence was the strong suit of the process.

And yet, the Uruguay Round did produce a result that was relevant to the perceived problems of the day. Decision makers appeared to make the right choices at the Uruguay Round, which

[92] Paul Krugman The Age of Diminished Expectations: U.S. Economic Policy in the 1990s (Cambridge, MA: MIT Press, 1992) 61.

have been confirmed in the passage of time since the completion of the Uruguay Round. Despite the difficulties the WTO has had in its brief history, of which the aborted Seattle Ministerial Meeting was the main example, there has been no serious movement toward repudiating the commitments of the Uruguay Round Agreements. The WTO owes its success to the fact that it was a mainly appropriate response to the problems thrown up by the world economy at the end of the Twentieth Century.