AFTER THE URUGUAY ROUND: THE WAY AHEAD
(REPORT TO THE OECD COUNCIL AT MINISTERIAL LEVEL)

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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This report has been prepared by the Trade Committee for the Council meeting at Ministerial Level on 23-24 May 1995. It aims to assess current patterns in the world economy impinging on trade relations in the post-Uruguay Round period and to provide a vision for the future orientation of the multilateral trading system, along with a roadmap for getting there.

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Executive Summary and Recommendations to Ministers

1. The ratification of the Final Act of the Uruguay Round and the establishment at the beginning of this year of the World Trade Organization are major landmarks in the evolution of the world’s trading system. They provide the fullest response so far to multilateral efforts over nearly half a century in market-opening, rule-making and institution-building in the trade policy field. At the same time they have set in motion a dynamic process which provides for further liberalisation and improvements. These developments have laid the groundwork for significant economic benefits and will strengthen public confidence and support for an open, rules-based trading system.

2. Two major challenges now face the global trading community: first, to ensure that the process of implementation and follow-up actions foreseen in the Uruguay Round Final Act is successful and is not hindered by structural problems or concerns; and second, to work out a programme of action so that the multilateral trading system will continue to liberalise and to adapt to new developments in a rapidly globalising world economy. These challenges must be faced now, so as to maintain the momentum of trade liberalisation and of a mutually agreed-upon trading system capable of underpinning economic efficiency, growth and global stability.

3. In particular, the ongoing globalisation of production and markets, strongly influenced by the technological revolution in services, points to the need for a multi-policy approach to promote the openness of markets to global competition. Such an approach could address coherently the implications for international competition arising from government and private actions in different policy fields. It should thus lead to further market-opening and a deepening and broadening of rules or understandings affecting the conditions under which trade and investment will take place in the future. The OECD has a significant and active role to play at this stage in shaping and helping to move forward this trade agenda.

4. Accordingly, the Trade Committee urges Ministers:

   a) To commit themselves as a matter of highest priority to ensuring a strong and effective WTO, by implementing fully the Uruguay Round Agreements in their respective countries; by avoiding any trade measure that would be in contradiction with the rules; and by complying with and utilising the new dispute settlement system when differences arise and avoiding actions which hamper or weaken it.

   b) To pursue an ongoing public education effort to explain the content and benefits of the Uruguay Round and the World Trade Organisation and to work toward increased transparency of WTO proceedings, where appropriate.
c) To maintain the momentum of trade liberalization and to pursue:

- Active preparation for an ambitious WTO Ministerial meeting in Singapore in 1996;

- The “built-in” WTO agenda, with respect to (i) issues left unresolved in the Uruguay Round, particularly by bringing to a successful conclusion the negotiations on financial services, basic telecommunications, movement of natural persons and maritime transport, by the dates foreseen in the GATS; and (ii) areas in which the Uruguay Round Agreements foresee follow-up action or negotiations.

- Active preparation of further possibilities for new initiatives to reduce trade barriers and other trade distorting measures and for other opportunities to advance or enhance work on the built-in agenda, with a view to the 1996 WTO Ministerial meeting. Some thought such actions should include, *inter alia*, consideration of accelerating the implementation programme of Uruguay Round tariff reductions or seeking further harmonisation of duty rates (including possibly zero rates) in some added sectors. Others thought this premature.

- Work relating to the broader dimensions of market access, to the extent that such access could be affected by: a) domestic policies such as competition, investment, regulatory reform, technological innovation, environment and labour policies; and b) restrictive market structures and anticompetitive business practices. These issues have become increasingly prominent in a world economy characterised by increased globalization and deeper integration among economies and regions.

d) To endorse pursuing work in the OECD on emerging issues along the following lines, with a view to ensuring that the multilateral system responds to the challenges facing business, consumers, labour and governments, while maintaining progress toward liberalisation and facilitating effective structural reform:

- Carefully defining and developing possible solutions to new issues through research, analysis, discussion and consensus-building.

- Negotiating in the OECD a free-standing multilateral agreement on investment (MAI) with the objective of reaching agreement by the time of the OECD Ministerial meeting in 1997. Given the desirability of accession by non-Member countries to the MAI, appropriate means should be established for informing and consulting non-Members during the negotiations. It would also be appropriate to envisage possible future discussions on investment in the WTO.

- Further defining the issues arising from interlinkages between trade and competition and studying options as appropriate for promoting international co-operation and for integrating national competition rules into a multilateral system, consistent with the report to Ministers in 1994 on trade and competition.
Pursuing work on outstanding issues on trade and environment, drawing on past results in the OECD and on the work in the WTO and other fora, so as to deepen the analysis and help build consensus on options or recommendations for further promoting the compatibility and mutual reinforcement of trade and environmental policies in practice in order to contribute to sustainable development and avoiding or resolving potential frictions among governments.

Continuing the work on trade, employment and labour standards.

Seeking improved coherence between trade policies and other economic policies with international implications. Domestic regulatory reform should be encouraged because it can be a strong tool for achieving policy coherence and can contribute to the openness of markets and reducing trade distortions.

Considering possible analytical approaches to assessing the openness of national markets to global competition. The concept of market access has to be significantly broadened, so that it encompasses not only the conditions of entry into a market but also the conditions for investing and conducting business in each market. Processes could be developed within the OECD for deepening understanding of the range of impediments to market access from domestic policies or private practices that distort trade or investment flows.

Making full use of internationally agreed co-operative approaches to curb corruption and bribery associated with international trade and investment.

e) To ensure that regional trade arrangements in which their countries participate are consistent both in letter and in spirit with the newly-strengthened multilateral trading system and that these regional arrangements are developed and managed in such a way that they continue to add to the momentum of liberalization and to strengthen the global trading system. The OECD should pursue its monitoring and analysis of regional integration to ensure that it continues to complement and strengthen the multilateral system. The OECD should also be used as a forum for dialogue, understanding and consensus-building among members of major regional groups and other countries, including non-Members.

f) To facilitate the further integration of non-Member countries into the multilateral trading system. In particular, the OECD dialogues with DNMEs and with economies in transition can contribute to global consensus building and provide active support to trade policy reforms.
I. A more open and predictable trading system: challenges and opportunities

5. Open and predictable trade and investment regimes provide a strong stimulus for economic growth and jobs. In particular, a liberal trading system with transparent rules and procedures facilitates stable relationships and dialogue among governments and the global organisation of enterprise through investment, trade and technology transfer. The need for such a system is particularly crucial as new technologies and deregulation expand the opportunities for participating in the world market and intensified competition requires access to large markets to achieve economies of scale, efficiency and competitiveness. Consumers also gain from an open, rules-based system with a wider range of goods or services available at lower average costs.

6. Empirical studies done by the OECD and others such as the WTO, the IBRD and UNCTAD have shown that significant economic gains have been achieved from the elimination of market access barriers and improved international trade rules -- most recently by the successful completion of the Uruguay Round, which was forecast by the GATT at the end of last year to provide a world-wide income gain of up to $510 billion per year by the year 2005. These gains could be enhanced in the future through further liberalization and strengthened multilateral rules.

7. As progress is made toward further trade liberalization and a better functioning of the international economic system, structural adjustment increasingly becomes a key element in taking advantage of the opportunities for efficient production and wealth creation offered by globalisation and rapid technological change. Nevertheless, pressures often arise to resist adjustment, especially in industries where structural unemployment has remained high and where serious downward pressure may have been exerted on the wages of unskilled workers. Labour market rigidities are also a likely contributing factor to the persistently high levels of structural unemployment experienced by many nations in recent years.

8. If not addressed effectively, these perceptions of the risks arising from a rapidly internationalizing and changing global economy may undermine public support for the open multilateral system. A particular concern is that “unfair” competition may result from international differences in domestic policies, business practices and levels of prices, wages or living standards. While protectionist pressures induced by such perceptions will likely be sector-specific, the political difficulty is increased of pursuing sound adjustment policies, including open trade and investment policies.

9. At the same time, a clear political commitment to further liberalisation and deeper economic integration remains evident. At the multilateral level this commitment was expressed most clearly at Marrakesh. Significant expressions have also come through achievements and plans for the expansion and deepening of the European market, as well as decisions made late last year by the APEC Economic Leaders in Bogor and by leaders of Western Hemisphere Nations in Miami to achieve free trade in their respective regions by specific target dates. The post-Uruguay Round period is thus very different from the post-Tokyo Round period: large parts of the world are ready to engage in further international liberalization and rule-making.
II. Recent trends in the world economy

10. The world economy continues to evolve quickly. The globalization of production and markets has accelerated in the past decade, fuelled by technological innovation, deregulation and the liberalisation of trade and capital flows. With the dispersal of production and of marketing processes world-wide, the competitiveness of firms has been enhanced by greater efficiency in the use of factors of production and in the design of customised products in close contact with end-users. At the same time, globalisation has entailed a blurring of the nationality of firms and of products, which has presented new challenges to governments in managing their economies and a growing sense of economic uncertainty among economic actors as they face strong international competition and the need for adjustment. In these circumstances, firms are very conscious of the policy context in which they and their competitors must operate.

11. Globalisation has been underpinning continued strong expansion of trade and foreign direct investment, including of intra-corporate and intra-industry trade. However, decisions to trade are increasingly an integral element of broader business strategies relating to the efficient organisation and location of production and marketing activities. With international competition becoming increasingly intense, the ability of newly-developed and incorporated technology to enhance competitiveness provides incentives for firms to form strategic alliances or joint ventures and to seek economies of scale in production and marketing, thus reducing transaction costs, spreading the high costs of research and development and influencing trade and investment flows world-wide.

12. The rapidity of technological change and the shortening of product cycles have made many domestic regulations appear obsolete and costly. The resulting pressure for regulatory reform presents a unique opportunity for shaping national systems in a way that will enhance the openness of markets and reduce the degree to which regulations create obstacles to international competition.

13. New technologies and regulatory innovations have made it possible to supply many infrastructure services on a competitive basis and have opened up possibilities for international trade in such services. This is underlyng the need to develop further international ground rules for the competitive provision of services.

14. In addition to the emergence of new products and of innovative patterns of production and corporate organization, an increasing number of countries are important actors in the world economy. Developing countries played an important role in the Uruguay Round negotiations and through the single undertaking committed themselves to implementing the entire package. With rapid growth, many of these countries see their stake growing in a well-functioning world economy and are prepared to engage substantively in the discussion of how and when to open markets further and to deepen and broaden international rule-making or understandings on issues that affect trade. Economies in transition to market-based disciplines are also seeking to understand what commitments are expected of them in the world economy and to play an increasingly important role in shaping the agenda to respond to their particular needs.
15. Against the background of these developments, many countries have been attracted to strengthen regional co-operation. Regional trade agreements have become a permanent fixture of the global trading system, for reasons of politics and economics. The political reasons often relate to the search for a stable international political order. The economic reasons are related to the fact that in many industries market-opening and the internationalization of production have been easiest to achieve on a continental basis. The momentum associated with regional trade initiatives in recent years reflects attempts by governments to come to grips with the realities of deeper economic interdependence through a drive for greater and more quickly realizable liberalization.

III. A vision for the future

16. The ultimate goal is a free and open, rules-based system for carrying out economic activities in the world economy for the strong long-term benefit of all stakeholders. This system will be characterised by open trade and investment regimes and an effective framework for international co-operation that minimizes frictions between trading partners. To achieve this, the multilateral system will need to provide stability, predictability and confidence in external economic relations by ensuring that differing domestic rules, regulations and practices do not unnecessarily distort trade and investment flows, and that foreign firms are provided access and opportunities to operate that are equivalent to those of domestic firms - thus ensuring the openness of national markets to global competition.

17. A first and necessary element of a forward-looking vision is to implement the Uruguay Round agreements fully and effectively, so as to ensure achievement of the benefits expected from the conclusion of the Round, including confidence in the system on the part of governments as well as of private sector stakeholders. This confidence will depend importantly upon the efficiency and the objectivity of the new dispute settlement system. All actions that would impair the smooth functioning of these procedures must be avoided. Over time, analysis of effects of the outcome of the Uruguay Round will aid in securing these benefits and in providing a solid basis for further liberalisation and strengthening of the system.

18. Another element of the vision is the process of dynamic reform through the built-in WTO agenda of follow-up action and negotiations. A successful conclusion of negotiations currently underway, e.g. on financial services, the movement of natural persons, basic telecommunications and maritime transport, will strengthen the credibility of the future WTO negotiating programme. In addition, further attention to tariff and non-tariff measures will be necessary in the future.

19. But more is necessary to ensure the vibrancy of the multilateral system and its effectiveness in responding to the challenges of the future. Since trade and trade policy are increasingly affected by many different areas of government and private sector actions, a more comprehensive global framework is needed for the years ahead. Conceptual and institutional distinctions that policy makers have traditionally made among foreign trade, investment and other policy fields are seen by global firms as becoming increasingly ineffective and an obstacle to efficient decision-making. The concept of market access has to be significantly broadened, so that it encompasses not only the conditions of entry into a market but also the conditions for investing and conducting business in each market.
20. Thus, it will be necessary to take an integrated approach to the factors that could adversely affect the openness of national markets to global competition. In particular, issues arising in the triad of policy areas (trade, investment and competition) will be important for ensuring that the central objectives of more open markets and avoidance of systemic frictions remain attainable well into the next century. In addition, fuller analysis and more systematic co-operation on issues such as sustainable development, environmental protection or labour standards may serve to reduce concern that such issues are a source of unfair competition or are unduly distortive of trade and investment flows.

21. While all countries will need to prepare to deal effectively with emerging issues affecting trade, new actors in the world economy in particular must become fully engaged in both the process and the results of the evolving multilateral trade system. The economies in transition will need to continue to bring their trade practices fully into conformity with WTO obligations, resisting protectionist pressures by domestic industries and foreign investors alike. Many developing countries with a stake in the international system will need to contribute as full partners to the universal set of trade rules and practices. With respect to these two groups of countries, the ongoing OECD programmes for outreach and policy dialogue should help develop greater substantive content and consensus on specific issues as countries and international institutions look to working even more closely together to strengthen the global system of rules, practices and understandings. Moreover, accession negotiations to the WTO are a particularly important opportunity to establish a firm understanding and acceptance of international disciplines and of how domestic reform elements in these economies can most profitably and predictably intersect with international disciplines to the benefit of all.

22. This collective need to move forward may be supported and strengthened by the continuing process of regional integration. By enabling deeper liberalisation over a broader range of policy areas, regional trade agreements have so far been way-stations to achieving more of the benefits of a global economy. Further, they may provide support for the multilateral system by acting as a testing ground for the negotiation and design of rules and procedures for areas or issues not yet covered either fully or partially by multilateral rules. By contributing to understanding and acceptance of more integrated and horizontal architectures, rule-making at the regional or plurilateral levels can generate powerful constituencies for the WTO’s own architecture of rules. However, existing trade rules governing the creation of regional trade agreements can only help ensure that such agreements do not result in major increases in protection vis-à-vis outsiders; they cannot guarantee that the agreements will contribute to the smooth functioning of the multilateral trading system. Regional trade agreements must be well managed and subject to multilateral discussion and review to ensure that the overarching market opening and stability-enhancing objectives are met and that concerns on the part of non-participants are addressed effectively.

23. In order to respond effectively to the changing realities of the world economy, a coherent and expanded multilateral trading system will need to include:

- core disciplines and principles to be applied across a broad range of policy areas, such as non-discrimination, national treatment, mutual recognition and transparency, complemented by consultation and dispute settlement procedures; these have become even more important in a globalised economy;
further liberalization of trade and investment in goods and services in areas where significant barriers exist, leading to the global reduction or elimination of barriers at the border as well as of barriers embodied in regulations and procedures;

- development of rules to facilitate the competitive provision of global infrastructure services;

- principles and procedures to encourage domestic deregulation and to help ensure that regulatory reform measures frequently undertaken by countries in response to their own internal economic pressures will contribute to the openness of their markets and facilitate international competition;

- instruments and procedures fully capable of addressing the potential need for new disciplines and principles in areas such as investment and competition policies that may affect the flow of trade and investment.

IV. A roadmap for the future multilateral system

24. The following areas of action and work are expected to translate progressively the vision expressed above into reality. They will do so by helping to marshal support during the critical first years of the WTO and by providing means for the continuous adaptation of the trading system to the changing needs of the world economy. While specific issues, timetables, and venues for future work are often not yet clear, it is possible to identify the elements of a roadmap and accompanying workplan to move ahead on the global agenda. These elements are reflected in the ongoing negotiations and discussions in the WTO, as well as in work in OECD and elsewhere.

A. Implementation of the Uruguay Round Agreements and follow-up in the WTO:

25. The following actions will help ensure that the economic benefits expected to accrue from the Uruguay Round Agreements are realised and that strengthened disciplines and procedures are incorporated into the multilateral trading system, providing a strong basis on which to build for the future:

- According priority to full and effective implementation of the Uruguay Round Agreements.

- Monitoring the Agreements to ensure their full implementation both in letter and in spirit.

- Explaining the Agreements fully to relevant stakeholders around the world.

- Achieving a successful conclusion to the unfinished negotiations now underway in Geneva on service sectors, in the first instance financial services.
Active pursuit of other follow-up actions or negotiations in the broad range of areas according to the schedule foreseen in the Final Act, including on rules of origin, intellectual property, agriculture, subsidies, investment, government procurement and areas identified in the GATS but not yet underway.

Active preparation of further possibilities for new initiatives to reduce trade barriers and other trade distorting measures and for other opportunities to advance or enhance work on the built-in agenda, with a view to the 1996 WTO Ministerial meeting. Some thought such actions should include, inter alia, consideration of accelerating the implementation programme of Uruguay Round tariff reductions or seeking further harmonisation of duty rates (including possibly zero rates) in some added sectors. Others thought this premature.

Strengthening efforts to ensure that all of the major economies become members of the WTO by committing themselves to adhere to the open and rules-based system of the WTO.

Enhancing the transparency of WTO proceedings where appropriate.

B. Work in OECD on the post Uruguay Round system:

26. Discussions and analytical work are being pursued to deepen understanding of the importance for the future of a smooth-functioning and dynamic trading system. This work supports the successful implementation of the Uruguay Round Agreements and the achievement of the "built-in agenda" by addressing the risks facing the multilateral trading system and analysing options for strengthening it.

27. In the context of globalisation and deeper economic integration, there are many domestic policy areas where some see international differences as hindering market access and distorting competition (for example, those relating to regulatory reforms, competition policy, investment policy, technological innovation policy, environment policy and labour policy) and where, in some cases, suggestions have arisen to use trade measures to compensate possible distortions or to promote other policy objectives. In order to secure the benefits of globalisation and trade liberalisation, work is continuing in the OECD and elsewhere to deepen understanding and set out the most appropriate approaches for making early progress. Of particular importance are:

a) Analysis in the OECD of the broader dimensions of market access as determined by government policies in the fields of trade, competition, investment and technological innovation, as well as by global strategies and anticompetitive practices of businesses. The different aspects being examined include the need and options for:

- strengthened policy coherence at the national level in an increasingly deregulated environment;
- strengthened co-operation or convergence in particular policy areas at the international level;
- incorporating aspects of different policy areas in an open, rules-based multilateral framework.

b) Negotiating in the OECD a free-standing multilateral agreement on investment (MAI) with the objective of reaching agreement by the time of the OECD Ministerial meeting in 1997. Given the desirability of accession by non-Member countries to the MAI, appropriate means should be established for informing and consulting non-Members during the negotiations. It would also be appropriate to envisage possible future discussions on investment in the WTO.

c) Work on trade and competition to further define the issues and study options as appropriate for promoting international co-operation and for integrating national competition rules into a multilateral system, consistent with the report to Ministers in 1994 on trade and competition.

d) Work to develop an understanding of differences in various countries’ trade and technology policies, including the issues of access to information infrastructures and to government-supported R&D.

e) Work on trade and environment, which has resulted in a separate report to Ministers this year. Future work will draw on results as they are achieved in the OECD, the WTO and other fora so as to deepen the analysis and help build consensus on options or recommendations for promoting policy compatibility and avoiding or resolving potential frictions.

f) The analysis in OECD on the possible relationship between trade, employment and labour standards, on which a progress report is presented to Ministers this year. The objective is to enhance public support for open trade policies, to avoid the emergence of protectionist outcomes and to keep the ILO as the principal focus of international efforts to develop agreement on core labour standards and to monitor their implementation and observance. Continuation of this exercise will focus on aspects that need deeper understanding, consistent with the mandate given in 1994.

g) Work in OECD to strengthen discipline and transparency in the Export Credit Arrangement, including putting in place guiding principles for setting premia fees and related conditions and a sector understanding on officially supported export credits for agricultural products. A separate report on this work is made to Ministers, which also records the importance of the Helsinki tied-aid disciplines and of advancing work on untying of aid and investigating market window operations.

h) Consideration of possible analytical approaches to assessing the openness of national markets to global competition (or "market contestability"). The concept of market access has to be significantly broadened, so that it encompasses not only the conditions of entry into a market but also the conditions for investing and conducting business in each market. Processes could be developed within the OECD for deepening understanding of the range of impediments to market access from domestic policies or private practices that distort trade or investment flows.
i) To ensure that regional trade arrangements in which their countries participate are consistent both in letter and in spirit with the newly-strengthened multilateral trading system and that these regional arrangements are developed and managed in such a way that they continue to add to the momentum of liberalization and to strengthen the global trading system. The OECD should pursue its monitoring and analysis of regional integration to ensure that it continues to complement and strengthen the multilateral system. The OECD should also be used as a forum for dialogue, understanding and consensus-building among members of major regional groups and other countries, including non-Members.

C. Concerning new players and private stakeholders:

- Pursuit of the OECD dialogues; including with DNMEs and other major players so that they increasingly become partners in the analysis and consensus-building, as well as with the economies in transition, in Europe and elsewhere, to support their trade policy reforms to meet contemporary global standards.

- Close consultations between governments and appropriate private parties having a stake and expertise in the effective and equitable operation of the trading system. This will include business, labour, consumer and other non-governmental groups.