

## **BENEFITS OF MULTILATERAL LIBERALIZATION FOR THE COUNTRIES WHICH ARE EXPORTING LIGHT INDUSTRY PRODUCTS IN A KNOWLEDGE BASED SOCIETY**

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**Abstract:** *The evolution of international economic processes, interdependencies between countries, between production and goods movements under the incidence and the impact of scientific and technical progress required, in the middle of the 20th century, the institutionalization of the economic liberalization process by laying the foundations of GATT (General Agreement for Tariffs and Trade - transformed later in WTO - World Trade Organization). Initially, GATT's rules were applied only for goods trade but gradually it had broadened its sphere of activity.*

*Based on interpretative approach, in this paper we analyze the degree in which GATT - WTO activity can solve the business problems of the countries which are exporting industrial light products (we are talking especially about developing countries).*

*WTO multilateral agreements concern among others agriculture, textiles, food products and industrial standards. In this paper, we want to show that exporting countries of light products can enjoy many advantages due to the signing of agreements in a multilateral frame. This type of benefits are directly reflected in the economic growth and development of the society based on knowledge.*

**Keywords:** *economic liberalization, knowledge society, export, light industry products, economic and social growth, development.*

### **Methods and methodology**

The theme is dwelt upon from a conceptual standpoint, on the basis of varied, direct and indirect methods, like analysis, synthesis, observation.

### **Introduction**

The multilateral commercial system's tendency towards development is determined by the evolution of the international economic processes, of the interdependencies between the production and the circulation of goods within the

international division of labour, under the incidence and influence of the technical-scientific progress. Under these circumstances, the commercial policies promoted by different states acquire new forms, sizes and values.

After World War II, many economists believed in the possibility of a restructuring crisis, regarding the world expansion as a key for the "free world's" power<sup>1</sup>, so that the United States came with a project of reconstruction of the

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<sup>1</sup> Irwin Douglas, *Free trade under fire*, Princeton University Press, Oxford, 2003, p. 34.

international trade based upon the suppression of the preferential regional agreements (following the Commonwealth's model) and upon multilateral negotiations.<sup>2</sup>

The measures the Americans foresaw were relying on the abolishing of trade discrimination, on the control of the depreciation policy, on the liberty of the capital mobility, on the free convertibility of currency, on the multilateralization of exchanges and payments. For them, peace and the return to the liberty of trade do not exclude each other but, on the contrary, they presume each other. Thus, the world states started a wide action, aiming at liberalizing the multilateral trade exchanges in order to reduce economic and social gaps between the industrialized and the industrializing countries<sup>3</sup>.

## Results and Discussion

The first major effort to adopt the rules meant to organize the international trade relationships was made, as we mentioned above, by some countries immediately after World War II, when emerged the necessity to create an organism that should watch, control and get directly involved in the development of the international trade. These efforts led to the 1948 adoption of the General Agreement on Tariffs and Trade (GATT), whose rules were applied to the international trade of goods. In time, the GATT text has been modified, to include new provisions and especially to deal with the developing countries' trade problems. Moreover, a number of *subsidiary agreements* were adopted, detailing some of the main provisions of GATT. *GATT* and *subsidiary agreements* were revised and improved over several

rounds of negotiations, the most important one being the Uruguay Round, from 1986 to 1994.

One of the results of the Uruguay Round was the creation of the WTO (World Trade Organization), on 1<sup>st</sup> of January 1995. GATT, under whose auspices these negotiations were started, was included in the WTO.

WTO is responsible for the control of the multilateral trade system, which has gradually evolved over the last decades and it also represents a forum for the continuation of negotiations on the liberalization of trade with goods and services, by abolishing barriers and elaborating new rules in the trade related fields. The WTO agreements stipulate a common mechanism to regulate the disputes by which the members defend their rights and regulate the divergences between them.

Currently, only few countries are not part of the WTO system, which were in the past planned economies, and some of the developing countries. The countries with a transition economy regard WTO as a structure that offers important opportunities to get integrated in the world economy and to improve the national legal basis in the economic and commercial fields.

WTO represents the institutional-legal basis of the multilateral trade system, being the only international organization that deals with the global rules of trade between countries<sup>4</sup>.

The organization particularly focuses on the necessity to make special efforts to support the participation of the developing countries and especially of LDCs in the raising of the world trade<sup>5</sup>.

The WTO agreements are voluminous and complex, referring to agriculture, textiles

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<sup>2</sup> Teulon Frederic, *Comerț internațional*, Editura Institutului European, Iași, 1996, p. 43

<sup>3</sup> Haller A.P., *Exporturile - factor de dezvoltare și creștere economică*, Editura Performantica, Iași, 2008, p. 41

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<sup>4</sup> Dinuță I., *Relații Economice Multilaterale*, Editura Scrisul Românesc, Craiova, 1995, p.54

<sup>5</sup> Dinuță I., *Relații Economice Multilaterale*, Editura Scrisul Românesc, Craiova, 1995, p. 56

and clothing industry, bank system, industrial standards, intellectual property and many other fields. At the basis of these documents there are principles representing the foundation of the multilateral trade system:

a) mutual and unconditional granting of the most favoured nation clause. According to the WTO agreements, the states are not allowed to show discrimination towards their trade partners. If a partner was offered a special favour (like a smaller customs tax for a product), this will be applied to all the other WTO members. This principle is the first GATT article, being a priority in GATS (*General Agreement on Trade in Services*, art. II) and in TRIPS (*Agreement on Trade-Related Aspects of Intellectual Property Rights*, art. IV).

Yet, the GATT rules allow for the customs taxes and other barriers standing in the way of trade to be preferentially reduced within the regional arrangements. The reduction of customs taxes, applicable in the relations between the members within regional arrangements should not be extended upon other countries. The regional preferential arrangements represent an important exception to the rule of the most favoured nation clause. Such arrangements could borrow the *customs unions* or the *free trade areas*.

b) The granting of the national treatment clause, a fact that involves equal attitude towards the import and the domestic goods, after the import goods' penetration on the market. The same is true in the case of the services made by foreign and national agents, in the case of national and foreign trademarks, of the copyright and of patents. This principle is provided in the three main agreements of the WTO, though it is differently approached in each of them.

c) The elimination of quantitative restrictions and their application among the member states only in the exceptional

situations commonly admitted, on an undiscriminating basis, given that the protection of national economy in front of the foreign competition is made only by means of customs taxes.

An exception allows the countries facing difficulties related to the balance of payments to restrict imports in order to safeguard the external financial position. This exception grants a bigger flexibility to developing countries as far as the utilization of the quantitative restrictions in imports are concerned, if these restrictions are necessary to prevent a serious downward slope of the currency reserves.

d) The interdiction of disloyal competition, represented by the application of subventions and dumping prices in export. The non-discriminatory rules – the most favoured nation clause and the national treatment – are elaborated in such a manner as to ensure loyal conditions for trade. Many of the WTO agreements play the role of supporting loyal competition (in agriculture, for instance, or intellectual property, services).

e) The utilization of a methodology of customs evaluation that could reflect the real value of goods, in order to fulfil the correct functioning of the customs taxes resulted from the multilateral negotiations.

f) The fulfilling of obligations. Within WTO, if the states agree to open their markets for goods and services, they make some mandatory commitments, which can be modified after negotiations with the trade partners, involving the payment of some compensation for the partners' prejudice.

g) The parties' engagement to negotiate at a multilateral level the reduction or the abolishing of customs taxes and of other hinders in the way of the international trade.

h) Encouraging the development and the economic reform.

WTO offers multiple benefits, some of them well-known, others less obvious. The

objective of this system based on rules is to ensure that the markets stay open and to avoid the interruption of access by sudden and arbitrary imposition of restrictions upon imports.

In some developing countries, the business communities are still not fully aware of the advantages of WTO trade system. Yet, the multilateral trade system does not only offer benefits to the industrial producers and to enterprises, but it also creates rights in their favour<sup>6</sup>. These advantages would be:

a) *it contributes to maintaining international security.* Particularly, security is a result of the application of the trade system's most important principles.

b) *it allows constructive solutions for disputes.* It offers effective modalities to peacefully and constructively settle the disagreements pertaining to trade activities. Moreover, trade means several possibilities of disagreements. The fact that the countries can resort to WTO to regulate their dispute is a substantial contribution to the soothing the international tensions from the trade area.

c) *trade stimulates economic growth,* representing a potentiality to create workplaces. Practice shows that the diminution of the number of trade obstacles positively influence the number the workplaces. A well-planned policy could make easier the employment problems.

d) *free trade reduces costs.* The studies on the impact of protectionism and of free trade demonstrated that protectionism is expensive, determining the price raising. The multilateral trade system aims at reducing trade barriers through the commonly agreed rules and bases upon the principle of non-discrimination. The result – a reduction of production costs and a

reduction of prices for finished articles and services.

e) *trade contributes to income raising.* The analyses and evaluation of the impact had by the Uruguay Round (and therefore of the WTO foundation) or by the creation of the EU common market demonstrated that these processes ended up with considerable supplementary incomes, thus stimulating the processes of economic development. Trade involves challenges and some risks – domestic producers must offer products as qualitative as the imported ones, but not everyone succeeds. The fact that supplementary incomes are generated, demonstrates the existence of the necessary resources for the governments to redistribute the available benefits, for instance, to help the economic agents become more competitive.

f) *the system encourages the governing.* The governments often use the multilateral trade framework as internal restriction useful in elaborating economic policies, arguing that they could not proceed differently, not to contradict the WTO agreements. For business, engaging entails a greater certitude and clarity in the trade conditions, and for governments, it means more discipline and correctness.

The advantages for the exporters of goods and services are:

a) *the security of access.* In goods trade, almost all the customs taxes of the developed countries and a big part of the developing ones were consolidated within WTO against their rise. The consolidation ensures the fact that the improved access on the market, obtained by tariff reductions included in the lists of concessions for each country, should not be interrupted by sudden tax rises or the imposition of other restrictions by the importing countries. In the field of services, the countries engaged not to restrict the access of products beyond the conditions and limitations mentioned in their national lists.

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<sup>6</sup> Hoekman Bernard, *The Political Economy of the World Trading System*, Oxford University Press, 2001, p. 87

b) *the stability of access*. The system also ensures the stability of access on the export markets, requiring all the states to apply a uniform set of rules, elaborated within different agreements. The countries have the obligation to ensure conformity to the pertinent agreement provisions for the rules regarding the value determination in customs, the inspection of products with a view to establishing the mandatory standards of quality or the emission of import licenses.

There are frequent situations when companies are forced to acquire from import raw materials, intermediary products and necessary services for the export production. The basic rule, requiring for the exports to be allowed without further restrictions, after the payment of taxes and the obligation to ensure conformity of the other national rules applied in customs with uniform rules within the *Agreements*, facilitates imports. The exporting industries are thus granted a certain guarantee to procure the necessities without delay and at competitive prices. Furthermore, the tariff consolidations serve to assuring importers that import costs will not be raised by increased customs taxes.

The whole GATT system is based on four basic rules:

1. *The protection of national industry by customs taxes*. Though GATT aims at gradually liberalizing the trade, it admits that the member countries could be in the situation to protect their domestic production in front of the foreign competition. Yet, it asks the countries to ensure protection through customs taxes. The utilization of quantitative restrictions is forbidden, with the exception of a limited number of situations.

2. *Ceiling of tariffs*. The countries are required, every time this is possible, to reduce or to eliminate the protection of the domestic production by reducing customs taxes and removing the other trade barriers within multilateral trade negotiations. At

the same time, the rule provides the ceiling of reduced tariffs, that is the exclusion of their subsequent raising.

3. *The most favoured country clause*. This important GATT rule refers to the principle of non-discrimination. Thus, if a member state grants to another country any tariff or any advantage for certain products, it must immediately and unconditionally extend it on the similar products of other countries. This obligation is applied both to imports, and to exports. If a country takes taxes for export towards a certain destination, it must take the same tax for the export to all destinations. There are derogations to it as well. The exchanges between the *General Agreements of Trade* members submitted to preferential customs taxes or are exempted from these taxes are one of the exceptions. Another one is the *Generalized System of Preferences* granted to the developing countries by the developed ones.

4. *National treatment*. According to this principle, an imported product that passed the frontier after having paid the customs taxes and other taxes benefits by a treatment equal to the one applied to local products.

GATT also includes annexes that refer to agriculture, textile industry, state trade, standard products, subventions and actions against the dumping practices. The countries engage in categories of merchandise, referring to the reduction and limitation of customs tariffs for the import of products. In certain cases, tariffs are reduced to zero, in other cases, they are just limited. Therefore, engagements are taken to WTO, for a product to be applied one rate that will not be raised in the future.

The Uruguay Round offers some advantages for the developing countries. On the one hand, many of these states resisted, especially at the end of negotiations, the American demands, that their domestic policies, the industry of

services, the foreign investments and the industrial property should become an object of negotiations within GATT. On the other hand, the perspective of a significant reduction of agricultural protection and for a big share of the textiles and clothing industry, offers the possibility of real gains for many of the developing countries.

The Final Act of the Uruguay Round reflects a numbers of compromises between the developed countries' requirements and the developing countries' possibilities<sup>7</sup>. For instance, in the case of TRIPS, the licensing of patented investments is allowed, but under certain conditions, including the compensations for the patent owner. This is a significant compromise of the American standpoint, mainly shared by the UE and Japan, that the mandatory licensing will not be allowed for a period of twenty years of patent protection.

In the case of TRIMS, the *Final Act* shortly characterizes the demands for the technological transfer that violates the trade rules and allows significant scope for investments with a view to make sure that the foreign companies will contribute in the host-country's developing. Again, USA made big pressures for a more restrictive variant as far as the investments measures are concerned.

While the general provisions of the *Final Act* reflect the developing countries' interests in several fields, the tendency was not to grant them wider exceptions.

In certain cases, the developing countries can benefit by a longer period to follow, at the domestic level, the rules, but the result of the Uruguay Round demonstrates that they would be required to make mutual arrangements of trade liberalization<sup>8</sup>.

The agreement on agriculture allows the developing countries to reduce protection and internal support for a period of ten years. Article 15 stipulates that the normal period of implementation for the developing countries should be six years. The effects of liberalization established in the *agreement for agriculture* on the developing countries are different. Like *Winters* suggests, the "exporters of products from the temperate areas, whose prices are the most affected by the liberalization of industry, have direct and strong interests in starting protection; their gains will significantly raise". The importers will be submitted to less desirable consequences. The fact that the liberalization of commerce in agriculture can have negative outcomes as well, especially for the developed countries, is taken into consideration in the decision regarding the measures taken for possible consequences on the reform programmes in the less developed countries, importers of farm products. The ministers of Commerce should make sure that the LDCs benefit by sufficient quantities of food products and technical assistance to develop their own farm sectors.

When the *Agreement on Textiles and Clothing Industry* comes into force, the members are to remove the restrictions based upon the *MultiFiber Agreement* or on the bilateral agreements upon the products summing up at least 16% of the total amount of their imports in the following groups of goods: fibres, textile processed products, ready-made clothes. Considering the restrictions remaining after this initial phase of liberalization, over three years, the members have to remove the restrictions upon the products for a supplementary percentage of 17% of the total import amount in the terms of the 1990s. The elimination of restrictions for products holding at least 18% of the total

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<sup>7</sup> Jackson John, *Word Trading System Law and Policy of International Economic Relations*, Princeton University Press, Oxford, 2003, p. 144

<sup>8</sup> Jackson John, *Word Trading System Law and Policy of International Economic Relations*, Princeton University Press, Oxford, 2003, p. 145

imports amount is necessary after seven years. All restrictions remained will be eliminated over ten years since the agreement's enforcement. These agreements of liberalization are only applied to the restrictions imposed within the *MultiFiber Agreement* or the bilateral arrangements beyond the legal framework of GATT. The agreement on the technical barriers stipulates that the developing countries will be offered, upon request, technical assistance and consultancy by other members, in order to facilitate the process of technical standardization. They will occur under the "commonly agreed terms and conditions"<sup>9</sup>. The agreement on the subventions forbids the subsidizing of exports after a transition period of eight years (art. 27/1). Once a country reached the "competitiveness of export" for a certain product, it must give up subventions (art. 27/4). *Competitiveness of export* supposes reaching the 3.25% of the world trade for two consecutive years (art. 27/5).

### **Conclusions**

We could first of all conclude that the WTO enforcing represents a particularly important moment, but not important enough to ensure the effectiveness of the new multilateral trade system. From the practice of the first functioning months of the organization, one could infer that a permanent "wakeful state" is necessary for all member states, meant to ensure the functioning of all engagements of this system in the requested rhythm.

Secondly, the efforts meant to establish the trade multilateralism and the tendencies to solve the major problems in restricted circles should also be continued.

The processes of globalization and liberalization determined the

transformation of the international trade into a powerful engine of growth and into an important mechanism for the integration of countries in the global economy. A big number of developing countries took advantage from the existing opportunities, obtaining a rapid growth of their economies. Yet, not all states were able to benefit from these opportunities. There is a real risk for them to be still marginalized. At the same time, it is well known that their integration and full participation in the global economy significantly intensifies widening of international exchanges.

Undoubtedly, the WTO developing countries can effectively capitalize on the market the results of their own farm and industrial activities, especially the food and textile industry ones.

Presently, WTO is an organization disposing of a multilateral trade legal and institutional framework, which makes the globalization process, with all of its minuses and pluses, an unavoidable one, becoming a natural phase of the general process of political, economic and cultural development.

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<sup>9</sup> Mansfield E, *World Trade Organisation – Facts and Policies*, INC White Lains, New York, 1999, p. 107