

THE URUGUAY ROUND: AN INTERVIEW WITH AMBASSADOR MICHAEL B. SMITH

Thomas A. Kalil

Kalil: Many analysts were pessimistic about the prospects for the new round of multilateral trade negotiations which began this year in Punta del Este, Uruguay. They cited high unemployment in the OECD countries, sluggish growth in world trade, the Third World debt problem, and the complexity of new issues. Despite all that, the U.S. was able to achieve all its objectives. How do you account for that?

Smith: Splendid preparation. I also think people realized that the current situation can't continue. The GATT (General Agreement on Tariffs and Trade) was about to fall apart. The GATT has to come into the tail end of the 20th century. The United States has the biggest single market in the world, so other countries were willing to listen, at long last. I think there was also an affinity of interest. More and more, countries are recognizing that trade in services is an important issue, that trade in agriculture is a real mess, and that intellectual property has become a major problem. Eventually, they've come around to our way of thinking, which was always the correct way to begin with.

Kalil: Why did the U.S. concentrate on trade in services, intellectual property rights, agriculture, and trade-related investment?

Smith: We've known for a long time that trade in services would be important because it is growing at such a rapid rate. As for intellectual property rights, we had been getting a lot of complaints from the private sector, especially from the software industry. A number of countries such as Canada, Australia, and New Zealand wanted to see agriculture on the agenda because the export

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subsidies were getting totally out of hand. We also determined that certain regulations on investment were causing major distortions in trade. Investment and trade are becoming increasingly difficult to discuss as separate issues. Based on our projections, and discussions with the private sector, we could tell that these were going to be the most significant issues.

Kalil: In what ways did the developing countries influence the agenda?

Smith: The hard-line developing countries had very little influence. It was the Group of 48, composed of moderate developed and developing countries, and organized by the Colombians and the Swiss, that put together the basic package deal. The "G-48" document included the traditional issues — such as tariff reduction and tropical products — as well as the "new issues" you mentioned earlier.

Kalil: Some developing countries asserted that liberalization in the service sector would impinge on national security and sovereignty. How did the U.S. negotiators respond to these concerns?

Smith: It has nothing to do with national security. As for national sovereignty, all international agreements impinge on national sovereignty.

Kalil: They were specifically concerned about industries like banking and insurance.

Smith: We tried to tell them that the banking industry would be one of the last to come under a services agreement. You can't deny that you need to have trade in banking services, so we'll cross that bridge when we come to it. It may be that you can't negotiate something like banking. We may be the country that stops it, because we don't have a federal banking system, as many other countries do. Banking is just a smoke screen. These countries just don't want to liberalize their trade in services. We're saying: "If you want us to liberalize our markets in traded goods, then you're going to have to liberalize your markets in trade in services."

Kalil: How would U.S. negotiators reduce barriers in a service industry which is regulated at the state and local level?

Smith: We have plenty of power to deregulate or negotiate on behalf of the country. In the insurance industry, where you have insurance commissioners in each of the 50 states, we have an advisory committee made up of governors, state senators, mayors, and local businessmen. We are trying to resolve these problems, because most of the states want open trade in services. They're not opposing us. But we have to work out a relationship between the federal government and the state and local governments. We're fairly confident that we can do this, and we don't foresee any major problems. It's not like the provinces in Canada, which play a much larger role in the management of their economic affairs across borders.

Kalil: There was also an agreement to have a standstill and then to roll back trade-distorting measures that are not in accordance with GATT principles. How will that affect some of the recent bilateral trade agreements, like the U.S.-Japan accord on microchips? Is that something that would have to be eliminated?

Smith: No. We've made it pretty clear that the standstill/rollback agreement does not prevent you from using Article 19 of the GATT, or the countervail on dumping laws. 201, 301, and 337 are still intact. (These numbers refer to sections of the Trade Expansion Act of 1962 and the Trade Act of 1974 which govern "escape-clause" provisions. Ed.) So, we don't see any problem in our ability to resolve trade disputes bilaterally. If it is a matter of trade in goods, we are supposed to use the GATT procedures first. We have made it clear that if the GATT procedures get delayed, we'll do it notwithstanding the standstill. We are not about to put up with the standstill/rollback provision being used as a device by countries to hurt our trade access objectives. Standstill/rollback is not an excuse for stalling on action to remove barriers. Equally, this Punta del Este declaration does not put any country in the position of giving up its GATT rights.

Kalil: The Europeans are constantly telling the U.S. that the Common Agricultural Policy is the "glue" that holds the European Economic Community together. What finally convinced France that the GATT framework should be extended to include agriculture?

Smith: GATT does cover agriculture. The difference is that the discipline in agriculture is not as strong as it is in nonagriculture. There is no question of

the competence of the GATT in agricultural matters. Nor has there been any dispute that the GATT would have negotiations on agriculture as part of a new round. The disputes come down to what would be negotiated. Clearly, if you look at the Trade Committee on Agriculture, there are matters such as barriers at the border, export subsidies, and phytosanitary rules. These are the same issues that will be on the table during the new negotiations. Now, why did France come on board? They had no choice, in my opinion. The world was determined to have negotiations on agriculture. I think the French actually wanted negotiations on agriculture, but they clearly have a political problem. Everyone points their finger at the French. Look at the Germans, the Danes, and the Japanese. Why don't you look at us too? We're certainly not without sin in this area. I don't think it was a question of: "Why did the French go along?" Clearly, that was the overwhelming consensus of the GATT, and the French certainly wouldn't have walked out of Punta del Este. So it was a question of finding the right words and formulae for the French. Actually, the words that came out of Punta del Este were stronger than the words that were in the G-48 proposal.

Kalil: Given the crisis in the farmbelt, is it realistic to expect the U.S. can bargain away domestic farm support programs in an election year?

Smith: First of all, the negotiations in agriculture aren't going to start until next year, and they are not likely to be completed for two or three years. So price supports won't be bargained away in an election year. Secondly, we may not do away with price supports. It's far too early to predict the results of the negotiations. One could argue that you shouldn't touch price supports as long as the farmers don't export subsidized commodities. There are thousands of policies that you could try in the agricultural area. Clearly, agricultural export subsidies are a major problem. There are also some problems in access. The phytosanitary matters are largely technical.

Kalil: How does the U.S. think that the GATT as an institution should be strengthened?

Smith: First of all, it has to be brought into the last half of the 20th century. Secondly, we have to fix the dispute settlement problem. Panels have to be established faster, their findings have to be accepted sooner, and we need to get the politics out of the panels. We also have to get a safeguard agreement.

Basically, the GATT has to be brought up to speed. The makeup of the secretariat has to be changed because the tariff issues are largely resolved. They have to acquire expertise in services, intellectual property rights, and trade-related investment. The institution is almost 40 years old and it is beginning to show some signs of age. It needs to be modernized.

Kalil: Are other countries interested in giving the GATT more powers?

Smith: Yes, with the possible exception of the European Community. But I think everyone realizes that the GATT, as an institution, is creaking. If it isn't fixed, people will ignore it, and it will fall by the wayside. It has to adjust to the economic facts of today. The rules haven't been rewritten but the world economy has been dramatically restructured. You've had two oil shocks, large devaluations, and major debt problems. The situation is vastly different than it was 39 years ago.

Kalil: Would there be more domestic support for the administration's advocacy of free trade if adjustment assistances were increased?

Smith: No. The American consumer supports free trade because he sees low prices. We've done some interesting surveys over the last three or four years. If you ask the average person on the street whether the American consumer has the right to the lowest cost good, whatever the source, he says yes. If you ask him whether they have the right to the lowest cost source, even if it means someone's job, then he changes his mind a little. If you ask people whether some firm should have the right to deny them access to the lowest cost source, even if the firm is making a profit, they respond in the negative. So it depends on how you ask the question. I don't think there's much public awareness of trade adjustment assistance [TAA]. A surprisingly large number recognize that TAA, as constructed in the past, simply does not work. Some people call it a one-way ticket to an industrial nursing home. Others think that you need some sort of transition. To answer your question, I don't think that free trade is linked to TAA.

Kalil: Some members of Congress think that abuse of child labor, unsafe working conditions, and prohibitions against organizing and collective bargaining constitute unfair trade practices. Was there any discussion of these issues at Punta del Este?

Smith: We raised this issue at Geneva during the preparatory process, and again at Punta del Este. These are certainly legitimate concerns. One has to ask whether GATT is the right place to bring this up. We have the ILO (International Labor Organization) and other international institutions. The GATT is a trade organization, and what may be unfair to us may not be unfair labor practices in other countries. Do we want to impose our will on the rest of the world to meet our standards? Some people say it's a form of economic imperialism.

Kalil: Do you think there's a place for centrally planned economies like Rumania, China, and the Soviet Union in GATT?

Smith: No. Certainly not the Soviet Union. Rumania carries out its external trade in some form of market-oriented way. Eighty-five percent of China's trade is with liberal market economies, and it runs its foreign trade sector as a market economy. So one could argue that China has a role in GATT. The question is somewhat moot because China was an original member of GATT before the Communist regime took over. There is no place for the Soviet Union. It's a contradiction in terms. How can you have a centrally planned economy, in which all the decisions are made by the state, in an organization whose fundamental principle is market economy?

Kalil: Given that these multilateral trade negotiations probably won't improve the U.S. balance-of-payments position immediately, do you think it will decrease protectionist sentiment in Congress?

Smith: Marginally.

Kalil: Some analysts have suggested that in light of the connections between trade and finance, there should be more interaction between GATT and the International Monetary Fund.

Smith: We would agree. It's hard to figure out what sort of action would be appropriate. Clearly, there has to be more coordination and consultation between the two. It's not very good right now. Everyone recognizes that the GATT and the IMF have to have a closer working relationship, but people have few specific proposals for achieving that end.

Kalil: Do you think the fact that Congress had more than 300 trade bills in the hopper improved your bargaining position?

Smith: Yes. As I said, this is the most important market in the world for most countries. They get very nervous when our Congress gets protectionist.

Kalil: Did you give the GATT members any proposals for resolving the “new issues,” such as a draft services code?

Smith: We’ve given them some thought, but we’ve tried purposely not to say: “This is what it will be like.” We want input. What we’re trying to do is to have every government, both developed and developing, get in on the ground floor. So, while we have our own ideas, we have not given anyone a draft statement, and won’t until negotiations actually begin.

Kalil: Some of the developing countries with debt-servicing problems have had to impose fairly stringent import restrictions because of foreign exchange constraints. How will they service their debt and comply with the standstill/rollback provisions?

Smith: They will have to justify these import restrictions. Too often, they have used balance-of-payments problems as excuses for [not] liberalizing. They are not going to be able to get away with it. If they have a legitimate balance-of-payments problem, they will, of course, get a waiver. If they don’t — and one could argue that many do not — they are going to have to end these restraint measures.

Kalil: There are a few labor unions, and economists who work for them, who argue that economic integration with low-wage countries will put downward pressure on American wages. They also believe that plant location will be determined by absolute rather than comparative advantage, and that the U.S. will lose a lot of industry.

Smith: That is their view. Obviously, we don’t agree. You should do what you do best.

