

## INTERNATIONAL MARKETS AND THEIR LIBERALISATION

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### *Abstract*

*From the supplied world survey of the liberalisation and integration processes, several conclusions can be derived. If we omit the above mentioned inflation of the second regionalism wave, then it is necessary to stress namely the fact that neither on the lowest system levels (preferential spheres, free trade zones and custom unions) regionalism usually does not stand on a strong base and is really a complementary and often transitory part of the global liberalisation.*

*For application of this General Agreement on Tariffs and Trade, its signators created several bodies, which approached the GATT to the attitude of an international organisation. Hitherto, there took place eight conferences, resp. rounds regarding liberalisation of the international trade in its frame, during which their participants reached, among other, lowering of their average customs burden at one tenth of the original level (40% in 1947, less than 4% in 1994).*

**Key words:** liberalisation, integration, GATT, negotiation rounds.

### INTRODUCTION

We issue from the definition of international relations liberalisation as a gradual removing of the tariff and non-tariff obstacles for the flows of goods and services, respectively lowering of the economic importance of the political borders. The general definition of the international economic integration expresses more close and intensive ties among the selected individual parts of the world economy. Creation of these ties goes on gradually and in different spheres while this sequence determines also the different types or system stages of the integration.

The first and also most decisive integration sphere is international trade itself. The contributions from international trade impact positively consumers, taxpayers, businessmen as well as employees; they are the main cause and stimulus of the long-term integration process of the world economy as a whole development. Free, or freer, trade in itself thus represents the first stage of the international economic integration. Its second stage is connected to the free flow of the mobile production factors and the third then with the harmonised economic policy of the national states.

#### **Liberalisation and integration**

If we understand liberalisation and integration as the general economic processes, then there is, up to the certain system level (from the common market on the regional level up) almost no difference between them.

In case we consider the higher system levels (from common market on the regional level up) with all the attributes of the new quality characterised namely by the full mobility of production factors (unified common market), co-ordinated or even common economic policy and the corresponding institutions, then we can state

that the international trade liberalisation of the starting base of economic integration.

What is the relationship between the global (multilateral) and regional liberalisation? Both types have in common that they issue from certain agreements of the national states, which set the rules (regime) of liberalisation and constitute also certain institutions, which follow the implementation and respecting of the rules and also solve the eventual arguments.

At present, multilateralism developed in harmony with the GATT rules touches practically world economies as a whole, considerably differentiated socio-economic system. It is understandable, that under such conditions, the liberalisation strategy can only be of the form of the gradual partial steps, which occur in the stepwise, but time-unlimited horizon. From the system typology viewpoint, its hitherto state could be marked, even if not very expressively, as the globalised preferential sphere. It can be admitted, that the implicit presupposed long-term goal is the worldwide completely free trade, or even unified world market. Regional liberalisation regards only a certain territorial segment of the world economy with a limited number of elements in the system. From the system viewpoint, it regards usually the free trade areas or custom unions, where, in the time-set steps, there occurs not a partial, but full removing of the restrictions, tariff and non-tariff obstacles of trade, even if usually also not at the same time in all sectors.

Even if in the frame of global liberalisation trade preferences are not granted to all at the same level since they issue from the agreement concessions principle, we cannot speak of discrimination in this case. Moreover, also here plays the decisive role the rule of the highest advantages. In the frame of regional liberalisation, all participants are granted the same (highest) advantages by the complete removal of tariffs and other trade

obstacles at the same time. Some of them can only be disadvantaged by the change of the competitive environment. However, regional integration has always discriminating impacts from the access to market viewpoint towards the third countries, which can demonstrate both by the diverting of the trade directions and the changes of the terms of trade.

Global liberalisation develops systematically since the WW2, even if slowly and with difficulties, while in the case of regional liberalisation or integration, there were at the same period registered two obvious waves, and that in the 60s and on the verge of the 80s and 90s. To explain the swelling up of these waves, the first of which practically deflated in the following decade, namely by the so-called domino demonstration effect would be highly simplifying, even if these effects no doubt existed (in the 60s EC, today above all the NAFTA).

As a more substantial causes of the rise and fall of regionalism, we can regard on one hand the global procedure of globalisation, and on the other hand the economic cycles procedure. If the global liberalisation proceeds in a certain etap slowly and the allocation of its results is obviously unequal, it evokes a compensation impulse in favour of regionalism. If there occur economic recessions and the one-sided protectionism reveals as contra-productive, also this state evokes the tendency to setting or deepening of regionalism. Besides there reasons, it is possible to discern also certain causes of the prevalently political character (economic security, federalism), which are fully connected to the above mentioned, but which play a not negligible role at the inflating or deflating of the regionalism waves.

Theoretically, regional liberalisation can go on to the higher system levels and grow over into a real integration with the unified common market with a wide scope of the co-ordinated or common economic policy and the important influence of the corresponding institutions, as in the case of the EU. In most cases, however, it is hitherto mostly just a complement, often a contemporary one, to the global liberalisation. Thus is also understood the GATT, which admits and corrects its existence by its rules.

Regionalism can, by its group closeness and discrimination effects, work transitionally in the direction of fragmentation of the multilaterally liberalising world market. However, it is obvious from the GATT Uruguay Round results that global liberalisation begins to eliminate some of the expected contributions of the hitherto unfinished regional liberalisations, or that it offers the same contributions also to all other members of the world economy.

Regarding the vision of the future relationship between global and regional liberalisation, there are offered two variants. According to the first one, multilateralism will continue forward permanently according to the present trajectory, supported by the processes of internalisation and interdependence, accelerated by the intensified net

of trans-national corporations and their activities, and will thus gradually suppress regionalism. According to the second one, regionalism will territorially extend in narrow connection with multilaterally into the shape of several macro-regions as a transitory stage to the unified liberalised world economy. In both cases, it regards of course the visions of the system, not factual approach. In the frame of each region, there will still exist different comparative advantages, which will influence the volume of production and trade, as well as certain specific areas of economic policy. However, this changes nothing of the fact that above all multilateralism contributes by a decisive measure to reaching a higher balance, adaptability as well as coherence of the world economy as a whole, even if reaching of this state is connected with considerable, even if usually short-term, costs.

From the supplied world survey of the liberalisation and integration processes, several conclusions can be derived. If we omit the above mentioned inflation of the second regionalism wave, then it is necessary to stress namely the fact that neither on the lowest system levels (preferential spheres, free trade zones and custom unions) regionalism usually does not stand on a strong base and is really a complementary and often transitory part of the global liberalisation. Where the domino effect prevails over the understanding of the needs and possibilities to realise regional co-operation, its life-term is minimal. That is the case of most of the developing countries, on which nothing can be changed by the bombastic way of labelling the regional groupings (common market, economic and monetary union). Only in the cases regarding mostly the developed market economies, where common interests As the expression of understood needs can be supported by the binding agreements and the corresponding institutions, regionalism can be not only of a long standing, but also of the perspective of system deepening.

#### **Global liberalisation of international markets**

After the WW2, the U.S. became, owing to their hegemonial position in the world economy, a flag hip of the international trade global liberalisation. There stood behind their trade policy, besides the generally accepted liberal ideology supported by the experience from the economic crisis of the 30s, also the interests of American corporations which had produced then about 40 % of the world GDP and were practically without competition in the international markets. Therefore also were the U.S. able to aptly at the beginning a forward policy in the endeavour of the international trade liberalisation, i.e. to lower the customs burden of their imports more quickly than their trade partners, who were in majority economically weakened as consequence of the war, indebted and in trade deficit. Even if the U.S. themselves had blocked founding of the International Trade organisation, which should form, together with the IMF and the International Bank For

Renewal and Development, create the triad of the liberalised world economy, their become, nevertheless, traditional initiators of multilateral trade negotiations on trade liberalisation in the frame of the GATT. For application of this General Agreement on Tariffs and Trade, its signators created several bodies, which approached the GATT to the attitude of an international organisation. Hitherto, there took place eight conferences, resp. rounds regarding liberalisation of the international trade in its frame, during which their participants reached, among other, lowering of their average customs burden at one tenth of the original level (40% in 1947, less than 4% in 1994) (see Graph 1, Table 1).

In the atmosphere of sharp confrontations of the national interests, the multilateral negotiations could not proceed quickly neither easily. Only at the last moment, practically one day before December 15, 1993, which had been set as a deadline for the U.S. negotiators by the president, the basic compromises were reached between the U.S. and the EC regarding the question of oil plants and subsidisation of agricultural production and export, and between the U.S. and Japan and the Republic of Korea in the question of opening the markets for rice exports from the U.S. These compromises enabled, at the simultaneous setting aside of some of the other disputable matters, that the Uruguay Round was finished in time. The below mentioned results of the

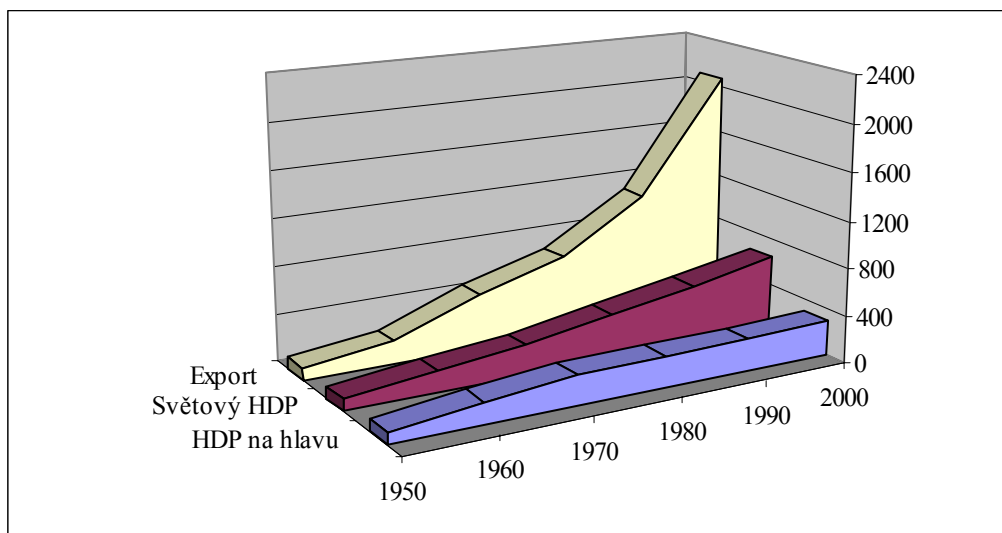
round testify to the fact that even if not all of its participants got what they wanted, the content of the final documents represents a historical turning point not only in the development of liberalization, but also of the GATT itself.

The final act of the GATT UR was signed by 124 countries (121 GATT members) in Marrakech on April 15, 1994. In its frame, there was also signed the agreement establishing the World Trade Organisation (WTO). However, the GATT as the interim agreement codex of trade policy rules and the agreed multilateral customs concessions has not finished. In its actualised shape is shifts, together with the newly signed General Agreement on the Trade with Services (GATS), into the institutional competency of the full-blown international organisation, the establishing of which had been awaited for 45 years. Of course, the WTO is not and cannot be a mere copy of the originally prepared International Trade Organisation (ITO), well as the 1994 GATT is not The 1948 GATT (Graph 2).

The results of the Uruguay Round, as included in the Final Act, can be divided into three parts regarding:

- (i) international trade liberalisation ,
- (ii) actualised rules fro international trade,
- (iii) World Trade Organisation.

**Graph 1:** World trade and the gross world product (relative increment, year 1950 = 100)

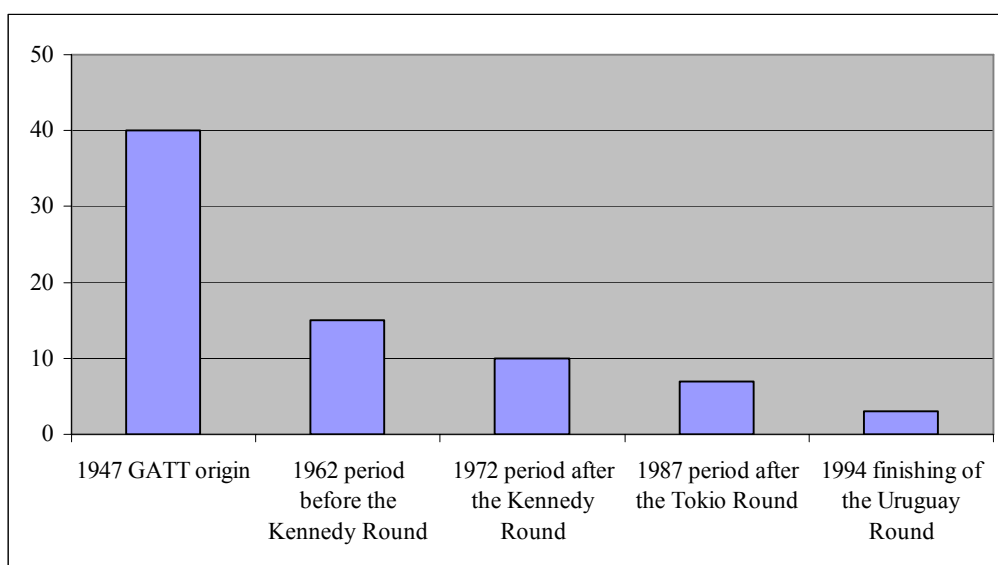


Source: WTO, OECD

**Tab. 1. :** Negotiations on decreasing custom duties in the world trade (the individual GATT rounds)

Negotiation round	Period	Average decrease of duties [%]	Number of countries included
Geneva	1947	19	23
Annecey	1949	2	13
Torquay	1950-1951	3	38
Geneva	1955-1956	2	26
Dillon	1961-1962	7	26
Kennedy	1964-1967	35	62
Tokyo	1973-1979	34	102
Uruguay	1986-1994	38	123

**Graph 2:** Decrease of custom duties in the world trade (relative decrease, %)



Source: GATT

**Industrial goods**

International trade liberalisation proceeds namely in the form of concessions, which are included in the “national list of concessions“, forming the appendix of the Closing Act. The scope of these concessions differs both according to the countries and the kind of commodity.

Regarding industrial goods, thee concessions are either in the shape of decreased custom duties (often in the form of the so-called harmonisation), or of their fixation (so-called harmonisation) at the agreed level, what

means excluding the possibility of their future increasing.

In the case of the DME (OECD), the decrease of custom duties represents in average 38 % for industrial goods, while at the group o the selected products ( e.g. steel, paper, furniture, sanitary technology, pharmaceutical and chemical products) the duties will be removed completely.

The agreed customs concessions for industrial goods were realised in the frame of 4 years, while the first decrease took place in the term when the Agreement on Founding the WTO became valid (1.1.1995).

### Textile and textile wear

In connection with the industrial commodity trade liberalisation, it is necessary to mention textile and textile wear. Namely because only in the frame of the UR these items were (prior to the independent agreements), included for the first time into the GATT régime and also because they are generally regarded as highly vulnerable ones.

Because of this, there were reached the lowest concessions and as an important positive point, there can be regarded only the agreement on the gradual removal of the quantitative restrictions on their imports in the frame of 10 years.

### Agrar products

In the case of agrar products, there occurred several changes in the rules. From them, it is desirable to point out namely the following:

- (i) All non-tariff trade obstacles are, with exceptions, transferred into tariffs, i.e. territorialized, and the minimum approach of these commodities to the member countries markets is granted
- (ii) All customs on these products are tied and they are decreased in average by 36% at the DMEs and 24% at the DCs with the minimum decrease at each item by 15% in the case of DMEs and 10% in the case of DCs;
- (iii) Using of production and export subsidies is subjected to a multilateral regime, their level is tied and will be gradually lowered in value by 20% and at export subsidies by 36%

The mentioned changes should have been realised during 6 years starting with the 1995.

### Services

The General Agreement on the Trade with Services, as the first agreement of this kind at all, reflects undoubtedly the fact that services at present represent the share of 20% in the total world trade. The text of the agreement is divided into three parts. The first one includes so-called basic negotiations, the second the national lists of the specific negotiations and the third the sectoral annexes regarding the problematics in the sectors of finances, telecommunications and air transport services.

While all participants of the Uruguay Round accepted their basic negotiations for the opening of their markets to foreign providers of services, the negotiations on financial services and marine transport services were not finished, and the audio-visual services have not become the object of the sectoral negotiations at all. In the negotiations on the trade with services, there emerged still more that in the agrar trade liberalisation negotiations the contradictions between the U.S. standpoints on one hand, and those of the EU and Japan on the other.

### Actualisation and new rules

The actualized explanation of the present and introduction of the new trade rules is included in ten agreements which are not of the character of the partial international agreements, but all of them form supplements to the basic agreement, which is the Agreement Establishing the WTO.

First of these agreements is the 1994 General Agreement on Tariffs and Trade. From it, it issues above all that for the trade with commodities, the GATT remains the frame regime in the wording of the UR Closing Act. For précising and also making stricter the set of the rules for trading with commodities, there is included in this agreement an actualized explanation of the content and the way of application of some of the original agreement items. It regards e.g. implementation of so-called other duty tariffs into the discipline of the article II (decreasing, tying), explanation of the article XXIV on regional application, over-border relationships, custom unions and free trade zones, on the stricter conditions for letting off the GATT agreements according to article XXV and on improving the conditions of smaller countries at tariff negotiations according to article XXVIII.

The amendment of the agreement regarding article VI from 1979 on dumping and anti-dumping tariffs ensures the right of every country to the defense against dumping practices causing the detriment of the home producers. At the same time, however, it sets more strict measures which should prevent non-entitled anti-dumping measures. These measures are included in the set methodology of ascertaining the caused detriments as well as in the rule on the time period of the anti-dumping tariffs application which generally cannot exceed 5 years.

The new agreement on subsidies and the leveling tariffs replaces the previous one from 1979. The basic provision of the agreement is the definition of subsidies and their division into 3 categories from the viewpoint of aiming and impact. It regards subsidies forbidden, punishable and non-punishable. The agreement makes stricter the conditions for the application of leveling tariffs and it contains, from the viewpoint of the methodology of research, ascertaining the detriment and in the relationship between the subsidized imports and the detriment, as the above mentioned agreement on the implementation of the article VI.

Other passed agreements regard the protection measures, import licence procedure, technological obstacles of trade, investment measures in relationship to trade, protection of the spiritual ownership and settling of disputes.

### CONCLUSION

It is desirable to illustrate the concise overview of the GATT UR by the accessible quantification of the presupposed contributions or effects, which this global

liberalisation, of an extraordinary enormous extent, can bring about. The quantifications of different models connected to the world trade and world product growth were done among other under the auspices of the GATT and OECD. The incompleteness of the database as well as the difference in the methodology applied lead understandably to the results of only an orientation character. All of them then should express the difference between the state which would be reached without the present multi-lateral liberalization, and the state which could be expected after the liberalization measures implementation at the beginning of the 21<sup>st</sup> century.

According to the GATT computations, the volume of world trade should have increased by 745 billion USD (1992 prices, i.e. by 12%. The highest growth rates should have been reached in the sectors important for developing countries, among which there belong clothes (60%), textile (34%), agriculture, forestry and fishery (20%).

Regarding the world product growth, then the computations indicated that it could have been by 230 billion USD (1992 prices) higher than in the case when the UR would have collapsed. In the case of developing countries, the thus computed increase of their GDP should have reached approx. 80 billion USD, which is about 1/3 of the total liberalization trade. From the OECD liberalization measures, it will be the OECD countries themselves who will profit the most (86%), while in the case of the world liberalisation, the share of this group in the income effects will decrease to the advantage of the rest of the world (68,5 - 31,5%).

The mentioned GATT and OECD computations show undoubtedly, even if pronouncedly differentiated positive impacts of the global liberalization on the world trade and income. The advantages should fall to the countries (groups of countries) with the highest incorporation in the world trade, and among them, to the consumers and top producers. There are not, however, considered the costs this liberalisation will demand in the sphere of the structural innovations necessary in the conditions when protectionism will be obviously replaced, without being completely excluded, by the support of competitiveness or by regionalism.

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