

## Globalizing GATT: The EC/EU and the Trade Regime in the 1980s-1990s

Lucia COPPOLARO

### Introduction

1986 was a busy year for trade negotiators. In the third week of September, as winter was fading away in the Southern Hemisphere, Foreign and Trade Ministers, trade diplomats and business lobbyists from 92 countries gathered in the Uruguayan city of Punta del Este. This city, a favourite resort for affluent Latin Americans, was the location chosen to host a major multilateral trade negotiation (round) under the aegis of the General Agreement on Tariffs and Trade (GATT).<sup>1</sup> The Uruguay Round was launched on 20 September 1986 and was formally concluded in Marrakesh, Morocco, on 15 April 1994, by which time it included 125 participants. The Uruguay Round marked an important step forward in the liberalization of world trade. It led to substantial reductions in tariffs on a wide range of industrial goods. For the first time, it brought services and intellectual property within the framework of multilateral trade rules. It integrated trade in textiles and agricultural goods in the multilateral trading system. GATT rules were strengthened and placed on a firmer institutional footing through the creation of the new World Trade Organization (WTO).<sup>2</sup>

The Punta del Este meeting was not the only major event on the agendas of trade diplomats whose impact would continue to be felt during succeeding decades. Also in 1986, China notified GATT of its wish to resume the status of a contracting party. China had been one of the original 23 signatories to GATT in 1948. Following the founding of the People's Republic in 1949, the government in Taiwan announced that China would leave the GATT system. Although the government in Beijing never formally recognized this withdrawal, nearly forty years later it asked that its membership status be reactivated. This was a bold request: China had a communist economy, but was asking to join an exclusive trading club of rich and capitalist countries. Almost fifteen years of negotiations and some nine hundred pages of legal text would be required for formal acceptance by the 142 member governments of the WTO to bring China in. Eventually, accession to the multilateral trade regime represented a

1. The author acknowledges her gratitude to Lorenzo Mechi and Francesco Petrini and the JEIH anonymous reviewers for the many useful comments they provided. On the launch of the Round see S. DRYDEN, *Trade Warriors: USTR and the American Crusade for Free Trade*, Oxford University Press, Oxford, 1995, pp.321-323.
2. On the history of the Uruguay Round see, among others, E.H. PREEG, *Traders in a Brave New World. The Uruguay Round and the Future of the International Trading System*, The University of Chicago Press Brookings Institute, Chicago, 1995.

further step towards the liberalization of international trade and the globalization of GATT/WTO membership.

As a result of these two negotiations, the trade regime's agenda broadened significantly to include new and strategic sectors of the world economy and the integration of new actors. Thus, the Uruguay Round and the negotiations with China were paramount in globalizing GATT/WTO. These two complex events need to be considered against the changes that had been occurring in the world economy since the 1970s and which intensified in the 1980s and 1990s. One thing that characterized these decades was the renewed globalization – the rapid integration of national markets among a wide range of global actors – of the world economy. Trade, migration and capital flows expanded quickly, neo-liberal governments were elected in major countries such as the United States (US) and the United Kingdom (UK), the removal of capital controls became widespread, and the dramatic information, communication and transportation technology developments reduced the time and costs of transportation and communication. In addition, countries, such as the Asian tigers, India and Brazil, to mention just a few, became more involved in the international economy, while the ending of the Cold War allowed the opening up and participation of even more countries in the global capitalist economy.<sup>3</sup>

This article reconstructs the European Community (EC)'s – later the European Union (EU) – participation in the Uruguay Round and its parallel negotiations with China. The EC/EU played a driving role in both trade negotiations. Since 1957, thanks to the seize and attractiveness of its internal market and the interest of its member states to speak with a unified voice, the EC/EU's preferences and those of the US came to dominate the GATT trade regime.<sup>4</sup> This article describes how the EC/EU contributed to globalizing the GATT/WTO trade regime by both favouring a broadening of the trade regime agenda to include new areas and by supporting the enlargement of GATT/WTO membership to China – a key player.

Although much more information is needed and many more archival sources need to be perused for an adequate understanding of the EC/EU stance and the internal dynamics in these two key and hugely complicated negotiations, this article constitutes a first step in this exercise. It shows that the EC/EU both favoured the process to make GATT/WTO a global international organization and, at the same time, tried to strengthen the rules of the multilateral trade regime with the aim of managing and controlling the globalizing process.

3. On globalization see A.E. ECKES, *The Contemporary Global Economy. A History since 1980*, Wiley-Blackwell, Chichester, 2011.
4. L. COPPOLARO, *Face à la globalisation: La Communauté/Union européenne et le régime multilatéral du commerce (1986-2001)*, in: *Revue d'Histoire Diplomatique*, 4(2017), pp.22-36.

## Between regional and multilateral liberalization, with China at the gates

The General Agreement was signed in 1947 to streamline international trade relations and reduce trade barriers. GATT supervised the multilateral trading system until 1994 and its replacement by the WTO. GATT sponsored periodic conference rounds – during which trade barriers were reduced progressively and new areas were integrated. In the unstable economic environment of the 1970s, the Tokyo Round (1973-1979) successfully slashed tariffs imposed by the developed countries and extended the GATT agenda to include non-tariff barriers. However, in the early 1980s, the multilateral trading system came under great pressure due to the various protectionist and unilateral measures implemented by the industrialized countries to counteract recessions and competition from the newly industrialized countries. Particular tensions arose between the US and the EC over steel and agriculture, and between both areas and Japan.<sup>5</sup> In addition, actors such as the newly industrialized countries were getting more involved in the international economy, but did not have a relevant role in GATT and significant sectors such as services were not a part of the GATT discipline. Thus, international trade relations were becoming more internationalized, but the relevance and reliability of the multilateral GATT system of rules and commitments were diminishing.<sup>6</sup>

In this context, in 1981, US President Ronald Reagan took the initiative to launch a new and comprehensive multilateral trade negotiation. After the turbulence of the 1970s, the Reagan administration wanted to re-establish US leadership of the world economy “under the ideological banner of free trade and free market”.<sup>7</sup> Whilst maintaining protective measures and bilateral quantitative restrictions to restrain inflows of foreign products into the US, the Reagan administration continued to be a vocal supporter of free trade. As the US trade deficit grew, free trade would help to open other countries’ markets and would counter the mounting protectionist voices in the US Congress.<sup>8</sup> The aim of the US was to further reduce trade barriers and to include in the GATT, services, protection of intellectual property rights and investments, which sectors, by the early 1980s, had gained momentum in the world economy.<sup>9</sup> In the Tokyo Round, little progress was made in the area of agriculture. Indignation over the discrimination of the Common Agricultural Policy (CAP) among traditional agricultural exporters, such as Argentina, Australia and New Zealand, had not diminished

5. MTOA [Margaret Thatcher’s Online Archives]–FCO 33/8037, Trade: Lord Cockfield’s letter to Pym (“The GATT Ministerial meeting”), 17.06.1982.
6. E.H. PREEG, *Traders in a Brave New World...*, op.cit., pp.11-19.
7. G. LA BARCA, *The US, the EC and World Trade, International Trade in the 1970s. The US, the EC and the Growing Pressure of Protectionism*, Bloomsbury Academic, London, 2014, p.131.
8. MTOA-TNA, PREM19/1761, G7: UKE Washington to FCO London (“US attitudes in the run-up to the Versailles summit”), May 1982; G7: UKE Washington to FCO (“Versailles summit: latest US positions”), 01.06.1982.
9. MTOA-TNA, FCO Telegram to UKE Washington (“OECD WP3 meeting, Paris”), 12.03.1982.

and had strengthened in the US. The Reagan administration had every intention to make agriculture and the CAP a major topic of the new GATT Round.<sup>10</sup>

On the other side of the Atlantic, the EC member states were concerned, above all, with overcoming the economic recession. As a result of the economic crisis, aid schemes and state resources increased among EC member states in the early 1980s, in a bid to maintain freedom to intervene in the economy and to protect specific sectors.<sup>11</sup> The EC, as a whole, seemed to be more preoccupied with finding ways to limit imports from Japan and the newly industrialized countries than further liberalizing multilateral trade and broadening the agenda to services and investment.<sup>12</sup>

However, there were some differences in stances. The Federal Republic of Germany did not oppose the US proposal for a new round, but also did not push it.<sup>13</sup> Margaret Thatcher's neoliberal government was in favour of a new round and supported US insistence on including new issues. The prolonged recessions of the 1970s had resulted in a period of strong and increasing protectionist pressure and, during the Tokyo Round, the UK labour governments had maintained a protectionist stance. The Thatcher government worked to distance itself from this, emphasizing that British interests lay in maintaining an open trading system.<sup>14</sup> France opposed the idea of a new Round since the EC was still implementing the liberalization of the Tokyo Round, and was against the problems related to trade in services being tackled before the barriers to trade in products were removed. According to Trade Minister Michel Jobert, a ten-year programme would need to be agreed to reform the trade regime. Also, some member states – and notably France – were less than enthusiastic about the declared intention of the US to include agriculture in the Round – this was seen as an assault on the CAP. Thus, the EC responded negatively to the US initiative.<sup>15</sup>

Despite of the EC's resistance, at the GATT Ministerial meeting held in Geneva in late November 1982, the Reagan Administration pressed for a public commitment to start a new round. Many EC member states remained hostile to a new Round.

10. MTOA-TNA, FCO33/8037, Trade: Lord Cockfield letter to Pym (“The GATT Ministerial meeting”), 17.06.1982. For the US initiative see E.H. PREEG, *The Uruguay Round Negotiations and the Creation of the WTO*, in: M. DAUNTON, A. NARLIKAR, R.M. STERN (eds), *The Oxford Handbook of World Trade Organization*, Oxford UP, Oxford, 2012, pp.122-140.

11. G. LA BARCA, op.cit., p.138.

12. MTOA-TNA, PREM19/1761, G7: Cabinet Office record of conversation (Versailles economic summit: first plenary session), 05.06.1982; CAE [Centre des archives économiques et financières, Savigny-le-Temple], PH 119/90, Box 3 – Réunion ministérielle du GATT – Positions communautaires, Commission of the European Communities, Note 4, 08.07.1982.

13. MTOA-TNA, PREM19/1761, G7: Cabinet Office record of conversation (Versailles economic summit: first plenary session), 05.06.1982.

14. MTOA-TNA, FCO33/8037, Trade: Lord Cockfield letter to Pym (“The GATT Ministerial meeting”), 17.06.1982. On British stance in the Tokyo Round see L.COPPOLARO, *In the Shadow of Globalization. The European Community and the United States in the GATT negotiations of the Tokyo Round (1973-1979)*, in: *The International History Review*, 4(2018), pp.752-773; on Britain at the end of the 1970s and early 1980s see G. BENTIVOGLIO, *The Two Sick Men of Europe? Britain and Italy between Crisis and Renaissance (1976-1983)*, Peter Lang, Bruxelles, 2018.

15. MTOA-TNA, PREM19/1761, G7: Cabinet Office record of conversation (Versailles economic summit: first plenary session), 05.06.1982.

France opposed inclusion in GATT of the service and investment sectors and the consequent liberalization; other member states, although they did not oppose liberalization, maintained that the best forum to handle these sectors was the Organisation for Economic Cooperation and Development (OECD) in order to elude opposition from the developing countries.<sup>16</sup> The British, the Danes and the Germans supported the idea of a GATT Ministerial meeting, at least to formulate a GATT work programme.<sup>17</sup> The Italians, the Irish and the Belgians continued to be sceptical about the need for a new conference while the Tokyo Round tariff cuts were being implemented.<sup>18</sup> The French were doubtful that a GATT Ministerial meeting would be held and were persuaded only on condition that it would not prompt a new Round and that agriculture would not be discussed.<sup>19</sup>

As a result, at the GATT Ministerial meeting, US-EC relations were strained by the EC's declining to commit to a further round of negotiations. Opposition came also from the developing countries. The Brazil-India coalition rejected the inclusion in the GATT agenda of services, for two reasons. First, they held that the developed countries must dismantle their trade barriers before moving to new areas. Second, they feared – rightly – that their service sectors were too weak to withstand competition from the developed countries. Eventually, the US attempt to launch the Round failed, but Ministers agreed on a comprehensive work program for 1983-1984, to include safeguards, textiles, dispute settlement and trade in services and set the stage for the new round.

Throughout 1983, the Reagan administration continued pressing for a new and comprehensive round, with the full support of Prime Minister Thatcher who, until the effective start of the Round in 1986, added the weight of the British government to moving ahead with the new trade conference and steering EC members in this direction.<sup>20</sup>

US pressure added to internal EC developments. Already, in December 1982, the European Commission had sent a communication to the European Council recommending the removal of non-tariff barriers, simplification of frontier formalities and liberalization of the public procurement sector. The rationale was that economic

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16. CAE, PH 119/90, Box 3, Ministère de l'Économie, DREE – Service de la politique des échanges extérieurs – Sous-direction des affaires multilatérales, Compte Rendu du Comité 113, 19.07.1982.
  17. CAE, PH 119/90, Box 3, Note Ministère de l'Économie, DREE – Service de la politique des échanges extérieurs, Sous-direction des affaires multilatérales, Note “Compte Rendu du Comité 113”, 14.06.1982.
  18. CAE, PH 119/90, Box 3, Télégramme 1176 from French Delegation in Brussels to French Ministry of Foreign Affairs, 23.11.1982.
  19. Germany: UKE Bonn record of conversation (Anglo-German consultations), 29.10.1982; CAE, PH 119/90, Box 3, Projet de déclaration de la France au Conseil de Ministres, 19.11.1982; Note pour le Ministre d'État – Ministre du Commerce Extérieur: Objet “Conseil du 22 Novembre 1982, Réunion Ministérielle du GATT”, undated.
  20. MTOA-TNA, FCO33/8037, European Policy: Cockfield PS briefing to No.10 (European Council: the GATT Ministerial meeting), 01.12.1982; Italy: No.10 record of conversation (MT-Prime Minister Craxi of Italy), 03.03.1985; MTOA-TNA, Reagan Library, Cold War: Thatcher letter to Reagan, 22.02.1985.

growth within the EC could be fostered by a regional-level liberalization. In France, the attempt of Socialist President François Mitterrand to revive the French economy failed spectacularly in the face of rising inflation and the foreign exchange crisis of early 1983. Eventually, the Left wing government introduced a tougher and more market-oriented programme than anything considered under Valéry Giscard d'Estaing's Presidency, showing that the neo-liberal turn was affecting also countries run by the Socialists. This change reduced the French government's opposition to a new and comprehensive trade liberalization at multilateral level.<sup>21</sup>

In 1985 the appointment of the former French Minister of Finance Jacques Delors to the position of President of the European Commission, gave further impetus to the liberalization process within the EC. The June 1985 Milan Summit endorsed the Commission's White Paper on internal market reform. The shift in the political economy towards a market-led revival led to the removal of regional barriers to the free circulation of productive factors as essential to foster EC economic growth. This development resulted in the Single European Act (SEA), signed in 1986, and led to the adoption of the 1992 programme, which called for liberalization of trade, capital and investment at the EC level.<sup>22</sup>

These internal developments had an impact on EC external trade policy and the US initiative for a new Round. Liberalization at the multilateral level now was considered essential to promote economic growth. As a result, at the Milan Summit, EC member states discussed also the US plan for a new GATT Round. As in past GATT Rounds since the 1960s, the French created difficulties and imposed conditions on setting the date for a new round, as the price other countries had to pay for French approval. President Mitterrand remained openly sceptical and conditioned the new Round on the establishment of an international monetary conference, while refusing to agree that agriculture would dominate the early phase of the Round.<sup>23</sup> The Italian government of Bettino Craxi expressed doubt as to the advantages of a new GATT round. Nevertheless, the Italians had aspirations to act as broker in the EC member states' consideration of the US proposal, hoping to enhance the Italian government's status in Brussels and Washington.<sup>24</sup> Both Prime Minister Thatcher and Chancellor Helmut Kohl maintained their support for a new GATT round, which, eventually, at the Milan Summit, was agreed to start in September 1986.<sup>25</sup>

21. J. SACHS, C. WYPLOSZ, W. BUITER, G. FELLS, G. DE MENIL, *The economic Consequences of President Mitterrand*, in: *Economic Policy*, 2(1986), pp.261-322.

22. On the Single European Act see J. GILLINGHAM, *European Integration, 1950-2003: Superstate or New Market Economy*, Cambridge University Press, New York, 2003, pp.180-227.

23. MTOA-TNA, FCO33/8037, MT-Prime Minister Craxi of Italy, 03.03.1985, op.cit.; Italy: UKE Rome telegram to FCO ("Bonn Economic Summit: Italian Assessment"), 09.06.1985; MTOA-TNA, PREM19/1761, France: UKE Paris telegram to FCO ("Mitterrand press briefing"), 10.05.1985.

24. MTOA-TNA, FCO33/8037, Italy: UKE Rome telegram to FCO ("Bonn Economic Summit: Italian Assessment"), 09.05.1985.

25. MTOA-TNA, PREM 19/1714, G7: No.10 record of conversation (MT, Chancellor Kohl), 05.05.1986. On the link between the Single European Act and the Uruguay Round see also J. GILLINGHAM, op.cit., pp.306-307.

The EC attended the Uruguay Round as a Community of twelve members – Greece, Portugal and Spain had joined by then. As in previous GATT negotiations, the EC members' positions and interests differed. Two main stances emerged. Margaret Thatcher's neo-liberal government supported the Reagan administration's promotion of liberalization, seeing it an opportunity to encourage more economic growth.<sup>26</sup> France and the European Commission also supported liberalization, but emphasized that it must be accompanied by a strengthening of the rules governing the process. Rules and institutions were seen as indispensable to the regulation and management of the ensuing integration of international trade. It was considered important to codify the rules governing this process and to strengthen the powers of the international organizations in order for globalization to be less unequal and to advantage not just a small group of countries or people. The principle of "managed globalization" or "organized liberalization" was the formula recipe that the French government and the French European Commission President, Jacques Delors, and his close aide the French socialist Pascal Lamy, tried to promote to shape the trade regime. As Lamy put it, "if you liberalize you must organize". These principles, which were compatible with Germany's ordo-liberalism, were supported by the government of the Federal Republic of Germany.<sup>27</sup>

In officially opening the Round in Punta del Este in 1986, controversy emerged in the negotiations to set the agenda, with the US seeking to extend international trade disciplines to agriculture and services and the EC showing its opposition to the first proposal and caution towards the second. The participation of the developing countries in this new round was more complex. For the first time in the history of GATT, their stance was more pro-active although there were some clear divisions. In particular, a group of hardliners, led by India and Brazil, tabled a more limited agenda which, substantially, requested the developed countries to liberalize textiles, apparel and tropical products.

The Punta del Este meeting eventually stipulated progressive liberalization of the quotas on textiles, footwear and apparel and reductions to the barriers on tropical products. The issues of trade in services, investment measures and intellectual property rights were also included as per the US request. In the area of agriculture, Washington and the other major exporters in the Cairns group of countries, put further pressure on the EC to include it in the Round. Overall, the Uruguay Round was an amalgam of major problems outstanding since the 1970s, and new problems that the Americans, in particular, were trying to get onto the 1980s GATT agenda.<sup>28</sup>

Whilst the US and the EC were coming to terms with the kick-off of the new Round, they received China's request to join GATT. This application was a result of Deng Xiaoping's policy of renewed ties with the West and expansion of China's

26. MT, Chancellor Kohl, 05.05.1986, op.cit.

27. R. ABDELAL, S. MEUNIER, *Managed globalization: doctrine, practice and promise*, in: *Journal of European Public Policy*, 3(2010), pp.350-367.

28. MTOA-Reagan Library (WHORM Country File CO167 Box 606691), Economy: US Deputy Trade Representative briefing for President (MT visit to Washington), 10.11.1988.

presence in international trade. Prior to 1978, China's foreign trade was subject to strict central planning and control. Only a few large foreign trade corporations were allowed by the Ministry of Foreign Trade to trade in China. Moreover, the Ministry set import and export quotas and the exchange rate was deliberately overvalued to subsidize imports and discourage exports. Deng Xiaoping's 1978 policy allowed for a slow, steady opening up and reform of the Chinese economy. Progressively, the Chinese leadership allowed exports and imports to be guided by market rather than planned prices, increased trading rights and decentralized the foreign trade sector, and set convertibility for current account transactions. Crucially, it encouraged foreign investment. Thus, the two main contributions to growth came from effective use of foreign investment and export-led economic growth.<sup>29</sup> This liberalization process set the stage for China's request to join GATT. Opening Western economies to Chinese products was of paramount importance to China's aim of export led economic growth and GATT became instrumental in reducing the vulnerability of Chinese trade to the various discriminatory measures imposed by the Western countries on Chinese low-cost products. In 1986, the Chinese government requested a resumption of its status as a GATT contracting party.<sup>30</sup> The request was based on the argument that China had not officially withdrawn from GATT and was aimed at avoiding negotiation over the terms of accession. As GATT members insisted China be subject to the full accession procedure, a Working Party was established in 1987.<sup>31</sup> Soon, negotiations stalled. President Bush favoured Chinese membership, but could not ignore the reluctance of the US congress to reduce discrimination against Chinese exports.<sup>32</sup> In 1989, the Working Party's meetings were suspended following the Tiananmen Square massacre and were not resumed until 1992. However, during the time the talks were suspended, China had become one of the fastest growing world economies and, its 12.6 per cent growth rate in 1992 was proof that China was emerging as a major player in the global economy.

29. S. WEI, *The Open Door Policy and China's Rapid Growth: Evidence from City-Level Data*, in: T. ITO, A.O. KRUEGER (eds), *Growth Theories in Light of the East Asian Experience*, NBER-EAS Volume 4, University of Chicago Press, Chicago, 1995, pp.73-104.

30. C. VAN GRASSTEK, *The History and Future of the World Trade Organization*, WTO, Geneva, 2013, p.141.

31. GATT document "China's status as a contracting party", 14.07.1986, <https://docs.wto.org/gattdocs/q/GG/L6199/6017.PDF>; GATT document C/M/207 "Minutes of Meetings", 30.03.1987, <https://docs.wto.org/gattdocs/q/GG/C/M207.PDF>.

32. "Memorandum of Conversation between George H.W. Bush and Zhao Ziyang", March 26, 1989, History and Public Policy Program Digital Archive, Memcons and Telcons, George Bush Presidential Library and Museum. HYPERLINK <http://digitalarchive.wilsoncenter.org/document/133956>

### A new agenda for a new institution

Agreement was reached at the Punta del Este meeting to hold a ministerial mid-term review conference in 1988 and to conclude negotiations by 1990. From the outset, it was clear that the Round would take longer, most obviously because of the US-EC conflict over agriculture, but also because sensitive issues, such services and intellectual property rights, made the achievement of a final deal more complicated.

Between 1986 and 1988, substantial progress was recorded on a comprehensive services framework agreement, strengthening of the GATT dispute resolution procedure and provisional agreement to phase out quotas on textiles and apparel imports. However, the question of agriculture pitted the US against the EC and blocked any conclusion to the Round until 1992. Washington proposed the setting of a specific timetable of budget-busting subsidies; the EC's proposal was to freeze the current level of protection and introduce some very modest short-term reductions. The December 1988 GATT Trade Ministers meeting in Montreal, reviewed progress and set a target for concluding the Round by 1990. The Reagan administration saw the Montreal mid-term review as critical for reinforcing the political commitments made at Punta del Este.<sup>33</sup> However, the US and the EC did not succeed in resolving their dispute over agricultural export subsidies and the mid-term review resulted in a suspension. In order to avoid failure of the Round, the EC agreed to make substantial and progressive reductions to agricultural support in the second half of 1990 during France's EC Presidency term.<sup>34</sup>

The Reagan administration was relying on the British government to continue to keep the pressure on other Community members to advance agricultural reform.<sup>35</sup> However, the French and the German governments' opposition meant that agreement over agriculture among EC members was impossible. In mid-1990, the Commission presented the member states with fairly undemanding proposals, which incorporated the Community's reductions in agricultural support made since 1986. The Franco-German-Irish opposition blocked the identification of a common stance by the Council of Ministers and meant that the EC could not begin to negotiate in Geneva. After almost sixteen hours of negotiation during the meeting of Agriculture and Trade Ministers in Luxembourg on 26 October 1990, strong and explicit opposition from the French frustrated any hopes of an agreement.<sup>36</sup>

Note, though, that France was not the only country experiencing grief from its farmers. The German Chancellor was finding it difficult to get German farmers to accept a reduction in their subsidies and domestic prices. Kohl recognized that Ger-

33. MTOA-US State Dept. FOI 2006-01579, Trade: US State Dept briefing ("Fact Sheet: Gatt – Uruguay Round") 15.11.1988.

34. MTOA-TNA, CAB 128/91/9 Conclusion Former Reference: CC (88) 39, Note "The Uruguay Round", 12.12.1990.

35. MTOA-Reagan Library (WHORM Country File CO167 Box 606691), Economy: US Deputy Trade Representative briefing for President (MT visit to Washington), 10.12.1988.

36. MTOA-TNA, PREM19/2979, EC: No.10 record of conversation (MT-Mitterrand lunch in Rome), 27.10.1990.

many would have to compromise and his government was “prepared to say tough things to German farmers. But not yet”. The EC’s difficulties related to achieving a common position were further complicated by the national election cycles in the key states of France and Germany. Whilst the Uruguay Round negotiations were supposed to be completed by the end of 1990, the EC had yet to table a proposal and to start negotiations over agriculture at that point.<sup>37</sup>

The subject of agriculture was discussed widely by Mitterrand and Thatcher in Rome at the end of October 1990. The prospect of failing to reach agreement in Geneva infuriated Prime Minister Thatcher who, however, could do little more than complain to Mitterrand about the French and German obstructionism. President Mitterrand tried to defend his position, emphasizing that the question of agriculture could not be considered in isolation. Progress was needed over other issues, such as trade in industrial goods, services and intellectual property, where the US was being obstructive. France could not be expected to advance discussion over agriculture when the US was refusing to make concessions in other areas. The French preferred to ignore the fact that the US was willing to compromise on other issues and that the main problem was the EC’s failure to agree a position on agriculture. Mitterrand understood that agriculture was a difficult issue for France, which – according to the French President – was in the “middle of what he could only describe as a peasants’ revolt”. However, for Prime Minister Thatcher, it was time to look more fundamentally at the CAP, which “was after all a pretty strange system which fixed agricultural prices in order to provide a living for inefficient farmers”. Subsidizing agricultural production was not the solution to the problems being experienced by French farmers; what was needed was a social policy. Thatcher contended that failure to achieve a common position would signal to the world that “Europe was protectionist”. Mitterrand responded quickly that “of course the Community was protectionist: that was the point of it”. Thatcher’s criticisms hit home even more fiercely with Chancellor Kohl, who, in 1990, had moved ahead quickly with the reunification of Germany:

“Germany’s behaviour over the GATT negotiations was an example of the extent to which Germany would insist on having its way in the Community in the future”

remarked the British Prime Minister to the French President. And

“it was ironic that German farmers were the most cossetted in the Community, and yet it was Germany which was mainly responsible for blocking progress by demanding even greater protection for them”.

Also, since France and Germany were blocking agreement in Brussels and Geneva, “it was up to them to move”, concluded Thatcher. However, it took two more years for France and Germany to change their positions.<sup>38</sup>

As a result of the EC’s opposition over agriculture, the Brussels GATT Ministerial meeting of December 1990 failed to reach agreement. The failure of the Brussels meeting and the prospective breakdown of the whole Uruguay Round exercise acted

37. *Ibid.*, EC: FCO record of conversation (Hurd-Kohl), 26.10.1990.

38. MT-Mitterrand lunch in Rome, 27.10.1990, *op.cit.*

as a catalyst for those economic sectors that would benefit from liberalization. Within the EC, industry-business groups called for a resumption of negotiations and concessions over agriculture, in order to gain counter-concessions in other key sectors. UNICE, which represented European industry, put pressure on governments to bring the Uruguay Round to a successful conclusions. EC business groups were interested in achieving liberalization of the service and investment sectors and regulation of the intellectual property rights sector, and considered CAP reform and a reduction in its discriminatory effects as the price they had to pay.<sup>39</sup> In Germany, the demands made by the industry group lobbying government were particularly strong. The German Industry Federation called on Chancellor Kohl to be more flexible over agriculture and warned about the negative consequences of a failed Uruguay Round for German industry. Under pressure from German industry and with the election behind him, Kohl reduced his opposition to easing agricultural protectionism and CAP reform. Similarly, French employers demanded that the French government be more accommodating over agriculture in order to reach agreement over the industrial and service sectors.

Thus, while the French and German farmers continued to protest, the industry and service groups made it clear that they were not willing to forgo the chance of liberalization of those sectors where they were competitive. A coalition of business groups with economic interests that went beyond the EC regional economy, moved in favour of further liberalization and a broader GATT agenda. It was on these forces that the French and German governments relied to free up negotiations over agriculture with the US government.<sup>40</sup>

In the aftermath of the failure in Brussels, Kohl and Mitterrand met and agreed about the need to reform the CAP and reduce agricultural protection in the Geneva meeting. In May 1992, at the Agricultural Council of Ministers, Germany sided with the UK in favour of CAP reform which increased pressure on Mitterrand. The international and domestic complaints about CAP and the prospect of substantial gains in other sectors from the Uruguay Round contributed to the 1992 MacSharry reforms. In parallel, the November 1992 Blair House Agreement between the US and the EU, on committing to reduce export and domestic subsidies, opened the way to an agreement on agriculture in GATT. Non-tariff import barriers became tariffs and all tariffs were reduced by 36 per cent in the industrialized countries and 24 per cent in the developing countries. The industrialized countries reduced export subsidies by 36 per cent in value and 21 per cent in quantity, and reduced internal support price by around 20 per cent, with import quotas to be phased out over ten years.<sup>41</sup>

39. J. KEELER, *Agricultural Power in the European Community: Explaining the Fate of CAP and GATT Negotiations*, in: *Comparative Politics*, 2(1996), pp.127–49.

40. C.L. DAVIS, *Food Fights Over Free Trade: How International Institutions Promote Agricultural Trade Liberalization*, Princeton UP, Princeton, 2003, pp.306-310.

41. On agriculture and the Uruguay Round see T. JOSLING, S. TANGERMANN, T.K. WARLEY, *Agriculture in the GATT*, Macmillan, New York, 1996, pp.133-243.

The Blair House agreement settled an issue over which the EU had been defensive in Geneva. With the question of agriculture resolved, the EU was able to be more assertive in other sectors and exert pressure according to its preferences for the final outcome. Whilst the EC and the US had quarrelled over agriculture, the Uruguay Round had moved into the uncharted territory of the trade effects of other national policies than trade policies. The EC had begun tackling the technical barriers to trade and services liberalization in the early 1970s, and had addressed competition policy within the plurilateral OECD during the 1980s. Thus, the EU had the expertise to deal with these complex regulatory issues at the multilateral level. Together with the US, the EU actively promoted agreements on services, investment, intellectual property and public procurement. The eventual General Agreement on Trade in Services (GATS), the Agreement of Trade-Related Aspects of Intellectual Property Rights (TRIPs) and the agreement on Trade-Related Investment Measures (TRIMs) were compatible with US and EC domestic regulations and interests.

The EU's more emphatic position was especially evident in the bargaining over rules and institutional reforms. Both France and Germany agreed that the removal of trade barriers would open up markets and stimulate economic growth, but that, also, rules and institutions were necessary to regulate this greater liberalization. As liberalization increased internationally, it was felt necessary to strengthen the multilateral rules and institutions to avoid a weakening of the GATT regulatory system were its rules not binding or enforceable in a predictable and credible way.<sup>42</sup> While both the French and the German governments held that trade globalization must be regulated by strengthening the multilateral rules and institutions, Margaret Thatcher's government was less keen to increase an international bureaucracy. However, during the 1980s, the US frequently had enforced aggressive and unilateral foreign trade policy by imposing retaliatory sanctions against the EC and Japan in particular. For the British government, the strengthening of the multilateral trade regime represented an instrument to control US unilateralism.<sup>43</sup>

The EU promoted the reform of the multilateral regime and tried to apply the principle of managed globalization to the trade liberalization enhanced under the aegis of GATT. The EU stance resulted in a request to strengthen the dispute settlement procedure and establish a permanent international trade organization to replace GATT, which, in 1947, had been signed as a provisional agreement pending ratification of the International Trade Organization.

The US was reluctant towards both proposals. The Bush administration feared opposition from Congress on proposals that could entail loss of sovereignty. A binding dispute settlement procedure could deliver a legal judgment with which the losing party would have to comply. In addition, Bush feared that talks in Geneva

42. D. DE BIÈVRE, A. POLETTI, *The EU in trade policy: From regime shaper to status quo power*, in: G. FALKNER, P. MÜLLER (eds), *EU Policies in a Global Perspective: Shaping or taking international regimes?*, Routledge, London, 2014, pp.89-103.

43. MTOA-TNA, CAB 128/91/9, Conclusion Former Reference: CC (88) 39, Note "The Uruguay Round", 12.12.1990.

would focus on institutional reforms rather than reductions to trade barriers.<sup>44</sup> The intermediation of the Canadian negotiators and of GATT General Directors Arthur Dunkel until 1992, and then Peter Sutherland, helped to broker a compromise which led to a major innovation: the formal establishment of automatic jurisdiction, with an Appellate Body, as requested by the EC, and multilateral request of sanctions in cases of enduring non-compliance, as requested by the US.<sup>45</sup> The new dispute mechanism tightened procedural discipline and negated GATT veto power over the creation – even by a defendant – of a dispute panel. In relation to the establishment of an international organization, institutional reform of GATT was not on the initial agenda for the Uruguay Round. The collapse of the Berlin Wall and of the communist regimes throughout Eastern Europe influenced the Geneva talks. As these regimes were replaced by governments committed to market-oriented economic reforms, the principle of liberal trade and market-oriented prices became mainstream thinking for economic reform almost everywhere. Fundamental changes to the international context caused governments worldwide to reassess their understanding of institutional reform. In particular, they weakened US opposition and paved the way to the founding of the WTO.<sup>46</sup>

To win over the developing countries, the EU and the US offered them a ten-year phasing out of textile, footwear and tropical products quotas, and liberalization of agriculture. Most crucially, these two actors imposed the “single undertaking principle”: all provisions of the final Uruguay Round Agreement as well as existing GATT commitments, would be brought within a single WTO undertaking. Membership of the new organization required agreement on almost all the provisions in the single undertaking. Thus, the EU and the US were able to force reluctant GATT members into accepting liberalization and regulatory commitments on services, investment and intellectual property rules, and ensure the widest possible membership of the newly-established WTO.<sup>47</sup>

### Bringing China in: the long march

When negotiations over Chinese membership resumed in 1992, joining the multilateral trade regime was even more difficult than in 1986: the “entry fee”, that is, the concessions required of a new member, had increased substantially. The Uruguay Round had broadened the multilateral trade regime agenda considerably, by including services, agriculture, intellectual property and certain aspects of foreign direct investment. Then, in 1994, the international community added agreements covering information technology, basic telecommunications services and financial services.

44. E.H. PREG, *Traders in a Brave New World...*, op.cit., pp.127-131.

45. D. DE BIÈVRE, A. POLETTI, op.cit., pp.89-103; C. VAN GRASSTK, op.cit., pp.145-151.

46. For the US initiative see E.H. PREG, *The Uruguay Round Negotiations...*, op.cit., pp.122-140.

47. Ibid.

Consequently, WTO membership entailed liberalization of a much broader range of domestic economic activity, including areas that, traditionally, were regarded by most countries as among the most sensitive.<sup>48</sup>

In December 1995, China obtained observer status and re-applied for membership in the WTO, after more than twelve years of negotiations and twenty-seven Working Party sessions under GATT.<sup>49</sup> In accordance with article XII of the WTO agreement, a Working Party was established to analyse the conditions China was required to meet to bring its economic system in line with WTO rules. All WTO members could participate in the Working Party and negotiate bilaterally with China over the specific terms of the membership. Rather than a multilateral negotiation, the accession process was structured as a succession of old-style bilateral negotiations between governments, which allowed them to deal with specific concerns. The market size and trade regime dominance meant that the US and the EU dictated the negotiations and determined eventual success of China's request.<sup>50</sup>

After years of stalemate and sporadic negotiation, interspersed with the threat of bilateral trade sanctions, in 1996 discussion regained momentum with the emergence of a consensus on China's WTO accession that reflected a clearer understanding of the obstacles China faced to joining, and the effort required of all the parties involved to guarantee stable and predictable multilateral trade relations. On the Chinese side, the need to become part of the WTO intensified because the multilateral trading system had undergone changes with significant consequences for China. As a result of the Uruguay Round, WTO members had accepted the phasing out of quantitative restrictions – including textiles, footwear and apparel clothing. However, imports from China were still subject to discriminatory measures and would continue to be so as long as China remained outside the WTO system. China needed the protection and predictability of WTO rules to expand its exports. Moreover, by 1996 China had become the world's sixth largest exporter of goods and its seventh largest importer, accounting for 4 per cent of world merchandise exports and 3.4 per cent of world merchandise imports. Entering the WTO was paramount to support export-led economic growth.<sup>51</sup>

On the US side, there was a clear shift in the US policy position towards China in autumn 1996, when the re-election of President Bill Clinton resulted in a friendlier and more cooperative attitude. The US had been reluctant to bring China within the GATT/WTO multilateral system since this implied reducing trade barriers on cheap and labour intensive imports from a country that could compete successfully in the US market. However, President Bill Clinton concluded that China had become a

48. N.R. LARDY, *Integrating China into the Global Economy*, Brookings Institution Press, Washington, 2002.

49. WTO document, WT/ACC/CHN/1, Request to transform the Working Party on the Accession of China to the General Agreement on Tariffs and Trade 1947 into a WTO accession Working Party, 31.01.1995.

50. WTO, Annual report 1996, vol.II, p.4.

51. N.R. LARDY, *Integrating China into the Global Economy*, Brookings Institution Press, Washington, 2002.

geostrategic partner and the moment had come to shift from a policy of containment to one of engagement. Against this background, China's WTO membership became part of a wider policy aimed at improving relations with China, bringing it into the international community and obliging it to play by WTO rules. Moreover, making China subject to WTO rules would oblige the Chinese leadership to reform of the Chinese economy more compatible with the capitalist economy.<sup>52</sup>

The EU played an important political role in China's membership, pushing for its inclusion in the world trading system in the face of US initial open reluctance.<sup>53</sup> Despite the sanction on Chinese trade after the Tiananmen Square massacre, there was no breakdown of commercial relations and, for EC members, the human rights question proved divisive for only a short time. Hubert Zimmermann noted that

“soon the Commission and the Council managed to outsource the voicing of these concerns to the European Parliament and to a Human Rights Dialogue which produced many documents but hardly any results”.<sup>54</sup>

Although opinion differed on the conditions and timeliness of China's membership, the EU member states agreed that economic and trade relations with China would be placed in the more stable and legally binding framework of the WTO, a regulatory system that required its members to be open and transparent. EU members were aware that WTO membership would open the Chinese market further to EU firms and goods.<sup>55</sup> In the light of the important commercial interests at stake, Italy and Germany pressed for a rapid lifting of the commercial sanctions and pleaded for a sympathetic stance towards China's joining the WTO. In the meantime, France's policy towards China became more accommodating and it expressed support for China's entry to the WTO. Similar to the Uruguay Round, EU policy entailed liberalization of trade with China within a stronger legal liberalization framework. Throughout the WTO negotiations, the EU pursued the dual aim of opening the Chinese market and integrating China into a managed globalization.<sup>56</sup>

Within the EU, the main advocate of Chinese membership was DG Commissioner Leon Brittan. The British Commissioner promoted an open multilateral trading system and held that the Chinese economy was expanding so quickly that it could not be excluded from the WTO. In 1993, the Commission issued the document “Towards a new Strategy for Asia”, highlighting the effects of the rapid growth sweeping across Asia and seeking to identify the reasons behind the EU's failure to establish an adequate economic and political profile in the region. The document also called for a strengthening of the EU's economic presence in the region and for support for Asian

52. M. EGLIN, *China's Entry into the WTO with a Little Help from the EU*, in: *International Affairs*, 3(1997), pp.489-508.

53. R. ABDELAL, S. MEUNIER, op.cit., pp.350-367.

54. H. ZIMMERMANN, *Realist Power Europe? The EU in the Negotiations about China's and Russia's WTO Accession*, in: *Journal of Common Market Studies*, 4(2007), pp.813-832. Quote from p.820.

55. *Ibid.*, pp.813-832.

56. R.Y. WONG, *The Europeanization of French Foreign Policy: France and the EU in East Asia*, Palgrave, Basingstoke, 2007, pp.89-95.

participation in multilateral organizations.<sup>57</sup> The EU member states gave the Commission a broad mandate to negotiate with China and, despite some initial jostling, were able to maintain a remarkably unified stance.

Negotiations with China were concluded in November 2001, following bilateral agreements in 1999 with the US and in 2000 with the EU. On 11 December 2001, following 15 years of arduous negotiations, China became the 143<sup>rd</sup> member of the WTO. China's urgency for membership was probably greater than US and EU keenness to access the Chinese market. This gave WTO members some leverage in the negotiations, evidenced by the terms of China's protocol of accession to the WTO. In addition to agreeing to open its markets further to global competition, these commitments included further reductions of tariff and non-tariff barriers; extension of trading rights to foreign and domestic firms within three years after accession; greater market access for foreign telecommunications firms, banks and insurance companies; and greater protection of intellectual property rights. China also agreed to discriminatory treatment under the so-called WTO-plus provisions, designed to "safeguard" (i.e., protect) foreign producers. Briefly, this meant that as a condition of membership, China was required to make protocol commitments that substantially exceeded those made by any other member of the WTO. The Chinese authorities agreed, also, to respect an eight-year "Transitional Review Mechanism" process, required by the established powers as a safeguard to ensure that China would meet its WTO membership obligations. China agreed to discriminatory treatment to satisfy the US, the EU and other WTO members who feared a huge rise in the volume of imports from the mainland. As Lardy emphasizes the "WTO-plus" terms that China agreed to, related to safeguards and antidumping, were "more onerous than those accepted by any other member". Overall, to gain entry to the WTO, China eventually was required to sign a long and historically unprecedented list of accession obligations.<sup>58</sup>

Undoubtedly, China's accession to the WTO in 2001 was the most economically consequential addition to WTO membership and played a crucial role in globalizing the WTO regime. "International economic cooperation has brought about this defining moment in the history of the multilateral trading system", declared Mike Moore, WTO Director-general, at the conclusion of the Working Party's meeting on China's Accession.

## Conclusions

The Uruguay Round Agreement came at a moment of enormous changes: the ending of the Cold War; the collapse of the Soviet Union; and the political triumph of ca-

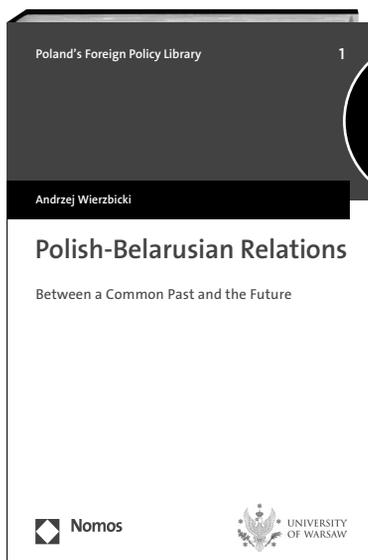
57. EU Commission – COM (94) 314 final, Towards a new Asia strategy. Communication from the Commission to the Council, 13.07.1994.

58. K.H. KIM, *China's Entry Into WTO And Its Impact On EU*, in: *International Business and Economic Research Journal*, 9(2004), pp.65-68.

pitalism and the market economy. These developments shaped the results of the Round. The EC/EU played a leading role in globalizing GATT and – more broadly – in shaping the internationalization of the world economy. Although differences existed among members, the EC/EU favoured an expansion of the multilateral agenda to new sectors and a strengthening of its rules and institutions. This broader agenda allowed increased EU exports in sectors where it was competitive and, to accomplish this, the EU, eventually, in Geneva, accepted reform of the protectionist CAP and reduced discrimination. While supporting the globalization of GATT/WTO, the EC/EU tried to impose its own vision of the process through an enhanced rules-based multilateral trade regime. The EC/EU also favoured an expansion of WTO membership and the EU supported China's WTO membership in order to globalize the WTO and place trade with the dynamic Chinese economy under the binding and predictable rules of a strengthened WTO multilateral trade regime. China was by far the largest trading country outside the system and its participation had become essential for the smooth growth of international trade and effectiveness of the WTO. In EU policy, the near-universal acceptance of the WTO rules-based system would be pivotal in promoting global economic cooperation.

The establishment of the WTO, with its binding dispute settlement, and the expansion of WTO membership was a linchpin, but also the climax to the EU's policy in the 1990s of managed globalization. In the aftermath of the Uruguay Round, the EU tried to continue to be proactive in shaping the world trade regime by further enlarging the scope of the WTO to non-trade issues – such as the environment – and promoting a new trade conference to be launched in Doha in 2001. However, this position coincided with the rise of the emerging economies of India, Brazil and China and limited the capacity of the EU and the US to shape the WTO and its rules as they had done in the Uruguay Round. In the Doha Round, the developing countries successfully challenged the US-EU duopoly and changed the bargaining balance of the trade regime, pushing the EU to look for bilateral trade agreements to pursue trade liberalization.

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