The Impact on the U.S. Of The General Agreement on Tariffs and Trade

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The Impact on the U.S. of the General Agreement on Tariffs and Trade

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MIM 665 Graduate Project
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Chapter I: Introduction

Creation of the General Agreement on Tariffs and Trade

The General Agreement on Tariffs and Trade (GATT) was originally created in 1948 and consisted of 23 members. It was set up as a body of rules to govern international trade in hopes of creating a secure and predictable environment and later grew into an organization to oversee and implement these rules. Currently there are upwards of 123 participants in the GATT who, combined, represent around 90 percent of world trade and many of the remaining countries have applied to join. After seven rounds of negotiations the GATT has succeeded in reducing average tariffs in industrial countries from more than 40 percent ad valorem to less than 5 percent today (Executive Office of the President, 4). To show the broad spectrum of countries that feel the GATT will be an important step in their economic development contracting parties to the GATT and those who are in the process of applying are listed in the table below.

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Principles of GATT

While there are 38 articles in the GATT they are all based on a few fundamental principles. These are most favored nation status, national treatment, protection through tariffs and a stable basis for trade. Most favored nation status means that when one nation grants MFN status to another it agrees to charge that nation the lowest generally applicable tariff rate on goods from that nation (Hotchkiss, 211). National treatment concerns imported goods to members of the GATT to ensure that they are treated equally as well as domestic goods of the same nature. Protection through tariffs is the principle behind the GATT that prohibits the use of any quota systems. Countries must use tariffs at the border as the only means of protection. A stable basis for trade, one of the most important overriding goals, is achieved partly by the binding of tariff levels among member countries. This not only serves to create more predictable tariff levels in the
future for trading countries but also discourages the raising of tariffs as any increases must be agreed upon by the other parties.

The Uruguay Round Agreements

The Uruguay Round Agreements began in 1986 with the purpose of further reducing barriers to trade in goods that it currently covers in the agreement and also to establish rules for services and other areas of trade not then covered by the GATT. Specifically, due to the increasing complexity of world trade the GATT was becoming inadequate in the areas of agriculture where many countries were resorting to placing restrictions on agricultural products and intellectual property which had no GATT rules at the time. The system in place for dispute settlement was also proving itself to be ineffective. Once in effect the agreement will operate under the World Trade Organization. When the WTO goes into effect member nations will all have to comply with nearly all of the codes which should serve to standardize the level of obligation for each country.

The following is an overview of the provisions within the Uruguay Round as explained by the Executive Office of the President. Improvements in the market access for goods will be achieved by the further reduction, over one third, of tariffs in major industrial markets and sharply limiting non-tariff barriers such as quotas which have been increasing as the tariffs have fallen. The field of agriculture will benefit from limitations on market distorting government policies such as farm subsidies. Sanitary and
Phytosanitary measures, these being the measures taken to protect plants and animals from pests, diseases, contaminants and toxins in their food, will no longer be used as a method of preventing the importation of U.S. agricultural products if unjustified. A safeguard provision is included for cases where a surge of imports would cause serious injury to the domestic injury for that particular product. An anti-dumping code is also included in keeping with the agreement’s policy of preventing market distortions. The GATS, General Agreement on Trade in Services is the first of its kind to cover trade and investments in the global marketplace. The DSU, Dispute Settlement Understanding outlines procedures for the settlement disputes and imposes time frames under which each step must be completed in order to come to a more timely resolution. Finally there is TRIPS, the Agreement on Trade-Related intellectual Property Rights. It is this agreement that provides the much needed global standards for the protection of copyrights, patents, trademarks, industrial designs, trade secrets, semi-conductor chips and geographical indications (Executive Office of the President, 6-13). It is this provision that I will focus on and its effect on U.S. industries relative to other nations.

The Clinton administration is counting on the Uruguay Round to strengthen the domestic economy by bolstering our competitiveness in key industries, creating jobs, raising our standard of living and combating foreign trade practices that inhibit U.S. exports. That may sound like a fairly broad vision but the Uruguay Rounds are a broad agreement and many analysts feel that the U.S. is in the position to benefit most from these. Of particular interest will be the effect the TRIPS agreement has on the American
firms whose product or business is directly related with one of the aspects covered. The early view has appeared to take the position that the U.S. will benefit greatly from this but by examining a few key industries and listening to the opinions of those in government and business I hope to more accurately gauge the effect this is having on the domestic economy.

**Defining intellectual property**

Americans have realized the importance of intellectual property rights from the very beginning as is shown by the Constitution which grants Congress the right to protect intellectual property. Today intellectual property is defined by terms such as trademark, which is described in Article 15 of TRIPS as any sign or combination of signs capable of distinguishing the goods or services of one undertaking from those of other undertakings. A registered trademark means that the sign cannot be used on a product where it would cause some confusion to the consumer as to where the product came from. This has proven to be important to the pharmaceutical industry where a counterfeit product cannot be distinguished by the consumer. Licensing agreements are often entered into by the owner of the trademark and another manufacturer where that manufacturer is then given permission to use the trademark symbol. Patents give the owner the exclusive right to make, use, offer for sale, sell or import a product or, if the patent is for a manufacturing process, to prohibit another to use the process without consent or sell a product which was obtained by that process. The term “Undisclosed Information” is popularly referred
to as trade secrets and the owner can prevent this information from being “disclosed to, acquired by, or used by other without their consent in a manner contrary to honest commercial practices” (Chaudry, 2-5). Once the exclusive rights have expired the intellectual property is put into the public domain which means that it can be used by anyone. It is the responsibility of the member country to have in place a system where these intellectual property rights will be enforced.

The law regarding the duration of a patent in the past has been that they would expire 17 years after they were issued. Under GATT these patents would expire 20 years after the inventor filed at the Patent Office. This is of concern to the inventors because in today’s legal environment it often takes more than a decade before the government will actually issue the patent. The difference this could make to many corporations is in the billions of dollars due to the shortened time period in which they could collect royalties. Perhaps more importantly would be the change in the method of operation at the patent office from not making public an inventor’s application until the patent had been granted to allowing the patent application to be published 18 months after the filing regardless of whether the patent had been issued yet. This worries many who foresee the possibility of their technology being stolen much like in the incident where Dr. Raymond Damadian, the inventor of magnetic resonance imaging, was waiting six years to have this registered in the Patent Office when GE took his invention (LeFemina, 1-2).

Business Week reported that the industries traditionally hit the hardest by those who infringe on patent rights are the U.S. pharmaceutical, software, movie, publishing,
and recording industries. All industries that produce a product whose value is almost entirely in its intellectual property and that is relatively easy to duplicated. Estimates for 1991 were that the software and pharmaceutical industries alone lost $13 billion (Chaudry 1). The chairman/CEO of the Recording Industry Association of America was quoted as saying “there are vastly more U.S. works currently unprotected in foreign markets than foreign ones here.” (Holland, 10). TRIPS also provides for works which are still protected in their country of origin but not in other countries by enforcing retroactivity, or the extension of the protection of a work to coincide with the protection it receives in its country of origin. It is for reasons like this that the U.S. was so adamant in its demands for the intellectual property issue to be addressed in the Uruguay Rounds and that so many feel the U.S. will be a big winner as a result of the implementation of the new agreement. Concerning the GATT’s effect on world trade it is again estimated to be positive for the U.S. economy. Global trade is expected to increase by $5 trillion by the year 2005 with the U.S. seeing $150 billion in new exports itself and 500,000 new jobs (Silverstein, 14). The cities that will be seeing the greatest benefits will be those that have high technology industries while those with labor orientated economies such as textiles will realize a negative impact as they lose some of the protection that had been afforded to them in the past. It is felt that the increased international competition for labor type jobs will drive down those wages and in many cases Americans would lose entry level type jobs.
Ratification of the Uruguay Round Agreement

Optimistic estimates like these are what made proponents of the agreement argue so strongly for this ratification. Tariffs in the U.S. were already in line with the levels that were being specified by the Uruguay Round, however, other countries were placed in a situation where they would be forced to dramatically slash many of their tariff rates which further supported the U.S. ratification. Seven months after the legislation was enacted U.S. exports had increased from a value of $203 billion in the first six months of 1994 to $236.4 billion in the same time period of 1995 which translates to an increase of more than 16 percent. Although it should also be noted that exports had increased 6 percent in 1991, 4 percent in 1992, and 10 percent in 1993 (Wright, 24). At that same time there were still no notable signs that U.S. service industries were going to be able to make substantial gains in foreign markets as a result of the agreement. Still, at that time it appeared as though the expected benefits were in fact going to be realized by the U.S. economy. For a better view of how industry insiders are looking at TRIPS we took a look at five key industries.

Chapter II: Literature Review

Pharmaceutical Industry

The pharmaceutical industry has proven to be an easy target to patent infringements in the past. This industry has been near the top of the list when it comes to
damages as a result of patent piracy. Reasons for this are the same that I feel apply to all
the other industries that have been shown to be especially susceptible to piracy. They
produce a product whose value is almost entirely found in the research and intellectual
property and subsequent exclusivity of manufacture. The products are very difficult if
not impossible to tell apart by the consumer who will almost surely not be able to tell the
official version of a drug that has been manufactured from one that was manufactured and
packaged identically but illegally. Even counterfeit items that people had always felt
consumers would be able to tell a difference in workmanship and overall quality can
sometimes reach a level were even the authorized manufacturer cannot tell the difference
as was the case when a shipment of Liz Claiborne purses were seized by U.S. Customs
Service agents under suspicion of being counterfeit and an infringement on that
trademark, however, even after being sent back to Liz Claiborne for identification they
could not conclusively decide whether the purses were counterfeit or simply outdated
(Chaudhry, 83).

Opinions concerning the Uruguay Round of GATT are divided depending on
whether the individual is from a large drug manufacturer like Glaxo Wellcome Inc. or
from a generic drug manufacturer. The result of the patent extension from 17 to 20 years
has been an inflammatory issue in Washington, DC. At first glance this may seem like an
insignificant increase but the difference to brand-name pharmaceutical companies will be
a windfall in the billions of dollars. Take the drug Zantac which is manufactured by
Glaxo Wellcome for example. The patent on this anti-ulcer drug was due to expire but,
with the agreement, gained an additional 19 months of protection. Industry analysts have estimated that Glaxo will earn an additional $3 billion from the sale of this drug over the next two years (Chemical Marketing Reporter, 17). It is cases like this that have made the agreement seem to many to give an unfair advantage to many of these drug manufacturers.

In Washington legislation had been proposed to restore the U.S. patent protection period to 17 because, as Senator David Pryor of Arkansas stated, “neither the GATT negotiators nor Congress had any intention of granting a multi-billion dollar windfall to brand-name drug manufacturers that would be borne on the backs of American consumers” (Chemical Marketing Reporter, 17). This supports those who have felt that the 20 year patent extension only serves to hinder competition in the U.S. with the real losers being the American public who are forced to pay more for their pharmaceuticals. A competition clause was proposed in legislation that would permit generic drug companies that had planned to introduce a copy of a drug on the original patent expiration date to proceed with their plans as long as they gave some of their profits as compensation to the patent holder. Under the Hatch-Waxman Act generic drug companies have access to the test data of brand-name manufacturers and are allowed to test their generic copies before the patent expires but still cannot market their copy until after the patent expires. Pryor’s bill however would not only allow the leeway that generic companies get from the Hatch-Waxman Act but also let them market the copies during the delta period, or the time from the original patent expiration date to the
extended one under the GATT, and this is what the brand-name companies object to on
the grounds that it takes away the incentive to invest millions in research when the drug
will only be stolen from them in the future.

While Pryor along with other senators and the Clinton Administration have argued
against the GATT patent extensions Senator Orrin Hatch and Charles Grassley have led
the opposition saying that no mistake was made and to revise the patents to their previous
lengths for domestic reasons would send the wrong message to the international
community concerning our commitment to the GATT. This group points out that the
generic companies already receive special treatment by having access to the test data
which often takes 12 years and $360 million to compile (Chemical Marketing Reporter,
7-9). Changing the laws for the pharmaceutical industry would in effect make the
research and invention of life saving medication less profitable than research for the next
generation of running shoes.

The vote that defeated Pryor’s proposed legislation was a very close 49-48 but
Pryor has vowed to bring the issue back to the senate floor. This has spurred a grassroots
response from groups such as the Grey Panthers, a senior citizen group, who awarded
Glaxo with the Green and Greedy award for their part in protecting patent rights. In
response Robert Ingram, the president of Glaxo, stated “We’re disappointed that the Grey
Panthers and other supporters of legislative efforts to weaken patent protection don’t
share Glaxo Wellcome’s views on the importance of biomedical research. This year
Glaxo Wellcome will invest almost $2 billion supporting 50 major research projects and
93 development projects that target diseases ranging from asthma to cancer to AIDS” (Lerner, 15).

**Biotechnology Industry**

Another problem with the new patent regulations concerns the biotechnology industry. The old regulations had called for the clock to begin ticking on the patent at the time the patent was granted. Under the GATT the clock will begin ticking on a patent at the time the application is received. In biotechnology time is money and as mentioned before, in today’s legal environment a patent could be challenged for ten years before being granted. This causes it to become more difficult for the firms to get the funding they need for future research since the same profit potential is not there. Insiders have also said that the GATT encourages the competition to threaten the inventor with lengthy patent challenges to the patent itself unless they are given a cheap license to produce the product. The U.S. Patent Office is in favor of the change because most other industries support it and it will conform with the patent laws of other countries but one patent official was quoted as saying “A 20 year term would benefit just about everybody, biotechnology is an exception” (Davey, 11). The industry will likely devote more research to the likely winners in the patent office rather than pour money into a longshot which may not pay off in the future. Fortunately some modifications have been made so that the clock can stop when there is a challenge to a patent which helps to quell some of this industries objections.
Internationally the biotech industry has another legitimate complaint with the GATT. According to the agreement a country must pass strict patent laws in order to take advantage of the reduced tariff rates. Japan has copyright laws and is in compliance with GATT so they can take advantage of this but those in the industry contend that they have outsmarted the international community. The CEO of Icos Corp., George Rathman said that in biotech the products are so complex that the difference between natural and man-made is muddled and the Japanese are continually abusing foreign patents. For example, “if an American company invents a molecule that has 560 atoms in a chain, and a Japanese company comes up with the same molecule with 561 atoms, Japanese courts often say it is outside the patent” (Fryer, 4).

While the problem with the Japanese persists it is the developing countries and the leeway time they will have before they have to comply with GATT that is worrying the overall industry the most at the moment. Some of these countries have up to 10 years to come into compliance with the GATT and many feel that in this time it will be like giving them a license to steal. On the positive side for the biotech industry the approval of applications for foreign patents should come easier now that most of the trading partners and target markets will be working under one regulating body. U.S. firms that have met the high standards placed by our Food and Drug Administration will generally have few problems securing these international patents (Hirschman, 6).
Software Industry

The software industry, which has piracy estimates as high as $13 billion each year, welcomes TRIPs since it will require member countries to protect computer programs the same as literary works internationally, just as they have been here in the U.S. They also feel that the relaxed tax barriers will serve to spur continued growth within the industry. The good news to the consumers is that since these measures should dramatically decrease piracy individuals can look forward to faster innovation, a wider variety of programs, and declining prices. While it will probably take three to five years for piracy rates to go down Robert Weiler of Lotus Development Corp. stated that “if piracy rates go down, you’re going to see more R&D, more competitive products, and probably a further price erosion” (Patch, 155). The GATT itself will open more markets to the U.S. and the software industry, where we are particularly strong, will be one of the first to benefit. The decrease in tariffs will level the playing field and make U.S. exports less expensive thus achieving one more step towards fair trade.

The U.S. software industry has supplied 75 percent of the world’s packaged software but they must recognize that the reduced tariffs will spur growth in the industry in other countries as well and the U.S. could face more competition in later years as a result. Other possible pitfalls are in the enforcement of the protection that GATT is calling for. The Business Software Alliance is already calling on the WTO to enforce the intellectual property provisions that are in place. They point to countries like China which certainly isn’t lacking in intellectual property laws but is in its enforcement of
them. In contrast Italy employed aggressive police tactics and realized a 36 percent drop in piracy (PC Week, A3). The industry hopes to see the same results worldwide.

**Agricultural Industry**

Agricultural trade was to be liberalized as a result of the GATT opening markets. The goals of the Uruguay Rounds concerning this industry were, “to establish a fair and market-oriented agricultural trading system, reverse protectionism and remove trade distortions in agricultural trade” (Ingco, 43). This agreement went beyond previous GATT regulations and covered not just import restrictions but also subsidies on its own exports and domestic support programs. Tariffs will be reduced over 10 years for developing countries and 6 years for others by an average of 36 percent. In the future nearly all tariff rates will have ceiling rates established and domestic support for the agricultural industry will decrease from $198 billion to $162 billion, export subsidies will also be cut from $21.3 billion to $13.8 billion.

Although the moves made in the agricultural industry are positive they have not eliminated as high a degree of protectionism as was hoped. In many cases tariff rates will be as high as or higher in the year 2000 than they were before the agreement. Protection of products that have been deemed sensitive for one reason or another, in the U.S. this includes grains, sugar, meat, and dairy products, could actually increase. Overall you could say that the agreement was only a small step in the right direction for the world’s agricultural industry and its effect in the future will rely on the methods that member
countries employ in the setting of tariffs and the continued opening of their markets.

**Textiles Industry**

The Agreement on Textiles and Clothing was finalized during the Uruguay Round trade negotiations and was seen as a priority because this is an industry that is expected to continue to grow at a faster pace than the trade in other goods. This appears to be another industry that is closely related to the developing countries since 7 of the top 15 textile exporters are developing countries. The predecessor to this new agreement was the Multifibre Arrangement which operated through a system of quotas to help prevent disruptive surges in the importing countries. Trade-Related Intellectual Property Rights provides a provision to specifically protect clothing designs and the members are required to have in place a system for enforcing these measures in this industry.

From the perspective of the United States the negative side of the agreement is that in this industry the opening and stabilizing of markets and freer trade will cause the continuation of migration to areas that enable more cost effective production. Developing nations that have a very low cost of labor will gain jobs in this field while the U.S. will probably continue to lose them. Increased competition will be a benefit to the consumers since it only makes sense that the movement of manufacturing facilities with the competitive advantage of cheap labor, lower tariffs, and now the stable trading rules will all combine to drive down prices (Hughes, 4-12).
Semiconductor Industry

In the semiconductor industry U.S. manufacturers are hoping to establish a presence in China, which is predicted to be the quickest growing market for such products by a long-shot. There are predictions that China’s semiconductor market will increase 266 percent to $5.5 billion in 1997. For comparison the market in North America grew 46 percent and in Japan 29 percent during the same period. China is expected to be the leading consumer of computer chips in 10 to 15 years. Currently however China is only consuming a small fraction of the total chips in the world market while the U.S. leads this area by consuming 40 percent of the entire market. In manufacturing the U.S. also leads with 41.1 percent, the Japanese create 40.5 percent, and the South Koreans make 9.2 percent (Johns, 2).

China is currently meeting around 20 percent of its own chip needs with its domestic manufacturers but these are all the low technology chips that are used in radios, televisions and other home appliances. They are looking to develop their country’s potential in this industry and have been investing funds into research in chip production for special tasks which they see a market for in the future. Chinese government and their Ministry of Electronics is working to implement a plan that would eventually eliminate foreign semiconductors and replace them with domestically manufactured ones. This puts U.S. manufacturers in an interesting situation because while they would like to fully participate in the Chinese market in the years to come they do not want to let their technology be transferred to them in the process. Thomas Howell who works as an
analyst at Dewey Ballantine in Washington, DC said “If you look at what the Chinese are
doing now, you’ll see they’re using various levers to induce U.S. companies to transfer
technologies to them in ways similar to what the Japanese did in the 1950s” (Johns, 1).

The trick will be to see if the GATT rules and agreements that were negotiated
with the Chinese in their effort to remain a viable trading partner to the international
community are held to and if not to enforce them. China has been applying restrictions
on foreign ownership and placing tariffs that are not in line with the rules they had agreed
upon. If these rules are held to the semiconductor industry here in the U.S. is at a
disadvantage and may lose the opportunity to be present in the Chinese market when the
long term growth that is predicted does take place. Already China is seeing advances in
its plan such as the signing of an agreement in 1993 with Varian Associates to participate
in a venture in China to manufacture chip-fabrication tools. U.S. producers specifically
want the 30 percent tariff that is placed on the less advanced semiconductors and the 11
percent one on the more advanced chips to be removed or they fear that without this
market opening soon the exact type of trade distortion that GATT attempts to prevent will
become present in this industry.

China has been attempting to join the WTO, which has been named the GATT’s
successor and originally grew out of the Uruguay Round, for some time as have a number
of others. It would seem that those who are already members would want the large
markets of China and Russia to become members as soon as possible because this would
make these areas more open and stable but current members no longer rush to let others
in. This is because of the Japanese who many feel never lowered their tariffs or sufficiently opened their markets to enter into the agreement. Now a country that wants to join must also meet all the strict standards from the Uruguay Round that govern the services and protection of intellectual property. China, with its horrible human rights record, stirs fear that cheap Chinese exports manufactured at costs no other country could match would flood the market and cause people in other countries to lose their jobs. Aside from this they have been making some progress and have offered to cut their tariffs in half from 34 percent to 17 percent. Perhaps one of the pivotal issues to China’s acceptance to the WTO will be its compliance with an intellectual-property accord that they signed a year ago (The Economist, 72-73).

**Anti-Dumping Provisions**

One other issue that should effect a number of industries, both agricultural and industrial, here in the U.S. is the anti-dumping provision written into the Uruguay Round. Article VI of the GATT defines dumping as a situation in which “products of the country are introduced into the commerce of another country at less than the normal value of the product” (Grimwade, 99). The agreement attempts to condemn this if it could harm an established domestic industry or hinders the development of one. Countries are given the option of either placing an anti-dumping duty on the product which is not to exceed the margin of dumping or they can place a subsidy on the domestic product at a comparable level.
While the anti-dumping provisions may seem like a logical way to protect fair and free trade some say that the growth of their use by the U.S. and the EC in particular may hamper the free trade goals of the GATT. Even countries such as Japan, which has mostly been known as a target for anti-dumping duties, have begun to impose duties of its own against other country’s goods. The mere threat of an anti-dumping investigation is often enough to discourage a company from expanding its into a foreign market with an aggressive penetrating price policy. Legal costs to defend against such a claim are high enough to cause damage to the manufacturer. This is an unfortunate use of a policy that was originally put into place to prevent true predatory pricing. The National Consumer Council estimated that in the EC anti-dumping duties raised the prices on consumer electronics by “11 percent for video cassette recorder, 13 percent for compact disc players, 17 percent for computer printers, 15 percent for electronic typewriters and 11 percent of imported photocopiers” (Griwade, 102). It is also estimated that not only did these measures raise the cost of goods to the consumers but they reduced import quantities by 73 percent.

The new anti-dumping codes written into the Uruguay Round did provide some provisions that they had hoped would prevent abuses and return the anti-dumping codes to their original idealistic purposes. One such example is the measure ensuring that exchange rate dumping, which is when the exporting country’s currency depreciates against the importer’s but the export prices are not immediately adjusted, is not subject to the anti-dumping codes. Overall though, the new anti-dumping code leaves many areas
of abuse untouched. This is a shame because many experts fear that the insufficient improvements may serve to undermine the improvements in free trade that had been reached in other parts of the Uruguay Round.

Chapter III: Methodology and Results

Methods of analysis

The analysis of whether the GATT has benefited the U.S. can be viewed from a number of different angles. One would be to interpret the new trade laws and the industry that they affect and make a preliminary judgement as to who the winners and losers will be (i.e. the extension of patents in the pharmaceutical industry will benefit those who hold them with increased revenues and hurt generic manufacturers who produce the drugs once the patent expires). Another is through the feedback received from those who have been involved in a business that is affected by the GATT and have witnessed first hand the economic impact it has had. Yet another method is to analyze the statistical impact the Agreement is expected to have as generated by models and the data that has been gathered thus far from the industries performances since the inception of GATT to achieve a more positive indication of its impact. The final method, and one which is perhaps the most different from those already mentioned, is to analyze the expected impact on the American consumer over both the short and long term.
Economic Model

A large-scale model which analyzed 24 regions and 22 different commodities seems to indicate that the developed nations such as the U.S., Japan and the European Union members will benefit the most, especially in the short run. They predict the GATT members will benefit by about $96 billion in the early years and expect the figure to grow to $171 billion. Of the $96 billion the EU members are predicted to gain $39 billion, Japan $17 billion, and the U.S. $13 billion. Some smaller nations will realize a negative net effect in the first few years due to a reduction in agricultural subsidies (Harrison, 38-39). Fortunately the higher income levels should eventually benefit even those countries that will lose in the short term.

Consumer Impact

Regarding the impact the average consumer will see over the short and long term of our involvement with the GATT I feel that in the industries that will be effected by TRIPS and the resulting change in patent laws consumers may not feel like they are the winners right away. Prices for the products they need will remain higher for a longer period of time than they otherwise would have been. The positive side to this will be that with the improved patent protection more pharmaceutical companies, chip manufacturers, and software companies will be afforded the opportunity to invest larger sums in research for future products. Consumers will, over the long run, benefit from the availability of better new products and potentially life saving drugs.
Industry Analysis

When analyzing the changes that have taken place in the laws governing international trade and interpreting who will be placed in a stronger or weaker position we could break down the industries we reviewed in the following manner. Pharmaceuticals will be split between the generic and name brand manufacturers for the time being but I feel that with the provisions provided under the Hatch-Waxman Act generic companies will remain profitable over the long term and hence the industry as a whole will benefit from the agreement. In biotechnology the problems that I foresee will be in the enforcement of the patents. The WTO and the greater power that it wields will be an advantage in the future along with the new global regulating body which will not only simplify they application process for all countries but give the U.S. firms an advantage since they will be working under the strict FDA regulations as well. Perhaps the clearest winner in the U.S. will be the software industry. The TRIPS provisions which demand for software to be protected as a literary work internationally should serve to cut down the piracy rates and benefit both consumers and manufacturers. The agricultural industry, probably due to its sensitive nature, didn’t receive the changes in regulations to truly open up the markets to free trade. Still the agreement did address some of the problems of protectionism and although it wouldn’t be deemed a resounding success it will prove to be favorable. Textiles workers here in the U.S. may come to view the GATT in a negative way as they hit the unemployment lines. The industry here in the U.S. will be hurt by the migration of production facilities and their jobs to areas where
the cost of labor is lower. The only up side in the textiles industry is that consumers should realize a drop in prices as the changes take place. Semi-conductor manufacturers in the U.S. and abroad should feel more secure knowing that their trade secrets will be given a greater measure of protection than in the past and they can invest more freely in research with less fear of their intellectual property being taken. As you can see the industries that will receive a substantial benefit from the GATT outnumber those who will either receive only a small benefit or none at all. From this analysis I would say that the U.S. businesses and the consumers will both benefit from the agreement in some form.

Chapter IV: Conclusion and Recommendations

The future of the GATT

While we have determined that the net impact of the GATT will prove to be positive on the U.S. economy and the ideals which were set forth by the agreement of creating a free and stable trading environment are unequivocally what will aid in future growth there is still work to be done. The reduction, and hopefully the eventual elimination, of protectionism combined with the important provisions of the Uruguay Round such as TRIPS will serve to encourage markets to produce and specialize in what they can achieve a comparative advantage in. What the members will have to be wary of in the future which can undermine the entire agreement will be incidents of non-
compliance that reintroduce the market distortions they are attempting to eliminate but with the advent of the WTO and its improved powers of enforcement this should be controllable.

Member responsibilities

The future success of the GATT is really in the hands of the member countries at this point. A goal of free trade and global economic growth has been placed on the table and the areas where the agreement seems to have fallen short of the ideal can usually be attributed to political insecurities concerning the changes or sacrifices that a country would have to undergo as a result. From this point we will either see a further reduction in tariff rates among the countries and a continued shift of facilities or the progress may stall at this point. Either situation will be an improvement over the condition of the global market just a few short years ago but I feel optimistic that as the benefits of the agreement become apparent to the business and political leaders of the member nations they will continue to strive for the goals set earlier by the international community in the GATT.
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