

LIBERALIZATION OF INTERNATIONAL TRADE IN GOODS AND SERVICES

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Abstract: *This paper analyses the liberalization of international trade in goods and services where the basic aim of the paper is to determine the role and significance of the General Agreement on Tariffs and Trade, the Uruguay Round of Multilateral Trade Negotiations, the General Agreement on Trade in Services, the Agreement on Trade-Related Aspects of Intellectual Property Rights and the role and significance of the World Trade Organization, in order to explain the effect of international trade liberalization on the good and services sector. The paper establishes that the trend in regional integration is becoming prominent throughout the world, primarily due to the slow development of negotiations in the Doha Round concerning integrational processes in Europe and North America. Expenses associated with a possible unsuccessful outcome of the negotiations in the Doha Round are expected to be significant and may lead to missed opportunities for trade and development, increased protectionism and loss of confidence in the trade system, all of which risks a slow weakening of the multilateral trade system over the long term. The potential failure in negotiations would be a significant loss for both developed and less developed countries.*

Keywords: *liberalization, international trade, goods, services*

JEL classification: F13, F53, F62

1. INTRODUCTION

Nowadays, no single country operates in economic isolation, while interconnectedness between countries is becoming even more complex and continuously intensifying, as is the need for international cooperation in establishing agreements which is motivated by numerous advantages stemming from this sort of integration. Therefore, the aim of this paper is to analyse the importance of the liberalization of international trade in goods and services on a multilateral and regional level. Trade liberalization is evident on a global level under the World Trade Organization, and on a regional level through the establishment of regional integration, meaning that regional trade agreements exist on a bilateral level. The basic aim of this paper is to analyse the role and significance of the General Agreement on Tariffs and Trade, the Uruguay Round

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of Multilateral Trade Negotiations, the General Agreement on Trade in Services, the Agreement on Trade-Related Aspects of Intellectual Property Rights as well as the World Trade Organization in the liberalization of international trade in goods and services.

The paper is structured such that the introductory notes are followed by the second chapter which treats the theoretical framework on liberalization of international trade in goods and services. The third chapter analyses the role of multilateral trade agreements in the liberalization of international trade by observing the role and significance of the General Agreement on Tariffs and Trade, the Uruguay Round of Multilateral Trade Negotiations, the General Agreement on Trade in Services, the Agreement on Trade-Related Aspects of Intellectual Property Rights. In fourth chapter, the effects of the World Trade Organization of liberalization of international trade in goods and services are analysed with the final chapter presenting some conclusions.

2. THEORETICAL FRAMEWORK OF LIBERALIZATION OF INTERNATIONAL TRADE IN GOODS AND SERVICES

Economic experts conclude that liberalization of world trade is necessary based on past experiences where countries implemented domestic manufacture protection using protectionist policies, especially in the period between the two world wars when high customs were the cause of customs wars. A multilateral decrease in customs since the Second World War has been conducted within the General Agreement on Tariffs and Trade (GATT) and which is only a temporary agreement and should have been in force only until the founding of the International Trade Organization (ITO). However, provisions of GATT have been in force for almost fifty years, i.e., until 1995 when the World Trade Organization (WTO) was established. Its task, among other things, has been to remove all obstacles to world trade and its liberalization. The WTO, as a legal adherent of GATT, has the task of removing various trade barriers between the organization's member countries. It especially demands from its member countries a significant decrease in customs with the aim of custom and out-of-custom protection liberalization, especially the liberalization of financial services [16].

The relationship between multilateralism and regionalism is discussed by [15] and [2]. The view of opponents of regionalism is that regional trade agreements cause a trade diversion effect, decreasing the total effect in global trade and decreasing a country's initiative towards multilateralism, and subsequently setting up multilateral trade agreements becomes exceedingly complex. They can supplement, but not replace, multilateral rules and progressive multilateral liberalization. Numerous activities in these agreements may contribute to a weakening of the multilateral framework. Additionally, they may contribute to the integration of protectionist lobbies by making them efficient obstacles against multilateral liberalization. In regional trade agreements between countries with different negotiation power, less developed countries are in fear that deeper integration might become instrument of extracting all kinds of concessions by larger and more powerful countries, and not only in trade. Connected to third party countries, i.e. countries that are not members of the regional trade agreement, the relationship towards them is mostly non-preferential in part of the investment as the most important way of offering services on foreign market. In relation to competition, the approach of non-discrimination towards third countries is adopted.

On the other hand, advocates of regionalism claim that regional trade agreements serve as a transfer towards multilateral trade system. They believe that initiatives directed towards regional and multilateral integrations are complementary and do not present alternatives for opening up trade. The only difference lies in the fact that regionalism enables a group of countries to negotiate rules and obligations that are deeper than what multilateral agreements would allow. This is possible due to the fact that negotiating with a smaller number of countries is easier. Furthermore, they claim that regional trade integration allows smaller countries to enter larger markets. Regionalism will always be an alternative, given that countries are at different levels of development and the duration of agreements within the WTO varies. According to the data from the WTO for 2016, a sudden increase in the number of registered regional trade agreements since the 1993 is noticeable, especially in 2004 when the increase in the total number of regional trade partners amounted to 400%. On 1 February 2016, a total of 625 regional trade agreements were registered before the WTO, of which 419 were currently active.

Theoretically, regional trade agreements can supplement, but not replace multilateral rules and progressive multilateral liberalization, while numerous activities stemming from regional trade agreements contribute to weakening of the multilateral framework. Generally, liberalizing the movement of goods through regional trade agreements is easier than for services, and provide stricter rules regarding domestic regulation and trade in services than GATT. Trade in international services is covered by the WTO, but general obligations for the liberalization of trade in services do not exist, as is also the case with trade in goods. According to the General Agreement on Trade Services (GATS), each country determines which particular services sector it will open up to the international market (bottom-up approach). Regional trade agreements are leading to the liberalization of some sections of trade in services, but may also have a negative impact on the position of some service providers from the third countries. Trade agreements probably increase exports, but from the wider aspect of the entire economy, more important are benefits for companies, such as lower costs and greater quality of services. Finally, the possibility that liberalization at a regional level will have a greater effect on the total global welfare rather than liberalization at a global multilateral level cannot be excluded.

3. THE ROLE OF MULTILATERAL TRADE AGREEMENTS IN TRADE LIBERALIZATION

3.1. The role of the General Agreement on Tariffs and Trade in trade liberalization

During its time in force, in essence, the basic text of the General Agreement on Tariffs and Trade (GATT) has not changed, only occasionally additions have been made with the aim of further decreasing customs while easing other types obstacles in international trade. The results of the GATT have been evident in the round of trade negotiations, and eight rounds of trade talks have taken place since 1947, which are usually named after the places in which they were held or by persons who important figures in a particular certain round of talks.

The most significant are the Kennedy, Tokyo and the Uruguay Rounds. The Kennedy Round was expanded to include negotiations on decreasing of non-customs barriers and the introduction of antidumping measures. The decrease in the average custom rate at this round was 35%. The negotiations at the Tokyo Round, in which 103 countries had taken part, ended

in 1979 with the adoption of agreements related to import certificates and leading to a further decrease in customs and new rules for controlling non-custom barriers. This round resulted in the reduction of customs by one third, or 4.7% on average. Moreover, a series of new agreements on removing non-customs obstacles in new areas, mostly those of industrialized GATT country members, was adopted. Finally, the Uruguay Round of trade negotiations, that had been the longest and hardest round of negotiations in the history of GATT, introduced new measures, including trade in services, intellectual property rights, conflict resolution and transparency of trade policies. The negotiations at the Doha Round have a developmental perspective (i.e., Doha Development Agenda or DDA) with its proclaimed goals relating to further liberalization of world trade, fulfilment of assumed obligations, the decrease and removal of export subsidies in agriculture, trade in services, access to markets for non-agriculture products, trade issues related to intellectual property rights, public procurement, trade easing, electronic trade, integration of small economies in the WTO system, relationship between trade and technology transfer, cooperation with non-developed countries as well as special and differential treatment, all this leading to stronger integration within the world trade system [16]. Though a relatively quick end to the negotiations was expected, they were finalized only as late as 2017, due to conflicts of interest between different groups of countries.

To conclude, since 1948 GATT has made a significant influence on world trade. Before 1947, world trade has hardly been regulated and after the adoption of GATT it became well-structured and organized due to the general agreement. GATT's mission was to remove burdens step by step, such as prohibitive customs rates, quantitative barriers and prohibitions, the spreading of trade blocks and to multilateralize and liberalize world trade, especially trade in industrial products. It has remained the only multilateral instrument of international trade management for almost half a century. Regarding trade liberalization, customs privileges have had to be renewed in order to strengthen liberalization by undertaking rounds of negotiation on customs. A second important achievement of the GATT has been continuous expansion of international trade starting from the day of implementing the agreement, especially between developed countries due to a decrease in customs in manufacturing sectors which were not previously considered sensitive and on account of a significant easing approach to these sectors, especially after the adoption of achievements at the Kennedy Round. Significant efforts have also been made in easing the approach of less developed countries to the markets of industrialized countries. Nonetheless, one of the main GATT goals, i.e., the development, promotion and increase in the standard of living in less developed countries, has not been achieved. Moreover, numerous arguments for the GATT reform have occurred due to the fact that trade in services is not covered by the GATT while services have at the same time gained in importance. In addition, the liberalization of agricultural products has not had a significant impact and subsequently led to the commencement of another round of negotiations.

3.2. Significance of the Uruguay Round of Multilateral Trade Negotiations for the international trade

The Uruguay Round of negotiations started in September 1986 in Punta del Este. Initially, a total of 103 countries took part and at the end of the Round in April 1994, this number increased to 125 countries. By the end of this round of negotiations, a total of 28 agreements on trade liberalization were adopted, the Agreement Establishing the WTO and four plurilateral agreements. Negotiations at the Uruguay Round led to some of the most important changes in

world trade since the start of the GATT. In its duration the negotiations have been significantly expanded with respect to previous rounds of negotiations by encompassing a large number of important topics in different international trade sectors. During previous rounds of negotiations, the problems associated with decreasing customs and trade exchange sector regulations were the topics mainly discussed, while problems at the Uruguay Round concerning overall international trade, including topics on commercial services, intellectual property rights, foreign direct investment and similar topics were discussed.

The Uruguay Round of negotiations has also established discipline in the area of antidumping and the conditions under which self-protection measures may be implemented. Regarding foreign investment, barriers to external investment have been removed while domestic and foreign investor are given the same treatment. Additionally, the rights and obligations of member states in implementing measures related to food safety are regulated, as is the case with animal or plant health protection in cases when such measures have an impact on international trade. Moreover, discipline in the area of intellectual property rights for trade has been established. Rules for trade in services have been formulated and the degree to which services have been liberalization has increased. A system of resolving disputes has been improved and the WTO, a legal and organizational platform for a multilateral trade system in the new millennium has been created. Since concluding negotiations at the Uruguay Round, most countries have become more open to the international trade.

Research on negotiations at the Uruguay Round, especially negotiations concerning market access for member countries, has shown that, although barriers have significantly decreased, barriers remain in numerous fields [10], [6]. These barriers have the greatest impact on non-developed countries and on developing countries. For instance, agricultural trade or textile trade still encounter many barriers. Regarding services, most of the planned obligations have bound member countries to maintain the existing level without making any changes. Although much effort has been put into trade liberalization, success in integration plans on the world market differs from county to country, primarily due to the fact that the results of implementing the adopted agreements differs significantly among the various member countries. Differences between countries are significant and prioritization requires analysis of each country in particular. In all these cases, additional activities are necessary for implementing the reforms on trade policies.

3.3. The role of the General Agreement on Trade in Services in trade liberalization

During second half of the twentieth century, the importance of services in the economic development of many countries has become evident in the share of services in GDP and employment, especially in developed countries, primarily the USA. Coinciding with this is the need for multilateral trade in services. In the 1960s, the OECD took the first important steps in that direction. But negotiations on trade in services only began during negotiations at the Uruguay Round with the initiative coming from developed countries. Given that developed countries were the initiators of the negotiations, developing countries considered that their services sector was at a lower level of development and legal regulation, hence they agreed to take part at the onset of negotiations under the condition that negotiations on trade in services occur separately from negotiations on trade in goods.

In the period from 1947-1994, eight multilateral meetings were held for the GATT and leading to results in the area of custom barriers on trade in goods. The basic act in the liberalization of trade in services is the General Agreement on Trade in Services (GATS) where its basic aim is to establish a legal framework for the liberalization of trade in services. GATT has been a part of new agreements signed by WTO members and its more contemporary version, together with the GATS and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), makes a set of agreements within one organization. The detailed definition of trade in services as proposed by Article 1 of the GATS classifies services into 11 main sectors and 150 subsectors. Protection barriers such as customs or quantity barriers may not be introduced in the services sector, but services are protected by regulations such as technical standards that complicates matters for the foreign service provider in offering a particular service on the domestic market.

One of the most significant achievements of negotiations in the Uruguay Round is formalization of the GATS. By introducing rules and services market access policies, the GATS has significantly expanded the multilateral trade system volume. The reason why the original GATT agreement does not encompassed services lies in the fact that at that time, the addressed services discussed were not exchangeable. It is only recently that technological changes and regulatory reforms have enabled for a larger number of services to become exchangeable through the telecommunication network. Instead of the 'standard' welfare increase from the liberalization of trade in goods amounting from 0.5% to 1%, the introduction of greater competition on the services market increases a country's welfare from 5% to 10%, and in some cases even more. These significant liberalization consequences are a reflection of the importance of services for an economy. On the other hand, [3] have concluded using the sample of 123 WTO member countries that in reality rules applied in trade in financial services are more liberal than countries that have become obligated under the GATS. At the same conclusion using a sample of transition countries, i.e., candidates for EU accession arrived [9]. It is therefore evident that the GATS does not liberalize trade in services as it does trade in goods. Given that the GATT is based on the opt-in system, members have the option of choosing for themselves which sectors and services providing modalities to liberalize.

3.4.The role of the Trade Related Aspects of Intellectual Property Rights in trade liberalization

The Trade Related Aspects of Intellectual Property Rights (TRIPS) has been established with the aim of ensuring international protection of human mind creations, such as patents, industrial design, trademarks, and the like. TRIPS has succeeded most, but not all, declarations of the Paris Convention for the Industrial Ownership Protection (1883), Bern Convention for Protection of Literature and Art Pieces (1886), Rome Convention (1961) and Washington Contract on Intellectual Property (1970). The respective agreement has defined unique minimum standards and periods in which a member country must regulate intellectual property rights (non-discrimination principle and national treatment principle). The agreement is also oriented towards national legislation of member countries in order to organize and conduct control over intellectual property rights measures [14].

The first part of the agreement is devoted to determining the general rules and basic principles of national treatment regarding intellectual property rights protection. The agreement also contains a clause on the most privileged nation that implies that each advantage that is allowed to citizens of one country, must be allowed also to the citizens of each other member country. The second part of the agreement defines each right of intellectual property protection individually and determines the universal protection duration for a period of 20 years. The third part is oriented towards obligations of member countries that offers intellectual property rights at the level of the national legal arrangement and requires intellectual property rights protection to be efficient, simple and quickly conducted [14]. The declarations of the agreement are characterized primarily by the transparency principle that requires member countries to make publicly available laws and other public body acts and to publish court and administrative decisions for specific cases. The agreement predicts for countries that have signed it, to stop misuse of the intellectual property rights on their territory, where all measures for public good and interest protection may be used if they are not in collision with the Agreement declarations.

TRIPS offers clear guidelines on quick and effective implementation of intellectual property rights, a key element missing in previous international agreements. But the minimum conditions of TRIPS are not clearly defined in all cases. While TRIPS offers clear guidelines on issues such as minimum period of protection, the scope of protection for persons, non-discrimination treatment of foreign residents and measures that must be adhered to, on the other hand it does not define in more detail criteria for patents or the breaching of copyright. Hence, there is room for further alteration of the national guidelines of member countries without breaking the rules of TRIPS. Member countries may implement even stricter standards, given that TRIPS presents only the minimum standards on the protection of intellectual property rights. Furthermore, TRIPS does not clearly define whether administrative and legal standards for intellectual property rights in less developed countries must comply with the standards in the more developed countries. Article 41.5 of TRIPS allows less developed countries to invest funds into the protection of intellectual property rights. Nonetheless, TRIPS is an important step forward for improving international cooperation in the area of protecting intellectual property rights and which has not followed technological changes and business practices prior to TRIPS.

4. IMPACT OF THE WORLD TRADE ORGANIZATION ON TRADE LIBERALIZATION

One of the most important achievements of international law is the Agreement Establishing the WTO. It was signed on 15 April 1994 in Marrakesh, Morocco, by 125 countries that had taken part in Uruguay Round of Multilateral Negotiations. Accordingly, the WTO began functioning at the start of 1995. Less developed countries have claimed from the beginning that the GATT trade system is based on manner that is more suitable for developed countries and that it is hardening advances and development for less developed countries. Therefore, the negotiations that have come out of the Uruguay negotiations round contain many privileges for less developed countries, among others. Generally, membership to the WTO gives the advantage of having access to goods and services markets of all other member countries based on the most privileged nation principle and accepted rules. Hence, all advantages stemming from liberalization are available to all business subjects of the members. Membership also provides effective protection from non-customs protection measures, antidumping measures, compensational customs, discriminatory administrative actions, investment limitations and

intellectual property rights. Moreover, further importance is attributed to the unique conflict resolution system that cannot be blocked by any country individually.

There have been lately numerous criticisms against the actions of the WTO, such as dictating policies to their member countries, taking action on free trade no matter the cost, environment protection and health or food safety. Criticism also exists regarding the fact that member countries have no role in the decision-making process, that the WTO is not democratic and that it is a tool of powerful lobbies [13], [12]. The WTO is also criticized for serving the interests of the USA and other great trade powers (EU, Japan, Canada) and ignoring the interests of small and weaker developing countries [17], [7]. The example for these claims are high customs for special products such as textiles and clothes, rice and other products, aiming of protecting domestic producers (especially in developed countries), and hence jeopardising exports from less developed countries.

The official aim of the Tenth WTO Ministerial Conference that was held in Nairobi in December 2015 is the achievement of goals concluded at the Fourth Ministerial Conference in Doha at the end of 2001 and these are: liberalization of the global services market as required primarily by the EU, USA and Australia and a further decrease in import customs for industrial goods. So far none of the Doha aims have been achieved. At the Ninth Ministerial Conference held in Bali in 2013, the WTO member countries have only agreed on a slight abolition of agriculture subsidies in the EU, USA and other industrialised countries and have reached an agreement that foresees simplification and reduction customs bureaucracy in international trade in goods (Trade Facilitation Agreement – TFA). By implementing this agreement it could increase the annual volume of world-wide exports of goods and enable the creation of new jobs. Obviously, this is not in the interest of many of the member countries. The TFA may entered into force after ratification by two-third majority of the countries, i.e. 108 of the 162 member countries. Since the Bali Agreement prior to 2016, only 89 countries have ratified it.

In November 2015, the Trans-Pacific Partnership (TPP) was signed, i.e. a free trade zone that included Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, but not China. However, this has not been ratified by US Congress. This is considered especially important for the USA given that it wanted to open a new market in Japan and Canada for its agricultural products, tighten legislation on intellectual property rights in pharmacy and technological companies, and create a new alliance between the Pacific countries and subsequently weaken China's influence in the region. But significant differences among economic structures and levels of competitiveness between members of the TPP requires reforms and restructuring in some countries. Furthermore, critics claim that the agreement might lead to job losses in some countries and a deterioration in working and environmental standards [4], [5]. Donald Trump is one such person criticising the TPP and after being elected the President in the USA in January 2017 he signed an executive action to withdraw the USA from the negotiating process of the TPP, which he argued was harmful to American workers and manufacturing.

The USA and the EU are currently negotiating the Transatlantic Trade and Investment Partnership (TTIP) to remove trade barriers (customs, unnecessary regulations, investment restrictions, etc.) across a wide span of economic sectors with the aim of facilitating the mutual

buying and selling of goods and services. Besides the extreme geopolitical importance of this agreement for the USA and the EU, it should improve bilateral trade relations between two most important world economies, and also have an impact on the WTO's multilateral trade system. The critics of this agreement are addressed by [1], [11], [8] with the main criticisms referring to a decrease of guarantees and the level of customer protection, a decrease in domestic demand in most EU Member States, a decrease in GDP, a fall in salaries across the EU on account of aligning salaries with the those in the USA, and violation of agriculture, cattle and food sovereignty by genetically modified products sold more cheaply in the USA.

In November 2016 at the Bruxelles summit, the EU and Canada signed the Comprehensive Economic and Trade Agreement (CETA) that should decrease 98% of the custom tariffs between the EU and Canada. The most controversial part of the CETA relates to special courts before which investors may initiate proceedings against a state if they believe their rights guaranteed by the CETA are violated. At the same time, more than 2,000 cities and municipalities in Austria, Belgium, France, Germany, Netherlands, Spain, Great Britain, Ireland, Greece, Slovenia and Portugal, with 80 million inhabitants, have signed the Barcelona Declaration on the participation of cities and zones that are free from TTIP and CETA. In Republic of Croatia no single town is included in the Barcelona Declaration.

To conclude, the WTO is the foundation of multilateralism, as is what GATT was previously. Its basic aim is to establish rules and facilitate negotiations on trade liberalization. At its core, the WTO may consider this aim to be fulfilled. But in last few years, the impression is that the WTO is not acting as originally perceived. The last update to the WTO rules and last significant liberalization date back to 1994 during the time of Bill Clinton, Gerhard Schroeder, Hashimoto Ryutaro and Li Peng. Negotiations at the Doha Round were oriented exclusively to 20th century issues, such as industrial and agricultural customs and distorted trade policies on industrial goods and services. Strong economic interests from diverse WTO members have influenced the fact that negotiations are still continuing and the outcome appears to be unpredictable. The basic question at this moment is whether a full package can be achieved or should priority sectors that are a precondition for resolving other issues be resolved first. This has led to opposing considerations: less developed countries are emphasising the importance of resolving open issues in agriculture as a precondition for negotiations to continue, whilst developed countries are seeking advances in the industrial areas to finalise negotiations on agriculture. More developed countries are also highlighting the importance of negotiations relating to services for the success of the entire package.

5. CONCLUSION

Following the adoption of the GATT system, international trade has become well-structured and organized. The second success of GATT has been the continuous expansion of international trade, especially between more developed countries following the adoption of the conclusions of negotiations at the Kennedy Round. But, one of the main aims of GATT, the promotion of development and increasing living standards in less developed countries have not been achieved. Moreover, since trade in services is not been subject covered by GATT, but services have become more important within the world economy due to globalization, there exist numerous arguments for reforming GATT. The Uruguay Round of Multilateral Negotiations

has achieved the most significant changes in international trade since GATT. Its contribution on the liberalization of international trade is reflected in the significant reduction of the overall level of international trade protection, establishment of obligatory upper levels of customs rates and other burdens. Furthermore, a discipline in antidumping has been established and conditions for self-protection measures have been strictly determined, obstacles for foreign investment have been removed and the same treatment of domestic and foreign investor has been established. But although constraints have been reduced significantly, there are still many trade barriers with the consequences reflected mostly in the least developed or developing countries. Adopting the GATS is one of the most important achievements of the multilateral trade negotiations at the Uruguay Round. However, GATS has not been liberalizing trade in services as it has with trade in goods, due to the fact that it is based on the opt-in system, and according to which member countries may choose for themselves as to which service sectors and service modalities they will or will not offer goods and services. TRIPS is providing clear guidelines on the protection of intellectual property rights and is an important step for improvement international cooperation in the area of intellectual property which has not been fully compliant with technological changes and the business practices in the previously mentioned agreements. But not all of the minimum conditions of TRIPS are clearly defined, such as criteria for managing patents or defining in more detail copyright violations. The basic aim of the WTO is to establish rules and facilitate negotiations on trade liberalization, which the WTO may consider fulfilled in its core. But the threat coming from the continual increase in regional trade agreements continues, regardless of the outcome of the negotiations at the Doha Round. Due to continuously postponing the finalisation of this Round, the impression is that enthusiasm for multilateralism, or even the world economic order, is failing. Should negotiations at the Doha Round be unsuccessful, the cost of negotiations will be high and evident in losing the chance to facilitate trade and development, due to an increase in protectionism and loss of faith in the trade system, all of which will lead to a risk of slowing down and quietly weakening the multilateral trade system in the long run. Therefore, failure would be a great loss for all, both developed and less developed countries.

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