



## **Trade policy on a country basis and multilateral arrangements:**

### **The case of Uruguay**

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## **Resumen**

El objetivo del trabajo es determinar en que grado y en que aspectos los acuerdos comerciales multilaterales (Ronda Uruguay del GATT y creación de la OMC) han reducido los márgenes de libertad domésticos para el diseño de la política comercial. En el primero capítulo se realiza una revisión de la política comercial del Uruguay adoptando una perspectiva histórica de mediano plazo. Se concluye que el Uruguay llevó adelante un permanente proceso de apertura unilateral en las últimas décadas. En la segunda sección se analiza el diseño concreto de la política comercial a través de una descripción de las instituciones de gobierno y de los grupos de interés privados involucrados en la misma. La evidencia muestra que el proceso de apertura comercial puede ser racionalizado como un equilibrio político entre el gobierno y agentes privados. Finalmente en el último capítulo se concluye que los compromisos multilaterales determinan de forma creciente las características de la política comercial del Uruguay.

## **Abstract**

This paper sheds some light on two issues related to recent the multilateral trade agreements (Ronda Uruguay of GATT and the creation of WTO). First, are they binding for the design of trade policies in Uruguay? Second, how have they posed restrictions on these policies?

In the first chapter a revision of the trade policies developed in Uruguay along the last decades is done, with a historic perspective. It is there concluded that Uruguay has had a continuous unilateral pro-liberalization position. The description of government institutions and private lobby groups is used in the second section to analyze the process. There is enough evidence supporting the hypothesis that the trade liberalization process can be thought of as a political equilibrium between government and private lobby groups. Finally, the paper concludes that multilateral agreements are increasingly determining the characteristics of trade policies in Uruguay.

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# 1 Trade Policy in Uruguay

## 1.1 Basic features of the Uruguayan economy

In terms of population, Uruguay is one of the smallest economies in Latin America. The pattern of demographic growth is similar to that in industrial countries in the Northern Hemisphere, that is, low rates of population growth with a high proportion of older people. Income per capita in Uruguay is one of the highest in the region, and the degree of social integration has always been high (see Table 1 ). There is also a long tradition of democratic life, only interrupted for the 1973-1985 period. This episode is related, among others reasons, to the exhaustion of the import substitution model as well as to the social crisis caused by economic stagnation and the several external crises that the country had undergone since the mid 1950s.

During the last two decades, there have been important changes in the Uruguayan economy, especially in its relationship with the rest of the world (Vaillant (1992)). New patterns of trade and production have emerged as the result of the increased openness of the economy. These changes can be analysed by means of the openness coefficient, but they can also be observed looking at the GDP growth dynamism or the evolution of the external balance in different periods (see Table 2). This data will help us to show the characteristics of the openness process.

During the late 1950s, the 1960s and the early 1970s the Uruguayan economy was “closed”, GDP growth was slower than population growth, and there were recurrent balance of payment crises.

The liberalisation process started in 1974. Then, the trade and financial links with the rest of the world were strengthened, the rate of GDP growth increased, and the rate of population growth decreased. However, this process was associated with an increasing external imbalance, and by the end of 1982 the situation became critical. Since 1983 and the rest of the eighties, the Uruguayan economy adjusted its external accounts, without reverting the liberalisation process. The GDP grew vigorously, mainly led by export growth, by using spare installations and favoured by the international situation. The external balance was restored basically generating a surplus in the trade balance. This adjustment was required for two purposes: to finance the huge deficits originated by external debt services, and to reduce the netexternal debt.

Table 1  
**Socio-economic Indicators for Uruguay**  
 (US\$, % y ratios)

	1970-75	1975-80	1980-85	1985-90	1990-95
GDP per capita.(US\$, 1990)	3144	2553	2975	1270	3452
Life expectance	68.8	69.7	70.9	72	72.4
Birth rate (*)	21.1	20.3	18.3	17.6	17.1
Population growth (%)	0.1	0.6	0.6	0.6	0.6
Urban population (%)	83	83.8	84.6	85.5	90
Poverty households (%.**)	s.i.	s.i.	6	9	4
Child mortality (*)	46.3	42.4	33.5	24.4	20
Education expenditure (% GDP)	3.6	1.9	2.3	1.9	s.i.

(\*) average annual rate /thousand people.

(\*\*) selected years, metropolitan area.

**Source:** Own elaboration with data from ECLAC.

Table 2  
**Economic openness, growth and external balance**  
 (%)

	OC	GDP	TB/GDP	NFP/GDP	CAB/GDP
	Current	growth rate	(*)	(*)	(*)
1955-73	0.27	0.69			
1974-84	0.40	1.27	5.21	-7.29	-2.08
1985-89	0.45	4.44	5.79	-4.25	1.54
1990-94	0.40	5.33	-0.61	-1.60	-2.21
1995-99	0.40	2.86	-1.62	-1.11	-2.73

(\*) at the end of the year of each period

where:  $OC = (Export + Import) / GDP$ - openness coefficient;  $TB$ - trade balance in goods and services;  $NFP$ -net non factorial payment to the rest of the world;  $CAB$ -current account balance.

**Source:** Own elaboration on data taken from the Central Bank of Uruguay.

As a result both of transformations in the global and regional economies and trade liberalisation policy, in the 1990s, the Uruguayan economy became more open. The trade openness coefficient, in current values, stabilises. The GDP growth slowed down but the growth rate remained at a moderate level higher than that for the long run (2%), and population growth was very slow (0,6%), meanwhile there was an external balance. The openness coefficient in constant terms (in domestic currency in 1983) shows that in the first period the average was 50% whereas in the second period the coefficient was over 70%, showing as well a clear upward trend of the openness coefficient measured in constant values.

## 1.2 Principal periods in the trade reform process

### 1.2.1 Background

At the beginning of the 1970s, the Uruguayan economy had already undergone two decades of stagnation. There had been a trade policy biased against those sectors with comparative advantages (agricultural and livestock activities), while the export supply was highly concentrated on a few agricultural items (basically meat and wool goods). The financial sector was tightly regulated at that time, when there used to be frequent capital outflows and balance of payments crises. In fact, in an attempt to reduce vulnerability, policy makers imposed additional barriers on imports, so that the economy became more closed during the period.

The import substitution policy, that had initially been intended to favour the industrialisation process, was finally trapped by Lerner's symmetry effect <sup>1</sup>. The aim in the period was to restrict imports, securing the required imports of intermediate inputs and raw materials for the final production activities.

The poor level of exports acted as a threshold to this model of growth, not being sufficient given the requirements of the domestic industry which was highly dependent on imported inputs. A chain of "vicious cycles" imposed further restrictions on the process, virtually closing the economy by means of the exchange rate policy, previous deposit requirements, consignment procedures (which in fact acted as quotas) as well as plain prohibitions to import in some cases.

Quite surprisingly on legal grounds, law 12 670 of December 17th, 1959 was the umbrella under which protectionism flourished in spite of its liberalising spirit after the signature of the First Agreement with the IMF. More than a decade later, the above mentioned law was a key instrument in the process of liberalisation by means of several presidential decrees.

Law 12 670, called Monetary and Exchange Reform, introduced the abolition of preferential exchange rates discriminating between imports and exports and among different types of imported goods, while it allowed the import of all sorts of goods. Besides, some measures were taken to tax or ban some luxury or

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<sup>1</sup>Tariffs on imports are equivalent to a tax on exports, thus they led to a shrink in export supply which imposed a restriction on the quantity of imports.

unwanted items, a new regime was set for the currency market, and taxes on exports were set on specific purposes. The value and equivalence of the currency was also modified.

The abovementioned law (12 670) in its spirit intended to leave the exchange rate to be freely set by supply and demand. However, some restrictions on foreign currency holdings still remained and most foreign currency transactions had to be carried out through the official commercial bank.

The 2nd article of the Law declared free imports of all sorts of goods. The President was given the power of imposing some extra requirements, such as previous deposits; surcharges up to 300% on CIF value; or even the partial/complete prohibition for a period of 6 months at most for luxury goods as well as for those competing with domestically produced items.<sup>2</sup>

Connolly and De-Melo (1994) point out that the key to understanding the poor performance of the Uruguayan economy up to the mid 1970s is the role played by trade regulation and rent seeking activities that it led to<sup>3</sup>.

At the time of the first oil price shock in 1974, the economy lacked flexibility to quickly adapt to changes. Simultaneously, the country lost some important markets for beef in Europe, while the prices of the main exportable items (beef, wool, leather) eroded. In this situation, the degree of adjustment required, given an abrupt rise in the demand for currency and the sharp fall in the supply caused by the worsening terms of trade, put an end to the import substitution scheme.

In fact, the trade policy at the beginning of the 1970s was the legacy from a long process of import substitution. The set of rules and regulations was vast and not always coherent, making the protection in each case the result of the mere superimposition of instruments created for different purposes (fiscal reasons, external ones, protectionism in particular sectors, etc).

The loss of productive resources assigned to unproductive activities, allowed for the capture of economic rents produced by the trade regulation, was added to the traditional static and dynamic costs, arising from a distorted price structure.

Starting from 1973, one of the new pillars of economic policy in Uruguay was a trade reform with an outward-looking orientation. In spite of having had some reversions and losing its speed in the reduction of tariffs, this economic policy was relatively stable during the period analysed.

It is possible to distinguish five big stages in the process of trade reform organised in three main periods: the exports promotion (1974-1978) and the unilateral opening (1979-1984); the continuity in the trade reform (1985-1989)

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<sup>2</sup>In spite of the fact that this law did not allow for the imposition of imports quotas, during the second half of the 60's a threshold for imports not restricted by consignations was set. Above it a deposit previous to the importation, that did not yield any interest (consignation), was required, it was 150% of the import value, which in fact made it virtually impossible to import above the threshold. In this way, practice quotas were set in place without modifying the legislation. Besides, the referred law set taxes on traditional exports, from 5% to 50% of total value.

<sup>3</sup>A remarkable fact is that the Uruguayan economy did not behave as expected according to growth empirical models using cross country data, taking into consideration the level of investment and education, and the expected level of growth should have been higher.

and deepening of the trade liberalisation process (1990-1994); and the convergence to the Trade Common Policy in the MERCOSUR process (1995-1998).

### **1.2.2 Promotion of exports (1974-1978) and unilateral opening (1979-1984)**

The first stage, from 1974 to 1978, was characterised by an export promotion policy package. The end of the import substitution scheme had already been acknowledged before the crisis occurred. The consideration of the document describing the government's programme for the period 1973-77, called the Plan Nacional de Desarrollo (PND, 1973), shed some light on the inspiration of this policy which was applied from the 1970s to the mid 1980s.

The economic approach expressed in the PND document was put into practice from 1974. Thereafter, the trade policy changed, removing the bias against the exportable sectors, on the understanding that the key to attain sustained levels of growth was to develop the export sector. For this purpose, several instruments of protection were removed, allowing for the convergence between domestic and international prices (Anichini, Caumont, and Sjaastad (1978)).

During this phase the trade reform was mainly based on instruments of export promotion such as subsidies, indirect tax rebates and temporary admission for intermediate inputs, as well as other benefits such as preferential credit access, low salaries, and a high exchange rate. These measures were intended to prepare the conditions for a liberalisation policy that would remove the bias against the exporting sectors. Traditional exports (meat and wool with low level of industrialisation) remained subject to export taxes until 1978.

Regional agreements also played an important role. The most relevant were with Argentina (Convenio Argentino Uruguayo de Cooperacion Economica, CAUCE) in 1975 and Brazil (Protocolo de Expansion Economica, PEC) in 1976. In Uruguay, tariffs were reduced sooner than in Argentina and Brazil, so that these agreements in fact extended the protection to neighbouring countries, especially after their extensions at the beginning of the 1980s. In this way, the reallocation of resources sought by the liberalisation process was softened, and the negative effects of the liberalisation process were attenuated. The effect of these agreements seemed to be positive at least in two aspects. First, many firms made their initial attempts to export, which helped sustain the external balance in the period. Second, the access to neighbouring markets allowed the less competitive firms to survive, firms that otherwise would have been strong opponents of the liberalisation process.

Another instrument used to help the exporting sectors was the "industrial law" (ley de promocion industrial), a legal instrument designed to favour investment in the exporting activities by removing customs costs for investment goods as well as by setting other fiscal benefits.

At this stage all of the available tools of trade policy were used to favour the non-traditional export activities. In fact, these activities received several fiscal exceptions of domestic and border taxes. Among them the temporal admission regime which allowed for import of raw materials required by export activities,



and the possibility of receiving special credit conditions, drawback of domestic taxes, and favourable relative prices (high exchange rates and low wages). All measures intended to favour the competitiveness of the export activities. In fact, this policy aimed to generate better conditions for an industrial re-structuring process, removing the trade policy bias against export activities. This package of policy measures increased the profitability of the exporting activities, and was also a clear sign for the private sector of the change in the orientation of the economic policy.

The set of policy instruments used at this stage reflects the intention to include among the sectors considered as base and engine of the export dynamic, not only the traditional ones but also agriculture activities and other manufacturing industries. Under this economic policy, investment, employment and output grew in these sectors, mainly due to the higher profitability achieved.

In the second stage, from 1979 to 1984, the export promotion incentives were reduced (a target of 5% for export subsidies was established) but the administrative procedures related to temporary import admission were significantly increased.

In 1982, subsidies to non-traditional exports were removed, according to the subsidies rules stemming from the Tokyo Round and the rebate of indirect taxes was put in place. It is worth noting that this agreement on subsidies received little adhesion from the GATT member countries so that only a few countries signed it. Uruguay was one of these countries, although other codices, such as valuation and public sector purchases, were not signed by Uruguay.

Regarding the import side, the protectionism apparatus of the first stage (1974-1978) started to be dismantled by the the remotion of quantitative restrictions. The objective was that imports would be only restricted by customs taxes and surcharges<sup>4</sup>.

In table 3 a detailed history of the evolution of import tariff since the early seventies up to 1984 is introduced. In the refered table, there is information regarding the various presidential decrees that established the tariff structure in Uruguay over this first period of trade reform<sup>5</sup>.

In the first phase of the liberalisation process there were three reductions in the surcharges (in 1974-October and December- in 1977 -March- and in 1978). Thus the maximum surcharge fell (in final goods) from 300% in 1974 to 110% in 1978 (see Table 3)<sup>6</sup>.

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<sup>4</sup>The import system of threshold free of consignment was removed as well as requirements of pre-financing imports. Up to 1975 the regime required previous deposits for imports above a certain limit, that were returned after 6 months without any interest, suffering an important erosion due to inflation. Besides, the consignment system was replaced for a minimum surcharge over CIF value, of 7% initially and of 10% since 1977.

<sup>5</sup>All this set of presidential decrees are established in the legal framework of the Monetary and Exchange Reform law (law 12 670) from December 17th of 1959.

<sup>6</sup>Up to this moment the import tax in Uruguay made up of import surcharges and a set of customs taxes.

Table 3  
**Evolution of the import tariff 1974-1984<sup>7</sup>**  
(surcharges and Global Customs Tax)

Year	1974	1974	1977	1978	1979	1979	1980	1982	1983-84
month	10	12	3		11	12	12	1	1
RM	60	55	55	55	55	0-18		10-15	10
IG a)	90	75	65	65	65	22		25-35	20
IG b)	150	120	90	90	90			45-55	35
IG c)	225	150	110	90	90	94		65	45
FG	300	200	150	110	90	76-116	90	75	55
AN						28	10	8	5
SA						49		36	33

Where: RW- raw material; IG- intermediate goods; FG- final goods; AN- alicuota number; SA- simple average.

**Source:** author's own elaboration based on several presidential decrees.

By that time the financial sector was liberalised. In September 1974, the restrictions on buying and selling foreign currency, and thus the gap between commercial and financial exchange rates began to shrink and, finally, in 1978 both markets were unified. Further, the upper bound of the interest rate was gradually increased so that finally it was virtually liberalised. At the same time financial flows were liberalised, attracting capital inflows, thus enabling the financing of the current account deficit and the increase in the stock of reserves at the Central Bank.

In 1979 (November) a new non programmed decrease in trade taxes (only surcharges) took place (decree 739/79). The maximum tax was set at 90%.

In the period up to 1982 the process of tariff reduction went on as planned, as it will be explained below. The goal of the economic policy was to carry out the process of tariff reduction according to a calendar that led to a unified custom tax after 1982 (after eight years since 1977) which was collected by a single office. During the same period, a set of exceptional tools under the declared umbrella of anti-dumping measures against unfair trade practices should be created.

The presidential decree 736 in 1978 described the tariff reduction schedule. A tax target of 35% was set. It included surcharges, tariffs (Impuesto Aduanero Unico, IMADUNI<sup>8</sup>), and other customs costs. This set of instruments was known as the Global Customs Tax (GCT). A special commission was established

<sup>7</sup>From October 1974 to 1979 data refers to import surcharges (without the inclusion of custom taxes) and from December 1979 to the end of the period data refers to Global Customs Tax (Surcharges+custom taxes).

<sup>8</sup>The IMADUNI tax was created by law 14 629 of 1977, which was applied to any good entering the country in a definitive way. The main goal of this new tax was to introduce order and simplicity in customs procedures, gathering some dispersed border taxes. In fact, this tax replaced all of the custom duties as well as all taxes collected by the National Custom Office. The basic level for the IMADUNI was established in 25%. The President was given the power of increasing this basic level up to six times (150%) or of reducing it from 90% to 0%. The law also established a maximum of 5% for the mobilising burden tax (MBT), which could be reduced or eliminated by the President.

to determine on which non- domestically produced goods the reduction was going to be applied, in only one stroke to the basic level of 35%.

According to the above mentioned decree, the basic level was to be reached gradually, in five annual reductions of 16% and a final one of 20%, over the gap between the current level and the target of 35%. In turn, the process was intended to be completed by 1985.

The evolution of the CGT during the 1980-82 period was determined by the schedule of tariff reductions, through a set of presidential decrees (787/79, 687/80 y 654/81). As a consequence and after three tariff reductions, the number of tariff levels was reduced from 28 in December 1979 to 8 in 1982 (75,65,55,45,35,25,15,10). At the beginning of the process, the maximum CGT was 116% (surcharge, IMADUNI, MBT, TC), and by the end, in January ,1982, it was 75%. The average tariff fell from 49.4% at the beginning of the period (1979) to 36.1% at the end (1982). The tariff reductions in 1980 and 1981 did not strictly followed the schedule but did followed the planned direction.

At the first stage of the programme the maximum CGT fell from 116% to 103%, remaining in 27 tariff levels. Also, in decree 787/79 of December 31, 1979, the President was authorised to set reference prices<sup>9</sup>. The second stage began on January 1, 1980, with the presidential decree 687/80 dated December 24, 1979. According to this decree the maximum level was set at 90%, in 10 tariff levels. Finally, the third stage of the programme relates to the decree 654/81 of 1982, setting a maximum level of 75%, with 8 levels. During this stage the liberalisation process relative to the original schedule speeded. The decree 602/80 dated 26/12/80 set a tariff of 35% for goods that were not produced domestically, and 53% for those in which domestic supply was insufficient (see GATT, 1992).

The process of reduction in CGT continued in 1983, with a reduction of the maximum to 55%, at 5 tariff levels. The average tariff by bands was 33%. The rule proceeded to classify goods at different levels considering economic destination and the value added content. The lowest level was for raw materials used by the domestic industry (10%). The levels of 20%, 35% and 45% were applied to intermediate inputs and final consumption goods of low added value. The highest level was applied to final consumption goods, industrial products and exceptionally to intermediate inputs with a high added valued content. During the last stage of this period, the role of the tariff barriers in the trade policy was strengthened relative to non-tariff ones (CINVE (1982)).

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<sup>9</sup>The “aforos” were administrative prices computed considering an average of CIF value of imports in a certain period (an idiosyncratic custom valuation procedure, see next section of this chapter 5.3). The reference prices (RP) started to be applied in 1980 and gradually replaced the “aforos”; so that in 1983 the “aforos” were no longer used. When there was an “aforo” for a product, the surcharge was applied over that value, and the tax over the CIF value; when there was a RP all the taxes were calculated on this base. Up to 1982, there were RP only for automobiles and television sets. Since then, they have been used in many other sectors, such as rubber, ceramics, wearing apparel, paper, fruits and vegetables, glasses, wine, etc. These instruments were frequently used as a protection device, with no relation to international prices. Nattino (1990) pointed out nine items where the RP were higher than the CIF value, and the protection was even higher in the case of the “aforos”.

### **1.2.3 Continuity in trade reform (1985-1989) and deepening of the trade liberalisation process (1990-1994)**

The institutional change that took place in 1985 when the democratic system was re-instated implied important transformations in the public sector, but did not imply any substantial change in terms of trade policy. On the contrary, the programme of trade liberalisation continued its course, although the new government became again more flexible in the administration of other non-tariff protective instruments. In particular, the relevant issue to highlight in this period is that the opening orientation of the economy was maintained in spite of an increase in the strong political pressures for its reversion. There was little advance with respect to the starting point but the trade opening did not go away.

In the unilateral opening stage (1978-1984) the main policy orientation was the revaluation of the tariff as a central measure of the trade policy, jointly with a loss of relevance of non-tariffs barriers (CINVE (1982)). In 1985, with the reestablishment of the democratic system and the increase in the private sector demands for protection, non-tariffs barriers regained importance for protecting specific industry sectors.

The evolution of the CGT levels since 1985 is shown in Table 4. In June 1985, as part of the new government's fiscal package the CGT were raised by 5 percentage points for all levels. This increase was reverted during the following year, returning to the 1983 levels, except for the highest, which had a reduction of 10 percentage points.

The new government that came to office in 1990 put a strong emphasis on finally concluding the long liberalisation process, removing the remnants of the protectionism apparatus<sup>10</sup>. The regional economic integration process with the Southern Cone neighbouring countries allowed to committee, to reach the achievements in the opening dimension, through a trade agreement with the commercial partners.

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<sup>10</sup>The president belonged to the White Party, one of the main political currents identified with the application of liberal oriented policies in the political economy area. It is important to highlight that Luis A. Lacalle was the second president from the White Party in more than a century and a half of republican history in Uruguay.

Table 4  
**Evolution of the Import tariff 1985-1995**  
(Global Customs Tax in %)

Year	1985	1986	1987	1989	1990	1991	1992	1993	1995
month	6	8	8	6	4	9	4	1	1 (*)
RM	15	10	10	10	15	10	10	6	0-14
IG a)	25	20	20	20	25				
IG b)	40	35	30	30	35	20	17	15	0-20
IG c)	50	45	40	35	35				
FG	60	50	45	40	40	30	24	20	0-20
AN								3	11
SA	40			25	30	24	18	17	13
WA	25				24	19		13	

Where: RW- raw material; IG- intermediate goods; FG- final goods; AN- alicuota number; SA- simple average; WA- weighted average.

**Source:** author's own elaboration based on several presidential decrees.

Since April 1990 the process of tariff reductions was accelerated. At that time the schedule of reductions for the levels of the CGT to be in force since April of 1992 and 1993 (see table 4) was announced. This implied important progress in the degree of openness with an abatement of the effective protection in many sectors, as well as a reduction in tariff dispersion. The standard deviation of the CGT was reduced from 14.41 in 1988 to 5.82 in 1994, and the variation coefficient fell from 0,53 in 1988 to 0,39 in 1994.

The different levels of the CGT went on in a descendent trend as in the previous decade, except for the rise of five percentage points as a part of the fiscal package in 1990. Since 1991 the number of tariff levels was reduced from five to three<sup>11</sup>. The evolution of the average tariffs for selected years can be seen in tables 3 and 4, which show a deepening in the liberalisation process during the decade.

The reduction of the tariff barriers which took place in November 1993, was accompanied by reductions in reference prices, and by transforming other non-tariff barriers into tariffs, implying substantially lower levels (30% the highest ones) to those that they were equivalent to (between 45 and 65%).

Since 1995 Uruguayan trade policy was in accordance to the requirements of the integrating process, which formally started at the beginning of the decade. At the Ouro Preto meeting in December 1994 a schedule of convergence to a common trade policy was agreed. In spite of this, there is still some scope for autonomy in Uruguayan trade policy in relation to third countries, essentially by means of the exceptions allowed in the Common External Tariffs and the intra regional trade regime. In both cases, exceptions were planned to be phased out by January 1, 2000.

<sup>11</sup>In October 1991 the consular tax and the MBT were removed without affecting the level of the CGT. To maintain this level both the surcharges (4 %) and the IMADUNI tax (1%) were increased. By now, the CGT consists of two components, the surcharges and the IMADUNI tax.

### 1.2.4 Convergence to the Trade Common Policy in MERCOSUR (1995-1999)

Since 1995, the current trade policy in Uruguay is the one agreed at the beginning of the decade in the MERCOSUR agreement<sup>12</sup>. The Asuncion Treaty, which created the MERCOSUR, included a trade liberalisation programme (Programa de Liberalizacion Comercial, PLC) that set a gradual schedule of tariff reductions inside the area, as well as the commitment to remove non-tariff barriers among members.

Table 5  
Trade Liberalisation Program  
(in %)

The reported preference holds since:

1/1/91	7/1/91	1/1/92	7/1/92	1/1/93	7/1/93	1/1/94	7/1/94	1/1/95
0	47	54	61	68	75	82	89	100

(\*) Preferences (in %) applied to the lowest tariff, levied in 1/1/91 to a non LAFTA country

**Source:** author's own elaboration based on MERCOSUR Administrative Secretary.

The tariff reductions planned in the PLC were progressive, linear and automatic, based on an accumulative percentage of reduction. The percentage of reduction was applied to the lowest level of tariff on January 1, 1991 for imports from non-member countries of LAFTA. There was a list of items excluded from this general regime, plus all the items included in the bilateral agreements among the members of MERCOSUR signed under the LAFTA scheme.

Table 6  
List of exceptions to MERCOSUR (\*)  
(% exceptions falling)

Country	Positions	7/1/91	1992	1993	1994	1995	1996
Argentina	394	20	20	20	20	20	
Brazil	324	20	20	20	20	20	
Paraguay	439	10	10	20	20	10	20
Uruguay	960	10	10	20	20	20	20

(\*) Number of tariff positions (8 digits) in the lists of exceptions of each country that are out of the trade liberalisation programme, January, 1 of each year.

**Source:** MERCOSUR administrative secretary.

The PLC considered a path for Argentina and Brazil different from that of Uruguay and Paraguay, which were given an additional year to remove all exceptions. However, the items included in the bilateral agreement would follow the path originally planned. The trade liberalisation schedule was fully applied up to 1995 (Tables 5 and 6).

<sup>12</sup>MERCOSUR members are Argentina, Brazil, Paraguay and Uruguay.

The PLC implied the full elimination of tariff barriers inside the area for Brazil and Argentina by January 1, 1995 and for Uruguay and Paraguay by January 1, 1996. However, in 1993 the private sector asked for a solution regarding the disparities among member countries before going on with the liberalisation process.

In a meeting in Buenos Aires in August 1994, the Uruguayan government managed to maintain the bilateral agreements with Argentina and Brazil, and the temporary admission scheme. This was important because there were many items included in the bilateral agreements that were also included in Argentina and Brazil's exceptions, and also because the rules of origin in these agreements were less strict than those of the MERCOSUR agreement.

At the meeting in Ouro Preto in December 1994, a drastic change in the liberalisation schedule within the MERCOSUR region was made, which relaxed the speed of the liberalisation process and changed the mechanism of convergence. In fact, the agreements at Ouro Preto made it possible to leave behind the difficulties shown by the integration process, giving it strength and credibility.

From January 1, 1995, the MERCOSUR began to operate like an imperfect Customs Union. A list of exceptions to the free trade inside the zone remains, as established in the so called Regime of Adaptation of the MERCOSUR (RAM) and so did a list of exceptions to the Common External Tariff (CET).

The RAM scheme of tariff reduction is similar to the PLC (a process of liberalisation in the sub set of exceptions progressive, linear and automatic), leading to the creation of a perfect free trade area by January 1st, 2000, that is, which implied that no exceptions were allowed in the free trade area. The customs union will be completed in 2006 with a common external tariff (CET) without exceptions.

There are two types of exceptions to the CET, according to the level of tariffs above or below the CET. For both types of exceptions, members agreed to a gradual linear and progressive convergence which should be completed in three different steps. In 1999 the convergence of the exceptions to the CET by being in the RAM finished, in 2001 the lists of exceptions to the CET would be abolished and in 2006 the sectoral list capital goods and computer science goods would finally be included. The first type of exceptions are goods produced domestically included in the RAM while the latter refers to goods not produced domestically, for which the convergence process implies a reduction in the effective protection, especially in manufacturing.

In the nineties, the export regime changed. In fact, export promotion measures were reduced. But there still existed some minor measures oriented towards the export sector. Among them it is worth emphasising the indirect tax devolution for exports, an instrument which is still in force for a long list of products. The levels are established as a percentage of the FOB value or in dollars per unit, and they have been reduced for fiscal reasons.

Export taxes exist for meat, non-manufacturing leather and livestock, and they are kept at a 5 % level. For dirty washed and semi-washed wool the export tax is 2,5 %. The rationality for keeping these taxes is to favour a higher manufacturing level in domestic raw materials.

Exporting firms broadly use the import of goods in Temporary Admission (TA), especially after the elimination of the anti-dumping instruments for imports, which used this mechanism. In 1997 about 20 % of the imports used in the production process (excluding petroleum) were carried out through this mechanism. In September 1990 the regulation for the TA was modified, with the aim of helping the use of this mechanism to promote exports. The objective was to have quick access to raw materials by the exporting firms, at the lowest possible cost. The modifications included an extension of the maximum term allowed for exporting the processed goods. All controls that were taken previously over raw material admission were made more flexible, and were established from then on at the firm level. This instrument has a secure life in the framework of trade policy coordination within the member countries of the MERCOSUR. According to interviews carried out, although the use of the TA in the regional exports is a violation of the AEC, it will be kept. Uruguay's position to accept a rule of origin system within the Customs Union was conditioned to the keeping of the TA<sup>13</sup>.

### **1.2.5 The new laws: competitiveness improvement and investment promotion (1998)**

Although the general orientation in relation to trade policy was kept during the 90's, the instruments used to deepen the opening process have changed. President Lacalle's administration (1990-1994) deepened unilateral openness and tried to clean trade policy from other protection instruments still in use (such as the managed price example analysed in the previous section). Sanguinetti's administration (1995-1999) tried to compensate the export sector for the effects of the price stabilisation policy based on the exchange rate anchor, which leads to real exchange rate appreciation. In this period, policies oriented to favour international insertion of the country in foreign markets, associated to trade and investment promotion, and to fiscal incentives, were developed.

Two important laws with this orientation were passed. The first one was adopted in April 1995 (law No. 16697) and dealt with the "New fiscal regime and the productive sector competitiveness improvement". This law states in art. 25 that "the Executive Power has the possibility of reducing, up to six percent points, the employer's contribution to the Manufacturing Industry Social Security", as an incentive for the manufacturing sector. The other important law in this period is the Investment Law, No. 16906 from January 1998, which

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<sup>13</sup>Some special sectoral regimes are still kept. In the case of the automobile sector the aim is to promote the national assembly industry. Chassis and body car imports are restricted. These goods can only be imported by those firms which are registered as "car assemblers" defined in articles 2° and 7° of Decree N° 128/70 of March 13, 1970. Second hand cars and motorcycles imports are also forbidden. With respect to the wine industry, decree N° 356/91 of July 4, 1991, (Ministry of Agriculture and Fishing) allows "free" wine imports, and prohibits its imports in containers with a capacity greater than a litre, which implies a non-tariff barrier. In the case of wheat its need must be certified, and this constitutes an obstacle to its import. Finally, the kind of salt that is imported is restricted by a decree, and requires previous authorisation. Sugar also has a special regime; it has one of the few MEP that are in force.



includes a number of rules about the “National Interest Declaration” of investment projects and the promotion and protection of investment carried out by national and foreign investors in national territory.

An innovating aspect of the Investment law is that it is suitable for all economic activity, and is not only reserved for the manufacturing or agricultural sectors as it was before (see law No. 14178). Investment processes, which involve private capital allocation to traditional public services, would be included among the beneficiaries of this law. Moreover, public enterprises would also benefit which implied an improvement with respect to their actual fiscal regime.

According to this law, our country’s treatment of foreign investment is completely equal to the one given to national investment. In its second article, this law states that “the admission regime and the treatment of investment carried out by foreign investors will be the same as that given to national investors”. Special authorisation or licenses of any kind are not requested. In the fourth article the law is committed to a fair investment treatment, not interfering through discriminatory or unjustified measures in its installation, management, maintenance, use, enjoyment or disposition. It is important to note that in the fifth article the State “guarantees the free remittance of capital and profits, and of any other amount related to the investment, which will be carried out in a free convertible currency”.

In the second Chapter many fiscal incentives for national and foreign investment promotion are established. Among the general incentives included in the second Chapter are many fiscal franchises related to trade policy<sup>14</sup>.

The law also includes specific incentives for investment carried out by firms “whose investment projects were declared promoted by the Executive Power”. These specific incentives are related to the trade policy, because they allow for the import of capital goods free from custom charges. Art. 15 is committed to “... give the fiscal benefits established in the Decree-Law No. 14178 from March 28, 1974, and its modifying and complementary norms...”<sup>15</sup>.

One of this law’s innovating aspects in relation with promotion instruments (most of them had already been included in Decree-Law No. 14178, March

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<sup>14</sup>When investment involves the import of “movable goods directly involved in the productive cycle and/or equipment for electronic data processing” the law establishes “exemption from the Value Added and Specific Internal Taxes corresponding to imports, and the devolution of the Value Added Tax included in those goods bought in the domestic market”. Finally, as a general incentive for all the manufacturing sector, it states the possibility for the Executive Power to reduce in up to three percent points the contribution from the employers to social security (art. 10 , Chapter 2). This new incentive hasn’t been implemented yet.

<sup>15</sup>According to the law, priority would be given to those projects which: “A) include technological progress; B) help export growth and diversification, specially for exports with high national value added; C) generate, directly or indirectly, productive employment; D) help productive integration, including value added in the different links of the productive chain; E) promote micro, small and medium firms’ activities, because of their technological innovation and productive employment generation capacity; F) contribute to the geographic decentralisation and carry out manufacturing, agroindustrial and service activities which are labour intensive”. An Executive Power advisor commission, integrated by the sector ministries, regular counterparts to the private sector at the Executive Power, will be in charge of evaluating the projects.

29, 1974 and its modifying and complementary norms) was the creation of the Productive Specialisation Regime, which was deeply discussed at the parliament. This regime's explicit motivation was to help firms' restructure in the regional integration framework.

As was previously noted when describing Uruguay's trade policy in the MERCOSUR since January 1, 1995, there exists an adequacy regime for the Free Trade Zone. In this regime there is a list with 975 tariff positions, which are still protected from regional imports. Those tariffs will be eliminated gradually, progressively and automatically until they reach 0% on January 1, 2000. Among these goods, the ones with higher tariffs, and thus the more protected from import competition were those which had MEP, which were tariffed on January 1, 1995.

The specialisation regime included in Law 16906 states that firms will have the possibility of importing, exempt of Imports Unique Custom Tax and of any other additional charge, any good from the MERCOSUR's member countries. These goods have to be of the same nature and with the same economic destination as those whose production is interrupted or reduced, and then the exemption is subject to the beneficiary's fulfilment of an export programme.

When the law was approved, after three reductions in the tariff levels of those items included in the adequacy regime, the benefit was significant only for a few of the 275 items from the specialisation regime which were previously benefited by the MEP. The law states that the benefits could be given to those firms that, having interrupted or reduced the production of goods included in the adequacy regime from the MERCOSUR custom union, have a project to increase export in other goods.

Total or partial exemption from import taxes for goods from the MERCOSUR countries, whenever those goods are of the same nature and with the same economic destination as those whose production was reduced, could be granted by the Executive Power. The maximum amount of imports would be determined by this reduction. It is also stated that "the manufacturers benefiting by this exemption won't be able to increase, during the enforcement of the exemption, their imports of those goods mentioned in the common tariff regime by January 1, 1998". Finally it is stated that those benefited by this regime would have to submit the Productive Restructure Project to the advisor commission previously mentioned, for its consideration. This commission, after consulting with the Manufacturer's Chamber, will advise the Executive Power for approval.

The discussion was stimulated by the active participation both of those who benefited (protected manufacturers) and those who were damaged (importers) by the measure. The polarisation in the discussion was revealed by the fact that legislators were divided in supporting one or the other group within the three main political parties (the one in the government and the two opponents). After this discussion and the technical effort for innovating in relation with the instruments and supporting the restructure process, only one firm applied for the benefits included in the described article.

## 1.3 Isolated protection

### 1.3.1 The regulated price of foreign trade

The first government decree that established the Uruguayan trade reform program stressed the need to create simultaneously with the liberalisation process the anti-dumping instruments that served as defence mechanism against unfair trade practices.

The Uruguayan legislation adopted the definitions proposed in the GATT<sup>16</sup>. Although Uruguay didn't subscribe to the Anti-Dumping Code in the Tokio Round, a law it was passed in the year 1980 inspired by that particular one. Dumping is considered to exist when the export price of the good that is being imported is less than the comparable sale price, under normal conditions of sale, of similar or identical goods which were sold to be consumed in the export country or in the original country (art. 2, law No. 15025, July 1980)<sup>17</sup>.

Uruguay was relatively quick in the domestic adoption of its positive law regarding the normative trade orientations that arise at the multilateral level. However, their application was practically none. Mr. Nattino, who was a member of the Advisory Commission of the Ministry of Economics and Finance (MEF), considers that "the difficulties implied by the enforcement of the anti-dumping law, especially in relation to the proof of the denounced facts, determined that law had almost no practical application".

Indeed, during 1978-1984 period, a domestic instrument born in the decade of 1960, denominating "aforos" (valuation appraisals) continued to be applied. The Reference Prices (RP), heirs of the valuation appraisals aimed to avoid the sub and over-billing for tariff calculation, were established by the end of 1981, although their legal creation was previous. Since then and during all of 1982, similar resolutions were raised, usually as a consequence of the actions of the assumed damaged parties, who denounced unfair trade practices. The government's decree which created the RP did not establish any criteria to the determination of their level, which gave the MEF large discretion to manage it. In January 1983, the valuation appraisals, almost without exceptions<sup>18</sup>,

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<sup>16</sup>GATT norms include dumping and subsidies as unfair trade practices and allow the member countries to use instruments to defend themselves when these practices lead to a potential or effective harm to the productive sector.

<sup>17</sup>"Every subsidy, prize or aid, both permanent or temporary, which direct or indirectly tends to artificially reduce the production cost, transport cost or export price of a product" is considered a subsidy (art. 3, law 15025). Law 15025 was also known as the anti-dumping law. These norms faithfully reflect the GATT's standards, actually in force, regarding the definition of unfair trade practices, the measures to take in order to counteract them, the conditions needed for their application, the requirements needed to prove the claims, the legal guarantees for the involved parts, and so on" (Nattino (1990)). "Among the proceedings established by law, we can emphasise the requirement of supplying evidence of the accusations made. Two aspects must be proved (...) the harm (or threat of harm), and in the second place, that this harm is due only (...) to the disloyal trade practices" (Nattino (1990)).

<sup>18</sup>Except for car kits. The "aforos" and the RP were important for the apparel and the textile industry during the 78-82 period. Like the "aforos" the RP served as protection instruments, without keeping any clear relationship with international prices. Nattino (1990) finds nine articles for which the PR was higher than the CIF price, exceeding in 86%. The

were eliminated, but the reference prices were kept, with the declaration of an underlying anti-dumping motivation. The RP is the minimum value to charge the tariffs. In the following equations the calculation procedures are presented:

- “Aforos”

$$p = p^* + p^*.ot + tr.a$$

- Reference prices

$$p = p^* + t.rp$$

where:  $p$ - is domestic price;  $p^*$ - is import price;  $a$  - is “aforos” (valuation appraisal);  $ot$ - is other taxes;  $tr$  - is import overcharges ;  $rp$  - is reference price determined by government administration;  $t$  - is the import tariff (TGA).

The Minimum Export Prices (MEP) were created in January of 1983, through decree No. 5/983. The MEP would be applied “when the consideration of the reference prices as representative prices is not enough to avoid the damage caused by unfair trade practices”. No proof of the existence of unfair trade practices is required in the decree. They can be presumed ”when a great price disparity in the imported goods is verified”. The publicity of the start of the process is not established, so the interested parties, excluding the one that makes the complaint, can only know about the resolution when it is already taken and published” (Nattino (1990)).

The MEP adds to the tariff calculation established in the PR a variable extra charge, which is determined as the difference between the CIF price of the good and the one established by the MEP. With this proceeding the domestic price of the good results by applying the tariff to the MPE, and not to the CIF price.

$$p = p^* + (mep - p^*) + mep.t$$

Where:  $mep$  - minimum export price fixed the government administration.

The rules for the calculation of the MEP were included in decree No. 141/984, where the operating mechanism was established. This MEP could be established temporarily, for a period no longer than four months, with the previous advice from an Advisory Commission. They could then be extended for at most two months, or suspended, or established in a definite way for a period no longer than a year by a decree from the Executive Power. After a year they could be

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protection was much higher in the case of the “aforos”. In the same study 92 cases of over valuation were identified, some of which exceeded five or more times the CIF price. The reference prices began to be used in 1980 and they gradually substitute the “aforos”. In 1983 the “aforos” disappeared almost totally being replaced by the RP. The MEF only fixed RP for automobiles and televisions up to 1982. From that year on, they began to be used for many other sectors, such as rubber, ceramics, paper, fruits and vegetables, glass, wines, etc.

extended, modified, tacitly or explicitly derogated, or they could be set again temporarily.

With respect to the MEP, a ministerial resolution from May 89 established that: “the levels must be determined in such a way that the objective of neutralising the damage without exceeding normal price levels is fulfilled, and the provision of additional protection to the tariff through these instruments is avoided”.

During 1983 and 1984, the first MEP was created, and the process of creation of RP went on. Since 1984, the number of RP decreased, whereas the number of MEP increased. The total number of goods with PR and MEP increased and reached a maximum of 154 in 1984-85. Since 1986, the number of new RP and MEP is less than those which were not extended, so the total number started to decrease.

Most of the times when these instrument were used, no evidence to justify their use existed, or the evidence was doubtful. Many times prices that contradicted the advisory commission’s opinion were used, and they had no relation with the international prices, being generally higher.

After decree 315/93 (modified by decree 207/94), rules were set for the application of minimum import prices. The steps to follow for granting a MEP were more clearly established, and simultaneously the way to determine its level were better defined than in the previous rules included in decrees 523/90, 465/91 and 71/92. More requirements for the party involved were also established. Decree 315/93 establishes “that from the evaluations carried out, it becomes clear the convenience of stating a new regime to get an adequate equilibrium between the principles of transparency, efficiency and compatibility with the international normative to be applied during the transition period established in the Tratado de Asunción”. Article 12 of the decree establishes that “the MEP will not exceed either the lowest normal price in the supplier countries where the normal conditions of competition prevail, or the value needed to eliminate the damage”.

In the following decrees that ruled these instruments’ application, more transparency was given to granting processes. A technical commission was created, with the aim of advising the Economy and Finance Ministry (MEF). Those damaged by these measures, such as importers, were allowed to present their own evidence to the complainants. These institutional modifications proposed by the MEF, made the application of managed prices more difficult. These kinds of changes are the ones proposed by the current literature in administrative protection nowadays (Tharakan (1995)).

The increase in transparency made the provision of protection more costly. For example, in the case of the paper sector, thanks to the possibility of taking part in the process, the importers could oppose and obtain the nullification of a decree from the MEF, which stated the MEP for that particular sector. The managed protection was used to dampen the tariff fall effect in some sensitive sectors, although it also accompanied the fall in the protection of more protected sectors. The intensive use of RP and MEP in the framework of the tariff openness since 1985 can be understood as a way to counteract, by means of a non-tariff barrier, what was being constructed through tariff reduction, es-

pecially if we consider the high formal protection implicitly included in the use of these instruments. Nevertheless, for the firms affected, it is not the same to get protection through a tariff and getting it through an instrument like the one described, which was much more dependent on government contingencies.

Changanaqui and Messerlin (1994) have shown that although RP and MEP served their protectionism objective, they did not prevent a fall of more than 20 % in the real average tariff. Although the trade liberalisation is clearly seen for the goods with RP and MEP, the real weighted tariff (for all goods, with transactions above and below the RP) was higher. We can observe liberalisation, for the goods with RP by considering the reduction in the apparent tariffs, from 58 % in 1986 to 40% in 1989, and for the goods with MEP from 50 % to 37%. In 1989 the difference between the apparent and the real tariff (which is a measure of erosion in the liberalisation) was 19 % for the RP and 5% for the MEP. Brun and Michelín (1993) calculated a price index for the RP (1982=100). In 1988 the index was 85.4 and in 1990 it was 77.4. On the other side, the price index for the MEP increased from 83.2 to 90.4 in the same period, but simultaneously there was a strong decrease in the number of MEP provided by the administration <sup>19</sup>.

### 1.3.2 Regional integration process

In the nineties the tariff policy in Uruguay was conditioned by the regional integration agreement with Argentina, Brazil and Paraguay. Uruguay's tariff preferences are similar to the ones of its trade partners, or are going to be similar through gradual and automatic convergence timetables, both for the free trade zone and for the common external tariff. There exists a commitment in MERCOSUR to eliminate all non-tariff barriers. In this sense the regional integration agreement works as a tool to discipline trade policy. The use of non-tariff barriers with protectionism objectives leads to complaints to the Trade Commission of the MERCOSUR from the damaged parties, so it has become more difficult to use these instruments as substitutes for tariffs to provide protection.

The MEP are still being applied for the textile, clothing and sugar sectors, but most of them were eliminated and put in the tariff in the Adequacy Regime to MERCOSUR (ARM) in 1995 (see section 5.2). The tariff absorption of the RP and MEP in the ARM implied an important reduction in the protection to these sectors, because the implicit tariff in the RP or in the MEP was always higher than 40 % (Changanaqui and Messerlin (1994)).

The discipline that has been imposed in the MERCOSUR opposes the substitution of tariffs for non-tariff barriers that took place during the 80s, that is when the anti-dumping instruments were widely used to protect the originally more protected sectors which were especially affected by the programmed reduction in tariffs. It must be noted that, although these instruments were a kind of brake on the liberalisation process, at the same time they softened its

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<sup>19</sup>As goods with RP and MEP have higher tariffs than the average because they are the ones which are more protected, an increase in imports due to the fall in the RP and MEP level has the above mentioned effect. The fall in the values for the RP and MEP led to an increase in the imports of those goods with tariffs higher than the average.

effects.

As a brief summary we can emphasise that those sectors with higher tariff levels, traditionally more protected, got benefits from these instruments of managed protection in the period considered. Although the elimination of MEP has been announced many times, and their number has really been decreasing, there still exist some MEP operating in the extra MERCOSUR trade. According to the BCU (April 1998) there still exist 156 MEP at the level of tariff item in the harmonised system (sugar, clothing, textiles). The number considered at the public and private level, referred to the last decree (357/97) is a little lower (117). According to official statements, after September 1998, all MEP will be eliminated. This announcement was not highly credible at the private level, although nobody discusses the reduction tendency. Until 2000 Uruguay has maintained more than 50 MEP (sugar, clothing, textiles) in spite of the permanent observations in the multilateral and regional arena.<sup>20</sup>.

#### 1.4 Reversions in the trade reform process

From a political economy perspective a relevant phenomena to describe and explain is the specific point at which the tariff variation will be positive (trade policy reversion). In figure 1 the annual variation rate of the level of the import tariff for three groups of products (raw materials, intermediate and final goods) is presented.

A first reversion in the liberalisation process took place in 1982, when the surcharges on imports were increased. Consequently, the average tariff increased, and in some items the tariff rose to higher levels than those of 1979. The reference to this reversion in the trade reform process is relevant, taking into account the political equilibrium or the macroeconomic inconsistency of the reform plan. This issue is important in order to analyse the structure and the evolution of certain commercial liberalisation experiences.

In 1982 the policy of pre-announced devaluation was abandoned due to the external crisis and in November there was a great devaluation in the exchange rate. Since then and until 1984 there was a period of adjustment in the Uruguayan economy, during which the high real exchange rate and the low level of domestic demand were the main incentives for the exporting activities.

The reversion of the trade policy anticipated that of the exchange rate policy. Trade policies are readily available and can be applied in the short run with relatively small (economic and political) costs in comparison with, for instance, a devaluation that undermines the credibility of the stabilisation process. However, the costs of a reversion in the trade policy can also be important in the long run. The period of reversion was short. In December 1982 the decree 477/82 put in place a new trade reform programme, with the purpose of smoothing disparities in the levels of effective protection. Two other decrees (478/82 y

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<sup>20</sup>This decree has a strange mechanism for calculating the MEP for clothing. They are calculated by multiplying the minimum prices of the basic inputs (clothes) by a factor (between 2 and 1,15).

479/82) reduced tariffs for capital goods and for a long list of raw materials, bringing their level to 10%.

The second reversion of the trade reform process took place in June, 1985. As can be observed in figure 1, tariffs were increased by five percentage points in all the levels as a result of a fiscal policy adjustment package implemented by the new government. The following year, that increase was reverted bringing back the tariffs to 1983 levels, except for the highest of them, for which a reduction of 10 per cent was established. The third reversion occurred in 1990. The same phenomenon was repeated, an increase by five per cent was put in place as part of the fiscal adjustment that the new government carried out. The two previous reversions coincided with new governments and both were associated with economic measuring of fiscal adjustment that aimed to balance the public account deficit inherited from the previous administrations.

Finally, it is possible to verify a certain degree of reversion in the process of integration of the MERCOSUR trade agreement in 1994. When the MERCOSUR meeting in Ouro Preto (December, 1994) took place there were around 380 exceptions allowed for Uruguay. After the meeting these exceptions were raised to around 950 ("Regimen de Adecuacion al MERCOSUR", RAM). There were 275 items protected by administrative prices<sup>21</sup> in this list that were turned into tariffs in the RAM, that is, the RAM included more than 550 new exceptions in relation to the previous situation. In this case, it is more difficult to establish the magnitude of the change, although it is clear that an increment in the tariff protection took place and it partially substituted other prohibited instruments.

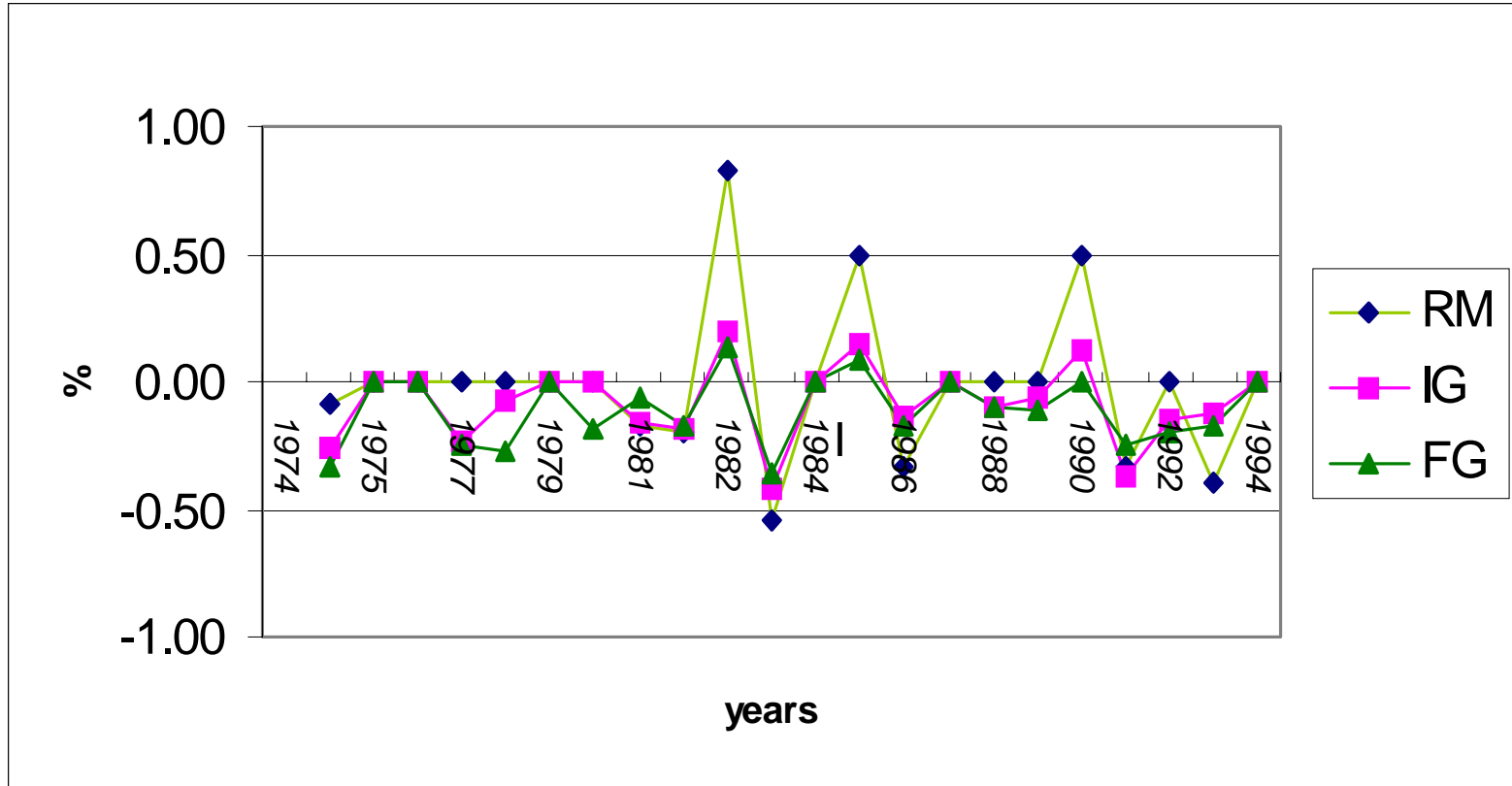
The decisions taken at Ouro Preto implied a reversion of the process originally planned for three reasons: a) the RAM included new products that appeared for the first time or that were re-included; b) many products included in the general regime which should have converged by January 1, 1995 and 1996, were included in the RAM, thus postponing free trade for these products within the region; and c) the convergence path was delayed in many items, whose period was extended to January 1, 2000.

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<sup>21</sup>Especially minimum prices of export (PME) since prices of reference (PR) hardly remained.



Figure 1  
Annual variation import tariff rate 1974-1994



Source: Own elaboration based on data from table 4 and 5.

## 2 Government and private pressure groups

### 2.1 Public institutions and trade policy design

In this subsection the institutions involved in trade policy design are presented. In Uruguay there exists a broad group of institutions formally related to trade policy (see description in GATT (1992a)). A scheme of these institutions does not properly reveal how public decisions about trade policy are made. This is so because of two main reasons.

First, the government's central administration has been going through a slow and permanent erosion and reduction process which affects different areas. This is the other side of the necessary fiscal austerity which the governments had gotten used to live with, as a way to avoid macroeconomic disequilibrium and to keep the economic stabilisation programmes. Secondly, the topics and spaces for trade negotiation have been changing in a radical way during the 90's. In this sense, institutional and human resources responses, suitable for each of the new circumstance, have been necessary.

In this sense, analysing the real practices in trade policy design is necessary to properly describe the actual situation. As with any inference, it is subject to the available information and the method used to carry it out. Nevertheless, it is more useful than a sole formal description of the places where trade policy should be conducted, according to the formal government schemes

In the trade policy design process the two main government agencies are: the Ministry of Foreign Affairs (MFA) and the Ministry of Economy and Finance (MEF). The MEF has been the one that traditionally set unilateral trade policy. Its branch offices more related to the definition of these topics are the Trade Policy Board, the Economic and the Financial Adviser and the Tariff Advisor Commission. As it was previously described, the whole unilateral opening process and the decisions to promote exports were instrumented in legal terms through government decrees sheltered by laws from the 70s and 80s. This went on in the 90s, both for the tariff reduction at the beginning of the decade and for the new adjustment of the export and investment promotion measures during the last years. The latter required a new effort in legal terms.

The Foreign Trade Board, belonging to the MEF, has been carrying on different tasks during its lifetime, mainly those related to the links between the public and the private sector and between different public sector agencies. The original objective of this office was related to the international integration promotion (both in the region and outside it), and this gave it a privileged relationship with the private sector. In this decade other public agencies with the same objective were created, and also Chambers of Commerce began to develop similar tasks, so its role was weakened. At the same time, the claims related to international negotiation were multiplied, and sub-regional (MERCOSUR), regional (LAIA), continental (FTA) and inter-continental (MERCOSUR-EU) forums were added to the multilateral ones. Since this board had an excellent relationship with the MFA (they are physically in the same building), it naturally began to work on claims which arose as a result of the multiplicity of international forums taking

part in trade negotiations. In general terms, it has provided technical advice to the negotiators from the MFA, and it has also been a main player in the different trade negotiations.

The Ministry of Foreign Affairs has traditionally had a more relevant role in the international trade negotiation processes. In the multilateral case, Uruguay has a long tradition which is revealed by the existence of human resources especially trained in this field. There are different offices within the MFA that deal with these affairs. Among them the International Organisation Directory deserves a special reference, as it deals with the links between the World Trade Organisation (WTO) and the Uruguayan government. It is at this level where the different notifications to the WTO are carried out, and information from multilateral institutions and public boards related to these affairs is received. The multiplicities of coordination, information and advice tasks that are developed in this office are not related to its reduced size.

MERCOSUR negotiations were carried out in the context of a new institutional framework, which led to a much more permanent co-ordination scheme in the public sector. It went on at different stages, but the permanent and characteristic one was the national representation at the Common Market Group which was integrated by members of: the Ministry of Economy and Finance, the Ministry of Foreign Affairs, the Central Bank, and the Planning and Budget Office. The Ministry of Economy has had a main role in the way the group worked and in the general orientation of the negotiations. This was helped by the continuity of the especially trained team. On the other hand, the MFA, which at the beginning did not have a main role in the negotiations, has been getting more and more involved. This can be appreciated by the fact that in recent years an institutional change took place, and an Integration and MERCOSUR Direction was created at the MFA level. Strictly speaking, this is one of the few institutional areas in the public sector specialised in the MERCOSUR by a formal definition. Nevertheless, one of the characteristics of the MFA which prevents it from having a much more active role is its institutional and human resources lack of continuity, as a consequence of the changes in the diplomatic destination of its professional personnel.

## **2.2 Lobby pressure groups**

A special characteristic of the private sector organisation in Uruguay is the variety of places for the representation of the interests involved. At the firm level it is possible to distinguish many different organisations where corporate interests are represented.

First of all, there is the Uruguayan Chamber of Manufactures which is an old institution (this year it will be a century old) which regroups and represents the manufacturing sector. It has traditionally been associated with a defensive attitude towards the domestic market, in favour of those instruments that allow keeping the import substitution schemes. After twenty five years of hard announcements and not so hard practices of trade opening policies in Uruguay, its position has been slowly changing, considering the specialisation and ad-

justment processes of the manufacturing sector in Uruguay. Nevertheless, this Chamber still calls for government intervention in the sphere of trade, with the aim of avoiding possible damage to local manufacturers (regional exporters or domestically oriented) from unfair practices of others. From an institutional point of view, the Chamber is strong, essentially because it has been covering issues that the public sector has been leaving aside (promotion, training and so on), with the aid, in many cases, of international co-operation for development. Besides, it is one of the institutions that issues certificates of origin which in fact constitute one of its main financial sources. Large manufacturing firms (private and public) and about 60 Sector Chambers are members of the Chamber of Manufactures.

Secondly the union groups of agriculture and cattle producers, which included the Rural Association and the Agriculture and Cattle Federation. Although Uruguay is abundant in natural resources for food production and raw materials, and has an export orientation, this is not entirely reflected in the opening position of these groups, which represent different interests. Those unions mainly act in fiscal topics, interacting with the government. Trade policy issues have been restricted to the historic demand of exporting agricultural and cattle goods without manufacturing (raw leather, dirty wool, live cattle, milk from the dairy, and so on), in order to be able to reduce the agroindustrial oligopsony power.

In third place there are the commercial interests. The Mercantile Chamber of Country Goods gathers different interests from agricultural and cattle good traders, sometimes associated with a minimum transformation of the raw materials (for example wool conditioning and classification). It is also an institution with long tradition. The Chamber of Trade is another institution that gathers trade interests. This particular chamber represents traders' and importers' interests, so it is mostly in favour of trade liberalisation.

In fourth place there is the Uruguayan Exporters Union, an institution which was founded in the early 70s. Although its body of directors consists of top enterprising organisations (manufacture, mercantile, trade and so on), the organisation's support remains in the export-oriented sector (both traditional and non traditional goods). The action of this organisation has been focused on the exporters' interests, and thus has been in favour of trade policy instruments that would promote exports. Their relationship with the other chambers has been rather conflictive for many reasons, and this relationship has limited the institution's actions. Nevertheless, the institution maintains its activity and has generated its own co-ordination spaces both at the domestic and regional level. In the latter level, it is worth mentioning the creation of the MERCOSUR, with other exporters' unions from the MERCOSUR.

The Entrepreneur Superior Council (COSUPEN) includes all of the above mentioned chambers (except for the Uruguayan Exporters Union), with the exception perhaps of other very important sectorial chambers, like the Bank Association of Uruguay. This Council is the government or other social sectors's counterpart in many specific topics. In recent years, it had a more visible role, both in the representation of the entrepreneur sectors in the Social and Economic

Consulting Forum of MERCOSUR, as in the negotiation level of the FTA.

On the other hand, workers show a higher homogeneity in their organisation and representation. There exists a single central union (PIT-CNT), formed by the different sectorial unions (both from the public and private sector). With respect to trade policy issues, there is an Integration Commission dedicated to them. Central union's participation in international negotiation forums has been taking place at the regional level (both at the MERCOSUR and at the FTA), being continuous and in many cases determinant. A proof of this fact is the creation of the Social and Economic Consulting Forum of MERCOSUR. The central union has been a kind supporter of the regional integration at MERCOSUR level, but it is more cautious with respect to continental integration (FTA) or the WTO's multilateral negotiation. In some way this position shows that the central union is not in favour of the trade liberalisation process in a general way, or of the international negotiation processes which help to deepen it. Nevertheless, it has accepted the higher trade liberalisation that the sub regional integration caused as a necessary cost which would secure integration with the country's neighbours.

The fact that those lobby groups, which are able to organise themselves, are the ones who deal with the free riding problem is always emphasised in the traditional collective action dilemma. Small interest groups, easily organised, with a specific interest and low monitoring costs over its member's actions, will be revealed in the trade policy atmosphere by the existence of high protection levels for the defence of a specific sector. Organising similar but not identical interests requires a different level of action, the creation of lobby groups, that is the gathering of interest groups in more complex institutions, which in turn involve many sectors.

The literature on political contributions and lobby groups states that the strategy of organising in a strategic interaction atmosphere is a dominant one for the lobby groups (when the costs of organisation do not exist or are very low). Organising and defending a particular interest is better than not doing so given that nobody has done it, because it gives an advantage in the relationship with the government (Vaillant (2000)). If the other groups are organised into lobby groups, it is also better to do the same because this reduces the damage caused by the distortions created by opposing lobby groups. From the application of this logic it results that, in many societies with a great variety of specific interests, everybody is worse off than if they were not organised, reaching a prisoner's dilemma situation for the organised lobby groups.

In Uruguay it is worth stating that private interests at the firm level are not easily represented by few positions in relation with trade policy issues. Positions are very different and in many cases, antagonise each other. We can state that there exist at least two different lobby levels, which implies two different ways of acting. On the one hand there is a general pressure on the rules. This level is tackled through the big organisations that are sometimes defined in relation with the functioning and management of these rules. Another lobby level is that of the application of intervention, which takes place on a more direct and decentralised level and for that reason is more difficult to analyse.

The Chamber of Manufacturers is partly defined by the pressure around the existence of rules (group of available instruments) that allow implementing an effective defence of the domestic market from the import goods threat. In the same way, it is also impossible not to associate the Exporters Union with a group of rules specially designed to favour the exporter's activity. This would be the first lobby level, which in general is somewhat visible politically.

Another way of analysing this phenomenon is to consider the problem from a specific policy instrument's point of view. An interesting example is the MEP. As a general rule, Uruguayan exporters agree with the existence of this mechanism because it gives them the possibility of using a quick instrument to solve problems in their markets. This does not imply that the Chamber as an institution seeks to influence the government's action at the specific moment of fixing the MEP, and probably this is not the case. And this happens, among other reasons, because there does not exist a common interest with respect to the specific way of applying the instrument, moreover the interests can be conflicting.

From a public policy point of view, the possibility of being influenced by specific interests has diverse origins, and it can be different whether we are talking about unilateral affairs not regulated by international agreements or when the issue is part of a negotiation process. In the latter case, the lack of a negotiating position to guide the decisions taken must be noted. Thus the negotiating criteria can be described by the words of an ex-negotiator from Uruguay and current private advisor: "for the negotiators the idea of defending a Uruguayan interest prevails, hence the one who clearly identifies his place and interests can be sure that will be considered in the negotiation".

### **2.3 The political economy of trade reform**

After the description given in the previous section, it is relevant to summarise the group of stylised facts that characterises the trade reform in Uruguay. In the first place, it is observed that Uruguay's trade policy in recent decades (from the 1958 until now) has been fixed by the Executive Power through a wide set of presidential decrees and very few laws elaborated with the Parliament's participation. This fact indicates that trade policy (tariff or administered) has not been too much influenced, direct or indirectly, by the democratic mechanisms of parliamentary representation, but rather that it has been established by the government in office with discretion.

In the 1990s, parliamentary interventions were observed in trade policy matters, but exclusively through the ratification of regional (MERCOSUR in 1991) and multilateral trade agreements (World Trade Organisation, Agreement of Marrakesh in December of 1994). Today the government is more limited. However this is not due to the parliamentary intervention but rather to the results of international trade negotiations.

Administered protection refers to a particular set of trade policy instruments used with the objective of favouring domestic production in relation to the rest of the world's production. These kind of instruments are different from the tariff

type that directly affects domestic prices. Instead, they are based on indirect mechanisms that discriminate products from the rest of the world with other types of trade barriers. The nature of the instrument used (tariff or not tariff) is frequently associated (in implicit or explicit form) with the mechanism by means of which their juridical legitimacy is established, and in consequence with the capacity that each government has to administer the use of these protective instruments in response to particular demands.

Traditionally, trade policy instruments have been classified as tariff and non tariff measures according to the way that they influence domestic goods prices. It is important to link them with the way that decisions are made and their application scope. In this sense, the three central approaches that are considered are: the contingency; the covering (the generality of the application of the instrument); and the government's ability to manage it with discretion without restrictions to introduce or with restrictions to withdraw.

The tariff trade policy is more transparent and less contingent in time as it is subject to a general programming that can involve one government period and even transcend it. Likewise, in general it requires mechanisms of more demanding public legitimacy. In the Uruguayan case this has been done through government decrees under the Law of Exchange and Monetary Reform of the year 1959. At the same time, Uruguay had other instruments that could be classified at the other extreme of the typology: instruments of contingent use, administered with discretion and oriented to specific sectors. The regulated prices of external trade (reference prices and minimum export prices) present these characteristics.

The instruments that were created with the aim of defending certain sectors against unfair trade practices allowed for a certain level of substitution with protection provided by tariffs. This happened mainly during the 80s and part of the 90's. These instruments provided some agricultural and manufacturing sectors (final goods producers in general) with protection, hidden under the "façade" of a defence against dumping practices, and this protection was available just by taking quick actions (sometimes at the industry level and many times at the firm level). It is recognised, both at a private and a public level, that most of the protection provided during the 80's and the early 90's was done through the use of these instruments.

The revision carried out regarding the mechanisms of organisation of the private sector in pressure groups, indicates that this is a mature and diffused phenomenon in Uruguayan society. There are multiple environments of representation of interests groups. It is possible to identify basically two types of groups: the ones favourable to a trade reform with a liberalisation orientation (exporters) and those against it with protective demands (the imports substitute sectors). The corporate organisation seems more kindred to the analytic pattern employed in the specific factors model (Vaillant (2000)) than to the one developed in the standard trade model (Vaillant (2000)). The existence of permanent channels of communication with the government is evident in all of them. It can also be observed that in this relationship, trade policy issues have had a prominent place.

In this sense, it seems reasonable to accept the assumption that trade reform as it took place in Uruguay lends itself to be thought of in terms of a political equilibrium in a game between the private sector and the government in office.

When trade reform began, in the mid-seventies, the status quo of trade policy was clearly not a desired situation (in terms of a political economy model it was not incentive compatible). Although at some point there could have been a political equilibrium, clearly by the middle of the 1970s the commercial policy showed signs of generating a hardly bearable level of distortions for a small economy facing a negative shock in its terms of trade. Certainly, there was a favoured sector associated to external trade that was able to capture some of the rents that trade policy distortions generated. However, these minimised and concentrated interests didn't end up compensating the distortions to aggregate welfare. Without any doubt this statement has a larger dimension in the context of a growth model (which is beyond the proposed pattern of analysis), but it is possible to accept it as an element that reinforced the need for a change in trade policy.

Another structural and persistent phenomenon of the trade reform process is tariff escalation (big protection for the goods of final use, intermediate for semi-manufactured products, very low for raw materials). In the literature there are some articles (Cadot, De-Melo, and Olarreaga (1998)) that allow through smaller modifications in the structure of the economy to obtain this characteristic of tariff escalation as an endogenous phenomenon in a model of political contribution.

Surely it is also necessary to analyse the trade policy political equilibrium in a dynamic context where the reassignments that the new trade policy is going to generate (in consumption as well as in production patterns) will also modify the political equilibrium. This could be a self-sustained path of unilateral commercial liberalisation. In this sense, more than to use the model to endogenise a historical trade policy status quo, it would be interesting to show how this status quo could be modified in an incentive compatible way within a trade policy endogenous model. The fact that protective reversion have not taken place in the process of trade reform (those that were verified are basically founded in problems of handling the short term macroeconomic policy, and they all had a very short duration) could be showing that the path adopted in the reform process was a political equilibrium during the studied period.



## **3 The multilateral agenda from Uruguay's point of view**

### **3.1 The regional context: the opening of Latin America**

In the framework of the structural reform plans in several Latin American countries, commercial liberalisation played a central role. In the region, since the beginning of the seventies, import substitution, as a way of growth and development, showed severe signs of exhaustion. At the same time, a stage of development with a marked vocation towards commercial opening began. That opening had a rocky evolution, conditioned by the international context and by external account payment restrictions faced by countries that undertook it. Furthermore, its coverage in this period was restricted to only a few economies and its depth was limited. In the eighties the opening was extended to more countries and implied a deeper liberalisation.

The objectives of the commercial opening embraced several aspects associated to the productive efficiency of the economy although they were not finished in them. In the first place, a change in the productive and commercial specialisation pattern, closer to the economy's comparative advantages, was encouraged. In the Uruguayan case this allowed for an intense development of agricultural and agroindustrial sectors. Secondly, in a small economy the trade opening has an important role as a competition policy, given the existence of imperfect market structures (monopoly and oligopoly) in the production of domestic goods. Thirdly, the commercial opening has an effect on the degree of development of the technical progress embodied in new input and capital goods. Finally, the consumers were not only favoured by the lower product prices, but they also faced an increase in the variety of goods to consume, improving their welfare by these two effects.

The commercial liberalisation adopted the strategy of unilateral opening, characterised by its non-discriminatory policy with respect to the rest of the world. Apart from the fact that it took place in a context of non reciprocity, is the main difference with what happened in the processes of multi, pluri or bilateral trade agreements. These unilateral openings were, in some cases, carried out jointly with other measures that tried to extend the access to external markets, either through bilateral negotiations that aimed to develop agreements of preferential nature with other regional economies, or through the entrance to GATT for those countries which had not been associated to the Multilateral Trade Agreement.

The new international trend of the nineties, related to preferential agreements, creation of free trade zones and customs unions, produced an intensification of the economic integration in the region. It is important to notice Mexico's case and the North America Free Trade Agreements since they show certain paradigmatic features that many governments of the region wanted to re-issue. This strategy of regional integration adopted many of the characteristics suggested by the predominant perspective: it occurred after an intense

unilateral opening of the Mexican economy that was superimposed to their late integration to GATT; the integration agreement allowed for the consolidation of another group of structural reforms developed in the recent years in the Mexican economy; the integration was carried out with a developed country which widens the welfare improvement effects from pure trade creation effects, to include technological and institutional reasons as well.

Another case of growing interest is the MERCOSUR experience. This strategy of commercial liberalisation has some common points with the previous one, although it involves only developing countries of the region. This initiative of trade and economic integration has been acquiring growing levels of credibility in the international context.

In summary, the reduction in trade barriers in the countries of the region combined the different modalities of liberalisation mentioned earlier. The process had certain regularities. In general terms, unilateral openings were previous to other strategies of liberalisation carried out in a context of reciprocity (non discriminatory as well as preferential). The regional integration process complemented the unilateral trade reform. First, regionalism follows the previous unilateral trade liberalisation process. Second regionalism contributes in terms of higher levels of credibility of the trade policy, because of the commitment that reciprocity implies. In the nineties, unilateral liberalisation continued its course, but as it took place at the same time as the regional integration processes just described, it has not been the object of special attention. We can make the hypothesis that preferential trade opening processes have been useful to those policy makers in favour of the opening, because it allowed them to process new rounds of unilateral liberalisation (see table 7), without receiving so much attention and consequent claims from the private sector.

Table 7  
Simple average import tariff by sub-region and group CCP, 1990-1998  
(%)

<i>Sub-region</i>	<i>ccp</i>	1998	1997	1996	1995	1994	1993	1992	1991	1990
MERCOSUR	1	13.71	12.37	11.79	11.79	13.04	14.67	16.91	19.89	24.75
	2	9.24	7.74	7.07	6.91	8.94	10.28	12.25	13.99	18.77
	3	2.20	1.39	1.32	1.47	5.00	4.21	6.12	7.07	13.15
	4	9.41	7.91	7.23	7.02	7.61	8.34	10.42	10.13	14.90
	5	13.36	12.37	10.78	11.83	12.09	13.71	16.52	18.09	23.91
	6	7.21	5.46	4.91	6.21	8.27	9.22	10.30	13.76	17.06
<b>MERCOSUR</b>		<b>13.02</b>	<b>11.96</b>	<b>10.54</b>	<b>11.40</b>	<b>11.87</b>	<b>13.44</b>	<b>16.12</b>	<b>17.85</b>	<b>23.48</b>
Chile	1	11.00	11.00	11.00	11.00	11.00	11.00	11.02	11.00	14.98
	2	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	15.00
	3	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	15.00
	4	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	15.00
	5	10.94	10.94	10.94	10.94	10.94	10.94	10.94	10.94	15.01
	6	11.00	11.00	11.00	9.77	9.77	11.00	11.00	11.00	15.00
<b>Chile</b>		<b>10.95</b>	<b>10.95</b>	<b>10.95</b>	<b>10.95</b>	<b>10.95</b>	<b>10.95</b>	<b>10.96</b>	<b>10.95</b>	<b>15.01</b>
CAN	1	16.39	16.12	15.26	15.23	15.21	14.99	15.28	18.64	27.65
	2	9.94	9.60	9.65	9.64	9.76	10.06	10.23	12.86	21.62
	3	9.11	8.99	9.09	8.00	7.98	8.29	8.33	10.40	11.84
	4	9.03	8.66	8.74	8.72	8.77	8.78	8.88	11.17	12.27
	5	12.30	12.04	12.04	11.98	11.97	12.02	12.36	15.32	21.28
	6	9.39	9.04	8.90	7.91	7.94	7.96	8.85	11.49	14.24
<b>CAN</b>		<b>12.51</b>	<b>12.23</b>	<b>12.14</b>	<b>12.08</b>	<b>12.08</b>	<b>12.09</b>	<b>12.41</b>	<b>15.36</b>	<b>21.38</b>
Mexico	1	23.69	23.71	23.58	22.99	14.96	14.76	14.83	14.58	14.59
	2	8.55	8.55	8.61	9.05	8.74	8.87	9.05	9.05	9.05
	3	7.93	8.24	8.39	8.39	8.39	8.94	8.94	8.94	8.94
	4	9.80	9.84	9.92	9.91	9.91	10.27	10.38	10.38	10.38
	5	12.52	12.62	12.68	13.19	12.44	13.15	13.29	13.29	13.27
	6	3.33	3.33	3.33	4.54	4.54	3.00	7.89	7.89	7.89
<b>Mexico</b>		<b>13.15</b>	<b>13.24</b>	<b>13.29</b>	<b>13.68</b>	<b>12.40</b>	<b>12.98</b>	<b>13.12</b>	<b>13.11</b>	<b>13.09</b>
ALADI	1	15.59	14.98	14.37	14.30	14.01	14.49	15.44	18.03	24.26
	2	9.65	8.96	8.74	8.72	9.48	10.12	10.93	12.76	18.84
	3	6.66	6.34	6.38	5.93	7.21	7.11	7.82	9.11	12.34
	4	9.42	8.71	8.50	8.42	8.65	8.96	9.77	10.71	13.30
	5	12.58	12.11	11.54	11.94	11.96	12.64	13.83	15.74	20.94
	6	8.19	7.39	7.14	7.15	7.91	8.24	9.48	11.94	14.76
<b>ALADI</b>		<b>12.61</b>	<b>12.11</b>	<b>11.56</b>	<b>11.88</b>	<b>11.93</b>	<b>12.56</b>	<b>13.69</b>	<b>15.66</b>	<b>20.81</b>

Note: 1- food, beverages and tobacco; 2- raw materials from agricultural origin; 3 combustible of petroleum, ...; 4- minerals; 5- manufactures; 6- others products.

Source: own elaboration with LAIA data.

### 3.2 Trade domestic policy tools and the multilateral agreements

In the analysis of the Uruguay Round Agreements (URA), it is useful to distinguish two stages. The first one is characterised by the ratification and first implementation of the new multilateral agreement (1994-1997) which came forth from the Marrakech agreement (April 1994). The ratification followed a quick process in Uruguay. In December 1994, the Parliament voted the law (law no 16671) which internalises multilateral agreement in the national positive law. Although the formula and procedures which were used by the Executive Power could generate some reticence, the process was executed as requested (see Vailant, 1995). In its second article, the ratification law makes a defensive statement pointing out the articles of the agreement which should be especially considered, given Uruguay's condition as a developing country.

Neither the private nor the public actors perceived the topics selected by the new World Trade Organisation as directly conditioning Uruguay's effective trade policy. In the case analysed, three groups of reasons determined what has been called the practical lack of importance of multilateral negotiation in the region (Ventura (1997)).

Firstly, as in many developing countries, the consolidated tariffs were higher than those in force. This means that the unilateral opening process went further than what was given in a reciprocity and non-discrimination context at a multilateral level. At rule level, although there exist instruments and measures that required an adjustment, which could imply their elimination or substitution, it is also true that it is possible to obtain terms and transition periods, which Uruguay used, adjusting to the notifications established in the agreement<sup>22</sup>.

In the second place, the regional integration process implied a new liberalisation front with close and large neighbours. The additional opening that this discriminatory liberalisation implied was undoubtedly, for many sectors and firms, more dramatic than the slow unilateral opening process that the country has carried out since the middle of the 70's. This is especially true if we compare it with multilateral agreements. At the same time, regional integration implied a new and intensive negotiation front. In fact, this negotiation table included aspects which were negotiated at multilateral level, but more deeply, specificity and commitment (trade rules, technical norms, standards, policies at frontiers, and so on) and other topics related with regional integration (physical integration, energetic integration, and so on). At the public level, the human and institutional resources are scarce, so they were quickly absorbed by regional issues. At the private level, the threat or opportunity of the regional market caught the attention of the entrepreneurs, who were unable to talk about anything else but the MERCOSUR during the 90s.

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<sup>22</sup>This statement must not be understood as Uruguay not carrying out any change as a consequence of the multilateral agreement. It is enough to mention that it has had to adjust its tariff nomenclature (adopting the harmonised system) and its way of valuation in Customs, just to point out two important examples of adjustments of the domestic practices to the international agreements.

In third place, in relation with the potential improvement in international trade opportunities implied in the new multilateral agreement, the changes in access to market for the interesting products from Uruguay's point of view (specially agricultural products) were marginal. Then, they did not imply new opportunities as a consequence of trade liberalisation at the world level.

In 1998, a small inflection in the relevance of the multilateral issue in Uruguay can be observed. The reasons for this change are almost the same as those that were mentioned earlier when justifying the lack of relevance that the multilateral negotiation has had up to now. The difference is that the same reasons are behaving in an opposite sense. It is interesting to analyse each one of them.

In relation to the first point, although the situation at tariff level is kept, there is a change in the possibility of regularly keeping protection or promotion mechanisms apart from those decided at the multilateral level. The economic and political usefulness of minimum export prices that generated protection according to the claimer's need is completed. This leads to consideration of the use of those mechanisms accepted by the multilateral framework to satisfy domestic productive problems and/or legitimate claims of damage from external (public or private) policies which were against the country's interests. Although the examples are just a few, they show a change in their orientation. In fact, the changes are from a total neglect of multilateral mechanisms to solve trade affairs, to the evaluation to use the new rules, both to defend the domestic market of the imports substitution sectors and to guarantee better access to the market in some export sectors<sup>23</sup>. This can be perceived both at the public and private level.

At the public level, Uruguay has begun a regulation process by passing legislation which ratified the agreements from the URA. The legal framework integrated in domestic law is very extensive, and gives a lot of space for the government to regulate by decrees the different aspects involved in the multilateral framework. The last government adopted a gradual policy. In two areas there were advanced at the regulation level. The first one refers to an anti-dumping decree, which would allow a reaction to unfair trade practices at the private level. The second area is related to developing the domestic procedures to apply safeguards clause.

Two others issues were pointed out, but without any specific progress in the domestic regulation arena. The first one is related to the need to set the rules for applying the conditions imposed by the Agreement about subsidies and compensatory measures. Those measures attempt to defend domestic production from the import of goods whose export price is lower than the domestic cost by explicit or implicit government subsidies. The second issue is associated to the implementation of commitments to rule the trading of textiles and clothing, and to substitute the Multifibre Agreement.

There has been an improvement in the legal area but without substantial

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<sup>23</sup>There exist two examples: one of dumping (USA exporters to Uruguay) in the textile sector and another of problems in the access to the rice market in the European countries. Apart from these, the possibility of using protection mechanisms in the clothing and textile sectors is beginning to be mentioned.

impact in the implementation of the new multilateral rules. In April 1996, a government decree (192/96) that rules all matters related to anti-dumping policy was passed (approximately 100 articles). Up to now the decree has not been operating. On the other hand, the private sector (Chamber of Industry) has opposed the government's strategy. The prompting of this decree by the government is consistent with the established policy of minimum export price elimination, and thus with the need to generate substitute mechanisms according with the new rules.

The domestic regulation decrees on anti-dumping and safeguards (299/99) have not been used in Uruguay. In the case of safeguards, the regulation decree is very restrictive concerning the conditions of their application. According to government's officers' opinions, this fact has discouraged the private sector to orient their claim in this direction, taking into account that the possibility of triggering the safeguards mechanism is remote. In the decree text of safeguard is made reference to, in addition to the traditional sectoral reasons (high penetration of imports, damage and causal relationship), to the question that the national interest is affected. This last condition gives great discretionary power to the public sector to determine the situation in which the safeguard decree applies.

Although in the case of anti dumping the procedures for the private sector are simpler, they have not been used. In three years of application of the decree, only two cases began and they finally culminated in conciliatory previous stages.

The rationale of this situation has different explanations. On the one hand, the official position, from a very general perspective, argues that the policy orientation is not to distort the process of unilateral and regional opening that has been taking place in the country. The fears are that those measures might give rise to defensive reactions hiding inside some of the procedures before referred to (anti-dumping, safeguards, etc) and deviating from global policy orientation. On the other hand being pragmatic for Uruguay, as a small economy it is not profitable to act aggressively in relation to the rest of the world in trade matters. The threat of retaliation from the others with greater power gives support to the idea that it is possible to generate greater damage that which the government desired to solve with the use of the procedure in question. More in particular, the conjecture is that as Uruguay doesn't have a completely clean trade policy, this is a situation of relative weakness. For either of these reasons or a combination of both although Uruguay ratified and regulated the new multilateral rules but in fact it has not used them. Finally, maybe as an endogenous result of the above-mentioned reasons the country is under developed in this matter (human resources and institutions), which would not allow the Uruguayan government to react in a solvent technical way facing a possible increase in the demands of the private sector for a more widespread use of these instruments.

In relation with the second point, after the first intensive period of negotiation and regional integration, the MERCOSUR issue was in a more natural and less hegemonic situation. On the other hand, new regional problems arise, and new markets are considered as a way to strengthened the country's trade. Besides, in 1998 Uruguay had to commit to the Trade Policies Exam Mecha-

nism, implied in Annex 4 of the Marrakech agreement, and this brought the government and the private sector's attention once again to multilateral affairs. Although it is only because of a formal and bureaucratic reason (the need to elaborate reports and attend missions), the OMC issue is very slowly recovering its place. At the international negotiation level, the issues that are considered today are still the regional ones, but at a more multilateral level, both the FTA issue (which concentrates a lot of human and economic resources) or in the issue of the negotiation between trade blocks, which has been taking place between the MERCOSUR and the European Union are considered.

Finally, in relation to opportunities at an international level, the Millennium Round and the "built in agenda" are beginning to generate expectations about the possibilities of deepening multilateral liberalisation in the sectors more affected by protectionist policies in the industrialised countries. In this sense, the agricultural issue is again the country's central claim in the face of potential concessions in other sectors and/or interest issues for the industrialised countries.

### **3.3 The key issues**

The aspects presently involved in trade negotiation at regional and international level, which are shaping the new regime of trade policy in Uruguay, are summarised in table 8. This table allows the classification of trade issues according to three general criteria: the economic activity; the time; and the level of application (regional or multilateral).

The rows divide the exporter's sectors and the import substitution sectors, distinguishing between global level and specific sectors level. In the columns two time periods are differentiated: a present one where a diagnosis of the current situation is made, and a future one (agenda issues). At each level we can differentiate the regional and the multilateral areas. In each cell a point which can be related to a relevant instrument, sector or general issue is reported. The list is not exhaustive, and the selection implies a judgement about the affairs that are interesting from Uruguay's perspective.

In relation to exports activities at the present time (diagnosis column in table 8), at a global level and in the regional area we can point out MERCOSUR's effect in terms of preferential access to the sub-regional market. In 2000 the free trade zone is practically completed. At multilateral level a reduced group of measures of support (or compensation) for the exports listed in the figure will still be in place. The new investment law should be pointed out (see 1.2.5), because although it is not exclusively oriented to the export sector, it will allow export projects with a group of important fiscal incentives to develop. Nowadays the situation is rather exceptional in MERCOSUR because rules of origin are being requested for the circulation of all goods, including those products with a similar external tariff. Simultaneously, the use of the temporary admission instrument for region oriented exports which are benefited by the existence of total (or almost total) preference, is being accepted.

In relation to import substitution activities, at global level and in the regional

area, the application of the Trade Liberalisation Programme and the Adequacy Regime to MERCOSUR were the main transformations in the nineties. Additionally MERCOSUR countries have a commitment to have a common trade policy towards third parties. This commitment was good with respect to the harmonisation of tariff preferences in relation to Chile and Bolivia, but until now has failed with the Andean Community of Nations and Mexico. It is relevant to highlight that some trade negotiation with third countries was developed in recent years (EU, FTA) with a common strategy of MERCOSUR members. Still now there are problems in relation to the enforcement of the Common External Tariff. At multilateral level we can mention Uruguay's unilateral opening and the use of particular trade instruments that are able to isolate sensitive sectors of international competition (for example the regulated price of foreign trade). There are still many issues to discuss in the future at the regional level, all of them related to what has been called the deepening of the Customs Union (common trade policy, entrance to the CET, coordination of other public policies).

In the case of exporter and import activities, the use of the OMC's new trade rules by Uruguay, both to defend the domestic market (when this applies) and to help market access for exports, is a relevant issue. This is one of the main issues for future discussion, not only related to the negotiation level but mainly with respect to the capacity of using them. This capacity does not only matter when the rules are used, but also when without using them, it is known that the country is able to do so. Uruguay is still far away from reaching an acceptable level of technical performance in the practical implementation of the new multilateral rules.

In the first place, in the internal regulation area the improvement has been very little. The only improvement is the anti-dumping and safeguards decrees which was previously mentioned, and which was criticised by the private sector (Chamber of Industries). The arguments used show that for a small developing country the regulation (which is almost what was decided at OMC level) is not feasible to apply and its results are not good. The proceedings are slow, the proofs are difficult to find, but the damage is immediate. The suggested changes imply giving more discretion to the Executive Power, and sharing or transferring the charge implied by the proof of dumping to the importer.

In the second place, there does not exist enough internal critical mass to use the new rules with solvency. The existence of more discretion protection mechanisms has been a brake on the necessary development of this critical mass. Some private advisors have pointed out the need to carry out an "education" task by the public sector, taking some cases with public leadership and developing the proceedings. Through this demonstration effect the use of the OMC's mechanisms would be favoured. In the Uruguayan case, there exists a sort of asymmetry between the economic incentives to defend oneself in the domestic market and the incentives that could exist to defend, strengthen and extend the access of exports to the rest of the world. The use of the new rules at this level is considered promising for the country, and an effort should be made to use the available instruments in the OMC in a more extensive way.

At a sector level in relation to exports the main topic is the protective policies



in agricultural sectors, both at regional and multilateral level. The prevailing idea is that at multilateral level it is not appropriate for the country to adopt a MERCOSUR position because the things to negotiate are country-specific. Uruguay has more common positions with Argentina than with all the sub-region. Brazil is a member of the Cairns Group, but its interests in agricultural tropical goods are different from those of the producers from countries with moderate climate. On the other side, in relation with service sectors the country has a rather liberalising position in global terms. In particular, Uruguay takes part in the financial services agreement. In 1998, Uruguay consolidated an offer in the framework of the Financial Services Negotiations, which take part within the GATS (General Agreements on Trade in Services). Uruguay's negotiating position is based on not giving up agricultural negotiation again and simultaneously having a liberalisation position in services. Chancellor's speech in the OMC's fiftieth anniversary shows this.

In the agricultural negotiation the most conflictive position is the European one. In the case of the UE it is necessary to consider the measures in the Common Agricultural Policy that affect domestic prices, production, consumption and trade. Although in the European Union two kinds of non-tariff measures are applied (community measures which are applied by all the member countries and national ones), it is through the community ones that the sectors subject to external competition are protected. Higher efficiency to overcome these exchange difficulties seems to be a characteristic of the regional negotiation framework. In the case of the agricultural sector, most of the non-tariff measures are applied within the framework of the Common Agricultural Policy.

The protection mechanisms used are multiple: tariff rights and contingents, production controls, price support, export subsidies and direct payments. The import variable tariffs and the exports restitution (variable subsidies) are emphasised because of their strong distorting effect. Their objective is to support a certain level of domestic prices against changes in international prices. In the case of a market with an excess of demand (importer) if the international price decreases (increases) then the tariff increases (decreases)<sup>24</sup>.

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<sup>24</sup>Despite these highly protective characteristics of the CAP, since 1992 a transformation has been taking place, driven by causes internal and external to the EU. This change is shown in a reduction in the protection instruments, which cause more distortions in producer and consumer prices. This reduction has been taking place in two ways: direct reduction in the intervention level (reduction in guaranteed price levels), substitution by instruments which imply income transfers from the rest of the economy to the farmers, but without these transfers being related to production levels. One of the main effects of these changes in the policy is the reduction in the agricultural surplus (cereals, milk powder, butter and bovine meat) since 1992 (Porto (1997)). The international situation of high agricultural prices (1995) is pointed out as a factor, which helped to reduce the required amounts to support domestic prices and export subsidies.

Despite this change in the orientation, and the prediction made, the CAP still concentrates more than a half of the corporate budget. In 1997 the CAP implied 41305 millions of ECU's expenses, which meant 50.15 % of the EU's total budget (Lopes Porto, 1997). With respect to the importance of each item, it can be pointed out that in 1996 the European Fund of Orientation and Agricultural Guarantee spent 39.2 millions of ECU's, and a 41.7 % of them were oriented to cereals, 20.5 % to meat and 9.1% to dairy products (OMC (1997)).

It is estimated that the extension of the EU to some countries of Central and Eastern Europe will not have an important effect on the CAP's costs. It is understood that it should be accompanied by a deepening in the actual orientation in terms of agricultural policy, with a reduction in intervention levels and a substitution by other instruments not related to the production level. In recent years, as a result of multilateral level agreements, a process where the regulating exemptions and quantitative restrictions, are replaced by tariffs has been taking place. As Anderson, Hoekman, and Strutt (1999) point out, the potential welfare gains from further liberalising agricultural markets are huge (specially in OCDE countries), both absolutely and relative to gains from liberalising textiles or other manufacturing.

In relation with import substitution sectors (see table 8), the main issues are summarised in two points. On the one hand those domestic sectors which still have some restructure expectations based on the extension in time of some instruments which allow them to keep their domestic market and/or some proportion of the regional market. On the other hand, those sectors where the country is committed to a CET higher than the Uruguayan preference (this is the case of capital goods and computers) and keeps the expectation of lowering them with the support of other multilateral negotiations.

Table 8  
The key issues from Uruguay's perspective

<i>Time</i> <b>Economy activities</b>	<b>Diagnostic</b>		<b>Future Agenda</b>	
<b>Export</b>	<b>Regional</b>	<b>Multilateral</b>	<b>Regional</b>	<b>Multilateral</b>
<b>global</b>	-Preferential access to the region (FTA in MERCOSUR) -Non tariff barriers	-Indirect Taxes devolution and subsidies. -Temporary Admission -Pre- financing -New investment law	-Rules of origin in the Custom Union -Temporary admission -Non tariff barriers	- Use of new rules
<b>sectors</b>	-Agricultural specialisation -New sectors	- Improvement in markets access to developed countries	-New sectors	-Market access in agriculture -Financial services
<b>Import Sub.</b>	<b>Regional</b>	<b>Multilateral</b>	<b>Regional</b>	<b>Multilateral</b>
<b>global</b>	-FTA -Non tariff barriers	-Unilateral opening -Regulated prices	- Common Trade Policy: CET; CU's deepening (other public policies); tariff income CET	- Use of new rules -Services liberalisation
<b>sectors</b>	-Transport - Sugar	-Textile, clothing -Intellectual property	- Capital goods - Computation	-Computation and telecommunications -Intellectual property

**Source:** own elaboration based in public and private sector interviews.

### **3.4 New issues: levelling the playing field vs. specialising in trade agenda issues.**

#### **3.4.1 Some basic concepts**

Social dumping and the environmental dumping are two new terms that have been incorporated in the specialised language in international negotiation. They refer to the fact that the quick globalisation of international markets makes for different production conditions, normative and institutional structures matter in trade sources and specialisation. On the social level, it is common the reference to labour norms and their influence on non-qualified labour price and indirectly on the price of those goods intensive in the use of this factor of production. On the environmental level, it is common the reference to asymmetric incorporation of the environmental costs, according to the different rules in force. These two problems do not exhaust these examples, but they allow to show the variety of things that can influence international trade flows. In an enumerative way, we could add to environment and labour standards issues those related to competitive policies and anti-corruption policies among others.

The word dumping refers to a competitive practice considered as disloyal, which implies selling at prices lower than costs, as a way to erode a strategic opponent's position. Dumping verification legitimates the application of corrective measures to compensate the damage that the practice caused. The generalisation of the concept to this new context (social and environmental issues) implicitly transfers two considerations to it: judgement about the practice and legitimisation of retaliation actions when those phenomena were verified.

The "built in agenda" includes many of these new issues in the multilateral agenda. This issue belong to a class of problems that can be analysed using a common global approach. This view is shared both by those who have an active position in the negotiation in this subject, and by those who observe the process with more distance and suspicion. On the one hand the hegemonic position in the industrialised countries is that it is necessary to "level the game field". It refers to gradually approaching a process of increasing depth in the harmonisation of those rules and norms that affect the economies' international specialisation ( SELA (1997)). The alternative position has a defensive root and is not clearly identified with any country, although many developing economies support it. These economies are a priori supposed to be more imperfect in institutional and normative terms, so it is supposed that the incorporation of these issues will imply the potentiality of a new protectionism which finally will damage those relatively less developed economies. There are many examples today in international trade which illustrate this tendency, at least in terms of unilateral policies of the industrialised countries.

#### **3.4.2 "Politically correct" arguments in favour of light harmonisation**

As is known from International Trade Theory, exchange generates an arbitrage in the goods and service markets, and also in the markets of the productive

factors, which are internationally mobile. This arbitrage implies a productive factor price equalisation process, including those, which are non-tradable.

Rodrik (1997), in a recent book, where he takes notice of some of the globalisation process tightness, stresses that trade also generates an arbitrage process in domestic norms and institutions. Not directly as happens with tradable goods and services, but indirectly through the increase in the cost of keeping a certain domestic social arrangement different from the one in force in the partner economies. This arbitrage process is one of the weaknesses of the globalisation process. There exists a commitment between favouring freedom in trade and the capacity of the national states to keep the social domestic arrangements. It is interesting analysing Rodrik's position about the need to allow for a certain levelling in the game field, and simultaneously disapproving the use of protectionism policies to reach a certain degree of harmonisation between the countries' norms and institutions.

Trade takes place because there exist benefits from trade, in this sense both income and aggregate welfare increase. Trade's effect can be linked to the technical progress effect. But trade's distributive effects can't be neglected, it is mentioned that under traditional assumptions for each net profit of one unit of income, five units change hands in the economy when a barrier to trade is eliminated. These numbers show the distributive phenomenon's magnitude in relation with the net benefits from trade.

Rodrik's argument is based on the fact that it is not always possible to establish a system to efficiently compensate losers with the profits of those whose benefited from trade, and that this is the reason for the opposition to trade opening policies. When somebody loses, he is socially more accepted when these losses take place within the in force social contract, but it lacks legitimacy when it takes place outside it. Rodrik's point is to relate this fact with the globalisation process. From now on this work tries to find out what happens when trade flows are based on institutional or normative rules which infringe the domestic norms in force. The use of child labour to produce export goods is a well known example used to justify the application of restrictions by the importer country. The same kind of argument can be applied to a variety of situations which involve differences in social security systems, environmental norms, internal tolerance to corruption and so on.

Rodrik uses the European example to point out that the problem is not a new one. During the European countries' integration, the discussion on the social policies and programmes was about the harmonisation versus rule competition debate. Finally, in this interesting work, no concluding empirical evidence is given about the importance of the differences in the domestic institutional agreements as origins of trade flows.

### **3.4.3 Arguments for a negotiating position of the developing countries**

The arguments stated in favour of a certain degree of levelling in the game field are clear in their formulation and simultaneously inspire an identification with

its objectives: not to erode the established social contracts, which they want to preserve, in favour of institutional and normative arrangements which are considered socially inferior (child labour, environmental damage, private and public corruption and so on). The implied arbitrage tendency of trade would necessarily lead to a step back in this subject, being the origin of weaknesses in the globalisation process and imposing it not too far limits.

Nevertheless, the position previously summarised is misleading and unilateral, it only reflects the industrialised economies' point of view. It can also have a perverse effect in relation with its objective, specially if the developing countries' interests are considered, that means if it tries to improve the economic and social development of the more delayed regions of the world.

This is a complex issue because it limits and restricts the trade agenda to those issues, which appeal to a strong identification with disapproved social facts according to the values of modern democratic societies. In this sense, the problem is about discussing the pertinence of using restrictive trade policy measures to influence these kind of phenomena. In other words, what is discussed is the World Trade Organisation's capacity as a multilateral forum to deal with and act on these new affairs.

There are three groups of reasons that allow argument in the previous direction. The first argument is based on discussing the efficiency and capacity to control what we want to control, through trade policy instruments, and without being victims of a protectionism mimicry phenomenon. In the second place, it is about asking ourselves about the social tightness observed in the industrialised economies as a consequence of the globalisation process: how far are they explained by normative and institutional heterogeneity, with the implied effect of harmonising back to the bottom?. In the third place, from the developing countries' point of view, it is licit to ask if facing growing problems in international markets access because of being badly endowed in institutional and normative aspects is a sufficient incentive to modify the social and economic development path. It is interesting to analyse more deeply each one of these questions.

First of all it is necessary to point out that protectionist interests have reasons to keep in action both in the industrialised and in the non-industrialised economies. As always, this is influenced by distributive reasons within each economy and also between economies. Trade policies influence in a drastic way income distribution, so they align in a different way the diverse social and economic sectors involved. These sectors will try to appeal to socially acceptable arguments to be successful in their protectionist claims.

In this sense it is not necessary to be too distrustful to expect the different interests affected by liberalisation to know how to shield themselves behind the deep harmonisation world, to find multiple places to rebuild trade barriers. Many of the good economic literature in the line of the new trade models, which extended the perspective to analyse the modern specialisation phenomenon, has its normative correlation in what was called the strategic trade policy of the 80's. This generated a euphoria about industrial concentration and competitiveness policies, and leads to an answer from one of its first exponents, who had to remind everybody that free trade was not out of fashion as a good policy to

recommend for the economists (Krugman (1987)). Although there can be cases where protectionism could be a good policy to apply considering a country's unilateral interests, it was not advisable to apply it, both for information, retaliation and prisoner's dilemma reasons and for the logic of the economic policy which is generated. There exist many examples in the international economy about the convergence between environmental and/or labour and protectionism interests, so it is natural to extend the argument to the case that we are analysing. A good example of interesting cases for the region can be found in Fischer (1997).

In second place, Rodrik in his book stresses tightness reasons in the industrialised countries which can not be solved by the levelling of the game field, but are related to the specific nature of the globalisation process in this development stage of the international economy.

The starting point is the fact that a non qualified labour force, although being economically scarce in the industrialised economies, is still politically abundant, so globalisation has a great impact on those who only are endowed with labour. This economic factor, both for being relatively scarce and for the changes in the labour market (increase in the price elasticity of labour demand related to the higher substitution of this factor that globalisation implies) is, without any doubt, the most damaged by globalisation. In this sense, the problem is how to design compensatory and social security systems to influence this phenomenon without distorting the productive relocation incentives that specialisation implies. But this relevant point belongs to another discussion, which refers to the state's size and role in open economies.

Finally and in third place there is the developing countries' point of view. Their major needs are economic growth and social development. It is certainly tautological to state that these economies have weak and imperfect institutions and norms, because these are just another manifestation of their social and economic development level. The industrialised economies could improve their social systems because they developed their economic systems, in a development process which implied institutional and normative changes, jointly with the economic growth. In this sense, what the multilateral agreements can give to the developing economies is better access conditions to the industrialised countries' markets, so that they can reap the profits from more intensive trade relations which favour higher economic development. On the contrary, the inclusion of new topics in the multilateral trade agenda can give international legitimacy to aggressive unilateralism, which the industrialised economies apply on the grounds of non trade arguments, to defend small organised interests or to modify the terms of trade in their favour and against the developing economies which are relatively abundant in natural resources and/or non-qualified labour. From this point of view, thinking that the developing countries' problem can be solved by restrictive trade measures which sanction normative practices considered incorrect is similar to thinking that it is possible to solve the poverty problem by imposing a tax on the poor.

## 4 Annex A: List of interviews with private and public actors (cronological order)

- 1. Darío Sarachaga- Asesor del Ministro de Economía en Política Comercial. Economista asesor del sector público y privado.
- 2. Juan Manuel Fernandez- Director de Política Comercial de la Dirección de Comercio Exterior. Economista negociador del Uruguay en el MERCOSUR (Grupo Mercado, Comisión de Comercio) y en el ALCA.
- 3. Daniel Vaz- Director de Investigaciones Económicas del Banco Central del Uruguay. Economista miembro del Grupo Mercado Común.
- 4. Juan Manuel Quijano- Asesor Económico de la Cámara de Industrias del Uruguay. Economista, asesor del sector privado, ex director del Instituto de Economía.
- 5. Gustavo Vanerio- Director de Organismos Internacional de la Dirección de Asuntos Económicos de la Cancillería Abogado, Ministro Embajador , negociador por el Uruguay durante la Ronda Uruguay del GATT.
- 6. Jorge Bardier- Vice Presidente de la Comisión de Comercio Exterior de la Cámara de Industrias del Uruguay. Empresario del ramo de la metalmecánica.
- 7. Ernesto Medina- Asesor de Empresas Privadas Manufactureras. Economista, ex funcionario de la Dirección de Industrias, y actual asesor en el Ministerio de Economía.
- 8. Julio Franco- Asesor de Empresas Privadas en el sector textil y de la vestimenta. Contador, asesor de la Cámara Mercantil de Productos del País. Ex Presidente de la Unión de Exportadores del Uruguay.
- 9. Juan Manuel Rodríguez- Asesor económico de los trabajadores. Economista, Director del Programa de Relaciones Laborales de la UCUDAL. Miembro de la Comisión de Integración del PIT-CNT.
- 10. Isidoro Hodara- Profesor de Comercio Internacional ORT. Economista, asesor de empresas privadas (industria de la vestimenta) y del Gobierno. Ex Director de Comercio Exterior.
- 11. Teresa Aishemberg- Secretaria General de la Unión de Exportadores del Uruguay
- 12. Ricardo Gonzalez, Director de Organismos Internacionales del Ministerio de Relaciones Exteriores
- 13. Joaquín Oliveras, Consultor de la Asesoría de Política Comercial del Ministerio de Economía y Finanzas.



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