ANALELE ŞTIINŢIFICE ALE UNIVERSITĂŢII „ALEXANDRU IOAN CUZA" DIN IAŞI
Tomul LV Ştiinţe Economice 2008

INTERNATIONAL NEGOCIATIONS AND TRADE POLICY. THE CASE OF ROMANIA

Alina HAGIU*, Mădălina NEACŞU**

Abstract

Globalization is a reality of the contemporary world. It has among others, an important economic dimension given by: the extension of the international economic trade and economic cooperation; the creation of some good and services global markets; the creation of some global power centers; the apparition and the development of some forms of economic integration.

The globalization process which increased the counties dependence of the international trade is accelerated by the mutations which took place in the majority of countries. The communism collapse conduced to the gradual adopting of the policies orientated toward the market in the majority of countries in which the production and the exterior trade were controlled by the state. Those countries, which in the past were doing trade only with each other, today do more and more trade on a worldly base. For the regulation of the international trade and the development of a loyal competition were constituted international economic organizations.

The results until now show that for some countries or economic entities, the globalization process was benefic and for others had negative consequences. For Romania this period of transition, the extension of international economic relationships is a major subject.

Key words: international negotiations, trade policy, international economic organizations
JEL classification: F13 - Trade Policy; International Trade Organizations

1. Introduction

It's difficult to devise trade policies that raise national welfare, and trade policy is often dominated by interest group policies. "Horror stories" of trade policies that produce costs that greatly exceed any conceivable benefits abound; it is easy to be highly cynical about the practical side of trade theory. Yet, in fact, from the mid-1930s until about 1980 many advanced countries gradually removed tariffs and some other barriers to trade, and by doing so, aided a rapid increase in international integration. Most economists believe progressive trade liberalization was highly beneficial. How was this removal of tariffs

* Alina HAGIU (alinahagiu@yahoo.com) is assistant, PhD student of Academy of Economic Studies, Bucharest, Faculty of Economics. His research interests include: competitiveness, business environment, international trade, and international negotiations. His teaching interests include: International Finances, International Economic Organizations, Microeconomics, and Macroeconomics.

** Mădălina NEACŞU (madanico81@yahoo.com) is assistant, PhD student of Academy of Economic Studies, Bucharest, Faculty of Economics. His research interests include: national and international labor market, flexi security, social policies, and unemployment. His teaching interests include: European Economy, Microeconomics, and Macroeconomics.

politically possible? At least part of the answer is that the great post war liberalization of trade was achieved trough international negotiations. That is, governments agreed to engage in mutual tariff reduction. These agreements linked reduced protection for each country's import competing industries to reduced protection by other countries against that country's export industries. Such a linkage helps to offset some of the political difficulties that would otherwise prevent countries from adopting good trade policies.

2. Brief history of international trade agreements

Multilateral negotiations began at the end of the World War II. Then it was thought that such negotiations would take place under the auspices of a proposed body called the International Trade Organization (ITO). In 1947, unwilling to wait until the ITO was in place, a group of 23 countries began trade negotiations under a provisional set of rules that became known as the General Agreement on Tariffs and Trade (GATT. Because it ran into severe political oppositions, the ITO was never established.

Officially, the GATT wasn't an organization but an agreement, and the participating countries weren't members but contracting parties. In 1995, was established the World Trade Organization (WTO), and so was finally created the formal organization envisaged 50 years earlier. However, the GATT rules remain in force, and the basic logic of the system remains the same. The principal ratchet in the system is the process of binding. When a tariff rate is "bound", the country imposing the tariffs agrees to not raise the rate in future. At present, about three quarters of tariff rates in developing counties are bound, and almost all tariffs rates in developed countries.

The GATT-WTO system generally tries, in addition to binding tariffs, to prevent non tariff interventions in trade. Export subsidies are not allowed, with one big exception: back at the GATT's inception the United States insisted on loophole for agricultural exports, which has since been exploited by the European Union. Most of the actual cost of protection in the United States comes from import quotas. The GATT-WTO system made often successful efforts to remove such quotas or to convert them in tariffs. New import quota are generally forbidden except as temporary measures to deal with "market disruption", an undefined phrase usually interpreted to mean surges of imports that threaten to put domestic sector suddenly out of business. [Bossche, 2005, 90]

The lever used to make forward progress in somewhat stylized process known as a trade round, in which a large group of countries get together to negotiate a set of tariff reductions and other measures to liberalize trade. Eight trade rounds have been completed since 1947, the last of which – the Uruguay Round completed in 1994 – established the WTO.

The first five trade rounds of GATT took the form of parallel bilateral negotiations, where each country negotiates pair wise with a number of countries at once.

The sixth multilateral trade agreement, known as the Kennedy Round, was completed in 1967. This agreement involved an across-the-board 50% reduction in tariffs by the major industrial countries, except for specified industries whose tariffs were left unchanged. At final, the Kennedy Round reduced average tariffs by about 35%.

The Tokyo Round completed in 1979 reduced tariffs by a formula more complex than the Kennedy Round. There were established new codes in an effort to control the proliferation of non tariff barriers.

In 1994 was completed the eight round, the Uruguay Round. The end results of this round are not easy to summarize, but however the most important results may be grouped under two headings, administrative reforms and trade liberalization.

In 2001, a meeting in Doha inaugurated the ninth round. The round slow progress has been marked by disagreements between developed and developing counties over agricultural protection.

The World Trade Organization's Ministerial Conference in Doha resulted in some far-reaching decisions on the future development of the WTO [Panizzon, 2006, 142-145]:

- Launch a new round of trade negotiations - the Doha Development Agenda (DDA) - comprising both further trade liberalization and new rule-making, underpinned by commitments to strengthen substantially assistance to developing countries;
- Help developing countries implement the existing WTO agreements;
- Interpret the TRIPS (Trade Related Aspects of Intellectual Property Rights) Agreement in a manner that ensures Members' rights under TRIPS to take actions to protect public health.

Unlike the previous three WTO ministerial meetings in Seattle, Doha, and Cancun, the 2005 WTO Hong Kong ministerial did not fold in a chaos of street riots; it did not drag past deadline to a strained conclusion with many delegations already on their planes home; and it did not collapse in a flurry of finger pointing and blame. There, however, the relative success largely ends, for the text agreed in Hong Kong was a lost opportunity to make trade fairer for poor people around the world. The agreement reflects rich country interests far more than those of developing countries.

Developing countries in Hong Kong continued to consolidate into a number of different blocs, thereby increasing their voice in the negotiations. Hong Kong saw the different groups come together to form a loose alliance called the G110 to put pressure on the EU and USA to reform their agriculture regimes. This was partly in response to the rich countries' attempts to play developing countries off against one another.

In agriculture, the bulk of the work remains to be done, notably in disciplining rich co-untry domestic subsidies, which lead to dumping and remain largely untouched.

The final ministerial declaration contained some minor gains on agriculture, such as setting a 2013 end date for export subsidies, and providing developing countries with extra flexibility to protect their small farmers. There was some progress on preventing the abuse of food aid as a disguised form of dumping, but on cotton, the steps agreed fell short even of those required by the cotton panel ruling against the USA.

Developing countries successfully fended off some of the attempts to force open their markets to Northern industrial and service sectors. However, even the toned-down text on non-agricultural market access (NAMA) and services are inimical to development.

The offer of duty-free, quota-free market access to the poorest countries contains sufficient loopholes to rob the agreement of almost all value. An 'aid for trade' deal was agreed consisting largely of recycled money, and there was no progress on other "development issues".

Other major issues were left for further negotiation to be completed by the end of 2006. The July 2006 talks in Geneva failed to reach an agreement about reducing farming subsidies and lowering import taxes, and continuation of the negotiations will take months to resume. In June 2007, negotiations within the Doha round broke down at a conference in Potsdam, as a major impasse occurred between the US, the EU, India and Brazil. The main disagreement was over opening up agricultural and industrial markets in various countries and also how to cut rich nation farm subsidies.

The most international trade agreements involved a nondiscriminatory reduction in tariff rates. Such nondiscrimination is normal in most tariffs. All countries granted Most Favored Nation (MFN) status pays the same rates. Tariffs reduction under the GATT always – with one important exception – made on an MFN basis. There are however, some important cases in which nations establish preferential trading agreements under which the tariffs they apply to each other's products are lower than the rates on the same goods coming from other countries. The GATT generally prohibits such agreements but makes a rather strange exception: it is acceptable if countries X and Y agree to have zero tariffs on each other's products, but is against the rules for country Z to have lower tariffs on imports from country X. That is, the GATT forbids preferential trading agreements in general, but allows them if they lead to free trade between the agreeing countries.

In general, two or more countries agreeing to establish free trade can do so in one of two ways. They can establish a free trade area, in which each country's goods can be shipped to the other without tariffs, but in which the counties set tariffs against the outside world independently. Or they can establish a custom union, in which the counties must agree on tariff rates.

3. Romania's membership to WTO

Romania was a founding member of the WTO in 1995. All tariffs are bound at ceiling rates, and Romania is eliminating tariffs on products covered by the information technology agreement (ITA). Adding to its Uruguay Round commitments on services, Romania is a party to the WTO Agreements on Financial Services and Basic Telecommunication Services. Romania actively participates in the WTO, regularly notifying Members of policy developments. In particular, standards for intellectual property protection and their enforcement were notified in advance of 2000, when Romania's transitional arrangements end, and reviewed by the WTO Council for the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Romania also concluded free-trade agreements with the European Communities, EFTA, CEFTA, Moldova and Turkey. For the future, Romania's paramount national goal is to join the European Union (EU), its most important trading partner. [Ghibutiu, 2004, 14-19]

The basic reform of the trade regime was in place at the time of Romania's first Review in December 1992: the end of the State's monopoly on trade, and the use of the customs tariff as the main instrument of commercial policy. During 1997-98, Romania ended the practice, which had intensified in 1995-96, of temporary tariff exemptions subject to quotas; this practice had been queried at the first Review. All remaining quantitative restrictions on exports were eliminated, replaced with automatic licensing for statistical purposes. No anti-dumping, countervailing or safeguard measures have been taken under the WTO Agreements during the period under review.

At the border, Romania levies customs duties, an import surcharge (4% in 1999), a customs commission (0.5%), specific or ad valorem excise taxes on certain products (including tobacco products, alcoholic beverages, coffee, and automobiles), on top of which a basic VAT rate of 22% applies. Due to the growing importance of indirect taxes in government revenue (38% in 1998), priority is given to the collection of taxes at the border. On excisable products, in particular, relatively high levels of duties and taxes have contributed to smuggling, customs fraud and allegations of improper conduct by customs personnel. In response, border controls have been strengthened, although importers may find the resulting customs procedures complex, cumbersome or time-consuming.

The new Customs Code of 1997 unified the regime for importers and exporters in a single framework, and approximated the EU's Customs Code. The principles of customs valuation are largely the same. Comparison values were used until 1998 for products subject to excise taxes, but were replaced in 1999 with a database of prices. Other features of the Code are the availability of duty-suspension regimes (with the authorization of Customs) to facilitate inward and outward processing activities; Romania also has five "free zones".

Tariff policy on industrial products has been stable. Average applied MFN rates have remained steady at 16%, well below the bound level of some 35%. Their scope of application is narrowed by the free-trade agreements with partners in the region, as well as by GSTP preferences for developing countries. Romania's free-trade agreements with the EU and EFTA require the elimination of remaining tariffs on non-agricultural imports from these origins by 2002; this is likely to lead to more intense competition on the domestic market for sensitive products such as footwear, textile and clothing products, where tariff elimination was back-loaded. On agricultural products, Romania applied in mid-1995 the levels of MFN tariff rates bound in its WTO Schedule. Reductions have been made on a temporary basis starting in 1997, and largely maintained in 1998 and 1999. These reductions brought the simple average applied MFN tariff on agricultural products down to 33.9%, compared with an average bound rate of 134.1%; if the authorities find it necessary, this gap leaves ample room for tariff increases within bindings, and may impart a certain degree of uncertainty to the tariff system.

In spite of the importance of tax collection to government revenue, a large number of laws provide local enterprises with exemptions from the payment of customs duties and taxes collected at the border. In 1999, exemptions were available under various regimes for investment (notably for in-kind contributions of equipment and vehicles), for products imported under leasing contracts and for "complex" exports (notably plants and ships). Excise tax reductions apply to tobacco products and motor vehicles produced with local content. The authorities have also periodically used a tax incentive in an effort to stimulate domestic production for export; the latest such measure, a reduction of 50% on the tax on profits from exports of goods and services, was in force in 1997, suspended in 1998, reintroduced on 1 January 1999, but suspended once again in March 1999 for budgetary reasons.

The investment regime has been open and liberal during the period under review, containing guarantees against nationalization or expropriation without sufficient compensation. Key improvements in the investment regime are external current account convertibility and the principle of equality between foreign and domestic investors, thus establishing a uniform business framework for all companies established in Romania. Foreign direct investment played only a minor role in Romania's transition between 1989 and 1996, with levels becoming more significant only in 1997 and 1998. The relatively low level of foreign direct investment to date is an obstacle to economic development, in terms of the modernization of the capital base and creation of jobs in the private sector.

Romanian companies are subject to a profit tax (basic rate of 38%), local taxes and withholding taxes, as well as employee taxes on wages (on average 23%), the latter in lieu of a personal income tax. At the same time, profit tax holidays are available, in 1999, for investment in disadvantaged regions, oil and gas exploration or designated investments of at least $50 million with a major impact on economic activity. Small and medium-sized enterprises thus carry a relatively heavier burden of taxation than large companies; reducing their tax burden and simplifying the regime would seem a priority to foster their development. Although the practice of granting investment incentives is very widespread among WTO Members, their cost-effectiveness in encouraging investment is open to question.

Since the last trade policy review, Romania's economy and society have continuously and more determinedly advanced towards a functioning market economy.

- The experience of the last few years has shown that globalisation represents not only potential benefits, but also challenges for many countries. The increasing international competition, the rise in oil prices, the uncertainties regarding exchange rates, fast growing economies of emerging Asia are some of the elements that characterize the global economic environment. Despite all these international developments Romania managed to enforce a liberal trade policy, based on the multilateral mechanisms and rules. The commercial policy decision-making process aims at transforming Romanian economy into a market economy while ensuring that producers act in a competitive business environment, focused on an active involvement in the globalisation process.
- One of the most significant lessons Romania has learned in the period under review is the paramount importance of assuming the responsibility of action in implementing the provisions of the international multilateral agreements. Steps taken in the capacity building area and ripping the advantages of these agreements prove the importance of institutional commitment and consistency of political decision.

4. Romania's progress regarding market economy

During the last years the Romanian economy marked an ascending trend and, accordingly, the macroeconomic background became favourable. In this respect one can mention inflation mitigation, consolidation of the National Bank of Romania's (NBR) foreign exchange reserves, economic growth, significantly strengthened banking system, relatively reduced foreign public debt, while the short-term one is acceptable. Romania focuses its efforts to complete the necessary reforms for complying with the commitments taken in the process of preparing the accession to the European Union. The economic recovery, started in 2000, continued at a sustained pace based on the acceleration of exports, domestic demand and investments. During all these years, Romania effectively correlated the strong economic growth with disinflation and the maintaining within sustainable limits of the current account and budget deficits.

Since 2000, the macroeconomic environment has improved decisively, building upon the cumulative impact of successive rounds of structural reform steps, increased openness and competition in the economy and the adoption of a more balanced and responsive policy mix. Despite a less favorable international environment, since 2001, economic growth remained robust, inflation declined steadily and external vulnerability decreased over the period. Since 1999, the unemployment rate has been fairly low and stable. [Ghibutiu, 2004, 14-19]

The authorities' commitment to achieving macroeconomic stabilisation and bringing forward structural reforms has become more enduring and consensus on the objectives of economic policy gradually emerged.

The substantial efforts for reform undertaken by the Romanian authorities over the last years were transposed today in a stable macroeconomic environment, but the reform process is still ongoing. Romania is moving towards a sustainable macroeconomic stability by deepening structural reforms.

The macro-economic policy measures applied, mostly the fiscal and monetary ones, induced changes in the contribution of demand for consumption and of the demand for investment to increase Gross Domestic Product. Based on the improvement of the business environment investment appetite developed, while foreign investment intensified, thus leading to almost a two-fold increase in the contribution of the gross fixed capital formation to the real increase in Gross Domestic Product.

Romania will continue its efforts for strengthening democracy, political and economic stability. It is the only way to become an active and successful competitor in the global economy, where competitive strengths are based on high value-added products and services, quality, innovation and entrepreneurship. Greater international competitiveness is not a goal in itself. It ensures high economic growth, which in return ensures a strong and prosperous country with high quality of life and social welfare.

Romania's external trade flows continue to be the most dynamic sector of the economy, their growth rates being higher than those of other macroeconomic indicators. Exports have been one of the main drivers of economic growth. However since 2003, domestic demand, boosted *inter alia* by growing investments, disinflation, rapid credit expansion and high real wages, gained momentum

At the conclusion of the Uruguay Round, Romania bound all tariff lines, accepted the multilateral agreements and three of the four multilateral (except for the Agreement on Public Procurement).

The rules and mechanisms of the multilateral trading system were and still are very important tools for drafting our trade policy. During the last ten years the process of examination of our notifications proved that Romania did fully observe its commitments under WTO.

The bound levels of customs duties were reduced every year according to Romania's Schedule of commitments. Furthermore, in many cases, especially due to participation to regional agreements, the applied levels were below the bound levels.

Pursuing the principle of an open economy, Romania has always been a supporter of the liberalization process within the WTO. Thus, Romania accepted to eliminate the customs duties on ITA products, being party to the Information Technology Agreement.

Also, being aware of the potential development of the services sector, Romania took part in the process leading to the conclusion of Protocol IV and V of GATS (basic telecom and financial services) and submitted lists of specific commitments.

As regards trade defense measures, during the period under review, Romania notified that no safeguard, anti-dumping or countervailing measure was taken.

Romania fully observed its commitments in subsidizing the agricultural sector, the domestic support granted to farmers being within *de minimum* level. Export subsidies were granted only to a small part of cereals exports.

5. Conclusions

In the past 10 years, the process of examination of the Romanian trade policy proved that Romania entirely respected the engagements assumed toward the World Trade Organization.

Presently, Romania remains an active member of World Trade Organization. Since the last trade policy review, Romania's delegation participated actively to the ministerial conferences from Doha, Cancun and Hong Kong.

Romania's firmly engagement toward the multilateral trade system was emphasized by the active role these played in coordinating the different commissions. Following the principle of an open economy, Romania always sustained the process of liberalization of the World Trade Organization.

Examination of national trade policies represents an extremely important activity in the frame of World Trade Organization. This is centered on the policy and economic and trade practices of each member in the areas covered by the multilateral agreements which constitutes the system of World Trade Organization rules and disciplines.

References

Berinde, M., Regionalism and multilateralism in international trade, Percomex, 2001.

Bhagwati, J., "From Seattle to Hong Kong", *Foreign Affairs*, 2005.

Bhagwati, J., "Reshaping the WTO", Far Eastern Economic Review, 2005.

Blackhurst, R. "Reforming WTO Decision Making: Lessons from Singapore and Seattle", *Center for Research on Economic Development and Policy Reform* (Working Paper No 63), 2000.

Bossche, P., *The Origins of the WTO", The Law and Policy of the World Trade Organization: Text, Cases and Materials*, Cambridge University Press, 2005.

Cline, R., *Trade Policy and Global Poverty*, Peterson Institute, 2004.

Dragan, G., "The international trade fundaments", Academy of Economic Studies, 2004.

Farah, P., "Five Years of China WTO Membership. EU and US Perspectives about China's Compliance with Transparency Commitments and the Transitional Review Mechanism", *Legal Issues of Economic Integration*, 2006.

Footer, M.E., *Organization and Institutional Aspects, An Institutional and Normative Analysis of the World Trade Organization*, Martinus Nijhoff Publishers, 2006.

Gallagher, P., *The GATT Becomes the WTO, 1995, The First Ten Years of the WTO: 1995-2005*, Cambridge University Press, 2005.

Georgescu, M., *The transition from GATT to WTO*, Academy of Economic Studies, 1997.

Ghibutiu, A., "World Trade Organization and the globalization", *Economic Tribune*, 2004.

Lowenfeld, A.F., *Dispute Settlement in the WTO*, International Economic Law. Oxford University Press, 2002.

Martin, W.; Dwyer, A.S., *The Uruguay Round: Widening and Deepening the World Trading System*, World Bank Publications, 1995.

Moreau Defarges, P., *European institutions*, Amarcord, 2002.

Moreau Defarges, P., *Contemporary international organizations*, European Institute, 1998.

Palmeter, N.D.; Winters, A.L., *Overview, Dispute Settlement in the World Trade Organization: Practice and Procedure*, Cambridge University Press, 2004.

Panizzon, M., *Good Faith Non-interpretation by the WTO Apellate Body*, Good Faith in the Jurisprudence of the WTO. Hart Publishing, 2006.

Pintilie, V., *World Trade Organization System and it's implies for the international business environment*, Academy of Economic Studies, 2006.

Pîrvu, D., Clipici E., Hagiu A., *The international financial-monetary activity in the contemporary economy*, Sitech Publishing House, 2008.

Suta, N.; Dobrota, G., "The European Union and the World Trade Organization", Academy of Economic Studies, 2002.

www.wto.org

www.gatt.org