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Answer to Question No. 01

The European Union (EU) is a unique economic and political union between 27 European countries.

The predecessor of the EU was created in the aftermath of the Second World War. The first steps were to foster economic cooperation: the idea being that countries that trade with one another become economically interdependent and so more likely to avoid conflict. The result was the European Economic Community, created in 1958 with the initial aim of increasing economic cooperation between six countries: Belgium, Germany, France, Italy, Luxembourg and the Netherlands.

Since then, 22 more countries joined (and the United Kingdom left the EU in 2020) and a huge single market (also known as the 'internal' market) has been created and continues to develop towards its full potential.

What began as a purely economic union has evolved into an organization spanning many different policy areas, from climate, environment and health to external relations and security, justice and migration. A name change from the European Economic Community to the European Union in 1993 reflected this.

The EU has delivered more than half a century of peace, stability and prosperity, helped raise living standards and launched a single European currency: the euro. More than 340 million EU citizens in 19 countries now use it as their currency and enjoy its benefits.

Thanks to the abolition of border controls between EU countries, people can travel freely throughout most of the continent. And it has become much easier to live and work in another country in Europe. All EU citizens have the right and freedom to choose in which EU country they want to study, work or retire. Every EU country must treat EU citizens in exactly the same way as its own citizens when it comes to matters of employment, social security and tax.

The EU's main economic engine is the single market. It enables most goods, services, money and people to move freely. The EU aims to develop this huge resource to other areas like energy, knowledge and capital markets to ensure that Europeans can draw the maximum benefit from it.

The EU remains focused on making its governing institutions more transparent and democratic. Decisions are taken as openly as possible and as closely as possible to the citizen. More powers have been given to the directly elected European Parliament, while national parliaments play a greater role, working alongside the European institutions.

The EU is governed by the principle of representative democracy, with citizens directly represented at EU level in the European Parliament and Member States represented in the European Council and the Council of the EU.

European citizens are encouraged to contribute to the democratic life of the EU by giving their views on EU policies during their development or by suggesting improvements to existing laws and policies. The European Citizens' Initiative empowers citizens to have a greater say on EU policies that affect their lives. Citizens can also submit complaints and enquiries concerning the application of EU law.

As enshrined in the Treaty on European Union, 'the Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail'. These values are an integral part of the European way of life.

Human dignity must be respected, protected and constitutes the real basis of fundamental rights.

Being a European citizen also means enjoying political rights. Every adult EU citizen has the right to stand as a candidate and to vote in elections to the European Parliament, whether in their country of residence or country of origin.

Equality is about equal rights for all citizens before the law. The principle of equality between women and men underpins all European policies and is the basis for European integration. It applies in all areas.

The EU is based on the rule of law. Everything the EU does is founded on treaties, which are voluntarily and democratically agreed by its member countries. Law and justice are upheld by an independent judiciary. The EU countries have given final jurisdiction in matters of EU law to the European Court of Justice, whose judgments have to be respected by all.

Human rights are protected by the EU Charter of Fundamental Rights. These cover the right to be free from discrimination on the basis of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation, the right to the protection of your personal data, and the right to get access to justice.

In 2012, the EU was awarded the Nobel Peace Prize for advancing the causes of peace, reconciliation, democracy and human rights in Europe.

Evolution of the European Union:

The citizens of Europe today face unprecedented challenges. The dramatic achievements of previous European Union initiatives - the growth of the European Community to encompass all of Western Europe, the thorough integration of European economies, and most recently the launch of the common currency - have validated the faith of all those leaders who, over the last 50 years, worked to foster common aims of deeper and closer union. The very success of their efforts, however, has forced Europe to address new and even more daunting questions.

The present state of the European Union must be seen in historical perspective. Over the past 50 years, at first six, then nine, then 12 and nowadays 15 nations have embarked on a political journey without any parallels, relinquishing and sharing sovereignty, joined together out of shared political interests and a common civilization. They joined voluntarily rather than by a violent conqueror. Viewed through the prism of time, the success of the EU in establishing structures and institutions is remarkable and unique in the history of mankind.

Today, however, the problems facing Europe are grave. National leaders seem to have lost their drive, they appear to lack conceptual energy in regard of the future of the EU. The expansion of the EU to the east, which will raise the number of member states to more than 25 over the next decade, raises issues of governance with which the current institutions of the EU are incapable of dealing. The recently established Convention may succeed in reforming the structure of power in Europe, but the outcome of that process is far from certain. Demographic plus climatic changes are looming large. They will result in geopolitical changes, which will challenge Europe to face the outside world united, or to gradually lose its own autonomy.

The several points in this report may appear as if there is already consensus about them between national governments. In fact the EU is far from that. One might even call the present situation a standstill-crisis.

Reforming the Institutions:

The institutions of the EU have been modified piecemeal wise over the years. But the structures which exist today were meant for six states only. When faced with 15, those institutions have gradually declined both in operational efficiency and in democratic legitimacy. Both these problems will be exacerbated by the upcoming enlargement. Wholesale reform of the EU structure is a vital necessity.

Many hopes are now pinned on the general Convention of leaders currently meeting under the direction of Mr. Valery Giscard d'Estaing. Everyone recognizes the absolute necessity of this effort's success, and it is to be hoped that the Convention recognizes the need for fundamental reform. The Convention should concentrate on the most basic and high-level ideas; it is vital that it not become bogged down in the narrow or specific immediate difficulties. A unitary, solid structure would be a vastly more desirable outcome than a patchwork design. Whenever possible, the right of a single state to veto European policy should be abolished: meaningful union implies the agreement to accede to the decision of the majority, even when that decision is controversial.

No democratic polity can succeed without the support of its citizenry, and European enthusiasm for the institutions of the European Union has steadily waned. Europeans find themselves unable to understand the Byzantine treaties and regulations governing the Union's activities, and alienated by its highly centralized and professionalized network of bureaucrats. Discontent is demonstrated by low voter turnout in elections to the European parliament, in the results of European referenda, and in popular unrest with the accretion of power in a non-transparent Brussels. This feeling of disengagement must be immediately addressed by the European leadership.

The European Parliament is a clear case calling out for empowerment. The Parliament should be intimately involved in all legislation, and in the selection of the Commission. Direct election of the Commission's President by the Parliament should be considered, along with other means to strengthen the democratic mandate of the Parliament itself.

The European Council system itself is one of the institutions most in need of reform. The proliferation of Councils has decentralized decision-making, and should be reversed. Most importantly, the rotation of the Presidency every six months should be amended so as to allow for better continuity of leadership.

The fiction that all members of the EU are equal is itself a structural failing, and will become more glaring with the addition of transition states from the former Soviet bloc. Reform proposals should take account of political and economic reality - a stable structure will emerge best from institutions, which adequately represent the genuine, legitimate interests of the Union's dominant members.

Similarly, differentiation between states with different goals - variable geometry - should be encouraged as a means of fostering flexibility and realism within the European system. Long transition periods for new entrants and new initiatives, opt-outs for particular states, enhanced cooperation on certain issues and other means of customizing the application of European policy to meet the needs of specific situations should be viewed not as derogation from a European ideal, but rather as beneficial and practical means of furthering the goal of European integration.

Europe should be united, but not uniform. Europe needs simplicity and efficiency, and the EU should not confuse lack of harmonization with a lack of effective integration. As the EU grows and matures, it should resist the temptation to regulate and legislate every issue. Those issues not directly related to the Union's core competencies - development of the common market, expression of shared foreign policy objectives, promotion of justice and human rights - should be left to the individual states. Subsidiary should be actively pursued, and European leaders should use the current period of institutional reappraisal to exercise a tactical retreat from EU involvement in issues more properly relegated to the various nations.

Finally, it should be recognized that institutional reform will take Europe only so far. In many cases, institutions can facilitate the development of good policies. Well-designed structures, however, are not a substitute for properly crafted laws, properly applied regulations and skilled political leadership.

Expansion to the East:

The expansion of the European Union will begin within a few years, and the EU is not yet ready. Ultimately, the EU will include more than 25 nations.

Enlargement, if pursued without dramatic institutional reform, will challenge the decision-making capability of the entire EU structure. While expansion will pose severe economic challenges, the European Union has long ago demonstrated its ability to surmount purely economic problems. The more difficult questions will be political and psychological. Political paralysis and bureaucratic drift would be a disastrous conclusion to this ambitious project, and can be avoided only by long-term thinking and preemptive action.

Turkey represents a special case, and one which will require special delicacy by European leaders. History, culture, religion, and geography pose obstacles to the integration of Turkey into the fabric of the Union. Yet it cannot be denied that Turkey is not only an eager applicant but has been officially added to the list of candidates - though at the very end of the list. It should be made clear that the distinction between membership and non-membership is not black-and-white. There should be grades and degrees of participation in EU activities, and some levels of integration may be more appropriate for certain countries, at certain times, than others. This concept should be asserted with regard to all the countries on the EU's borders: it would be extremely unwise to paint the distinction between members and non-members in stark and nuanced terms.

Enlargement of Europe is a priority, a duty, and an ideal. The process of accession will transform Europe fundamentally, and some aspects of this adjustment are completely unforeseeable. What the EU faces is not merely the addition of several new states to its roster of members, but also deep going changes in the mentality of an entire region of the world. The extent and depth of the upcoming changes, for the current member nations as for the newcomers, must not be underestimated.

Supporting the Monetary Union:

The successful launch of the Euro has been a symbol for the accomplishments of European unification. It has astonished skeptics of EU integration. It leaves Europe with the challenge of deepening the integration of other aspects of the financial system. The financial architecture of the EU is not yet complete.

The Euro has replaced its predecessor currencies with astonishing rapidity. Euro-denominated bond issues already dominate outstanding issues in national currencies. The Euro is more widely used for bank loans than the combination of all its constituent currencies together, though it does not yet have as large a market share as the US dollar. The Euro is the global leader as the reference currency for OTC interest rate derivatives. It does not yet compete with the dollar as a reserve currency, but this is expected to change gradually. It is, in fact, highly desirable that shifts in asset holdings be progressive, not dramatic.

At this point, the major challenge for the EU is to remove the remaining barriers to the integration of European financial markets. Complete integration will lead to lower prices for borrowers, greater efficiency, and higher growth across the Euro-zone. The European money-markets have already achieved full integration, as have fixed-income markets and payments and clearing systems. It should be noted that many of these integration measures came about only as unforeseen by-products of the adoption of the Euro. Some issues, however, remain.

The Stability and Growth Pact which sets limits for the budgetary deficits of Euroland - Countries remains an important foundational aspect of European monetary policy. It should be recognized that maintaining the credibility of this agreement is important, and it will require political determination to objectively apply the thresholds, the surveillance procedures and, if necessary, sanctions.

Thought should be given to the stabilization of US dollar and Euro exchange rates. Extreme volatility in the dollar-Euro exchange rate has negative systemic effects, not only for Europe and the United States but also for third parties. Asia has been especially impacted by this volatility, and trade flows are hard hit by unpredictability in exchange rates.

Finally, the EU needs to be seen as competent to speak for Europe as a whole on matters of monetary and financial policy. The European Central Bank cannot represent the entirety of the financial and fiscal policy-making establishment in discussions with outside nations. A common financial policy and an institutional base for that is still absent.

Toward a Common Foreign and Security Policy:

From Asia to Africa, from the Middle East to South America, nations around the world strongly support the emergence of a stronger, more unified Europe. There currently exists the perception that the EU does too little for the international community: eloquently espousing concepts grounded in democracy, liberty, and equity, yet lacking the united political and military power necessary to put those principles into action. Today, the common foreign and security policy is more smoke than reality.

A common European foreign and security policy, centrally conceived and consistently pursued, would both counter-balance the sometimes disproportionate influence of the United States in global affairs, and present the European Union as an international actor worthy of serious partnership. World leaders would greet such a development with enthusiasm. At the start of a millennium which may well come to be dominated by the vast populations of China, India, or Brazil, alongside the powerful economies of the United States and Japan, Europe is simply too small to preserve its sovereignty and pursue its own interests unless it can be perceived abroad as a single, credible actor.

The goal of a common foreign policy is a relatively recent development in the EU's history. It should not be surprising, therefore, that the instances of European solidarity on international affairs are, more often than not, outnumbered by examples of intra-European disagreements. This discord weakens the ability of all European states to effectively pursue their interests overseas.

One of the greatest challenges facing Europe today is management of the relationship with the United States. The collapse of the Soviet Union has left the US virtually alone in terms of military, political, and economic might, transforming the world political network overnight into a unipolar system. The emergence of Europe as a major player on the international scene would be a major realignment of global politics. Though Europe would undoubtedly serve to temper American unilateralism, it should be remembered that the EU and US are fundamentally allies, brought together by historical ties, economic interests, and shared political ideals. On the world stage, amicable and beneficial competition would benefit all parties involved, including the United States.

Linked to Europe's interaction with the United States is the North-Atlantic Alliance plus NATO. This alliance has been the mainstay of trans-Atlantic security cooperation for almost half a century, and Europe will strive to maintain that special relationship. NATO has changed significantly, however, over the last decade. The fall of the Soviet Union has left NATO in search of a new enemy, and the threats of the 21st century - non-traditional conflicts, international terrorism, drug trafficking, and the proliferation of nuclear capacity and weapons of mass destruction - are not easily dealt with by NATO, which was conceived to fight a ground war in central Europe. Simultaneously, the increasingly disparate military capabilities between the United States and its European partners has led to a diminished voice for the EU within NATO councils.

Weapons of mass destruction and terrorism based in remote areas of the world cannot be countered with conscript armies tied to depots in central Europe, and the transformation from current force structures to a modern military will require a political and financial commitment which Europe has heretofore avoided. That reluctance, however, robs Europe of the ability to project abroad its legitimate interests, and does a disservice both to itself and to the world as a whole.

Concurrently with the development of military power, however, Europe will strive to further the efficacy of international law and of the U.N. The rule of law, enforced through international tribunals such as the newly inaugurated International Criminal Court, offers the world the best long-term prospect for lasting international peace. Europe should work with its allies and partners around the globe to encourage participation in these agreements and institutions.

Finally, the EU should examine its relationships in regions where its interests have traditionally been less fully represented. China should be the focus of sustained diplomatic attention. In the Middle East, the active participation of a strengthened Europe in the resolution of the Israeli-Palestinian conflict would be of tremendous benefit.

Addressing Long-Term Concerns:

The European Union is a work-in-progress. In the reporter estimate it will take at least another half century to reach maturity. This applies particularly to a joint foreign and security policy. During that time, however, the world will have changed dramatically. Europe as a whole will represent a much smaller proportion of the world's population, and the vast majority of humanity will live in material poverty. Demographic shifts will increase the pressure of immigration, and with the immigrants may come new threats - conflict, disease, and international crime.

Globalization will continue, and poses huge difficulties to the economies of all but a few developing nations. Simultaneously, the developing states all together continue to spend far more for their military than they receive in Official Development Assistance. The instability of the Third World will pose problems for Europe.

The development of information technology creates additional questions: the rise of globally dominant information networks makes it possible to disseminate ideology rapidly and internationally. Cultural war-fare should not turn the thesis of a clash of civilizations into a self-fulfilling prophecy.

Europeans share a rich cultural identity, though this identity may be more easily discerned from outside the EU than from within. Europe's civilization clearly encompasses the fields of democratic civilization, the rule of law, private entrepreneurship and market orientation, plus the welfare-state. If we look at the fields of literature, science, religion, philosophy or music, painting, sculpture and architecture, most of the European nations have over centuries contributed and do still participate in one great civilization mosaic or in one closely knitted cultural fabric that is unique in the world. By far most of the European nations have their own national language, they are cultivating their national heritage and identities. This is absolutely normal - but at the same time it is the multi-faceted obstacle to trans-national integration.

The present crisis in Europe is due to a lack of a common concept for the future shape of the EU. This crisis is a danger and as well a challenge and an opportunity. Within less than five years will the outcome become clearer. European development so far has been a story of many steps moving progressively toward major accomplishments. The European Union represents a tremendous success of skilled diplomacy and bold leadership. Future progress will depend on a similar level of leadership.

Answer to Question No. 02

Many governments can be considered pragmatic nationalists when it comes to FDI. Accordingly, their policy is shaped by a consideration of the costs and benefits of FDI. Here we explore the benefits and costs of FDI, first from the perspective of a host country and then from a perspective of the home country.

Host Country Effects: Benefits

There are three main benefits of inward FDI for a host country: the resource-transfer effect, the employment effect, and the balance of payments effect.

Resource transfer effects: Foreign direct investment can make a positive contribution to the host country's economy by supplying capital, technology, and management resources that would otherwise not be available. If such factors are scarce in a country, the FDI may boost that country's economic growth rate. Many of the MNEs by virtue of their size and financial strength, have access to financial resources not available in the host country firms. These funds may be available from internal company resources, or, because of their reputation, large MNEs may find it easier to borrow money from the capital markets than host country firm would.

Employment Effects: The beneficial employment effect claimed for FDI is that it brings jobs to the host countries that would otherwise not be created there. Direct effects arise when a foreign MNE directly employs host country's citizen

Balance of Payment: The effect FDI has on a country's balance of payment accounts is an important policy issue for most host countries. A country's balance of payment accounts keeps track of both its payment to and its receipt from other countries. Governments normally are concerned when their country is running a deficit on the current account of their balance of payments. The current account tracks the export and imports of goods and services. A current account deficit, or trade deficit as it is often called, arises when a country is importing more goods and services than it is exporting. Governments typically prefer to see a current account surplus than a deficit. The only way in which a current account deficit can be supported in the long run is by selling assets to foreigners. For instance, the persistent US current account deficit of the 1980s and 1990s was financed by a steady sale of US assets (stocks, bonds, real estate, and the whole corporations) to foreigners. Because national governments dislike seeing the assets of their country fall into foreign hands, they prefer a current account surplus. FDI can help a country achieve this goal in two ways.

FDI is a substitute for imports of goods and services, it improves the current account of the host's countries/balance of payments. Much of the FDI by Japanese automobile companies in the US and UK, for instance, substitutes fore imports from Japan. Thus, the current account of the US balance of payments has improved somewhat because many Japanese companies are now supplying the US market from production facilities in the US, as opposed deficit in Japan. For insomuch as this has reduced the need to finance a current account deficit by asset sales to foreigners, the US has benefited.

Potential benefit arises when the MNE uses a foreign subsidiary to export goods and services to other countries.

Home Country Effects: Benefits

There are also costs and benefits to the home (or source) country. Does the US economy benefit or lose from investments by having its firms invest in foreign markets? Some even go a step further to argue that FDI is not in the interest of the home country and therefore should be restricted. Others also argue that the benefits far outweigh the costs and that any restrictions would be contrary to national interests. For us to understand why people take these positions, it becomes imperative for us to look at the benefits and costs of FDI to the home (source) country.

The benefits of FDI to the home country arise from three sources.

The current account of the home country's balance of payments benefits from the inward flow of foreign earnings. FDI can also improve the current account of the home country's balance of payments if the foreign subsidiary creates demands for the home country exports of capital equipment; intermediate goods, complementary products, and the like.

Benefits to the home country from outward FDI arise from employment effects. As with the balance of payments, positive employment effects arise when the foreign subsidiary creates demand for home country exports of capital equipment, intermediate goods, complementary products, and so on.

The third point is that benefits arise when the home country MNE learns valuable skills from its exposure to foreign markets that can be transferred back to the home country. Through its exposure to a foreign market, an MNE can learn about superior management techniques and superior product and process technologies. These resources can then be transferred back to the home country's economic growth rate. For instance, one reason General Motors and Ford invested in Japanese automobile companies (GM owns part of Isuzu, and Ford owns part of Mazda) was to learn about those Japanese companies apparent superior management techniques and production processes. If GM and Ford can transfer this know-how back to US operations, the result may be a net gain for US economy.

Answer to Question No. 03

The Uruguay Round was the 8th round of multilateral trade negotiations (MTN) conducted within the framework of the General Agreement on Tariffs and Trade (GATT), spanning from 1986 to 1993 and embracing 123 countries as "contracting parties". The Round led to the creation of the World Trade Organization, with GATT remaining as an integral part of the WTO agreements. The broad mandate of the Round had been to extend GATT trade rules to areas previously exempted as too difficult to liberalize (agriculture, textiles) and increasingly important new areas previously not included (trade in services, intellectual property, investment policy trade distortions). The Round came into effect in 1995 with deadlines ending in 2000 (2004 in the case of developing country contracting parties) under the administrative direction of the newly created World Trade Organization (WTO).

The Doha Development Round was the next trade round, beginning in 2001 and still unresolved after missing its official deadline of 2005.

A set of updated documents was produced in Geneva by the office of the Director-General during July 1986 in order to prepare the way for progress to be made. As described below, the round was launched in Punta del Este, Uruguay in September 1986, followed by negotiations in Geneva, Brussels, Washington, D.C., and Tokyo.

Background:

The 1986 Ministerial Declaration identified problems including structural deficiencies, spill-over impacts of certain countries' policies on world trade GATT could not manage. To address these issues, the eighth GATT round (known as the Uruguay Round) was launched in September 1986, in Punta del Este, Uruguay. It was the biggest negotiating mandate on trade ever agreed: the talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles; all the original GATT articles were up for review.

The round was supposed to end in December 1990, but the US and EU disagreed on how to reform agricultural trade and decided to extend the talks. Finally, In November 1992, the US and EU settled most of their differences in a deal known informally as "the Blair House accord", and on 15 April 1994, the deal was signed by ministers from most of the 123 participating governments at a meeting in Marrakesh, Morocco. The agreement established the World Trade Organization, which came into being upon its entry into force on 1 January 1995, to replace the GATT system. It is widely regarded as the most profound institutional reform of the world trading system since the GATT's establishment.

The position of Developing Countries (GATT) was detailed in the book: Brazil in the Uruguay Round of the GATT: The Evolution of Brazil's Position in the Uruguay Round, with Emphasis on the Issue of Services. In this book, the polemics about the issue of services are described, as well as the opposition of Developing Countries to the so called "New Issues".

Conclusion and signature:

The 20 agreements were signed in Marrakesh—the Marrakesh Agreement—in April 1994.

Achievements:

The GATT still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations (a distinction is made between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994). The GATT 1994 is not, however, the only legally binding agreement included in the Final Act; a long list of about 60 agreements, annexes, decisions and understandings was adopted. In fact, the agreements fall into a simple structure with six main parts:

- an umbrella agreement (the Agreement Establishing the WTO);
- goods and investment (the Multilateral Agreements on Trade in Goods including the GATT 1994 and the Trade Related Investment Measures (TRIMS));
- services (General Agreement on Trade in Services (GATS));
- intellectual property (Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS));
- dispute settlement (DSU);
- reviews of governments' trade policies (TPRM).

The agreements for the two largest areas under the WTO, goods and services, share a three-part outline:

- broad principles (such as the General Agreement on Tariffs and Trade and General Agreement on Trade in Services);
- extra agreements and annexes;
- lengthy schedules (lists) of commitments made by individual countries.

One of the achievements of the Uruguay round would be the Uruguay Round Agreement on Agriculture, administered by the WTO, which brings agricultural trade more fully under the GATT. Prior to the Uruguay Round, conditions for agricultural trade were deteriorating with increasing use of subsidies, build-up of stocks, declining world prices and escalating costs of support.[14] It provides for converting quantitative restrictions to tariffs and for a phased reduction of tariffs. The agreement also imposes rules and disciplines on agricultural export subsidies, domestic subsidies, and sanitary and phytosanitary (SPS) measures through the Agreement on the Application of Sanitary and Phytosanitary Measures

Criticism:

Groups such as Oxfam have criticized the Uruguay Round for paying insufficient attention to the needs of developing countries. One aspect of this criticism is that figures very close to rich country industries—such as former Cargill executive Dan Amstutz—had a major role in the drafting of Uruguay Round language on agriculture and other matters. As with the WTO in general, non-governmental organizations (NGOs) such as Health Gap and Global Trade Watch also criticize what was negotiated in the Round on intellectual property and industrial tariffs as setting up too many constraints on policy-making and human needs. An article asserts that the developing countries' lack of experience in WTO negotiations and lack of knowledge of how the developing economies would be affected by what the industrial countries wanted in the WTO new areas; the intensified mercantilist attitude of the GATT/WTO's major power, the US; the structure of the WTO that made the GATT tradition of decision by consensus ineffective, so that a country would not preserve the status quo, were the reasons for this imbalance.

Cairns Group - interest group composed of 19 agricultural exporting nations, including Uruguay

Cultural exception - political concept arguing that culture is to be treated differently than commercial products

Doha Development Round - ongoing trade negotiation round; commenced in 2001

Golan v. Holder, a challenge to the copyright restoration provisions of the Uruguay Round Agreements Act, the implementation of the Uruguay Round agreements in the United States Code. The Act was upheld.

Tokyo Round - trade negotiation round that aimed to control non-tariff barriers and voluntary export restrictions; 1973–79

Answer to Question No. 04

Michael Porter's Diamond Model (also known as the Theory of National Competitive Advantage of Industries) is a diamond-shaped framework that focuses on explaining why certain industries within a particular nation are competitive internationally, whereas others might not. And why is it that certain companies in certain countries are capable of consistent innovation, whereas others might not? Porter argues that any company's ability to compete in the international arena is based mainly on an interrelated set of location advantages that certain industries in different nations posses, namely: Firm Strategy, Structure and Rivalry**;** Factor Conditions**;** Demand Conditions**;** and Related and Supporting Industries. If these conditions are favorable, it forces domestic companies to continuously innovate and upgrade. The competitiveness that will result from this, is helpful and even necessary when going internationally and battling the world's largest competitors. This article will explain the four main components and include two components that are often included in this model: the role of the Government and Chance. Together they form the national environment in which companies are born and learn how to compete.

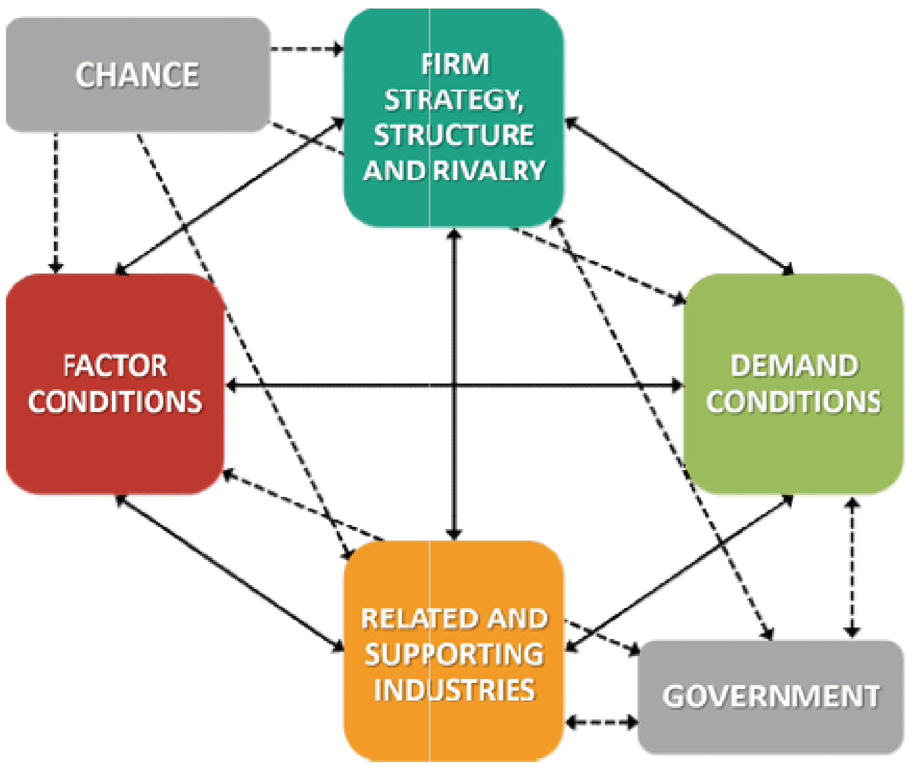

Figure 1: Porter's Diamond Model of National Competitive Advantage

Firm Strategy, Structure and Rivalry:

The national context in which companies operate largely determines how companies are created, organized and managed: it affects their strategy and how they structure themselves. Moreover, domestic rivalry is instrumental to international competitiveness, since it forces companies to develop unique and sustainable strengths and capabilities**.** The more intense domestic rivalry is, the more companies are being pushed to innovate and improve in order to maintain their competitive advantage. In the end, this will only help companies when entering the international arena. A good example for this is the Japanese automobile industry with intense rivalry between players such as Nissan, Honda, Toyota, Suzuki, Mitsubishi and Subaru. Because of their own fierce domestic competition, they have become able to more easily compete in foreign markets as well.

Factor Conditions:

Factor conditions in a certain country refer to the natural, capital and human resources available. Some countries are for example very rich in natural resources such as oil for example (Saudi Arabia). This explains why Saudi Arabia is one of the largest exporters of oil worldwide. With human resources, we mean created factor especially these ‘created’ factor conditions are important opposed to ‘natural’ factor conditions that are already present. It is important that these *created* factor conditions are continuously upgraded through the development of skills and the creation of new knowledge. Competitive advantage results from the presence of world-class institutions that first create specialized factors and then continually work to upgrade them**.** Nations thus succeed in industries where they are particularly good at factor creation.

Demand Conditions:

The home demand largely affects how favorable industries within a certain nation are. A larger market means more challenges, but also creates opportunities to grow and become better as a company. The presence of sophisticated demand conditions from local customers also pushes companies to grow, innovate and improve quality. Striving to satisfy a demanding domestic market propels companies to scale new heights and possibly gain early insights into the future needs of customers across borders. Nations thus gain competitive advantage in industries where the local customers give companies a clearer or earlier picture of emerging buyer needs, and where demanding customer’s pressure companies to innovate faster and achieve more sustainable competitive advantages than their foreign rivals.

Related and Supporting Industries:

The presence of related and supporting industries provides the foundation on which the focal industry can excel. As we have seen with the Value Net, companies are often dependent on alliances and partnerships with other companies in order to create additional value for customers and become more competitive. Especially suppliers are crucial to enhancing innovation through more efficient and higher-quality inputs, timely feedback and short lines of communication. A nation’s companies benefit most when these suppliers themselves are, in fact, global competitors. It can often take years (or even decades) of hard work and investments to create strong related and supporting industries that assist domestic companies to become globally competitive. However, once these factors are in place, the entire region or nation can often benefit from its presence. We can for example see this in Silicon Valley, where all kinds of tech-giants and tech-start-ups are clustered in order to share ideas and stimulate innovation.

Government:

The role of the government in Porter’s Diamond Model is described as both ‘*a catalyst and challenger*‘. Porter doesn’t believe in a free market where the government leaves everything in the economy up to ‘the invisible hand’. However, Porter doesn’t see the government as an *essential* helper and supporter of industries either. Governments cannot create competitive industries; only companies can do that. Rather, governments should encourage and push companies to raise their aspirations and move to even higher levels of competitiveness. This can be done by stimulating early demand for advanced products (demand factors); focusing on specialized factor creations such as infrastructure, the education system and the health sector (factor conditions); promoting domestic rivalry by enforcing anti-trust laws; and encouraging change. The government can thus assist the development of the four aforementioned factors in the way that should benefit the industries in a certain country.

Chance:

Even though Porter originally didn’t write anything about *chance* or *luck* in his papers, the role of chance is often included in the Diamond Model as the likelihood that external events such as war and natural disasters can negatively affect or benefit a country or industry. However, it also includes random events such as where and when fundamental scientific breakthroughs occur. These events are beyond the control of the government or individual companies. For instance, the heightened border security, resulting from the September 11 terrorist attacks on the US undermined import traffic volumes from Mexico, which has had a large impact on Mexican exporters. The discontinuities created by chance may lead to advantages for some and disadvantages for other companies. Some firms may gain competitive positions, while others may lose. While these factors cannot be changed, they should at least be monitored so you can make decisions as necessary to adapt to changing market conditions.

Porter Diamond Model In Sum:

Porter’s Diamond Model of National Advantage explains why some industries in some countries are so much more developed and competitive compared to industries elsewhere on the planet. It basically sums up the location advantages that Dunning is referring to in his Eclectic paradigm (also known as OLI framework). The Diamond Model could therefore be used when analyzing foreign markets for potential entry or when making Foreign Direct Investment decisions. It is advised to also conduct a macro-environment analysis and an industry analysis by using PESTEL Analysis and Porter’s Five Forces respectively.