

GATT and World Trade

Arthur Dunkel, Director General of the General Agreement on Tariffs and Trade (GATT) since 1980, reviews the situation confronting the major trading powers and his organization.

Joining the Swiss Federal Office for Foreign Economic Affairs in 1956, Dunkel served since 1976 as Ambassador Plenipotentiary for trade policy matters and as head of the Swiss delegation to the GATT Multilateral Trade Negotiations (Tokyo Round), UNCTAD IV and V, and numerous other trade conferences.



Arthur Dunkel,
Director General of GATT

This is an interesting time to review the state of world trading relations and the extent to which the open trade system remains at risk, and to assess the potential for a more positive approach to trade liberalization within GATT in the next few years.

There is no doubt about the extreme pressures under which the system has been laboring in the years since 1979 when the Tokyo Round ended—years which coincided with the worst recession the world has faced in half a century. During that time we have seen the major trading powers at loggerheads over many aspects of their trade policies. The acute problem of indebtedness in many developing countries has been exacerbated by protectionism in their export markets. We have seen the perpetuation and extension of costly subsidy and price support schemes in agriculture and other sectors. And

we have seen too many attempts to solve politically difficult trade differences through informal deals outside the GATT system.

It is a depressing enough list, even stated so briefly. It covers a plethora of tariff and non-tariff barriers to trade, many of long standing but also many which are recent additions to the world's inventory of protectionism. The GATT secretariat has recently completed work on a new compilation of quantitative restrictions and other non-tariff barriers as reported by member governments. In tabular form the list extends over some 2,500 pages and covers many thousands of measures. It is a powerful testimony to the fact that despite the huge progress made in liberalization of trade over the past three decades, the trading system is still very far from perfect.

And it is, perhaps, the public recognition by many governments of this accumulation of threats to the system, and the beginnings of a consensus on the need to promote economic recovery by tackling them, that gives me reason for contrasting the rather bleak picture I have just painted with some more positive reflections.

Such a consensus began to emerge last year with the Williamsburg Summit Declaration, the OECD ministerial statement and the UNCTAD VI. However, despite the fact that all these came at a time of pronounced economic recovery in the United States and significant signs of an upturn elsewhere, they have not so far produced many positive results in terms of action to roll back the accumulation of protectionist measures which now weigh so heavily on the world economy. I should qualify that general statement by recognizing the steps taken autonomously by Japan to open its markets further, and the sensitivity of the Japanese government to the pressures resulting from the very large trade surpluses built up with some major trading partners. In the areas of technical restrictions, import promotion, short-term loans to finance imports, and the domestic distribution system, the measures that have been announced can only improve Japan's trading relationship

with the rest of the world. The more recent moves toward reform of the financial system are another welcome development.

Generally, however, a great many protectionist measures which are likely to impede sustained recovery remain in place despite the economic upturn. Indeed, certain major economies are now experiencing stronger protectionist pressures than at any time since GATT was founded.

U.S., EC, Japan triangle threatens GATT

Very much at the center of the present difficulties stand the complex trading relationships between the U.S., the European Community and Japan, which have been put under great stress by a series of long-standing disputes that are a hazard to the international trading community as a whole. I must stress here that if I appear to pay undue attention to these relationships, important though they are in their own right, it is because of the significant effect that they can have on other trading nations and on the multilateral trading system as a whole. I insist here on the word multilateral: if the system is not multilateral it is in reality not a system at all, but merely a series of incoherent bilateral agreements based on short-term considerations.

At the top of the list as the most serious irritant comes agriculture. The U.S. and other traditional agricultural exporters are severely critical of what they regard as the excessive protection of European and Japanese agriculture and the disruption of world markets caused by the subsidized export of Community farm surpluses.

Of almost equal concern is the heavy involvement of the same three powers in the bilateral negotiation of export restraints which, in one sector after another, are producing a trend toward market-sharing and cartelization. And resort to such measures seems to be on the increase. They are spreading from the traditional and ailing industries which have lost competitiveness and, so it is claimed, need time to modernize and adjust, to the new high-technology industries like video-recorders and advanced machine tools.

One can see the political attractions of solving these delicate sectoral difficulties outside the discipline of GATT rules: half a market may be thought better than none and a quiet arrangement between industries, with governments looking benevolently on, or between governments themselves, may seem preferable to the stresses of genuine competition.

What this approach to trade policy is actually achieving, however, apart from a sacrifice of efficiency in every case where the operation of markets is frustrated, is the progressive undermining of the GATT system. GATT contracting parties cannot talk credibly about the need to live by the rules of world trade, and to reinforce the effectiveness of GATT, while at the same time making private agreements outside the rules every time recourse to them would be politically sensitive, cause a

delay in securing protection or simply give the wrong answers when the case for protection is put to the test.

I am always a little doubtful about the claim of political sensitivity in the context of trade policy. A decision that it is politically wise to "volunteer" to restrain exports when faced with electorally-backed demands for import controls within the importing country is actually an assumption of political responsibility by the exporter. The abdication from that responsibility by the importing country government is likely to reflect a fear that subjecting the claims of protectionist lobbies to scrutiny under domestic law or GATT procedures would demonstrate that the cost of protective action to consumers and to its industry in general is not worth bearing. Thus, I think that those who have sought export restraint measures in recent years have done a disservice to themselves and to GATT, and that those who have acquiesced in them are acting neither in their own long-term interest nor that of their trading partners generally.

Despite this criticism, I do recognize that great efforts are being made to prevent the economic recovery from being put at risk by protectionism. Politicians in the U.S., Japan and the Community are all aware of the dangers and—we know—are exploring ways and means of overcoming them. They also appreciate that there is a world outside this powerful triumvirate and that many of the countries can be highly vulnerable to the incidental—and often unintended—effects of policies adopted by the major powers.

Developing countries—the debt-trade syndrome

For the majority of GATT countries, the bilateral approach to solving trade disputes is not open. Because they lack the economic and political weight to impose their will, they depend for economic security and equity on the guarantees provided by the multilateral system. This is true above all for the great majority of the developing countries, which comprise two-thirds of GATT's membership, and it relates directly to one of the greatest contemporary preoccupations—the question of trade in relation to debt. The extent of the problem is well enough known—for instance, the six most indebted Latin American countries have foreign debts totaling over \$300 billion and must commit more than 50% of their export revenues, or nearly two-thirds of their earnings on merchandise exports, to servicing those debts.

Until recently, trade balance adjustment to meet debt service requirements has been achieved almost entirely through reductions in imports. That is a negative and, in the long term, unsustainable solution. It means that the developing countries cannot afford the imports, particularly of capital equipment, which they need to assist development and to generate exports. In turn, industrialized countries that have business and jobs dependent upon their exports to the developing world find themselves in trouble as orders dry up.

While the short-term answer to the debt problem

must be through adequate capital flows, the longer-term solutions relate directly to trade policies—not just those of the debtor nations themselves but crucially those of their industrialized trading partners. The business and financial communities need the assurance that developed markets are going to be available if they are to proceed with export-related investment in the developing world.

What has happened in recent years has had the opposite effect. The impression has been given that as developing countries invest in new manufacturing sectors, build up production, become competitive and, finally, find themselves in a position to export successfully, their potential markets are likely to close up as developed countries take fright. It has happened extensively with footwear, textiles and clothing, of course, but we are now seeing it in steel, watches and so on.

It would be very unfortunate if this tendency were to persist and spread in a period when developing countries have not only become far more active within GATT but are in certain cases taking steps to liberalize their trade policies. The fundamental ideas on which the General Agreement is based, those of the disciplines of the free market as the generators of competitive exports, are being taken to heart. But as these countries become more efficient and competitive, they need open markets for their exports. To deprive them of such markets is a very unwise course. As the most significant potential source of world economic growth in the future, they need encouragement not obstruction.

Positive signs

Nevertheless, there are positive signs in a number of capitals that suggest a new willingness to seek solutions to some of the fundamental issues which lie behind many of the disputes and protectionist actions of recent years. Some of this willingness is surfacing in the context of the implementation of the work program agreed on at the GATT Ministerial Meeting in November 1982.

Trade in agriculture is a good example. The issues of agricultural subsidies and market access for agricultural products are now being discussed in the GATT Agriculture Committee in a more forthcoming way than for many years. This may in part be due to the realization that agricultural subsidies have grown to be such massive drains on public resources that they can no longer be sustained, and that they distort trade in a way which damages importers and exporters alike. And perhaps there is more acceptance that problems in the agricultural sector cannot adequately be resolved bilaterally. Whatever the reason, we can see the beginnings of an effort to bring about a real improvement of the conditions under which agricultural products are traded.

I have already remarked that there is extensive work in progress on the identification of quantitative restrictions. Valuable efforts are also being made in the areas of government procurement, technical barriers, import licensing procedures, and customs valuation. At the same time, informal discussions are continuing on

the safeguards system in the hope that it can be made more efficient and subject to greater predictability and clarity—an issue that bears heavily on the question of voluntary export restraints to which I have already referred.

Priorities

Much of the work related to the Ministerial Meeting program is now reaching a critical stage; some determined action will be necessary over the coming months for it to be completed on schedule by the next session of Contracting Parties in November. I think it important that discussion of longer-term issues should not divert attention from the priorities of the work program. There is no less of a need now for short-term action to reverse the tide of protectionism than there was 12 months ago when the leaders of the industrialized world made their commitments in Williamsburg.

But we do have to think ahead and the government of Japan has taken a very clear position by calling for the preparation of a new round of multilateral trade negotiations. Japan has, in the past, been reproached for failing to take the leading position in the development of trade and economic policy issues which its trading power would warrant, and for this reason Prime Minister Nakasone's initiative is all the more significant. It has been echoed in Washington and in some of the countries in the Pacific region, notably Australia.

I think that the discussion of a possible new round is a healthy development. It is often the case that otherwise intractable issues can be resolved through a package approach in which each negotiator can find some advantage. But the preparation for a new round—if there were consensus that one should take place—would have to be extremely thorough and painstaking. I have no doubt that a premature initiative, without a widely-shared understanding on the agenda and the objectives to be sought, could be very counterproductive. In the meantime, GATT's first priority must be to implement, in full and on time, the work program agreed upon by Ministers in 1982. The work program covers all of the major current issues of trade policy and all of the subjects I have heard mentioned as possible candidates for negotiation in a new round. In both the shorter- and longer-term perspectives, therefore, the work program is an invaluable basis for further progress.

In the context of the various commitments to stand still and roll back in the OECD and Williamsburg summits last year, the short-term possibilities remain crucial if we are to give economic recovery an extra push through trade-expanding measures. I have already referred to Japan's own packages of liberalizing measures announced by the government on a number of occasions over the past two years. As is true for any economy, the act of liberalizing the Japanese market and making it more responsive to competition from outside is going to be of long-term benefit to Japan as well as to the nations which can take advantage of the enhanced market access. I hope the process will continue. ●