TOWARD BETTER TRADE RELATIONS IN THE 70's

Address given by Mr. Olivier Long, Director-General of GATT to the Foreign Affairs Club, London, on 24 January 1972.

For the first time since the end of the Kennedy Round in June 1967, the way is open for the trading nations to work together toward a further enlargement of world markets and readjustment of the multilateral system of trade.

It is a moment of political importance. It could be a turning point after the deterioration of trade relations over the past several years and the crisis of the last months. This opportunity should not be missed and allowed to slip away.

What, in fact, are the main characteristics of the present situation and the prospects it offers?

I. Favorable elements in the field of trade policy.

My first proposition is that the moment is favourable for a new initiative in world trade policy.

No such initiative has been undertaken for nearly five years. With completion of the Kennedy Round, multilateral action to enlarge world markets ceased. It has been a period of inertia. Dynamic leadership has been lacking. There has developed increasingly the risk that confrontation and retaliation, and not consultation and conciliation, would predominate in the settlement of trade problems and differences.

Drift and growing disorder on the international trade scene created a situation in which the clouds that had been gathering grew darker, and increasingly more threatening.
On 15 August 1971 the storm broke. As well as serious risks, however, the monetary and trade upheaval also brought opportunities.

Instead of stagnation, there developed a certain dynamic movement. Complacency disappeared overnight.

The crisis drove home the truth that no country, or group of countries, can expect to escape undamaged if there is a serious deterioration in international trade relations; that there will continue to develop a growing interdependence among nations; that even the most powerful countries, or groupings, in the world are becoming more, and not less, dependent on international trade; and that disorder in trade relations threatens harmony in political relations.

Now, after some months devoted to bringing about the most urgent corrective measures - that is, to establishing a new pattern of exchange rates - governments should be ready to tackle the fundamental problems, and especially the problem of their future trading relations with one another.

In the wake of the Washington agreements of 18 December 1971 on monetary parities, trade discussions have taken place, or are taking place, on certain subjects of particular interest to the United States and to some of its principal trading partners. Even though these talks are bilateral, even though they are restricted in their subject matter, even though they concern only a few countries, they do represent a beginning, of which full advantage should be taken in order to arrive at multilateral negotiations of increasingly broad scope.

Present circumstances are suitable for the progressive development of a new major initiative to adapt the multilateral system of trade to the political and economic realities of the present decade and to carry a stage further the opening-up of world markets.

The signature of the accession agreement between the EEC and the United Kingdom should enable the parties concerned to again address themselves actively and constructively to the question of their trade relations with the rest of the world.

The United States, after a pause of some years, is showing a revived and vigorous concern with trade policy. With exchange rates more favourable to its exports, the period ahead should see the United States more concerned with securing markets overseas than with the protection of its own market.

Japan, after a somewhat cautious start, is increasingly devoting itself to liberal policies of trade.

The developing countries, for their part, are receiving preferential treatment in the markets of a growing number of industrialized countries. Moreover, moving into a new stage - very important because it represents one of self-help - a number of developing countries are taking action to encourage their mutual trade by the establishment of preferences among themselves, as the result of negotiations carried out in the GATT.
There is thus, at last, no lack of movement at the present time. It is movement which needs however to be directed, organized and channelled to lead to a new and major multilateral initiative in trade policy.

II. Basic changes affecting international trade relations

My second proposition is that fundamental changes in the pattern of world trade are taking place. If anyone is still hesitant to accept that a fresh adjustment of trading relations is needed, the evidence of these changes should surely suffice to remove his doubts.

Let me just mention a few striking examples of how relations between the trading nations are changing and forcing adaptation upon them.

Dominant among these changes is the redeployment of economic strength as between the international trade "giants", the EEC, the United States and Japan. There is the continually growing influence and significance of the process of regional economic integration which is altering the economic map of the world, and which is nowhere more strikingly demonstrated than in the historic fact of the United Kingdom's accession to the EEC.

There is the approach by the socialist countries of Eastern Europe to the multilateral trading system of GATT. GATT's most recent recruit is Romania; it was preceded by Poland; now Hungary is negotiating for membership. Czechoslovakia has been a member from the beginning.

There is the introduction of trade preferences for and among developing countries.

There is the growing importance of the multinational corporation in production and international trade.

There is, of course, the increasing general interdependence of national economies.

The list is far from complete. All these changes have to be accommodated within a multilateral system of trade which must not insist on rigidly sticking to its traditional character and exigencies - and thereby possibly sowing the seeds of its own disintegration - but which accepts the degree of rejuvenation and renovation necessary to fulfil its modern function and purpose.

How can this challenge be met now that the precondition of monetary realignment has been fulfilled?

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III. The way ahead: perspectives

Even if, as I have suggested, the moment is politically right, and the need for action is evident, it will be no easy matter to put international trading relations on a sounder footing in the seventies.

There is much to be done and it cannot all be done at the same time. The aim should be to proceed by stages, all the time keeping clearly in mind the line to be followed and the objectives to be attained.

Not only the size of the task itself, but also political and economic realities work in favour of an approach that starts by attacking the most immediate problems and from this will move on progressively to seeking solutions that will meet the needs of international trading relations as a whole.

In doing so, two errors of judgement are to be avoided. One is to assume that the trade problems confronting the international community can be resolved in a few months, as has been done, at least on a provisional basis, for monetary parities. The readjustment of trade relations and the further opening-up of world markets are longer-term undertakings.

On the other hand, it would also be erroneous to assume that, since what is involved is a large-scale exercise requiring a considerable political effort by the main participants, nothing can be undertaken until certain political deadlines have been met - such as the enlargement of the EEC or the presidential elections in the United States - in other words, not until 1973.

I believe that, on the contrary, there is much that can be done without further delay.

In the immediate future - that is to say in the course of 1972 itself - the first task must be to reduce the tensions of recent months, and to restore confidence in the mutual intentions of the governments concerned. This will require more than just soothing declarations. Tangible acts are called for: acts that will get rid of the most irritating present restrictions on trade. There are many of those, on which immediate action could be taken, requiring no lengthy studies or difficult processes of legislative approval. The list includes quantitative restrictions, taxes, surtaxes, export subsidies, to mention just a few.

In this respect, some results may be expected from the bilateral negotiations now being undertaken by the United States with the EEC, Japan and Canada as a consequence of the Washington monetary decisions. The limits of the bilateral approach, however, are soon reached in a trading world as integrated as ours. It then becomes necessary to carry forward and broaden these bilateral efforts into the only framework which will allow further progress - namely the multilateral framework. This is the task for which the GATT has long been preparing itself, as regards both the agricultural and the industrial field. It is a task that could be undertaken within a matter of weeks provided the necessary political will on the part of governments were forthcoming.
In any case, one round of trade negotiations is already inscribed on
the 1972 calendar. This is the renegotiation, necessary under the rules of the
General Agreement, of past tariff bindings under GATT which will have to be
broken as a result of the application of the EEC's agricultural policy and
common external tariff to the United Kingdom and to the other new members of
the Community.

Although this will be no more than a curtain-raiser for later events on the
scene of world trade negotiations, it should provide an excellent warming-up
exercise for the major efforts which must begin from 1973 onwards.

In 1973, ten years will have elapsed since the beginning of the greatest
post-war trade negotiations, the Kennedy Round. One might hope that the trading
nations, after a whole decade, would be ready once again to show the necessary
imagination and vision to undertake a new enterprise of similar magnitude.
In 1973, again, it will be six years since the successful completion, in
June 1967, of the same Kennedy Round, whose results have contributed so greatly
to the spectacular development of world trade. Governments ought therefore to
be reassured by the advantages which they gained from these negotiations, and
ought to find in them a source of courage to renew their efforts. Finally,
in 1973 it will be a year and a half since the outbreak of the crisis which,
on 15 August 1971, shook the monetary and commercial world to its foundations.
One might hope that, as a result of this traumatic experience, the trading
countries would have the wisdom to recognize that inertia in international trade
policy invites economic conflict and could result in a slide backward toward
protectionism.

Having said this, however, the fact remains that the Kennedy Round now
belongs to history and that history never repeats itself exactly. The major
negotiations which should open in 1973 - if the trading nations have the foresight
so to decide - are likely to be very different from earlier negotiations. This
is because the problems to be dealt with will themselves be different.

Non-tariff barriers, that fashionable subject in the trading world today,
provide one example. NTB's cannot be reduced or eliminated in the same way as
tariffs.

This is a familiar field to us in GATT. Starting from an inventory of more
than 300 notified non-tariff barriers, we have now been working on the subject
for four years. As a pilot effort, national delegations are already negotiating
ad referendum on selected categories of non-tariff barriers. Experience so far
leads us to believe that the elimination of these barriers will not be achieved
in a single spectacular operation. Certainly, a major move should be launched
to cope with a first selection of these NTB's which are most harmful to trade.
But one should also be prepared, as a follow-up, for a continuous process of
grinding away. Carried on over a period of years, it will require a variety of
negotiating methods adapted to each of the different kinds of obstacles to be
overcome.
Likewise, the search for solutions to the disorder in agricultural trade and production policies does not lend itself to easy, "once and for all", solutions. What is needed, rather, is a patient effort to set matters right, varying the methods of approach adopted according to the problems and products concerned. This is a formidable enterprise, and will take a long time.

Some progress, however, has already been achieved compared with the past. It is now admitted that it is no longer enough to tackle problems of agricultural trade at the frontier - that is, to negotiate about measures imposed on imports and exports. It is understood today that the problems must be attacked at their root: at the level of production policies and of the support given to agricultural incomes. Important progress would also be achieved if agreement could be reached on one fundamental principle: that each government should bear the responsibility for the effect on the market of its agricultural support policies. By this I mean that governments should accept that the cost to them of maintaining a reasonable relationship between farmers' incomes and those of other categories of the population should not be shifted onto foreign producers.

And what about import duties? How should one handle the tariffs which remain after six major negotiations in GATT in the course of the past twenty-five years? Would the deployment of forces and effort as well as the years of work in a new Kennedy Round be justified?

The experience of Europe, in the EEC and EFTA has shown the value, in getting rid of industrial tariffs, of the technique of progressive, linear and automatic reductions. If the Europeans have done this, cannot the other industrialized countries of the world do the same? The idea of achieving over a period of years full industrial free trade among developed countries is one which deserves serious examination.

While dealing with NTBs', agriculture and tariffs in a new major effort to achieve a further liberalization of world trade, governments must ensure that developing countries will benefit fully from such an initiative.

These are just a few suggestions for those who are thinking about the further opening-up of world markets. It would be premature to put forward, as yet, a precise plan or programme. Before that stage can be reached, a stronger and much clearer expression of political will to move forward is required from the major trading nations. It is earnestly to be hoped that this will be forthcoming - and soon. I see some evidence that it will. As far as the necessary technical basis for such movement is concerned, this already exists: GATT is prepared both to apply the matter for negotiation and to service the negotiations themselves.
The coming years will be marked by a realignment of forces and a readjustment of trading relationships. For trade policy, a principal objective will be to establish conditions in which the trading nations can live together in harmony. This implies, above all, a reconciliation of the interests of the key elements in the new international trading system: an enlarged EEC; a United States that has entered, in the words of Mr. Peter Peterson, Assistant for International Economic Affairs to the United States President, "the new era based on the modern reality of shared power and responsibility"; a Japan in vigorous expansion; and the developing countries.

Such a reconciliation of interests will probably require that the existing rules and procedures of international trade be adapted and modified. After twenty-five years, this is only to be expected. Nevertheless, it would, in my view, be unwise to try to begin by a reform of institutions. In the first place, because the necessary adjustments are likely to be made more easily within the framework of the enlargement of markets rather than when, as now, trade is beset by a climate of uncertainty. Secondly, because before seeking to change rules and procedures, it has to be asked whether the present ones have been fully followed and utilized in the past. The experience of recent years has been marked rather by a certain reluctance on the part of the trading nations to follow existing rules and to make use of procedures than by an intrinsic inadequacy in the rules and procedures themselves.

During the recent crisis, there was much reference to "risks and possibilities". The immediate risks have, for the time being, been avoided. Now is the moment to seize on the possibilities and, without delay or respite, to exploit and maintain the momentum that has at last begun, until balanced trading relations have been restored in an expanding world market.

In this process, the EEC has a crucial rôle to fulfil and a fundamental choice to make. Confident in its own economic strength and as a result of its growing stature, it might be tempted to consider itself primarily in regional terms, concerned essentially with its own internal development. I believe that, on the contrary, conscious of its expanding responsibilities, the European Community will, in fact, seek to develop increasingly open trade relations with the world as a whole. I also believe that the EEC trading partners will be ready to follow such a course.

Today, world trade is indivisible. The trading nations cannot retreat into isolationism or reserved areas without serious losses in terms of economic growth and employment. The time is ripe for them to push once again, together, toward freer trade.

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