"THE ESTABLISHMENT OF AN ORDERLY WORLD TRADE SYSTEM"

Address by Mr. Olivier Long
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The trading nations have the opportunity at the present time of taking a further significant step forward in the opening-up of world markets and in restoring a greater degree of harmony in their trade relations.

While, of course, there were considerable risks involved, the crisis in the monetary system which broke out on 15 August 1971, and the accompanying threat to world trade relations, had the merit of demonstrating the urgent need to end the inactivity of the preceding three years in the field of international trade policy.

The Smithsonian Agreement of 18 December 1971, by averting, at least for the time being, further uncertainties in the monetary field, created a favourable climate for constructive action on the trade side. The decision of the three "giants" of world trade, the European Economic Community, Japan and the United States, to open negotiations in 1973 - a decision now supported, in the GATT Council, by all other industrialized countries - justifies the expectation that such action will be vigorously undertaken and carried through. This is made clear in the joint Declarations adopted by Japan and the United States, and by the European Community and the United States, both of which define the aim of the negotiations as "the expansion and liberalization of world trade, improvement in the international framework for the conduct of commercial relations, and improvements in the standard of living of the peoples of the world".
Japan was, of course, already calling for such negotiations at a time when other nations were not yet ready to commit themselves to action.

The developing countries have also, in general, welcomed the new initiative. Understandably, however, they wish to have a clearer view of their own rôle and expectations in the negotiations before committing themselves to take part. It is not yet clear to them whether the problems taken up will be those that most concern them, nor what contribution they will be expected to make to the negotiations' success. But they have given full support to the preliminary discussions now launched which, I hope, will help them clarify their position during 1972. Many of the difficulties of world trade today, especially in the fields of non-tariff barriers and of agriculture, affect them just as much as—and sometimes relatively more than—the developed countries.

Taken together, these declarations are an expression of political will that has for some years been sadly lacking in international trade policy. They offer real hope for the future.

I. The nature of the problem

The organizers of this important meeting suggested, as the title of my address "the establishment of an orderly world trade system". It would, in fact, be more accurate to speak of "restoration" rather than of "establishment" since, during most of the post-war period, a very real measure of order in trade relations has been provided through the operation of the GATT.

It is only to be expected that, after twenty-five years, the multilateral trading system needs rejuvenation and adaptation. Nevertheless, in assessing the real extent and proportions of this task of restoration, it should be borne in mind that, in spite of the strains resulting from changes in trade relations, and in spite of the monetary crises, the trading system has held firm up to the present. There have been difficult moments, but nothing has collapsed. The proof lies in the spectacular growth of world exports, the value of which rose throughout the nineteen-sixties at an average annual rate of about 10 per cent, and which maintained this rate of increase even in the difficult conditions of last year. Japanese exports, of course, have expanded in an even more spectacular manner: they have increased at a rate not far short of double that of world exports, and Japan's share in world trade has consequently increased from 2 per cent in 1955 and 3 per cent in 1960 to 7 per cent last year.

In order to identify the areas in which reconstruction is needed, it is desirable to have in mind the principal reasons for the weakening of the multilateral trading system in recent years.
One important reason has been the progressive deterioration, and then breakdown, of the monetary system. Beset by monetary crises, governments have felt little inclined to concern themselves with the less immediately pressing problems of international trade policy. They have also wished to preserve a free hand in trade matters, and have not always resisted the temptation, when in balance-of-payments or monetary difficulties, to restrict imports, even if trade problems were not responsible for these difficulties.

The other basic reason for the weakening of the trade system is that, faced by the major changes that have been taking place for some time on the international economic scene, governments have not drawn the conclusions in terms of the readjustment of their trading relations.

II. The fundamental changes

The Japanese-US joint statement transmitted in February to other GATT member countries calls for a comprehensive review of international economic relations "in the light of the structural changes which have taken place in recent years".

Let me briefly recall some of the most striking of these changes.

First, there has been a marked shift in the relative weight in world trade of the major powers. Although the United States still accounts for a larger proportion of trade than any other country, its pre-eminence is not as great as previously. Exports by the European Community as a unit represent a larger share in world trade than those of the United States. This share will be still further enlarged with the expansion of the Community's membership from six to ten. The emergence of Japan as one of the world's leading economic powers has been one of the principal features of the post-war period and I have already referred to the phenomenal growth in Japanese exports. The fact that these exports remain concentrated on a comparatively small number of markets and products has continued to create serious problems of adjustment for other countries. This fact must be recognized.

Secondly, there is the pronounced trend toward regional trade groupings, of which the EEC is the most prominent manifestation. These arrangements have multiplied in number and significance to an extent not foreseen when the General Agreement on Tariffs and Trade was drafted twenty-five years ago.

The special requirements of the developing countries represent a third factor for change. In response to these requirements, generalized tariff preferences are being introduced in their favour, and they have recently begun to give preferential treatment to imports from one another. In the coming multilateral trade negotiations, full account must be taken of the very real needs of developing countries. Solutions for many of the trade problems of these countries may in fact be found within the context of such global negotiations.
Other assumptions on which the present rules of trade have been based are being tested, for example, by the accession of countries of Eastern Europe to GATT, and by the increasing part played in world trade by multinational corporations.

More generally, international interdependence has reached such a point that no country can insulate itself from the effects of economic policy decisions taken by its partners. Major countries cannot indefinitely run large payments deficits - or surpluses - without the risk of grave repercussions on the trading system. Similarly, it is recognized that trade and monetary issues cannot be viewed in isolation from one another.

In the face of the evident stresses which these changes have brought about, how should the attempt to re-establish order in the world trading system best be made?

III. Negotiations as a means of restoring the trading system

When one speaks of an "orderly trade system", one must not forget that international trade is essentially dynamic and in a constant state of evolution. An orderly trade system cannot be static: it must evolve as changes take place, and adapt itself to them so as to avoid tensions and crises. The system must reflect the realities of trade and trade relations.

It is much easier to adapt and renew the trading system when there are prospects of enlarged markets and of new moves toward liberalization than when the outlook for international trade is one of inertia and uncertainty.

Restoration therefore begins with negotiation.

Work in GATT during the past four and a half years has made it possible - to a greater extent, perhaps, than before any previous negotiation - to identify the issues that must be negotiated.

It is clear that the negotiations will have to be truly comprehensive. They will have to cover agricultural as well as industrial products, and tariffs as well as non-tariff barriers. They must focus adequately on the problems of developing countries. Unless all these aspects are covered, countries whose trade interests are not, in their opinion, adequately taken into account will see little advantage in participating.

While it is too soon to suggest any detailed scenario for the negotiations, certain developments can be envisaged.

The programme for 1972 is fairly clear. There will be intensive discussions to identify promising openings for fruitful negotiation; to show what legislative and other authority must be obtained; and to define the rôle of the developing countries, so as to make clear the form and content of their participation. These discussions of "techniques and modalities" will take up most of the year.
In addition, other negotiations, limited in scope but still highly significant, could start later this year. These negotiations are a necessary consequence of the enlargement of the European Community: their aim will be to restore the balance of advantage should this be upset because the new members, in aligning themselves on the Community's common external tariff and the Common Agricultural Policy, have to raise some tariffs above levels bound in past GATT negotiations.

What about 1973? What will be the main elements involved in the comprehensive negotiations envisaged for next year?

Non-tariff barriers to trade

Non-tariff barriers are widely regarded as a principal subject for the negotiations. It is often asserted that these barriers constitute a considerable obstacle to world trade; that for reasons seldom clearly specified, they cannot be successfully negotiated through the existing international machinery; and that more are being created every day. In fact, the size of the problem is now fairly well understood. GATT has experience in the negotiation of non-tariff barriers. And we see no convincing evidence that they are being created more rapidly than in the past. In fact, with the disappearance of many quantitative restrictions, the total of trade-distorting non-tariff barriers is probably less than it was two decades ago. However, it is likely that the steady post-war reduction in tariff levels has made them more apparent and keenly felt.

Much work has been done since four years ago, when over 800 non-tariff barriers were notified to GATT by member countries. Experience gained in this process shows that most, and perhaps all, non-tariff barriers that constitute avoidable impediments to trade can be negotiated in GATT.

A large and representative group of notifications was studied systematically, in order to identify the particular kind of solution appropriate to each. For one non-tariff barrier, what may be needed is agreement on the precise significance of an existing GATT rule. To overcome another, the aim should be to draw up a code of conduct to which governments would subscribe. In yet another, a country may be restricting some imports by a perfectly legal means: here the only way forward is likely to be through negotiations in which the barrier is bargained away by the offer of a matching concession or concessions by other countries.

GATT negotiations on some non-tariff barriers are already in progress on an ad referendum basis: that is, with the results subject to later government approval. Good progress has been made on working out solutions to trade problems caused by some customs valuation procedures, by differing technical and health standards and their enforcement, and by import licensing requirements. Similar work is starting on export subsidies, import documentation, and marking and labelling regulations. The intention is to go on adding to the list. It is clear that this steady but unspectacular progress may well extend over a number of years.
Now that we know, however, that major multilateral negotiations are firmly in prospect, GATT members will try, during the coming months, to identify which non-tariff barriers can most appropriately be negotiated as part of a broader process of bargaining, and how this is to be done.

Tariffs

Tariffs are still a significant obstacle to trade in industrial goods. This needs to be said, because it is so often suggested that they are not. Although GATT has had great success in reducing tariffs, most notably in the Kennedy Round, there remains much scope for further advance.

Past negotiating methods, however, may no longer be appropriate.

In my view, the time has come to think in terms of getting rid altogether of industrial tariffs among developed countries, although this cannot, of course, be achieved overnight.

The experience of the European regional groupings in fully eliminating industrial tariffs among themselves should be a source of encouragement. Both the EEC and EFTA dismantled their internal tariffs over a period of less than a decade. They met far less difficulty than was expected. In all the member countries, some of which had previously followed highly protectionist policies, a powerful stimulus was given to trade and to productive efficiency. If all developed countries adopted such an approach, there is every reason to expect that similar results would follow. Moreover, GATT negotiations would be greatly simplified, since more-or-less automatic formulae for tariff dismantling would be all that was required.

Agriculture

Agriculture presents the hardest problems of all for the future of the trading system.

While trade in industrial goods has become progressively freer over the past twenty-five years, obstacles to agricultural trade have increased, and its growth has been slow. Major agricultural importers have moved towards self-sufficiency. Traditional exporters of temperate agricultural goods have been hard hit, and competing tropical products such as oils, fats and sugar have also been affected or threatened. These agricultural exporters, which include major trading countries, have made it clear that their interest in the coming negotiations will largely depend on the prospects offered of a significant enlargement of agricultural markets.

Negotiations on agriculture touch on basic domestic policies. Virtually all governments are committed to maintaining a prosperous farming community. Most seek to support market prices of agricultural goods at a level that rewards the domestic producer, and thus are led inexorably to introduce measures at the frontier to prevent low-priced competing imports from undermining the market. Very often, too, they subsidize exports so that surplus production can compete on third markets.

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It is not surprising, in this situation, that little has been achieved in past negotiations whose focus has been the measures taken at the frontier. What then can be done?

GATT has built up a stock of detailed information about agricultural policies and problems. Alternative lines of action have been identified. Between now and the coming autumn, the member governments will together be sifting and choosing, to see which of these offer most promise for negotiation. They will identify, for instance, product sectors in which meaningful commitments on the limitation of variable levies might be reached. They will explore technical possibilities of evolving measures to support farmers' incomes without stimulating production. They will examine the practicability and scope of codes of good conduct to limit subsidies to exports. They will study whether combinations of these or a large number of other approaches to negotiation might prove fruitful.

The results of past negotiations on agriculture have been relatively meagre. Nevertheless, it does appear that in the coming negotiations all the participants will, perhaps for the first time, be seeking an answer to the real ailments of agricultural trade, rather than attempting to cure them by suppressing the symptoms. That at least is a promising beginning.

IV. The elements of an "orderly world trade system"

Trade liberalization solves many problems. It eliminates sources of difficulty, of tension and of conflict, or reduces their sharpness. For example, the removal, by all developed countries, of customs tariffs on industrial products, beyond the benefits it would provide in terms of enlarged markets and consumer welfare, would overcome at the same time the difficulties created in trade relations by tariff preferences granted through preferential and regional arrangements. It would also abolish the high effective tariffs on processing which are often an obstacle to trade for developing countries. In the same way, the removal of remaining quantitative restrictions would help to make trade more truly multilateral.

The further the trading nations can progress toward freer trade, the greater should be the possibilities of harmony and order in their trade relations.

For this to be true, however, further liberalization of trade will have to be accompanied by the possibility of recourse to a safeguard clause.

It is in fact a reasonable assertion that acceptance of realistic and equitable safeguard provisions would facilitate the multilateral reduction of trade barriers which is so urgently required in the interest of both national economies and the international economy.
Such a safeguard clause would have to be drafted with great care to prevent its unilateral or arbitrary use. Prior agreement would be required on realistic and equitable criteria and procedures for its application. The duration of its use should be limited and its application degressive, and it should be linked with adjustment measures in the sectors in whose interest recourse is made to it. Finally, a mechanism would be needed to supervise the application of the safeguard clause.

A further condition for an orderly trade system is that the trading nations keep the particular needs of developing countries in the forefront of their attention. In concrete terms, this means that the process of trade liberalization should effectively help the export efforts of these countries. There cannot be satisfactory trading relations if developing countries are unable to find increased outlets for their exports.

Events in recent months have shown the need for closer coordination between trade and monetary policies. If the international adjustment process is to work properly, its rules and procedures must be formulated and applied to take account of the interaction of trade and monetary policies and of capital and current account transactions. In practice, this means that both surplus and deficit countries should pay more attention to trade policy than they have in the past.

It is worth remembering that a principal purpose of the International Monetary Fund, as defined in Article I of its Articles of Agreement, is "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy". This wise provision implies, among other things, that considerations of trade should not be subordinated to those of money.

Any "comprehensive review" of international economic relations would obviously touch on the existing structure of the multilateral trading system, and on the GATT rules on which it is founded. It would be surprising if it were otherwise, since the General Agreement was drafted a quarter-century ago. The forthcoming negotiations will, in fact, constitute an effective review and suggest possible improvements in GATT rules and procedures. Action on any such changes should therefore be kept in abeyance until the negotiations have shown what adaptation may be necessary.

Last but not least, the maintenance of an orderly trade system requires that its constituent countries be willing to conduct themselves as good citizens of the international community: that is to say, to respect the rules of the game. In international relations, at least as they exist today, the final word rests with the individual governments.

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A final point. The coming negotiations will call for great persistence and vision on the part of governments and the business community. The new commitment to begin negotiating in 1973 provides a vital starting-point. But it is inevitable that as the negotiations advance, the problems will loom larger. There may be a tendency to lose sight of the opportunities and to overestimate the risks. The reduction of tariffs and non-tariff barriers, and of obstacles to agricultural trade, is not an end in itself. It serves a more important purpose. International trading relations have not been happy in recent years. A return to a healthy order in world trade, firmly based on today's needs and realities, will not be achieved without concessions by all the developed trading nations. It will call for recognition that trade cannot flow in one direction only; that continued growth in exports depends on willingness to open - and keep open - one's market to imports from one's trading partners. But if these conditions are fulfilled, international trade in the coming years can - and I am confident, will - continue to be one of the most powerful of all forces for the greater prosperity of mankind.