The Multilateral Trade Negotiations

Address by Olivier Long, Director-General,
General Agreement on Tariffs and Trade

to the Swedish National Committee of the International
Chamber of Commerce, Stockholm, Sweden 19 March 1974

Six months ago, in Tokyo, more than 100 governments agreed to undertake in GATT the most ambitious trade negotiations of the postwar era. Since then, work on the final stages of the preparations for these multilateral trade negotiations has gone forward steadily.

But during these same six months, profound changes have been taking place in the world economic environment. It is true that we are already, to a great extent, accustomed to change. In recent years, governments, businessmen and the ordinary citizen have been called upon to adapt their ideas and their actions to some far-reaching alterations in the economic landscape. But in the past months the changes have come thick and fast. In the face of such developments as the energy crisis, floating (and widely fluctuating) exchange rates, shortages of basic agricultural commodities, and annual inflation rates that in some cases reach into two figures, one might be tempted to doubt the relevance and adequacy of previous policies and decisions.

It is therefore not surprising that the possible effects of the altered world economic situation on the role and purpose of the multilateral trade negotiations has become a pertinent subject for thought and discussion.

Against an economic background very different from that existing at the time of the Tokyo meeting, governments are being obliged to re-examine their priorities and their basic assumptions across the whole spectrum of international economic relations.

Yet, in this process of reassessment, one point stands out clearly: the recent traumatic developments have given the trade negotiations even greater importance and significance.
The present difficulties will only be overcome through an increased degree of international cooperation, and through multilateral negotiation between governments on the problems that confront them. To a very great extent, these problems concern their trade relations. Here the Tokyo Round, launched with the political support of over 100 governments, is already in place, and offers the appropriate forum for this necessary cooperation and process of negotiation.

Preparations for the Tokyo Round

Let me, if I may, first describe the present stage of preparations for the coming negotiations.

I would recall, first of all, that these negotiations are considerably wider in scope than the Kennedy Round negotiations of the mid-1960's. It appears likely also that the number of countries taking part will be higher; at the last count some 87 countries had announced their decision to do so.

The ground rules for the negotiations were laid down in a Ministerial Declaration issued in Tokyo last September. The Declaration states the aims and the procedures for the negotiations at some length, and I do not propose to weary you by recalling them now. I would like just to underline a few key points.

Firstly, the negotiations cover all aspects of trade.

As usual in GATT negotiations, they include the whole field of tariffs.

They also call for a comprehensive attack on non-tariff measures which have the effect of impeding or distorting international trade. The aim is to reduce or, where possible, eliminate these effects, and it has been agreed that no such measures shall be exempt from examination.

The negotiations will cover both industrial and agricultural goods, a point of great importance to agricultural exporting countries which feel that their interests have been neglected in past negotiations.

They will give special and priority attention to tropical products, which are the mainstay of exports by many developing countries. They will also provide an opportunity to examine the adequacy of the safeguard provisions of the GATT.

And finally it has been agreed that very great stress will be laid, throughout the negotiations, on the trade needs of the developing countries: it is accepted that, wherever possible in the negotiations, special and more favourable treatment should be provided for these countries.

All this adds up to a vast enterprise. It is possible to contemplate it only because agreement on the Tokyo Declaration was preceded by more than five years of intensive technical preparations.
The Tokyo Declaration established and set in motion the machinery needed to carry forward and complete these preparations. It set up a Trade Negotiations Committee, which began its work last October, to steer and supervise all the work.

At present, the Committee has four sub-groups at work, charged with the final technical preparations for negotiations on tariffs, on non-tariff measures, and on the specific problems of agriculture and of tropical products. They completed their first cycle of meetings last week, and they will continue to meet over the coming months. Two other groups, which will meet later, will discuss what is known as the sectoral approach to reducing trade barriers, and the question of possible revisions in the GATT safeguard provisions.

GATT is therefore in the very last phase of preparations for the negotiations. After this, the next stage will be that of actual proposals or offers of concessions by the participant governments: in other words, the substantive engagement of the negotiations themselves.

When will that stage be reached?

The answer to this question rests only partly with GATT itself. My own estimate is that the technical work now going on will be completed in another three or four months. That would take us about to July. Meanwhile, the individual participating governments have to make some preparations of their own. They have to decide on their own negotiating objectives - and here, as I shall want to stress in just a moment, they are at present having to bring into consideration some new developments. In several cases they have also to equip their negotiators with the necessary authority. This is the case for the United States, where the President is seeking negotiating authority through the Trade Reform Bill that is now halfway through the Congress. It is true also for the European Community, which last year drew up a general outline of its negotiating position, but which has still to elaborate its detailed mandate for the Commission negotiators. It is true no doubt also for a number of other countries. Obviously one cannot forecast with any assurance the speed or outcome of the democratic process in the United States, the Community or anywhere else. But it does appear likely that most participating countries will begin to be ready to start the bargaining process from mid-summer onwards.

If all goes well, therefore, both the technical preparations and the necessary national legislative and administrative processes would be completed at about the same time. Presumably, the negotiations themselves would then be actively engaged early this autumn.

What this means, to sum up, is that the negotiations are right on schedule. The necessary political commitment exists, expressed in the Tokyo Declaration; the basic technical preparation is almost complete; the negotiators are arming themselves with the necessary powers. I have every confidence, in short, that the operational phase of the multilateral trade negotiations will soon be in full swing.
The changing context of the negotiations

One cannot ignore, however, that these final preparations for the negotiations are taking place against an economic background that has changed greatly since 1972, when the original initiative to launch them was taken.

Even at that time, the trading nations were endeavouring to adapt to new strains and uncertainties in their economic relations. Throughout the last decade, basic assumptions on which the post-war multilateral trading system was built have been challenged by such developments as the growing importance of trade among member countries of regional economic groupings; by the accession of one state-trading country after another to the GATT, and thus their participation in the multilateral trading system; by the recognition that developing countries need special assistance to develop their earnings from trade; and by gradual but inexorable shifts in the relative weight of individual countries in the pattern of world trade.

The strains in trade relations were matched, and indeed exceeded, by strains on the monetary side that led to a new pattern of exchange rates and to the quest for a new monetary system.

Even during the months leading up to the Tokyo meeting, the world trading environment had continued to alter, and to grow more uncertain. Most of the world's major currencies were set free to float. They are still floating. Inflation accelerated throughout the world. Shortages of a number of primary commodities emerged, and their prices rose.

Nevertheless, it was only after we returned from Tokyo that there occurred a quantum jump in international economic uncertainty.

The uncertainty concerned, first, the physical supply of certain commodities and, in particular, of an absolutely vital source of industrial energy. This uncertainty was later reduced, but it was replaced by another, concerning the payment for petroleum imports, and the effects of these higher payments and costs on the importing economies. These uncertainties, in turn, raised doubts about the international policies that might be followed by individual countries in the coming months.

The most immediate and striking effects of this new situation are monetary. It is still impossible precisely to estimate the magnitude of the additional payments that the petroleum importing countries will be called upon to make. One can say only that the orders of magnitude that can be envisaged baffle the imagination of some of those who have to find the ways of making them. A consequence has been to shift much of the attention in the international monetary negotiation away from certain aspects of fundamental reform, and towards a search for solutions to the immediate payments problem.

Another inescapable implication of the rise in petroleum prices is a further increase in world inflation rates, which had already reached disturbing levels.
The present risks of actual recession are not easy to assess. Individual industries everywhere face a difficult process of adjustment to the new situation created by sharply higher energy and other costs. In consequence, we must probably expect that what is called "frictional" or "adjustment" unemployment will be more widespread and longer-lasting than usual during the next few years.

The consequences of all this both for the industrialized and for most developing countries will be severe. As far as the rise in fuel costs is concerned, it would appear from calculations by GATT economists that developing countries face an average increase in outlays for fuel equivalent to about one quarter of the total cost of their merchandise imports in 1972; for several countries the increase is over 40% and for one it is nearly 70%. The higher fuel costs drastically affect their plans for both industrial and agricultural development. There is the further depressing prospect that, in present circumstances, aid flows seem much more likely, in real terms, to fall than to rise in the period ahead, and that demand in the main markets of the developing countries may do the same. It is true that some developing countries are at least enjoying unusually high prices for their commodity exports at present. But this is by no means universally the case, and one may also doubt how long such prices can continue to rule if there should be a significant recession in the industrialized countries.

In such a threatening and uncertain situation, there will be a severe risk of resort to protectionist action: of moves, in short, that would be in precisely the opposite direction to that proposed by the Tokyo Declaration. Fortunately, however, the experience of the past quarter century of multilateral economic cooperation has not been forgotten overnight. Most encouragingly, the predominant reaction of government leaders to the transformed outlook for the world economy has so far been to seek a multilateral response. Nevertheless, governments everywhere must be subject to the temptation to make use of competitive devaluation, import restrictions, or artificial encouragement of exports.

I believe it would be disastrous if they yielded to temptation. It would also be futile. If major countries act unilaterally in ways that aggravate the problems of their trading partners, those partners will do the same. And in very short order, we could find ourselves on the road back to the economic situation of the 1930's - trade restrictions: bilateralism instead of multilateralism: recession: mass unemployment. The stakes are very high.

In sum, recent changes in the international economic environment pose a fundamental challenge to the resilience of the multilateral trading system, and to the courage and vision of the leaders of the trading nations.

It would be unrealistic and unfair to expect an immediate, dramatic and concerted response. No government can today be certain, even reasonably certain, of what the state of its economy will be in midsummer. One may hope that the outlook will be clarified over the coming months. What is needed now is calm nerves, while governments assess developments and discuss among themselves how to cope with them.

MORE
Already, however, one can attempt to answer one obvious question. How do the multilateral trade negotiations fit into this changed world economic situation?

A multilateral response

The original decision to open new trade negotiations under GATT auspices was itself in large part a response to evident protectionist dangers. It was hoped that existing international tensions might be eased by a fresh drive to reduce trade barriers, to open up markets and to arrive at understandings on the propriety and limits of some controversial forms of trade policy action. Governments also knew that the very fact that multilateral negotiations are in preparation can serve to discourage domestic protectionist pressures. This latter calculation has been supported by experience: during 1972 and 1973, there was noticeably less resort to restrictive trade measures than in the two preceding years.

It is sometimes suggested, however, that even if multilateral negotiations in GATT represented a proper response to the situation as it appeared two years ago, they are no longer appropriate today. I believe that this is quite wrong, and that the GATT negotiations are actually more important than before.

Those who doubt the relevance of negotiations in GATT usually argue along the following lines:

The whole of the GATT, they say, and the whole tradition of negotiations within the GATT framework, reflects a situation that no longer prevails. It was a situation of potentially surplus supply, in which industries were anxious above all to secure access to foreign markets. Now, they insist, we are living in a different world. Barriers to trade are irrelevant. What is the good, they ask, of eliminating tariffs, which are in general around 8 per cent, when the annual rate of inflation is substantially higher? They remind us that over the past two years, changes in exchange rates have altered the international competitive situation to a far greater extent than could have resulted from the most wholesale abolition of existing import duties. They point to supply shortages, and consequent high prices, as the real cause for present concern. And finally, they are doubtful whether governments will in any case be willing to go ahead with multilateral trade negotiations when their balance of payments prospects are so obscure and threatening.

In my view, much of this analysis is justified. But the conclusions drawn are not. GATT negotiations are still appropriate for their traditional purpose. And they have acquired fresh significance with respect both to the problems we are facing now and to the situation we shall be facing during the next few years.

The year 1973 was one of shortages and disruption of supplies of many products. Such difficulties may well continue or recur. If, as is to be expected, inflation will continue to pose a problem in the foreseeable future, the fundamental solution lies in measures to increase production. It is here that the Tokyo Round negotiations are relevant.
As far as negotiations for tariff disarmament are concerned, there are three separate arguments for continuing to move ahead.

One is the traditional argument for lower import duties. The benefits of international specialization still exist; so too do the needs of the developing countries to enlarge their export earnings.

A second argument is that the reduction of import duties offers a direct means of countering inflation. It is worth noting that in the past year several countries have in fact made unilateral cuts in their import duties, explicitly for this reason.

But there is a third argument also; one which is surely of the highest importance. Secure markets are a key to secure supplies. Today's shortages of many commodities have their origin, to a great extent, in under-investment in these sectors in previous years. Investment, particularly the kind of long-term investment required for most primary commodities, will not be undertaken without assurances that the product can find a market. Seen in this light, the removal of obstacles to imports is an excellent way of improving the security of essential trade flows, and of ensuring greater stability in prices.

This third argument, of course, applies to non-tariff obstacles in the same way as to import duties. Indeed, it applies with even more force. Non-tariff measures are by their nature a greater source of uncertainty in trade than tariffs, which are at least quantifiable and published. Moreover, comparatively little has been done about such measures in the past. The Tokyo Round promises the first comprehensive attack on them, and it is important that the negotiations be carried through.

The preparatory work on non-tariff measures has shown that many are legitimate and essential. Governments must, for example, protect their citizens against imports of goods that are infected or unsafe, or that are subsidized to such an extent that they drive otherwise-competitive domestic producers out of business. What is required is to ensure that such measures do not unnecessarily hamper trade. The practical solution will in many cases be to agree on codes of conduct, as was done during the Kennedy Round negotiations to reduce the trade-hampering effects of anti-dumping action.

Many people now suspect that this concept of codes of conduct may be applicable over a much wider field than that merely of non-tariff obstacles to trade. They are asking themselves whether a principal aim of cooperation in GATT should not be to develop, and continuously adapt, agreed standards or codes for national trade policy to match the continuous evolution of the world trading environment.

One can be certain that most governments participating in the Tokyo Round are now urgently re-examining their approach to the negotiations to take account of recent developments. There is abundant evidence that some will wish to place much greater emphasis on matters such as access to, and stability of, supplies.
that previously appeared to be of less importance. While it cannot be expected that all countries will agree on where the new emphasis should be placed, I hope that a consensus may emerge on one central point. The trading nations must come to recognize, in their own interests, a common responsibility for the management of the international trading system.

The multilateral trade negotiations are essential, but they are not enough. While we cannot see into the future, experience of the recent past should surely be enough to convince anyone that the trading environment will go on evolving rapidly, and often in unexpected directions. The process of adaptation through negotiations cannot be regarded as a once-and-for-all affair, or even as a chore to be undertaken at five- or ten-year intervals. It cannot be considered as something to be neatly terminated on 31 December 1975, the target date for completion of the Tokyo Round. There will be a continuing need for the trading nations to work together to define and manage their trade relations.

I believe that the aim of joint management of the trading system is entirely realistic and necessary. The problems are common to all. The will to work together exists; so does the necessary common framework of ideas and institutions.

There is also recent evidence that the trading nations are still capable, given the necessary degree of political will and mutual interests, of working together to surmount their trade problems.

In the closing days of 1973, fifty governments succeeded in negotiating under GATT auspices a new arrangement to regulate international trade in textiles. I do not need to enter here into the substance of that arrangement. The point is that this multilateral agreement, which affects a most sensitive area of world trade and which touches important and vulnerable interests in virtually all countries, was reached at the very height of the oil crisis. It was a time of great uncertainty and of exaggerated fears for the immediate future: fears which on the whole have not, fortunately, been translated into reality. If these fifty governments, which include all the main participants in the Tokyo Round negotiations, were capable of acting together constructively at such a time and on such a subject, I am confident that they can do so again to overcome the present broader challenge to the multilateral trading system.