INTERNATIONAL TRADE RELATIONS IN THE 1980'S

Address by Mr. Olivier Long, Director-General, General Agreement on Tariffs and Trade, to the 26th Congress of the International Chamber of Commerce, Orlando, Florida, 3 October 1978

World trade is in trouble. Its difficulties are growing. And they will get much worse during the coming years unless governments, and business, make determined efforts to put right what is going wrong.

It is now common knowledge that international trade is threatened, to an extent not experienced since the Depression years of the 1930's. An important, and expanding, share of trade is subject to restrictions of one kind and another.

Throughout the post-war generation, trade in temperate agricultural products has been restrained and distorted, so that some 10 per cent of total world trade has effectively been excluded from the liberal trading system. But in recent years the area of liberal trade has shrunk even more. Trade in textiles and clothing, representing another 5 per cent of the world total, has been increasingly tightly regulated since the early 1960's. In the past three or four years a further 5 per cent, made up of trade in steel, in shipbuilding, in ball-bearings, and in consumer electronics has come to be restricted and harassed. And the disease is still spreading. Fed by example, and by the higher costs resulting from import restrictions favouring other industries, protectionist pressures are being felt in new forms, such as calls for the organization of cartels, and new areas, such as chemicals.

This ominous trend has been gathering strength in spite of strong and concerted efforts by the trading nations to oppose it. Their efforts are continuing. Unfortunately there is no certainty that they will succeed. The forces which gave rise to the present protectionist tide are still at work, and few governments are well placed, politically, to resist the pressures upon them. One cannot, therefore, be confident of any early improvement in the climate for world trade.
Why is international trade under threat?

There can be no need for me to describe to this audience at any length the difficulties that face the world economy, and particularly world trade. All, or virtually all, were already evident at your last Congress three years ago.

The broad economic problems are many, and closely interrelated. The world economy, derailed in the early 1970's from its path of steady growth, has never got back on the track. Hopes of sustained recovery have been disappointed; world output and consumption grew barely half as fast last year as in 1976, and show little improvement in 1978. Unemployment in the industrialized countries is high, and investment is low. Developing countries are grappling with heavy debt problems. The adjustment to much higher fuel prices is still far from complete. Currency markets remain in turmoil.

It is now becoming increasingly clear that a key element in all these difficulties is the worldwide failure to control inflation. In spite of comparative success in a few countries, the average rate of inflation in the industrialized world as a whole remained around 8 per cent in 1977, as in 1976, and inflationary pressures seem if anything to be growing at present. Sustained inflation on this scale is catastrophic in its effects on the world economy. Inflation undermines the stability of the international monetary system: differences in national rates of inflation explain most of the large shifts in foreign exchange rates in recent years. It discourages and distorts capital investment, thereby depriving economic growth of a sound basis, destroying opportunities to create new employment, and weakening the ability of industries to adapt to new competitive challenges. There is no greater danger to the growth prospects of the world at present than the continued failure to bring inflation under control.

The major trade problem of today, the resurgence of protectionism, fundamentally reflects a refusal to adjust to changing competitive conditions. The strength of the current protectionist wave is partly explained by the weakness of economic growth as a whole, and the concentration of competitive pressures on a few particularly vulnerable sectors of industry. Present circumstances are certainly not helpful to adjustment. But the problem has deeper roots than the difficult trading conditions of the past five years.

Some of the blame may indeed be laid at the door of the quarter-century of almost uninterrupted boom which the world enjoyed from 1948 onward. It was all too easy, when economic growth was strong and continuous, for many industrialized countries to postpone necessary adjustment and restructuring of their economies. The harsh climate of the past five years has exposed the failures of the previous twenty-five.
Although the troubles now faced owe much to past failures to adjust, one reaction to the present trade difficulties has been to suggest that the blame should be largely borne by the developing countries. Their rôle ought to be seen in its proper perspective.

Of course, the rising competition from the Third World poses a real challenge in several industries. But it also provides an opportunity for export growth in other sectors of developed countries' economies. One should not minimize the very serious problems of, for example, the textile industries in these countries. Their difficulties cannot, however, be blamed entirely, or even mainly, on developing countries. Developed countries which adopt trade policies aimed at blunting this competitive challenge do great harm to the world economy and, in the long run, to themselves.

Emotion has tended to obscure facts in discussion of developing country exports of manufactures. It is a fact that the flow of manufactured products from developing to developed countries has been growing faster over the last decade than the flow in the other direction. It is also a fact, however, that the balance remains overwhelmingly — in the ratio of four to one — in favour of the industrialized countries. (The total value of manufactures sold by the industrialized countries to the developing countries in 1977 was about $13.4 billion, against purchases of only about $3.4 billion.) For the United States alone, the ratio is two to one; for the EEC and EFTA countries of Western Europe, it is five to one; for Japan, it is actually ten to one. Overall, the surplus of the industrialized countries in this mutual trade in manufactures has continued, and continues, to grow.

Even if the figures were different, even if developing countries had a much bigger share in total manufactured imports by industrialized countries than their present mere 7½ per cent, even setting aside all political considerations of relations with the Third World, it would be short-sighted indeed to restrict the growth of imports from developing countries.

Restructuring in the industrialized countries, even to the minor extent that it represents a response to competition from the developing countries rather than to such potent factors as changes in technology or consumer tastes, is to the advantage of the industrialized countries themselves. And it is also very much to the advantage of those same countries that the economies of the Third World should be strengthened. A striking feature of the past year or so has been the way in which sustained demand in developing countries has helped to stabilize world trade and the world economy. For the years ahead, it is the immense potential markets of these countries that hold out the greatest growth prospects for exports from the industrialized nations.
More worrying, as I see it, than the challenge presented by the developing countries is the evidence that, faced by the need to carry through extensive restructuring, the industrialized countries themselves are becoming more resistant than in the past to pressures to adapt to rapid changes in trading conditions. This is too large and complex a subject to go into here, but it calls for urgent attention. The reluctance of industry to invest, and the rigidity of the labour market, partly because of the erosion of wage differentials, are key elements. Once again, inflation carries a large share of responsibility.

International trade in the 1980's - the way forward

How, in the face of all these difficulties, can dynamism be restored to world trade?

It must be recognized that trade policy alone cannot do the job. The highest priority must be given to correcting some of the non-trade elements in the present economic situation. Above all, inflation and monetary disorder must be brought under control.

There is much, nevertheless, that trade policy can do. By encouraging further liberalization, it can open up new market opportunities, and provide the only effective counter to protectionism. By improving the international framework of rules and procedures for world trade, it can make the trading system operate with greater certainty and equity, and thus encourage investment.

Both of these aims of liberalization and an improved set of trading rules will be served by the successful and prompt conclusion of the Tokyo Round of multilateral trade negotiations in GATT.

The Tokyo Round offers excellent opportunities for considerable liberalization on tariffs. The reductions now in prospect are comparable to those achieved in the Kennedy Round, and should mean that, for most products, import duties will cease to be a major obstacle to trade. Even more important, the negotiations should bring under much better control some of the most important non-tariff measures affecting trade, such as customs valuation rules, government procurement practices, technical and health standards and subsidies. Market opportunities for trade in agricultural products should be improved, and so should consultation between governments about the problems that this trade so frequently encounters. Some major rules of GATT will be updated, governing such matters as the rights and obligations of developing countries in the trading community, the use of safeguard actions, and the settlement of trade disputes.

All of these potential achievements hang in the balance of the next few weeks. The whole of the Tokyo Round is now in its crucial phase. Hard decisions are required from each of the nearly one hundred participating
governments. The International Chamber of Commerce has provided consistent and precious support to these negotiations from their beginning. I appeal to you, the international business community, to give all possible encouragement to your governments so that, when the final decisions are taken, the most liberal possible solutions are chosen. Moreover, continuing vigorous support by business will then be needed to ensure that the liberal decisions reached are endorsed by legislatures.

Looking briefly to the future, I want to stress that the completion of the Tokyo Round must not be taken as a signal to relax.

On the contrary, it will be of paramount importance to put into force immediately, and with the utmost determination, the new trading rules and mutual undertakings for freer trade, so that trade relations are shifted decisively onto the right track. Delay in bringing the new commitments into effect could greatly undermine their authority and observance, thus prolonging instead of removing the threat to international trade.

It is therefore a continuing task for trade policy leaders, both in business and in government, to make everyone aware that protectionist policies are self-defeating, and offer no cure for unemployment: that at best they can only delay, at heavy cost, the loss of some existing jobs, while preventing the creation of new employment in more dynamic industries.

Nor is this all. To bring international trade back onto the right path will require much closer consultation and coordination among governments than in the past, in order to meet and overcome difficulties as they arise. The machinery for this kind of "management" of trade relations is being put into place in GATT and elsewhere. It should be greatly strengthened by the agreements now under negotiation in the Tokyo Round. The Bonn summit meeting of the principal industrialized countries has recently given a strong lead in this direction, at the highest level. But the example of consultation set at Bonn has now to be followed, and followed regularly, at the operational level by the officials who carry out national trade policies.

This statement may sound somewhat gloomy, but present economic difficulties are indeed deep-seated, and the trading environment of the 1980s is likely to be harsh. Admittedly, there are no easy solutions to be found. Provided, however, that governments, business and unions act resolutely together to halt present restrictive trends and return to a progressive liberalization of world markets, one can remain optimistic about the future of trade and trade relations in the years ahead.