Speech by Mr. Olivier Long, Director-General, General Agreement on Tariffs and Trade, to the European-Atlantic Group

London, 7 November 1978

PROSPECTS FOR INTERNATIONAL TRADE POLICY

Introduction

For five years, the focus of international trade policy has been the so-called Tokyo Round of multilateral trade negotiations that have been taking place in Geneva in the framework of GATT. Now these negotiations are nearing their end. I hope this evening to make some suggestions about the concerns and aims of trade policy when the negotiations are over.

Of the Tokyo Round itself, I do not think it would be useful for me to speak tonight in much detail. These extraordinarily complex and far-reaching negotiations are at last in their final stage. Everything is on the table. No participating government can any longer be in real doubt as to the aims of its negotiating partners. All participants have by now gauged what is at stake for their trade in the bargaining on tariff reductions, on agriculture in the new codes of behaviour to limit non-tariff distortions of trade, and in the proposed changes in other GATT rules. Repeated political declarations, most notably the Bonn Summit of last July, have emphasized how important the Tokyo Round is, and have committed the prestige of statesmen to its success. Indeed, the Bonn Summit set 15 December - a little over a month from now - as the target date for their completion, although certain developments since then have - as you are no doubt aware - somewhat complicated matters.
It is this political commitment, shared by the ninety-nine participating governments, that makes me confident of the success of the multilateral trade negotiations. They have had their fair share of alarms, and there will probably be more before the harvest is gathered in. Failure, however, having in mind the serious consequences for international relations generally, is politically inconceivable.

Admittedly, governments are still facing some painful choices in the negotiations. In the coming weeks, each will have to sacrifice certain things in order to achieve its vital objectives. A fully satisfactory outcome will depend on all the participants choosing the most liberal options open to them.

Very soon, however, the Tokyo Round will at last be over. What then will become the tasks ahead, the trade policy tasks of the 1980's?

I. The tasks ahead

Trade policy is a means, not an end. So too, one should remember, is international trade itself, which in the last analysis takes place because it increases global welfare and contributes to better political relations.

As I see it, trade policy faces two broad tasks, which are linked together: to stimulate the growth of trade, and to encourage continuous adjustment to fast-changing trading conditions.

1. Stimulating the growth of world trade

The need to stimulate the growth of world trade is all too obvious at present. The volume of world trade has been growing over the past four or five years by rates averaging well under 5 per cent. This is barely half the average rate for the ten euphoric years from 1963-1973. This trend is part of the reason why international trade relations have recently been tense, and indeed why unemployment has been high, and investment low.

Trade policy alone cannot bring back strong and sustained growth to world trade. Other, non-trade elements will have to be put right, notably inflation and monetary disorder. But at least this is now understood. It has been explicitly recognized by statesmen, most recently at the Bonn Summit. Serious efforts are being made to reduce high levels of inflation, and to bring currency instability under better control. One must hope that political hazards will not disturb the inevitably lengthy and delicate process of putting the general economic situation on a healthier basis.

Nevertheless, there is much that trade policy can contribute to the expansion of international trade, as I shall try in a moment to show. It is very necessary that it should make that contribution. With trade
expanding again, one would see less tension in international trade relations, less protectionist pressure, and less unemployment. And it would become much less difficult to accomplish the second task of trade policy - that of easing the necessary continuous adjustment of trade relations to a fast-changing world.

2. Adjustment to fast-changing relations

In assessing the task of adjustment that lies ahead, it may be useful to look in turn at the changing relations between - and also inside - major categories of countries: the market-economy industrialized countries which may be briefly if somewhat inaccurately labelled 'The North', the developing countries of the South; and the socialist, state-trading countries of the East.

(a) North-South trade

A lot has been learned about the trade issues of North-South relations in recent years, although it may be doubted whether the full conclusions have yet been drawn.

It took the oil crisis of 1973, and its aftermath to discover the reality that lay behind the slogan of interdependence, and to ensure that economic and trade policies took into account this reality. It took the four years of recession and stagnation to make people understand the rôle played by the markets of developing countries in sustaining economic activity in the industrialized countries. In the past two years, it has been the demand by the developing countries (the oil importers as well as the oil exporters) that has helped to stabilize world trade. And increasingly, it is becoming recognized, not only intellectually but by traders who are actively planning for the years ahead, that the most dynamic trade flows of the coming decade are going to be those between North and South, with the developing countries in particular holding out the promise of potentially enormous markets.

It remains to translate this fresh perception more forcefully into North-South trade relations.

The task is twofold.

From the industrialized countries' side, they must be prepared to make room increasingly for imports from the developing countries. There are obviously great difficulties, particularly sectoral difficulties, in doing so. But the problems should be seen in perspective. The share of developing countries in the value of total imports of manufactures by market-economy
industrialized countries is a mere 7½ per cent. Trade in manufactures between North and South runs four-to-one in favour of the North, and although the proportion is shifting very gradually in favour of the South, the actual surplus of the North is still growing. These figures show how unfortunate it is that industrial countries, which are politically committed to give more favourable treatment to imports from developing countries, should feel compelled to discriminate against them in some important sectors.

From the side of the developing countries, they will have to become more fully involved in trade relations. They should be prepared to share increasingly in commitments to liberalize trade policies, and to accept trade rules and procedures: in short, to be progressively integrated into the international trading system.

The two aspects, the responsibilities of North and of South, are linked. Developing countries need to know that they can find markets in the North before they can invest with confidence in the industries where they have a competitive edge and move away from policies of self-sufficiency. Industrialized countries want to know the extent of the commitments they will assume in providing special or differential trade treatment to the South. This shows the need to structure North-South relations not in an adversary manner but through constructive negotiations.

North-South relations are likely to be a central concern of trade policy throughout the 1980's, as in the 1970's. What is being done in the Tokyo Round is just a start, and we have only begun to deal with the complicated issues we face.

I need not stress here the political importance of giving the developing South the assurance that the liberal trading system is capable of meeting its development needs. Even setting political considerations apart, however, and concentrating on purely trade aspects, it would be shortsighted of the industrialized countries to restrict the growth of imports from developing countries, for it is the markets of the South which are going to be growing most rapidly in the coming decade.

(b) South-South trade

The potential for trade expansion among developing countries is perhaps even greater than between them and the rest of the world. Not only are there excellent economic reasons why South-South trade should grow: these are reinforced by the strong political desire of developing countries for greater self-reliance. Already the growth is impressive, although admittedly from a small base. A striking example of the recent evolution from traditional trade patterns is that Brazil now trades more with other developing countries than with the United States.

The possibilities of South-South trade are still largely unexplored and untapped. Within GATT, a first attempt to foster it on a worldwide basis was made through negotiations for mutual, preferential tariff cuts.
that were successfully concluded in 1971, and entered into force in 1973. So far, only nineteen countries are participating, but they account for more than half of all developing-country exports of manufactures. The next step will be to build on this modest beginning, enlarging the number of participants and widening the trade coverage of the concessions.

(c) East-West trade

Trade relations between the market-economy industrialized countries—the OECD countries—of the West and the socialist centrally-planned countries of the East represent another area of unfinished business. It must be admitted that no one as yet has a clear idea of how the problems are to be tackled, but the objective must surely be the better integration of East-West trade into multilateral trade. An important start has been made by the entry of many, though not the very largest, of the Eastern countries into GATT.

Up to 1973, trade in both directions between East and West expanded very rapidly. Then Western demand slackened, while Eastern demand remained strong for Western goods bearing sharply higher prices. A yawning deficit opened, and was financed by debts estimated to have reached $46 billion last year. Inevitably, the East has now been forced to cut back its purchases, but its long-term interest in buying Western industrial products is likely to remain strong. To buy these products, and to finance its foreign debt, it needs to sell to the West.

East-West trade presents some special difficulties which will call for adjustments on both sides. How this adjustment can be brought about will require the attention of trade policy makers in the coming years. One need hardly stress, however, the political, apart from the economic, advantages of integrating the socialist centrally-planned countries more fully into the world trading system.

(d) Before leaving this subject of adjustment, let me offer one reminder. It is that successful international adjustment presupposes continuous internal adjustment within each industrialized trading country.
If the world trading system has been undermined in recent years, the reason has in large part been a failure to adjust to changing circumstances. The protectionist pressures now so evident come mainly from industries that did not adapt sufficiently when conditions for doing so were far more favourable than they now are. But protectionism, if tempting as a very short-term palliative, remains a self-defeating policy, which fosters inflation, misdirects and hampers investment and innovation, and thus does great damage to employment prospects. Finally, protectionism compels retaliation in the trade field from other countries, damages international economic and political relations, and is highly infectious.

Unfortunately, protection's prizes are awarded to identifiable sectors which use their votes and influence to lobby against imports. The much larger costs of protectionism to the economy as a whole are more widely diffused, to such an extent that no effective lobby for liberal trade policies exists. I wish it did. I regret that consumer associations do not press more vigorously for the liberal trade policies which promote lower prices and wider choice for their members. I also regret that exporting enterprises do not react more loudly when their markets abroad - and thus their growth prospects - are threatened by retaliation against import restrictions at home.

To counter the protectionist threat, and to facilitate unavoidable adjustments, governments need to encourage vigorous adjustment that will prevent any further erosion of the area of liberal trade, and win back some of the ground previously lost.

Admittedly, against the background of the considerable pressures of all kinds to which governments are exposed, this is easier said than done, and adjustment will certainly be a continuing concern of trade policy throughout the 1980's.

II. The way ahead: a programme for trade policy

So much for the tasks of trade policy. How are they to be tackled? How can trade policy put international trade back on the right track, and keep it there?

The answer, I believe, lies in further liberalization, better trade rules and procedures, and concerted action when necessary to meet trade problems as these arise.
I would suggest a programme for trade policy in three points:

1. **Bring the Tokyo Round to a successful conclusion**

   The first is to bring the Tokyo Round of multilateral trade negotiations to a successful conclusion. In these negotiations, the aims of the 99 participating countries, which together account for over 85 per cent of world trade, are:

   - to bring about further liberalization, so as to open up new market opportunities and provide a continuing counter to protectionism;
   - to improve and rejuvenate the institutional framework of rules and procedures that governs world trade, and thus to provide the trading system with greater certainty, equity and stimulus for investment;
   - and to accommodate the changing relations between countries and between groups of countries.

   As I have already mentioned, the Tokyo Round is now very far advanced. The probable results of the negotiations, to summarize briefly, will be to reduce import duties; to reduce or remove the trade-restricting or distorting effects of important non-tariff measures, such as customs valuation rules, government procurement practices, subsidies, and technical and health standards; to enlarge and stabilize opportunities for trade in agricultural products; and to adapt to present-day and future needs some of the basic rules of GATT on such matters as the rights and obligations of developing countries, the use of emergency safeguard measures against imports and the settlement of trade disputes.

   In all, this constitutes an opportunity for a fresh start in trade relations: a chance to open up new trading opportunities and get trade expanding strongly once again. But completion of the Tokyo Round must not be taken as a signal to relax. Opportunity must be translated into achievement. The success of the negotiations will be judged at least as much on the way the results are put into effect as on the results themselves.

2. **The GATT rules and procedures, rights and obligations**

   The second point in my suggested programme for trade policy in the 1980's thus leads on directly from the first. It is to reinforce and apply the rules of the game - in other words, the rules of GATT.

   Reinforcement of the GATT system is expected to come initially from the Tokyo Round. An important part of its likely results will take the form of new codes, procedures and
institutions. These innovations should bring existing provisions of the General Agreement up to date, by improving and clarifying their operation, making them more equitable, and at the same time supplementing them by introducing new disciplines where these are necessary. The immediate next step, as soon as the Tokyo Round is over, will be to start putting the new or improved arrangements, codes, procedures and institutions into effect. The sooner this is done, the better. The aim must be to make of them a consistent and smoothly-operating system of principles and rules to guide trade policies.

No negotiator can hope to anticipate fully the circumstances to which a new rule will later have to apply. The best one can do is to establish a solid political and legal basis on which trade policy can subsequently build as necessary, by interpreting, adjusting and developing the agreed rules to meet the evolving needs of the trading community.

While it is the trading community as a whole which negotiates the rules, it is the great trading powers which mainly determine, by their own behaviour, whether the rules are to be effective. Confidence in the new basis for trade relations that will emerge from the Tokyo Round must be established as soon as possible. The best possible demonstration that such confidence is justified would be the sight of major trading countries taking the lead in accepting the disciplines of the revised rules. The very first test cases will be decisive, since they will show how seriously countries intend to take their responsibilities, and will set the precedents for all later cases.

I very much hope, therefore, that the members of GATT will not hesitate to invoke and insist on the new rules, even when these bear on matters which are highly charged politically. Rules need to be tested in a multilateral arena.

The gradual deviation from the present GATT rules lies at the root of much of the tension now evident in international trade relations. The immediate post-Tokyo Round period will provide a priceless opportunity to reassert the rule of law in trade relations. If the opportunity is not seized, it will not recur for a long time.

3. GATT as a forum for consultation and concertation

A set of up-to-date trade rules and procedures, reinforcing an agreed programme of liberalization spread over the coming decade, should go far toward restoring international trade relations to health. But not, I believe, far enough. More is needed.
This brings me to my third and final point. A programme for trade policy in the 1980's must give prominence to much closer and more continuous concertation of views among governments on the broader trade issues. GATT as an institution must provide the forum where this concertation of views can take place. It must, therefore, add to its important function as a legal framework for trade relations and supplement its traditional rôle of negotiating and implementing trade concessions and commitments, discussing concrete trade problems, and settling trade disputes.

The necessary climate of co-operation and confidence will not be established easily and will certainly not be established on the basis of improved mechanisms alone. The need is for discussion of trade issues, not on the basis of legal considerations, but in broader terms with a view to the concerted development of trade policy.

GATT members are governments representing countries in all parts of the world and of widely different outlooks. But in an increasingly interdependent world they will have to consult together much more than in the past. They will have to seek to reconcile their ideas and policies if they are to respond effectively to the need to keep world trade expanding strongly and to the changing relations between, and among, North and South, East and West. A wide concertation of policy seems to me to be essential if the post-Tokyo Round institutions are to function effectively. This kind of discussion takes place all the time among those responsible for monetary policy. It has never become established practice for trade policy.

As I see it, the need is for continuous monitoring of trends in trade, for identification of new issues of concern as they arise, and for consultation on these issues so as to articulate the alternative policies available and to prepare the way for such action in concert as may be required.

At the highest level, an example of such concertation has been set by the successive Summit meetings of Heads of State or Government, most recently and impressively at Bonn. The example has now to be followed at the operational level and widened to a much larger circle of countries. A very tentative beginning has been made in GATT, through the establishment of a group of senior officials, representing all categories of trading countries, who meet about three times a year to consult together on trade policy issues.
GATT's future development ought therefore to be oriented in a larger degree toward trade policy consultation and co-operation than in the past. This implies that the member governments and their senior officials must be prepared to take a more dynamic and evolutionary view of the use they can make of GATT as an instrument for trade policy. It also implies that governments have to be prepared to give the GATT secretariat more responsibility to notify infractions of the rules and more leeway to signal events and actions that require their attention.

Conclusion

This is a critical moment in international trade relations. With the imminent completion of the Tokyo Round negotiations, the world trading community is arriving at a time of fundamental choice. It is a choice that Britain is well-placed to influence. Trade relations can continue as they are going at present - that is to say, drifting toward ever-greater permissiveness and protectionism, with a serious risk of a disastrous breakdown. Or instead the trading nations can seize the opportunity of making a fresh start, and can demonstrate that they have faith in their own future within a liberal economic system.