TRADING PERSPECTIVES FOR THE 1980's

Address by Mr. Olivier Long, Director-General,
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Introduction

It is an honour and a pleasure to be given the opportunity of addressing this distinguished audience.

Everyone here, I am sure, recognizes the powerful motive force that international trade provides for economic development. Export demand calls into being new, dynamic and competitive industries. These in turn create employment opportunities for the young and plentiful labour force that is both a source of hope and a heavy responsibility for countries such as India. Export earnings finance imports, and service external debt.

The extraordinary expansion of international trade has been among the most striking features of the world economy over the past generation. Nevertheless, that growth has faltered in recent years. The 1970's were a troubled decade for trade and for international trade relations. As the 1980's open, the outlook is cloudy. Problems of debt, of inflation, of energy prices, and of unemployment; pressures for protection in major export markets - these and many other difficulties will test severely, over the coming years, the political determination of governments and the skills of business.

Against this somewhat bleak background, it is significant that the Tokyo Round of multilateral trade negotiations has been brought to a largely successful conclusion. It is in the light of its completion, just a few weeks ago, that I should like today to consider the present outlook for international trade relations, and prospects for the growth of trade itself in the years immediately ahead.
I. The trading system after the Tokyo Round

The Tokyo Round was without doubt the most ambitious, and the most complex, set of trade negotiations ever attempted. The groundwork for the negotiations was laid from 1968 onwards; they were launched in 1973; and they were concluded only in December 1979. Effectively, the results now brought to birth have been more than a decade in gestation. They can be expected to define the shape of the multilateral trading system for at least a further decade to come.

The political significance of the completion of the Tokyo Round deserves to be stressed. The successful conclusion of an international economic negotiation of such difficulty and magnitude is a welcome event. It contrasts strikingly with the otherwise depressing present state of economic affairs in the world.

The Tokyo Round negotiations took place in highly unfavourable circumstances, and with the prospect of continuing difficulties ahead. Their success, in the face of this heavy handicap, has added to the confidence of governments in their ability to work together to seek solutions to trade problems, and to handle them within a balanced framework of rights and obligations. The participants have agreed to take on far-reaching new commitments. They have demonstrated to each other and to business their clear choice and determination to put international trade back onto the path of growth, and to continue working together for this purpose.

I find this very encouraging. Two years ago, when the protectionist tide was running most strongly, there was serious reason to fear that the fabric of postwar co-operation in trade might yield under the stresses to which it was being subjected. Today, that fabric not only survives, but is greatly reinforced.

What in concrete terms, are the results of the Tokyo Round?

I see these results as falling under three broad headings: a reactivation of trade liberalization on a worldwide scale; a clarification and improvement of the rights and obligations of governments and of all who engage in international trade; and lastly, more favourable treatment for developing countries. Let us look briefly at these three headings in turn.

Liberalization, to take the first heading, came to a halt eight years ago, when the final Kennedy Round tariff reductions, negotiated in the mid-1960's, came into effect. Now the process is set in motion again, resuming the fundamental trend of the whole postwar period.
Just over one month ago, on 1 January, the first instalment of tariff cuts under the Tokyo Round came into effect. Further progressive reductions, staged over eight years, will bring down the average level of import duties of the industrialized countries by about one-third. They will also significantly reduce the element of escalation in the tariffs of these countries. The reductions will be permanent, because they will be bound. This means that they will not be subject to unilateral withdrawal, as is sometimes the case for preferential duties if the exporter's success becomes disquieting.

Liberalization will extend also to certain non-tariff barriers which will be eased, or even eliminated. This will be the result, for example, of the agreements reached on technical standards and on government procurement. The latter agreement alone will open up new sales possibilities worth over 30 billion dollars annually to foreign suppliers.

The second broad consequence of the Tokyo Round is an improvement of the legal framework governing international trade, together with specific agreements applicable to non-tariff barriers to trade. The rights and obligations of participating governments have been re-defined by a series of highly technical codes of conduct dealing with such matters as customs valuation rules, the use of subsidies and countervailing duties, and measures to deal with dumping. The codes also provide for surveillance of the operation of the rules governing trade in coming years so as to make them stronger, more transparent and fairer in their application.

The third aspect of the results is the more favourable treatment provided for developing countries in nearly all the areas covered by the negotiations. This takes a number of forms. There are improvements in market access for tropical products, and accelerated implementation of some tariff concessions. More importantly, there are special provisions of one kind and another in the non-tariff measure arrangements - for instance, recognition that subsidies form an integral part of developing countries' development programmes, and technical assistance under the standards code. These are all aimed at ensuring that the agreements give adequate attention to the special trade and development needs of developing countries. And there are the new trade rules established under the so-called "framework" agreements. One makes history in international trade relations by providing, for the first time, permanent legal authority for trade preferences in favour of, and among, developing countries. Another makes it easier for developing countries to introduce special measures of protection if they consider these necessary in order better to meet their economic needs.

Looked at in the light of India's present and potential trade, certain of the Tokyo Round results seem to be of particular interest. Tariff concessions made by India's three major trading partners - the United States,
the European Communities and Japan - will affect 85 per cent of their dutiable imports of industrial products from India. Among the non-tariff agreements, the standards code, for example, offers clear advantages to countries with a diversified export structure. The government procurement agreement is of interest to any country which has shown itself successful in bidding against tenders issued in other countries. The agreements, such as those on subsidies and countervailing duties and on anti-dumping duties, offer the assurance that certain principles and disciplines will be followed by importing countries before action is taken against exports which might be regarded as being subsidized or dumped.

No doubt, the Tokyo Round has also resulted in some disappointments. One is the failure so far to arrive at an agreement on safeguards. This question is now to be taken up in a newly-created committee in GATT. Other results sometimes fall short of earlier expectations. For example, some labour-intensive manufactures from developing countries, such as textiles and leather goods, will continue to encounter substantial protection. The unfavourable economic environment certainly made participants less willing to open up their markets than they would have been in the earlier heady days of continuous boom. Nevertheless, it surely makes better sense to respond to the stimulus to trade offered by the very substantial results achieved in the Tokyo Round negotiations than to spend further time regretting what has not been attained. It is now time to work, and to make the best use of the possibilities available.

II. The outlook for trade policy

The UNIDO conference here in New Delhi has over the past few weeks brought home to all the extent to which industrialization is critical to the growth of developing countries, and not least of India. Hopes, and plans, for industrial growth depend in turn on the expansion of international trade, and on the growing participation of developing countries in this trade.

What are the present prospects?

It is, frankly, difficult to make any confident forecasts. The economic outlook is still far from encouraging, and subject to a large number of influences at whose effect one can only guess. Against this, however, trade continues to grow, and year after year usually manages to do so by a larger proportion than expected. Preliminary estimates made in the GATT for 1979, for example, show a 7 per cent rise in the volume of trade compared with 1978, when in turn it was 6 per cent higher than in 1977.
I have already indicated earlier how the Tokyo Round results should help to stimulate trade. Governments, having accepted stricter rules for the conduct of trade and knowing that others are bound by the same disciplines, should also be better able to contain pressures from economic sectors seeking protection against foreign competition.

Of all the results of the Tokyo Round, however, I suspect that the most significant for the future of international trade, and indeed for international relations generally, may in the long run prove to be the closer integration of developing countries into the world trading system.

This is a matter both of number and of degree. In number, developing countries now form a large majority of the GATT membership, and their ranks are still growing. The Philippines has just joined; Colombia and Mexico have successfully negotiated the terms of their accession. In degree, developing countries are far more active participants in negotiations than in the past - and here I must pay tribute to the initiative and high competence consistently shown by India's negotiating team. Developing countries have won substantial trade liberalization, and more favourable treatment in the new trade rules. Some have also committed themselves to begin reducing their own trade restrictions, and to join in accepting the co-operative disciplines of the non-tariff agreements.

We have indeed seen in recent years what I regard as a very welcome shift in the basic thrust of trade policies adopted by many developing countries. Increasingly, they have been moving away from primarily import-substituting policies toward the encouragement of industries capable of competing on level terms with those of other countries. Evidence of their success is to be found in the trade statistics. Non-oil-producing developing countries have consistently, in recent years, shown a faster rate of growth in export earnings from manufactures than from primary products. In 1978 and in 1979, the stage has been reached at which manufactures account for almost as large a proportion of their total exports as primary products.

Confronted by inflation and the rising cost of energy and other imported inputs, many developing countries have seen large increases in their import bills, leading to still greater pressure on their balance of payments. There is however evidence that it is those countries which have relied mainly on a continuing expansion of exports, rather than on efforts to cut down imports, that have been more successful in dealing with these pressures and in maintaining economic growth. I recognize that protectionist pressures in export markets, particularly for products such as textiles and clothing, can create great difficulties for developing countries, and pose a challenge to international trade relations. We know that the answer to the problem - diversification on the side of the exporters, and adjustment by the importing countries - is more easily stated than achieved. Nevertheless, I am sure that outward-looking trade policies which are based on a dynamic perception
of comparative advantage represent the best approach for developing, as well as developed, countries. We must not forget that, for all countries, imports are not merely a source of competition. They are an agent of technological development and change, and competition itself is an essential stimulus for efficiency and growth.

While the application of such outward-looking policies is primarily a matter of national responsibility, much can be achieved through international co-operation. The Tokyo Round is of course a leading case in point. And the Tokyo Round itself is only a part of what is loosely called the North-South dialogue, that larger exercise in mutual persuasion aimed at fostering the growth of developing countries, and making them full partners in the world economy. It is a long-term endeavour, and completion of the multilateral trade negotiations is only one stage, not the end of the road. The opening up of markets to developing countries' exports will have to be pursued unremittingly in the coming years.

Happily there is now growing understanding in the industrialized countries of the common interest of all nations in pursuing this effort. The recent UNIDO conference has served to illustrate with a wealth of detailed figures what we in GATT have been stressing for some time - the role played in recent years by demand in developing countries in sustaining economic activities in industrialized countries, and serving as an engine for the growth of world trade. To pick out just a few GATT statistics, last year alone, exports by the industrialized market-economy countries to non-oil-exporting developing countries grew by 15 per cent in volume. About 15 per cent of total exports of manufactures in 1979 by these industrialized countries went to the oil-importing developing countries. This trend is providing governments of industrialized countries with a powerful new argument with which to resist pressures to provide protection against imports from developing countries - the argument of essential convergence of interests.

A further promising element in the outlook for world trade is the present upsurge in the interest of developing countries in trade among themselves. Since 1973, encouraging experience has been gained in GATT from a modest but pioneering exchange of trade preferences by a group of developing countries, in which India has played a leading part. With standing legal authority for such preferences now established, a large number of countries are engaged in preparing the ground for new negotiations aimed at expanding their mutual trade through an exchange of preferential concessions. The potential for enlarging trade among developing countries, and some of the means by which this might be achieved, have been identified in a number of GATT studies. And this enlargement will also contribute to the growth and dynamism of international trade as a whole.
Conclusion

You will forgive me, I hope, if I come back finally to the subject of the Tokyo Round negotiations, I do so for two reasons: to draw a conclusion, and to appeal for recognition of an urgent priority.

The conclusion is that progress in international trade relations involves a great deal of detailed attention and negotiations, directed towards specific products, specific problems, specific policy measures, rules and regulations which affect present and potential trade flows. The statement of broad principles, or the adoption of normative declarations, is not enough. GATT is essentially a forum in which governments seek practical solutions to the problems affecting international trade and its future growth.

The Tokyo Round agreements, with their imperfections and compromises, are important because they represent the product of hard bargaining on problems which are seen by both developed and developing countries as directly affecting their trade, because they have been endorsed by the GATT member governments and represent commitments to which their future policies will have to conform, and because they will now become the operational basis for trade in the 1980's.

The priority that I want to stress is perhaps obvious. The Tokyo Round results are no longer just agreements on paper. They have begun to be put into force. But no more than a beginning has yet been made. Judgement on the results must be based on their contribution to better trade relations and to expanding international trade. I believe that contribution will prove to be both substantial and positive - provided governments apply with determination the agreements reached, and businessmen exploit vigorously the new trade opportunities now opening up.

Daunting though the prospects may appear for the world economy in the years immediately ahead, I am confident that the trading system is in a healthier, more promising, state because of the Tokyo Round. Its outcome should stimulate the growth of world trade. It should also speed up the effective participation of developing countries in the international trading system.