LIBERAL TRADING POLICIES IN A CHANGING WORLD ECONOMY

Statement by Mr. Olivier Long,
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The twentieth birthday of EFTA provides cause for celebration. And it is appropriate that we meet here in Saltsjöbaden, because we thereby pay tribute to the leadership that Sweden gave to the creation of the Stockholm Convention.

Having myself been among the midwives assisting at EFTA's birth, it is a great personal pleasure to be here today. The pleasure is all the greater because there is no need for a standard formula of congratulation. EFTA's twenty years have been a genuine success story; an example of co-operation among liberal-minded trading countries which make it their business to develop trade not only among themselves but also with the rest of the world.

I. Trading in today's world

However, if we now turn to present circumstances, one has to admit that it is no easy task to maintain liberal policies, and it is not likely to be any easier in the coming years. The economic outlook is far from promising. I need not elaborate on this point; it is unfortunately too well known. But it means that trading in today's world requires a strong sense of purpose on the part of all engaged in it, as well as firm steering by governments to keep it on the right course.

Fortunately, trade relations have suffered somewhat less severely than other areas of international co-operation in the confusion bred by the economic ills and uncertainties of recent years. The international trading system has not only survived the battering it received during the 1970's: it has actually emerged reinforced by the recent successful conclusion of the Tokyo Round of multilateral trade negotiations.
No better example of a stubbornly-maintained sense of purpose, and of firm steering by governments, could be cited than the Tokyo Round. The success of these negotiations was achieved against heavy odds. It deserves notice at a time when it has become fashionable to denigrate achievements and to show defeatism about prospects for international co-operation. The negotiations are an object-lesson in how steadfastness and political courage can still achieve positive and concrete results.

The prospects opened up by the Tokyo Round are promising. World-wide trade liberalization, halted since the final Kennedy Round tariff reductions in 1972, has been resumed. Tariffs will be coming down every year throughout most of the coming decade; a wide variety of non-tariff measures are being brought under better control and in many cases will cease to hamper trade. The framework of international trade relations has been greatly reinforced by multilateral agreements that supplement and interpret many provisions of the GATT. Developing countries will be encouraged to progressively participate more fully in the liberal trading system by the more favourable treatment which the various Tokyo Round agreements provide to them.

These opportunities must now be firmly seized. The determination and co-operative spirit demonstrated in carrying through six years of multilateral negotiations will need to be shown again in putting the agreements into full effect. And once more political courage will be required to do so in the face of the difficulties in trade relations likely to arise throughout the 1980's.

Such difficulties are all but inevitable, in view of the increasing complexity of trade relations.

The intensity of trade flows have expanded beyond anything we might have imagined a generation ago. Not only is the sheer volume of international trade now nine times what it was when GATT came into force in 1948, but trade flows are far more closely intertwined and dependent upon one another.

At the same time, the number of participants in trade has grown. Developing countries, and also socialist economy countries, have shown themselves increasingly interested in diversifying their trade, and in putting it on a multilateral basis. In consequence, we see them coming, one after the other, into the GATT, and once there joining more and more actively in its work.

A third element in this intricate pattern is the North-South polarisation of the debate between developed and developing countries on international economic and trade policy.
All these fundamental trends - the greatly-increased intensity in trade flows, the steady enlargement in the number of participants, and the North-South polarization of the economic debate - are taking place in a period of faltering growth and in the midst of all sorts of economic disturbances. The inevitable consequence has been tensions in trade relations, and a real risk of trade conflicts and of a relapse into protectionism.

How, in these circumstances, can order be maintained in international trade, and its continuing progress be assured?

II. Perspectives for trade relations

The difficulties cannot be denied. They are serious, and it is not impossible, should the wrong policies be adopted, for the international trading system to be badly damaged in spite of its recent achievements.

Nevertheless, the fact that the problems are recognized is already encouraging. There is a shared understanding of what is at stake, of the need to keep trade flowing and expanding. There is a far better perception of our interdependence, to use that overworked but nonetheless indispensable catchword of our time. And in particular there is a broadening recognition of the need to keep open, and widen, the channels for the exports of developing countries; a recognition based on recent experience of how demand from these countries has contributed to maintaining the growth of international trade.

The task for trade policy in the coming years will be to build on these perceptions. The aim must be to promote a convergence of interests among all the participants in the international trading system, to avoid sterile and damaging confrontations.

Of course, trade problems arise from time to time among the developed countries; but one should not be overly concerned about this. These countries have long experience of working together. They have been cooperating closely for a full generation. More recently, many of them have boldly and successfully engaged in economic integration. They have had long practice in finding ways of overcoming their differences and disputes. Their consciousness of shared concerns ought to prompt them to continue to do so.

A perfect example of this convergence of interests among developed countries is given by the twentieth anniversary of EFTA that we celebrate here today.

While one can be reasonably confident about the future of trade relations among the industrialized countries, those between North and South must be given urgent attention if serious risks of confrontation in the coming years are to be avoided.
For as long as any of us can remember, the great bulk of world trade has been conducted among the industrialized countries. This will no doubt continue to be the case for some time to come. But trade has been growing far more rapidly in recent years between North and South. I am convinced that whereas in the past generation the driving force of trade growth was the exchange of goods among the developed countries, in the generation to come that driving force is more likely to be the exchange between North and South. And if I am right, the key to a continuing expansion of trade must be the opening-up of markets in the North to the products of developing countries. Only if these countries are given the opportunity to expand their export earnings will they be able to deploy their own immense potential as importers. In this perspective, readiness to accept more developing-country exports is a matter not only of moral obligation, not only of political wisdom, but also of enlightened economic self-interest.

Of course, this is easier said than done. It raises, inescapably, all the domestic problems of adjusting to competition from a new quarter. But these problems have, I believe, been considerably exaggerated.

The strong emphasis currently being laid in the North-South debate on the issue of structural adjustment is somewhat excessive. On one side, calls are being made for governments in the North to intervene to bring about a shift of industry to the South in a manner that is difficult to reconcile with the actual functioning of a market economy. But on the other side also, in the developed countries, the problems involved in adjustment are surely being exaggerated. Adjustment is continuous and necessary in a properly functioning economy. And studies in GATT and other institutions, of widely differing viewpoints, have been unanimous in showing that imports from developing countries have played only a minor role among the various pressures making adjustment necessary in the industrialized markets.

In a period of slow growth, an extra effort will indeed be required of developed countries to accommodate these imports. However, it is a supplementary effort, not a completely fresh challenge, and certainly not one which cannot be handled within the existing institutions and structures of our society.

An effort will also be required of developing countries. They certainly need special and more favourable treatment under the trading rules. But their needs are not all the same, nor are they equally acute. And as their economies progress and grow stronger, they should be able gradually to assume greater responsibilities, they should participate more fully not only in the rights but also in the obligations of the international trading system. They themselves have recognized this in an important agreement that emerged from the Tokyo Round.
The rôle of EFTA in this evolution of trade relations between North and South is surely clear. As liberal-trading countries, they have a responsibility to set an example: to show themselves open to trade with the developing countries. Of course, the EFTA countries must remain among the leaders in providing financial aid for development. But it is even more important, and in their own long-term interest, that they be ready to accept increasingly on their markets the products of the South.

Conclusion

As I said at the beginning, we are here today to celebrate the success story of the EFTA countries. While wishing them many happy returns, I hardly need to remind them that the trading challenges of the remaining two decades of this century are likely to be no less great than those of the twenty years that EFTA has just completed. The healthy growth of world trade requires an inevitable and far-reaching adaptation of trading relations. This will demand from the EFTA countries, as well as from their trading partners, a continuing demonstration of those qualities of co-operation, of firmness of purpose, of liberality of outlook, which have carried them through the difficulties of recent years.