MULTILATERALISM AND REGIONALISM CAN SUPPORT EACH OTHER
SAYS DUNKEL, BUT "MANAGED TRADE" IS A THREAT

The Director-General of GATT, Mr. Arthur Dunkel, today (24 May 1993) warned that the idea of "managed trade" was a threat to the multilateral trading system. He also said that governments should pursue environmental and social goals through appropriate international bodies, not through the unilateral imposition of standards, or the use of trade policy as a weapon.

Mr. Dunkel was speaking in Seoul at a meeting of the Pacific Basin Economic Council.

Referring to the Uruguay Round, Mr. Dunkel noted encouraging expressions of commitment to a rapid result. He called on world leaders attending the Economic Summit in Tokyo in July to bring credibility to the December 1993 deadline contained in the request by President Clinton to the US Congress for new "fast track" negotiating authority.

The full text of Mr. Dunkel's speech is attached.
Address by Mr. Arthur Dunkel, Director-General of GATT, to the 26th international general meeting of the Pacific Basin Economic Council, Seoul, 24 May 1993

In the last ten years or more, I have had the privilege of carrying out consultations in the capitals of a majority of the contracting parties of the GATT, who now number more than one hundred.

In none of these countries have I seen so much change from one visit to another as I have in Korea. And I cannot think of many other countries which have managed in such a short period of time to make their products a standard item in the world's shop window.

I cannot, therefore, help but refer to Korea when I am looking for examples of how great can be the benefits of integrating an economy into the world trading system. I won't burden you with the figures, but they support the case in a most impressive way.

This is not to say that the trading world that Korean exporters may dream of is yet a reality - any more than the Korean market that other exporters dream of is yet perfect.

But the trend is clear, as are the opportunities which are there to be taken, and I have no doubt that here - perhaps more than in many other places - it is widely recognized that change and adjustment based on entrepreneurship are the sources of economic growth.

And change is indeed one of the major features of the world economic and political scene at the end of this century. Today, globalism is turning truly global, thanks to the end of the Cold War, which saw it applied on less than a worldwide basis. Regional trade initiatives, too, existed in a much narrower range of regions than they do now. So, the theme of my remarks has to be considered as part of a fundamental reshaping of the whole geo-political and economic order.

Anyway, I must confess that the title of this session - "Globalism versus Regionalism" - sounds to me like a heavyweight wrestling match (if I was in Japan, I would say sumo). I am not sure whether I am supposed to be the referee or the commentator - or indeed the victim! In any case I am afraid I am going to disappoint the fans by calling the fight off. The truth is, there is no good reason why globalism and regionalism should be adversaries. On the contrary, provided their relationship keeps to a few basic principles, they can and should be partners in the greater cause of improving world trading conditions and increasing trading opportunities for all. Their true fight is a shared opposition to protectionism and distortions of competition, which are as big a threat to healthy regional integration as they are to the global trading system.

Now that I have delivered my message I could either leave the platform or stand ready to receive rebuttals. But let me take a little more of your time.

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In my article for this conference, I outlined the economic and legal interaction between regional initiatives and the global system embodied in the GATT. Taking that factual analysis as the background, I want now to strike a more political note. I think it is time to reflect on some of the questions that arise when regional and global agreements come face to face in the GATT, the issues involved in ensuring they are truly complementary, and the threats that both face. This will also mean taking stock of where we are in the Uruguay Round, which affects regional and global trade alike.

As I pointed out in my article, regional trading arrangements have a long history, and one which has often been controversial. For the countries involved - and their business communities - the evaluation of costs and benefits has often been difficult.

And for non-member countries, there is always anxiety about the potential loss of markets from trade diversion.

However, in the same way as trade is not an end in itself but an instrument to promote economic and social development (as the GATT's preamble makes very clear), trade may not be the only motivation behind integration initiatives. There is no need to remind you that GATT itself was conceived as a means to ensure that the confrontation of interests in the trade policy area could be kept under control and not spoil political relationships. Hence the "most-favoured-nation" clause, whose meaning is that if you don't treat everyone on the same footing you end up by making some friends but at the same time facing a crowd of opponents.

In the same way, nobody can deny that the only example in the world of a customs union with supranational authority, the EEC, is based on a concept of integration in which political and strategic considerations are very much present, to say the least. The sequence of the European integration process, starting with the sectors which were then considered the basis of armaments - iron and steel - moving to nuclear energy, and then going step by step through the single market and the social charter to aim, finally, at monetary and political union, bears this out.

It would be worthwhile to examine in the same way some of the other regional cooperation agreements in force or under consideration around the world. I am sure we would find that, beyond trade policy considerations, their promoters have also very much in mind such factors as nailing down political reforms, sustaining modernization and growth in developing countries, bringing investment to where labour is available (and not the contrary), nullifying artificially-created borders, etc.

All these elements taken together may explain, at least in part, the recent increase in regional initiatives. These factors should not however prevent us from putting some urgent questions which properly belong in the field of trade policy:

- Are new or prospective regional arrangements born of a desire to expand regional trade as a part of a liberal system based on multilateral rules?
- Or are they part of a move away from the disciplines of the multilateral system, a trend which leads ultimately to isolationism?

- And, how far are they driven by frustration, not only at the slowness of the Uruguay Round in delivering global liberalization and improved conditions of competition, but also at a negotiation apparently dominated by the major powers?

No one answer holds true for all of the different regional schemes now in place or under consideration. The most I can do is point to some general trends and draw some overall conclusions.

Firstly I take it as a positive sign that so many of the countries involved in regional agreements are also active and committed participants in the multilateral system. This is particularly true of countries in this hemisphere and in Latin America, for example: not everyone is aware that the dynamic trading performance of many of these countries has lifted the global trade figures for the last year, compensating for the recession in the OECD. An extraordinary turnaround, I think you will agree.

These countries clearly see no contradiction between pursuing regional integration and multilateral liberalization. They include some of the most recent members of the GATT, and in many cases one can see that GATT membership was the starting-point, the essential basis of security from which they could explore complementary regional avenues.

Take the case of Mexico, which started preparations for NAFTA once it had joined the GATT in 1986. It seems inconceivable to me that Mexico could have considered entering into such regional arrangements without first ensuring its rights under the multilateral system, through GATT membership.

Likewise the newly-liberalizing economies of Eastern and Central Europe and of the former USSR - who have had ample, disastrous experience of inward-looking regional associations such as COMECON - are seeking both GATT membership and new, open forms of regional agreements, in parallel, in order to claim their place in the global market economy which is taking shape.

On the other hand, it would be foolish to deny that the delay in concluding the Uruguay Round is proving a severe test of faith for some of these same countries, especially those who are looking to it to bolster their unilateral economic reforms. Their desire for more rapid trade liberalization is no doubt a factor encouraging them to explore regional possibilities.

Countries - like businesses - cannot afford to neglect any profitable possibility. It is perfectly reasonable that they should pursue whatever advantages regional initiatives offer them, while simultaneously working to maximize these advantages in the global negotiation. Indeed it would be surprising if they did not.
I would say that the growth of regional trading arrangements would become a threat to the multilateral system only if these groupings were to turn inward on themselves, erect new trade barriers, and become hostile blocs. The world last saw this in the 1930s, and I do not need to dwell on the horrible consequences. In fact, the GATT was born from a collective determination not to repeat those mistakes, and I remain confident that the world's political leaders will not forget - will not be allowed to forget - the painful lessons of our recent past.

One word is the key to keeping hostile trading blocs in the dustbin of history where they belong. That word is "openness".

Openness is indeed the touchstone for regional agreements. It describes trade agreements which make a net addition to the volume of world trade rather than just diverting it; which break down existing trade barriers without erecting new ones; and of course, which follow GATT rules.

The crucial challenge for policy-makers is to ensure that existing and future regional agreements remain open. This means designing them that way from the outset and making sure they work openly. But it also means much more than this. A regional trade grouping does not exist in a vacuum any more than a country does. I do not give much for the chances of anyone being able to construct and maintain an open regional arrangement except as part of an open multilateral trading system. Openness cannot be kept for a privileged few to enjoy; if it is walled up, it dies.

Countries committing themselves to regional trade arrangements must also, therefore, renew their commitment to the open multilateral trading system centred on the GATT. Even if in a quarter of a century from now the global trading scene were composed of a number of regionally-integrated markets, together with some big or small nations which were still totally autonomous, their mutual relationships would have to be concluded under a multilateral system of rules. In short, a GATT will always be a necessity. Not to speak of the need for members of regional agreements to define their trade policy vis à vis the rest of the world - and each other - on the basis of universally-agreed rules and principles, instead of being subject to the rule of the strongest.

I wish I could assure you that this was generally recognized and acted on. However at present the evidence is mixed. On one hand we see newly-liberalizing economies like those I mentioned earlier eager to join in the benefit of the multilateral system through GATT membership. But on the other, in some longtime members of the GATT - and some of those who have benefited most from membership - voices can be heard calling into question the value of an open trading system. Maybe this is a reaction to the slow growth and the high levels of unemployment that the economies of the most advanced countries were not expecting to face.

Perhaps at this point it would be just as well if I made it clear what I mean by the open trading system. It does not mean unrestricted circulation of goods, services and capital, which is rarely to be found
even in so-called free trade areas. It means trade carried out according to principles such as non-discrimination and protection only through tariffs, within a multilaterally-agreed framework of rules, including safeguards for hard-core situations and dispute settlement procedures.

That was, and remains, the vision at the heart of the GATT. Even the imperfect realization of these aims, and the rounds of trade liberalization based on them since 1947, have contributed greatly to global economic growth. It is disturbing to see this fact being overlooked in favour of a new flirtation with protectionism in some of the world's leading economies, the more so at a time when hopes of a modest recovery in the global economy hinge on the prospects for growth in trade.

The truth is that the very success of the open trading system has brought to the forefront of the trade policy debate a number of competition-distorting policies which were previously hidden behind border protection.

Reduction of barriers to trade at the border (with the exception of certain persistent problem areas such as agriculture and textiles) has shifted the political focus to domestic policies, such as internal and export subsidies, technical standards, sanitary and phytosanitary measures, intellectual property rights - and of course to the relevance of services in the field of trade policy. Hence the agenda of the Uruguay Round, its high level of ambition and the tremendous challenge it constitutes compared with previous Rounds. Never have so many policies previously considered purely internal been put on the negotiating table.

But even before the Round is concluded, the trade significance of policies in other areas, such as the environment, labour standards and social policies is being considered. Here the danger is that legitimate and widely-shared concerns in these areas are being misapplied to trade policy, where they all too often translate into a belief that trade is somehow "environmentally hostile" or "anti-people". And all of the old protectionist interests are still out there as well, waiting for their chance at a comeback and all too happy to borrow some respectable new clothes.

Furthermore some of the politicians and officials who should be fighting for the open trading system that has made their societies more prosperous and more secure do not, because of the seductiveness of ideas of "level playing fields", "fair trade" or "managed trade".

We see, for example, attempts to impose domestic environmental or labour standards on other countries through trade measures, and attempts to open markets through bilateral pressure rather than in multilateral negotiation.

This bilateralism is a threat to open regional arrangements as much as it is to the open multilateral system.
What can be done about it? Everyone who has an interest in an open economy - and I think that means everyone in this room - should join in resisting the closing-in of minds and of trade.

We need a vigorous defence of the open multilateral system. We need to recognize the threat to the open trading system in the idea of "managed trade". It is fundamentally anti-multilateral, since it is inherently discriminatory. Remember my previous comment about the most-favoured-nation clause. Political leaders need encouragement to pursue environmental, social goals through specific, targeted domestic policies and through negotiation in appropriate existing international fora (e.g. ILO, UN agencies) - not through the unilateral imposition of standards, or the use of trade policy as a weapon. They need encouragement to act more in consistency with multilateral rules and principles (e.g. implement panel findings); and to renounce bilateralism.

Most of all, the open trading system needs - all our economies, all our businesses need - a conclusion to the Uruguay Round. This is the single most significant way in which the world's leaders could reaffirm their commitment to multilateralism and do us all some economic good at the same time.

I would be failing to meet the openness test myself if I did not share with you my assessment of where the negotiations stand at present.

"So near and yet so far" has been the best description of the situation for some time. I hope we can now say "no longer so far". We have wide agreement among world leaders that a long-overdue conclusion is both possible and desirable. We know that hard work is taking place among some of the key participants to put in place a substantial market access package, in trade in goods as well as services. This is an essential step towards concluding the multilateral package in this area - a package whose parameters are defined in the Draft Final Act which was tabled in December 1991. In respect of the rule-making aspect of the Round, you know that some governments have expressed difficulties with one or other element of the Draft Final Act. It would be a very remarkable - or a very vague - text which pleased 113 countries equally in all respects. But I do not believe that any of these difficulties are insuperable, and I remain confident that the Draft Final Act sets out a balanced outcome for the Round.

There is no technical reason why the negotiations could not be finalized in a short time. Rather, it is a series of obstacles at the political level that has blocked progress for more than a year now.

After the inevitable period of adjustment which took place at the beginning of this year, it is encouraging to hear expressions of commitment to a rapid result and to see these reflected in an intensified rhythm of bilateral contacts. It is particularly encouraging that President Clinton has requested extension of his Administration's fast-track negotiating
authority to 15 December this year and that this new deadline is widely supported. This is a time-frame which is long enough to be realistic but not so long as to engender further unnecessary delays.

I earnestly hope that the 7th July Tokyo Summit will bring to this deadline the credibility which is indispensable.

But we also need renewed commitment from other participants.

- Those who have let a negative response to one or another particular aspect of the Draft Final Act rule their attitude to the Round as a whole need to break out of their self-imposed bonds.

- Those who are apprehensive about the changes which the Round involves need to recall that change is usually inevitable whether we like it or not, but that gradual programmed adjustment within an agreed framework of rules - and dispute settlement procedures - is surely preferable to sudden shocks.

The great majority of countries involved in the negotiation are ready - more than ready - to conclude. Developing countries trying to trade their way out of the debt trap, developed countries suffering low growth and high unemployment, former centrally-planned economies painfully opening up, efficient agricultural producers or exporters threatened by dumped surpluses - all these problems need substantial solutions now. Many countries have undertaken unilateral programmes of economic restructuring with some degree of trade liberalization. By doing so they have invested heavily in the expectation that a successful Uruguay Round will produce a multilateral reinforcement for their individual efforts.

The will to rise out of our present morass can only come from capitals, but it must be translated into multilateral action in Geneva, and soon. In practical terms what we still have to do is finalize the market access and services negotiations and agree on the Final Act once any multilaterally accepted changes - and they cannot be major ones - have been absorbed. The precise order in which this is done remains to be settled. It is less important where the breakthrough comes than that we have a breakthrough.

After so many setbacks I am wary of using expressions like "window of opportunity". Nonetheless I will take the risk of saying that there is a clear sequence of possibilities in the near future for giving the Round the political push it needs. There is now a chance to put the Round at the top of the international economic agenda. If the world misses this chance we cannot be sure of another.

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