TRADE POLICIES FOR A BETTER FUTURE

Programme of action proposed by a group of eminent and independent persons

On 27 March, in the presence of press representatives, Mr. Fritz Leutwiler, Chairman of the group of seven eminent and independent persons which has been studying problems facing the international trading system, handed the group's report to Arthur Dunkel, Director-General of GATT. Mr. Dunkel had invited the group to draw up the report.

Commenting on the release of the report, entitled “Trade Policies for a Better Future – Proposals for Action”, GATT's Director-General said:

“I hope that the report will be read very widely and will stimulate discussion among businessmen, trade-unionists, consumer groups and all those with an interest in the trading system. The report has been written for those affected by trade policy decisions as much as for those who make them. I also hope, of course, that the governments of GATT contracting parties will give the recommendations the careful and serious attention they deserve. For my part, I shall be doing so...”

“I believe the group has done the world a service. For some years, those of us personally involved in trade policy developments have been convinced that the ability of countries – developed and developing alike – to grow and prosper has been endangered by abuses and distortions of the open-trading system. This report – from a wholly independent group – sets out, in terms that all can understand, their judgement of what has gone wrong and how international trade can be put back on the right tracks”.

Below is a summary of the report, drawn from the introduction. Nevertheless the report constitutes a whole, and should be read in its entirety.

**Introduction and summary**

The decade of inflation, unemployment and stagnation which began in 1973 has been succeeded by the beginning of an economic upturn - but that long-sought recovery is far from secure.

In the industrialized nations, unemployment remains high and growth is still relatively weak. In the developing world, there is a shortage of the domestic and external resources needed for growth, and in some countries huge foreign debts threaten to abort recovery before it can begin. Even in the United States, where the economy has improved most visibly, it remains an open question whether and how long the growth can be sustained.

The challenge is clear. How can the current upturn become the beginning of a new era of non-inflationary growth, lower unemployment and rising standards of living?

Open international trade is a key to sustained growth. Trade opens vast markets to each nation's enterprises. It carries technology and innovation around the world. It spurs each nation to greater productivity.

Today, however, the world market is not opening up; instead, it is being choked by a growing accumulation of restrictive measures. Demands for protection are heard in every country, and from one industry after another. The trading rules set under the General Agreement on Tariffs and Trade are increasingly ignored or evaded.

In the industrialized world, countries have imposed a patchwork of restrictions on their imports, sometimes disguising them with the polite name of "voluntary exports restraints". Everywhere, governments increasingly provide subsidies to favoured industries and to farmers. In many developing countries, measures to protect infant industries and preserve foreign exchange have outlived their usefulness.

Demands for protection may be understandable during periods of economic stagnation and hardship. To workers facing the loss of their jobs, the real but intangible promises of free trade must come as cold comfort. But trade restrictions act only as brakes on each economy's ability to take advantage of new technology, and to grow. If today's threatened workers - and their children - are to be assured of abundant jobs in growing economies, they will need the opportunities offered by more open

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trade. They will also need bold programmes to enable them to benefit from these opportunities, including short-term adjustment assistance and long-term education.

If the trend toward trade restriction continues, the sustained economic growth we seek will become impossible. The current signs of worldwide recovery will turn out to be only a sad illusion. And deteriorating trade relations will also create new political conflict.

The alternative is a new commitment to open trade, backed up by improvements in the operation of the GATT system. Both developed and developing countries have a contribution to make in this process.

But better trade policies alone cannot put the world economy securely on the path to growth. That achievement will require the wise use of monetary and fiscal policies, and of debt and development policies.

Our report is in three chapters.

Chapter One, “The Challenge of Economic Change”

examines the role of international trade in the world economy. It argues that:

- Advances in technology, industrial change and population trends, as well as rising demand and output in developing countries, give the world economy the potential to achieve a new era of growth. Expanding trade will be essential in achieving growth.

- Rapid change will be painful for the labour market, as old jobs cease to exist and workers are forced to move on to new jobs and skills. The temptation simply to resist change will be very great. But change is not only inevitable: it is the key to growth and to a better future.

- Economic prospects will be critically influenced by financial and monetary developments, and by the world’s success in coordinating macroeconomic policies, confronting the debt crisis, and maintaining flows of development aid.

- Trade has a vital part to play in helping the world economy to take advantage of change. But the trading system itself, the rule of law embodied in the General Agreement on Tariffs and Trade (GATT) is suffering serious and continuing erosion.

- Trade rules that are consistently enforced and kept up-to-date enhance everyone’s freedom of action, give the trading system a sense of fairness, and minimize political conflict. They help stimulate and promote investments by providing reasonable confidence that markets will remain open.

- The trade rules are no longer seen as fully effective, nor generally obeyed. Countries have abused the system’s flexibility and have sought advantage through national measures not adequately dealt with in negotiations or the GATT rules.

- In some areas, such as agriculture, countries have failed to live up to GATT rules from the beginning. In others, they have found new ways to evade the intent of the rules, by erecting such trade barriers as “voluntary export restraints” and by providing subsidies to domestic industries.

Fifteen recommendations (continued)

8. At the international level, trade policy and the functioning of the trading system should be made more open. Countries should be subject to regular oversight or surveillance of their policies and actions, about which the GATT Secretariat should collect and publish information.

9. When emergency “safeguard” protection for particular industries is needed, it should be provided only in accordance with the rules: it should not discriminate between different suppliers, should be time-limited, should be linked to adjustment assistance, and should be subject to continuing surveillance.

10. Developing countries receive special treatment in the GATT rules. But such special treatment is of limited value. Far greater emphasis should be placed on permitting and encouraging developing countries to take advantage of their competitive strengths, and on integrating them more fully into the trading system, with all the appropriate rights and responsibilities that this entails.

11. Governments should be ready to examine ways and means of expanding trade in services, and to explore whether multilateral rules can appropriately be devised for this sector.

12. In support of improved and strengthened rules, GATT’s dispute settlement procedures should be reinforced by building up a permanent roster of non-governmental experts to examine disputes, and by improving the implementation of panel recommendations. Third parties should use their rights to complain when bilateral agreements break the rules.

13. We support the launching of a new round of GATT negotiations, provided they are directed toward the primary goal of strengthening the multilateral trading system and further opening world markets.

14. To ensure continuous high-level attention to problems in international trade policy, and to encourage prompt negotiation of solutions to them, a permanent Ministerial-level body should be established in GATT.

15. The health and even the maintenance of the trading system, and the stability of the financial system, are linked to a satisfactory resolution of the world debt problem, adequate flows of development finance, better international coordination of macroeconomic policies, and greater consistency between trade and financial policies.

Chapter Two, “Why open trade is better trade”

looks at the pros and cons of liberal trading policies. It makes the points that:

- Developing countries have been placed in a separate and supposedly privileged category from which they have in fact benefited little.
International trade in 1984: strong growth, but trade tensions persist

The volume of world trade increased by 9 per cent in 1984, continuing the recovery that began in 1983. This increase was the largest gain in eight years and brought the volume of world trade to an all-time high, the GATT economists report in their first estimates.  

The increase in value was only 6.5 per cent ($1,955 billion), owing to the fall in dollar unit values resulting from the continuing appreciation of the United States dollar.

Imports into North America made a large contribution to the growth of trade, which was dominated by the dynamics of intercontinental trade between industrial regions.

There is, however, a sizeable increase in the importance of developing areas (other members of OPEC) in the growth of world imports and exports; this trend is particularly pronounced in the case of South-East Asia. The trade deficit of the developing countries (excluding fuels) was reduced to $32 billion, thanks to a large increase (15 per cent) in their exports, and the terms of trade improved moderately for most of these countries.

However, although the brisk expansion of world trade offers an improved climate for more liberal trade policy actions, commercial tensions between countries persist.

The growth of world trade was double that of world production.

Although each of the main product groups participated in the trade expansion, manufactures trade grew more than twice as fast as trade in agricultural and mineral products (see chart).

In 1984 the volume of world manufacturing production increased by about 6 per cent. The rate of expansion was slightly faster in the developing countries and somewhat slower in the Eastern trading area. The volume of manufactured exports by the industrial countries was up by 12 per cent, while those from developing countries expanded by 14 per cent and those from the Eastern trading area by 4 per cent. In dollar value, Japan became the world's largest exporter of manufactured goods in 1984, edging out the Federal Republic of Germany, which had held this position since 1970.

Looking at the value of trade by products, exports of electronic products expanded by nearly 25 per cent, more than twice the average rate for all manufactured goods.

Exports of textiles and clothing by the industrial countries increased less than 5 per cent, whereas exports of the developing countries recorded gains well above 20 per cent. Developing countries' exports of clothing, which had stagnated in dollar value since 1980, rose by more than 25 per cent in 1984, exceeding for the first time those of the industrial countries. Imports of clothing into the United States, which absorbs roughly one-half of the developing countries' total exports of clothing, increased by nearly 40 per cent.

Developments by areas

Industrial countries

The growth of the combined real GDP of industrial countries accelerated from 2 1/2 per cent in 1983 to nearly 5 per cent in 1984. To a large extent this gain reflects an increase of almost 7 per cent in the GDP of the United States.

According to many forecasters, economic growth in the industrial countries will continue in 1985 at a rate slightly below 4 per cent.

Developing countries

On the basis of the limited amount of information available concerning domestic developments, it appears that several developing countries improved their overall economic performance considerably in 1984. Developing countries recorded a marked acceleration in their exports of non-fuel products (+12 per cent by volume) particularly manufactured products, mainly to industrial countries (especially the United States), but also by reason of a modest recovery of intra-area trade from the very depressed 1983 level.

Eastern trading area

In Eastern Europe, exports and imports are both estimated to have increased in dollar value by 4 1/2 per cent, leaving the trade surplus unchanged at about $5 billion.

In the USSR, according to preliminary

(Continued on page 5)
Value of World Trade by Areas in 1984
(Billion dollars and percentages)

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a Imports f.o.b. except for China and Hungary.

The growth of China's industrial production was about 13 ½ per cent. The dollar value of exports and imports expanded by 17 and 28 per cent respectively. As a result, the $0.8 billion trade surplus of 1983 turned into an estimated deficit of more than $1 billion in 1984.

Regional shares in the increase in the value of world trade

Analyzing the regional structure of trade, the GATT economists examined the extent to which the economic recovery process resembles that observed in the two preceding recoveries in 1968 and 1976.

The most striking features of this comparison are the following:

- the contribution of North America was larger than in the previous recoveries;
- the share of West European imports and exports was much reduced;
- Japan participated in the current recovery more strongly than in the past – especially on the export side;
- developing areas (other than the members of OPEC), particularly South-East Asia considerably increased their participation in the growth of international trade.

The engine of 1984 world trade growth was, of course, the brisk recovery of the United States economy, the GATT economists point out. United States imports alone accounted for more than half of the increase in the value of trade and United States exports accounted for nearly 13 per cent of the increase in the value of world exports in 1984.

North America aside, the focus of trade expansion has been shifting, over the longer term, from Western Europe to the Northern part of the Pacific Basin.

Improvement in the trade surplus of the heavily indebted countries

Expansion of the exports of the sixteen most heavily indebted countries was fairly general, though of varied extent. Only two or three of them experienced a fall in export earnings in 1984.

The combined imports of these countries declined further, albeit at a much less rapid rate than in the two preceding years.

These developments combined to produce a sizeable increase in the merchandise trade balance of the sixteen countries considered; their surplus is of the order of US$35 to US$40 billion, more than twice the amount recorded in 1983.

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Tensions over trade policies persist

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In past cyclical expansions, the rebound of international trade helped to ease tensions between countries over trade issues, but thus far in the current recovery this expectation has been disappointed.

While a number of factors have contributed to this situation, the most visible one is the lopsided nature of the economic expansion, according to the GATT economists. International differences in the strength of the economic recovery were reflected in trade, with the United States providing a disproportionately large share of stimulus to the expansion of world trade in 1984. In that country, the economic recovery has been accompanied by a steady appreciation of the United States dollar and an unusually large increase in the United States current account deficit; both developments are posing an increasing threat to international trade relations by adding to protectionist pressures. Not all sectors of the United States economy have shared equally in the growth, however, so that demands for general measures against imports have been intertwined with increasingly pressing demands for protection of certain industries.

The GATT economists observe that in the present situation, if the United States Government wishes to reduce the current account deficit, the principal option available to it is to reduce the Federal budget deficit in order to reduce the Government's demand for borrowed capital. In contrast, increased restrictions on imports can, at best, have only a short-term impact on the current account deficit. It is widely recognized that increased restrictions on imports of particular products are ineffective as a way of dealing with a serious current account deficit. As for general import restrictions, whether in the form of quantitative restrictions, import licensing or a surcharge, they reduce economic efficiency, thus stimulating inflation and penalizing export industries by increasing their production costs. Even from a purely fiscal point of view, a surcharge on imports is a very poor policy. And, since it is necessarily temporary, an import surcharge only postpones the need to take more permanent steps to reduce the imbalance between government expenditure and revenue.

The GATT economists suggest that in addition to changes in domestic policies in the United States, an increase in confidence in investment prospects in other countries - as a result of either the spreading economic recovery or the removal of obstacles to structural change - would both reduce inflows of capital into and attract capital from, the United States (provided there is not an offsetting rise in United States interest rates). This could be expected to result in a depreciation of the dollar and a reduction in the United States current account deficit.

Despite the recovery in Western Europe, job creation remained stagnant and unemployment continued to rise. The GATT economists consider that the outlook for a return to healthy economic growth in Western Europe depends on a determination to consolidate and expand recent progress in increasing structural flexibility and the pace of adjustment. Such efforts will be even more productive if they can take places in a liberal trading environment.

Japan responded more strongly than Western Europe to the stimulus from the United States. Exports expanded in 1984, by about 16 per cent in volume, and imports picked up as well.

The 1984 trade performance of the heavily indebted countries represented a switch from an import-contracting to an export-expanding adjustment path. Clearly, the ability of those countries to service their debts depends on the success of the industrial countries in countering protectionist pressures.

The situation created by the economic decline in large parts of Africa is very disturbing. Here again it is evident that an expanding world economy would greatly increase both the ability of those countries to service their debts and the prospects for aid.

In conclusion, the recovery of world trade in 1984, brisk as it was, is no reason for complacency. Tensions over trade issues are at least as strong as during the recession years. Even more so than in the past, the GATT economists believe substantial progress in improving trade policies will require joint efforts.

GATT Bibliography

Les services, nouvelle donnée de l'économie

This publication situates services in the world economy and their dynamic role.

World Traded Services, the Challenge for the Eighties
by Raymond Krommenacker, Ed. Artech House Inc., Dedham, MA 02026, USA, 1984 (222 p.)

This study examines existing national and international activities in regard to traded services, underlining the advantages of a multilateral forum for negotiating agreements in this sector.

The views expressed are those of the authors, both members of the GATT Secretariat, and do not necessarily reflect the latter's views.

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TRADE POLICIES FOR A BETTER FUTURE (continued)

labour mobility difficulties, exchange rate misalignments, security considerations and the need of developing countries to launch infant industries have all led governments to impose protectionist restrictions. But these valid arguments are seized on as excuses for wholesale protection of special-interest industries.

- Virtually all protection is introduced to avoid the consequences of economic change. But since economic growth is a process of adjustment to change, attempts to avert it by imposing trade restrictions inevitably stunt an economy.

- The "benefits" of protectionism are immediate and visible, while its costs are long-term and largely invisible. As a result, those who lose out rarely know that they are being made to bear the costs. In all countries, this creates a fundamental imbalance in the process of making trade policy: the advocates of protectionism start with built-in advantages.

- In most public discussion of protection, the right questions are seldom asked. What will the total costs be if trade restrictions are imposed? Is protection the most efficient way to help the industry in trouble? Will paying higher consumer prices protect jobs for more than just the short run? What will be the effects on inflation? On long-term economic growth?

- Protection also carries political costs. Attempts to restrict and manage trade inevitably increase the conflicts among nations.

- Contrary to widespread belief, protection cannot protect jobs for long. Indeed, in many cases protectionist measures actually eliminate jobs. Jobs which are "saved" from the competition of imports are preserved only at the expense of jobs lost in the same country's export sector.

- Instead, job losses in import-competing industries can be remedied in two ways. One is the creation of new jobs, in export industries and through faster economic growth. The other is energetic policies to help workers adjust, including policies to make high quality education available to all.

- Nor is protection an effective means of securing other objectives such as preservation of the farm sector, overcoming exchange rate difficulties, or seeking economic and social stability.

IN BRIEF . . .

Meeting on services

At a meeting on services held on 24 January, delegations examined several national studies prepared by participants and exchanged information on the importance of services in their countries and problems encountered in that area. They also discussed the future organization of their work and decided to meet again on 1 and 2 April.

Trade in counterfeit goods

The expert group on trade in counterfeit goods held its first meeting on 11 March, when it began to organize its work and heard the views of several delegations on substantive matters. These include definition of counterfeit goods, the nature of problems in this area, importance and significance of trade in these products, existing national and international legislation, as well as the need to ensure that action in this area does not lead to any unwarranted trade obstacles.

The group will continue its work on 3 April.

GATT Publications

Practical Guide to the Agreement on Government Procurement

This Guide is a mine of practical information intended for the business community and government circles interested in government procurement. It indicates the rules of the Agreement and sales opportunities created by it, together with information on the benefits that the Agreement offers to suppliers, tendering procedures, enquiry points for obtaining information on forthcoming tenders, etc.

The Agreement on Government Procurement came into force in 1981 and has already opened major opportunities. Its commercial impact is expected to materialize gradually as purchasing entities become accustomed to the new procedures and as the business community becomes familiarized with the opportunities it opens in a market that has frequently been closed to international competition. The value of all contracts awarded under the Agreement in 1982 was approximately US$30 billion.

The Practical Guide to the Agreement on Government Procurement is available from the GATT Publications Service, price Sw F 30.
In connection with the twenty-seventh annual report by his government on the United States Agricultural Adjustment Act, the United States representative informed the Council, on 29 January, that because of an imbalance in US sugar supplies, the US authorities had been required, under Section 22 of the Act, to impose a fee for the first quarter of 1985. Several countries expressed their concern at the measures taken by the United States and at the maintenance of restrictions under the waiver granted temporarily in 1955 by the Contracting Parties to GATT. The Council decided to set up a new working party to examine the annual report by the United States.

The European Community informed the Council, on 29 January, that it had concluded an arrangement with the United States in regard to their dispute about the United States ban on imports of steel pipes and tubes from the EEC until the end of 1984 and their restriction in 1985. That dispute had been brought to the Council’s attention on 17 December 1984.

The European Community also informed the Council of the opening of consultations with the United States under Article XXII of the General Agreement, concerning the American FSCA tax legislation, which has replaced the former DISC legislation, and its compatibility with the General Agreement. The EEC invited other interested parties to participate in the consultations.

The Director-General reported to the Council on the status of work in panels established by it and by the committees that administer the Tokyo Round agreements. He drew the Council’s attention to the slow progress being made in reviewing the market situation for dairy products together with the possibility of terminating safeguard action taken by the United States.

Several developing countries expressed concern over proposed changes in New Zealand’s GSP scheme which would have the effect of excluding from the scheme any country with a per capita GNP equivalent to GNP 70 per cent or more of New Zealand’s. The New Zealand representative said that the economic situation of his country and of certain developing countries had changed considerably since 1972 when the scheme had been introduced.

Reverting to the question of restrictions on imports of certain sugar-containing products introduced by the United States authorities in the context of the 1955 waiver, Canada drew the Council’s attention on 12 March to the harmful effects of these measures on his country’s trade interests. The Canadian representative recalled that the waiver specifically allowed any contracting party adversely affected to invoke the dispute settlement procedures established by Article XXIII of the General Agreement; since no agreement had been reached in Canada’s consultations with the United States, he asked the Council to establish a panel to examine the matter. The Council accepted the Canadian request, while noting that the two partners were continuing consultations with a view to reaching an amicable settlement.

At the same meeting on 12 March, the Council decided to establish a panel to examine the European Economic Community’s request regarding the policies and practices of the Canadian provincial marketing agencies in respect of the import, distribution and sale of alcoholic beverages.

The Council discussed in detail further action on the conclusions of the panel established at the United States’ request to examine EEC tariff treatment on imports of citrus products from certain Mediterranean countries. Inter alia, the panel’s report asks the EEC to take action by 15 October to limit the adverse effect on United States exports of the preferential tariff treatment it grants on fresh oranges and lemons originating in Mediterranean countries. The EEC, as well as many countries which are in the Mediterranean region or are linked to the Community by preferential arrangements, expressed reservations as to the legal justification for these recommendations, while the United States and some other countries underlined that they were of a limited and purely economic character. The Council agreed to revert to the matter.

Lastly, the United States and several other countries having trade interests in the leather sector drew the Council’s attention to the slow progress being made by Japan in implementing the recommendation of the panel which in March 1984 had reported on Japanese restrictions on imports of leather. It was noted that while Japan has liberalized imports of certain products, some major restrictions are still in effect.

International Dairy Products Council

The International Dairy Products Council held a special meeting on 11 and 22 February and 8 March; it reviewed the market situation following the European Economic Community’s sale of butter at less than the minimum price. At the same time the Council considered sales by other participants in the International Dairy Arrangement in the context of safeguard measures. The Council noted with regret that the United States had confirmed its decision to withdraw from the Arrangement.

The Council had a substantive discussion on proposals — made by Austria inter alia — for redefining the levels of minimum prices fixed by the Protocols to the Arrangement. In the absence of a consensus on this matter, Austria announced that its Government intended to reconsider its participation in the Arrangement.

At its regular meeting on 27 and 28 March the Council gave further consideration to this matter and reviewed the market situation for dairy products together with the possibility of terminating safeguard action taken by several participating countries. Some countries expressed the view that a mechanism was needed to allow automatic adjustment of the minimum prices to currency fluctuations. The Council noted that the Committees of the Protocols are to hold a special meeting on 17 April. In addition the Committees examined the problem of the substantial stocks of old butter held in certain participating countries, and discussed possible means of remedying that situation.

Morocco officially notified GATT on 8 March of its intention to accede to the General Agreement.

1 See below