GATT CELEBRATES FORTY YEARS

Paul Volcker

GATT is faced with a challenge comparable to that of its founders – and its scope has to be broadened

"It is necessary to go on the attack to deal with the new challenges of the late 20th century rather than merely continue the rearguard action against protectionism of recent years, important as that has been." Such were the vigorous terms used by Paul Volcker, Chairman of the Federal Reserve Board of the United States until June 1987, on the occasion of the GATT’s 40th anniversary celebration on 30 November.

In a forthright stock-taking of international trade and the trading system, in which he saw "a sense of lost momentum" and "a perceptible hardening of the arteries of trade", Paul Volcker noted that while GATT has largely attained its objectives in the tariff area – at least as regards the tariffs applied by industrial countries – non-tariff barriers have continued to increase. They are affecting a larger and larger proportion of trade among industrialized countries and even more so trade between them and developing countries.

The original version of the General Agreement exempted agriculture entirely; it said relatively little about quantitative restrictions, while services and investment were treated not at all, noted Paul Volcker. "Plainly, if the GATT is in fact to preserve its basic thrust toward liberalizing trade, to maintain its moral authority, and to provide a realistic legal framework for limiting the protectionist acts of sovereign governments, its scope has to be broadened. Indeed, that seems the basic point of the Uruguay Round agenda." It is an awesome challenge to bring the GATT into full relevance with respect to the trading and investment issues that preoccupy both businesses and governments in the late 20th century – a challenge comparable to that faced by the founders."

The former Chairman of the United States Federal Reserve Board went on to examine major topics of today, in the light of his experience of international financial problems. inter alia the mutual dependence of international trade, financial order and economic equilibrium. Referring to the huge trade deficit of the United States, he noted that "I need not belabour the risks to the trading system when the leading economic power is not equipped, economically or politically, to take the initiative in opening markets."

"We have to accept that American negotiators will be unwilling and unable to offer concessions not visibly and fully matched by other countries," he underlined.

Paul Volcker considers success in the Uruguay Round as being crucially important. "But in the best of circumstances you will need time to make constructive bargains. I am doubtful you will have that time unless, as the Uruguay Round negotiations proceed, there is a clear sense of progress in correcting the massive imbalances in trade and current account positions among industrial countries. That progress in turn will rest more on the success of the major industrial countries in co-ordinating their economic and international financial policies than on your own work in the trade area."

"Erosion of confidence in the GATT itself is a symptom of wider international economic difficulties"

Regarding recent developments in world stock markets. Paul Volcker believes that the needed adjustments will inevitably take place sooner or later, in one way or another; "Either by complementary and broadly coincident policy adjustments, or by potentially abrupt and disruptive market reactions that would greatly increase the risks of recession or inflation, or both, and probably undermine the chances for constructive trade negotiations as well. My point is not that the trade and the broader financial and economic negotiations should be organizationally or operationally linked.” Quite to the contrary, because they are quite different in nature, and piling complexity on complexity would only be a recipe for immobility on both fronts.

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CAN GATT IN ITS PRESENT FORM MEET THE CHALLENGES OF THE COMING DECADES?

Ministerial Round Table reviews the achievements and shortcomings of GATT

Nineteen Ministers and high-ranking officials met on the afternoon of 30 November to participate in a debate that focused on a variety of GATT institutional issues and questions pertaining to the Uruguay Round. Professor John Jackson, of the United States, and three well-known journalists: Prem Shankar Jha (India), Laurent Mossu (France) and James Morgan (United Kingdom) made up the panel for the debate. Mr. Morgan was the Round Table chairman and moderator.

Below are selected summary extracts of the discussion. A complete record can be obtained from the GATT Information Service.

This "funny institution" that we call the GATT

Professor Jackson: During the forty years of provisional application, this "funny institution" that we call the GATT has nevertheless performed better than could have been expected. Can the GATT as we know it now cope not only with those developments that have occurred since its creation, but also with the new problems that are now beginning to emerge and will come to the fore in the coming decades? What basic, structural changes are needed to keep the GATT viable?

Minister Enrique Iglesias: Trade is undoubtedly a fundamental instrument of development in the case of countries like mine. The Uruguay Round is an attempt to gain a global vision of existing trade problems and to prepare the conditions for trade in the 21st century. It would be premature at this stage to want to change GATT as an institution. Such a change could only be the final point of an evolution. On the other hand, one must improve observance of existing commitments and the functioning of the institution.

Commissioner Willi de Clercq: GATT can continue to fulfil its role satisfactorily if three conditions are met: (1) GATT alone cannot save the world from the crisis which is threatening it; but as the guardian of multilateralism it can contribute to increasing co-operation among international organizations and improving convergence in national macro-economic policies; (2) GATT must keep faith in its message of progressive liberalization of markets, and in particular ensure observance of the commitments taken on at Punta del Este in

Participants in the Round Table

Hernan Büchi, Minister of Finance (Chile); Mrs Pat Carney, Minister for International Trade (Canada); Willi de Clercq, Member of the Commission of the European Communities, External Relations and Trade Policy; Michael Duffy, Minister for Trade Negotiations (Australia); Paulo Tarso Flecha de Lima, Representative of the President (Brazil); Mrs Anita Gradin, Minister for Foreign Trade (Sweden); Robert Graf, Minister of Economic Affairs (Austria); Enrique Iglesias, Minister for Foreign Affairs (Uruguay); Hamish MacLeod, Secretary for Trade and Industry (Hong Kong); Michael Moore, Minister of Overseas Trade and Marketing (New Zealand); Kurt Mosbakk, Minister of Trade and Shipping (Norway); Michel Noir, Minister for Foreign Trade (France); Rachmat Saleh, Minister of Trade (Indonesia); Pertti Salolainen, Minister for Foreign Trade (Finland); Laurits Tornaes, Minister for Agriculture (Denmark); Mahbub Ul Haq, Minister for Commerce, Planning and Development (Pakistan); Sosuke Uno, Minister for Foreign Affairs (Japan); Peter Veress, Minister for Foreign Trade (Hungary); Clayton Yeutter, United States Trade Representative.

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Minister Mahbub Ul Haq: I do not believe that GATT can cope with the challenges of the next forty years without structural changes. In my view, three changes will be necessary: (1) GATT must acquire more control of its members, such as the International Monetary Fund has for example; (2) It must broaden coverage of issues, including services in particular; (3) Its membership must become universal: it is not conceivable that China or the Soviet Union would not become members.

Prem Shankar Jha: In fact, strengthening the control powers of GATT comes up against a lack of discipline among the most powerful nations. It would imply that nations surrender part of their national sovereignty.

Minister Haq: The Uruguay Round should make progress possible in this direction by strengthening the GATT surveillance system and bringing in some mandatory powers.

Professor Jackson: It is very easy to say that "we do not need any structural change, but only political will". International organizations are designed precisely in order to avoid the adverse effects of bad will. The comments made by Ambassador Haq seem to me to be very important: (1) Does giving more teeth to GATT as Paul Volcker suggested this morning, mean relying more on the mandatory powers of financial institutions, or does it imply changing the GATT dispute settlement system? (2) Are we ready to give the GATT the necessary means, including financial ones, to extend its field of activities to new issues? (3) As regards universality, I doubt that at this stage many participants can reply to this question.

Commissioner de Clercq: GATT is not the IMF; it is a contract, based upon consensus. You cannot change the philosophy behind the system on the grounds of strengthening its credibility unless there is a consensus to that effect. We must content ourselves with improving the dispute settlement procedures, making them more expeditious, while taking account of a country's political need to defend its vital interests. Furthermore, GATT can only survive if it reflects reality. It must therefore cover new issues, while taking account of the legitimate interests of all countries. As for universality - that is one thing, homogeneity is quite another. Universality is possible only if the philosophy of free trade and of the free market can be respected.

Professor Jackson: GATT is not really a contract, it is a treaty. But what kind of treaty? Is it really viable that a system as complex as this, with 95 countries, should be based just on consensus?

Minister Haq: Each time developed countries try to evade their responsibilities, they hide behind the concept of consensus. Developing countries are much more accustomed than developed countries to accepting the discipline of the IMF and the World Bank.

Minister Iglesias: I should like to give you my perception of the Latin American reality. The Latin American countries have made a tremendous adjustment effort in their monetary, financial and trade policies to release resources and finance their indebtedness. But the GATT has never been present at these adjustment negotiations. There is a missing link. Our adjustment would be easier if the economic adjustment process included rollback or certain kinds of openings of the market.

Minister Pertti Salolainen: I have the impression that GATT is being blamed for shortcomings in national policies or for matters within the purview of other organizations. One must concentrate on a pragmatic solution of the trade problems which are on the table.

Ambassador Clayton Yeutter: I think that it is through codes of conduct that one can achieve more teeth in the GATT. There should be sanctions for violations of the spirit of the GATT. This would call for new surveillance mechanisms, perhaps annual or bi-annual audits of the trading practices of GATT members.

Unfair trade practices

Professor Jackson: More and more countervailing and anti-dumping measures seem to be diverted from their legitimate objectives and are used in place of tariff protection. Is it feasible to limit this trend?

Ambassador Yeutter: I do not think that anti-dumping measures have gotten out of hand: they can, however, be dangerous if the legislation on which they are based is used arbitrarily. No doubt, the GATT discipline needs to be improved in this regard. As regards subsidies, they are clearly a trade distortion and the GATT rules are inadequate. If legislation designed to reduce or eliminate distortion is not being properly applied, then the situation must be corrected nationally or internationally. On the other hand, the rules must also be adapted to a changing world: for example, law and the GATT anti-dumping rules are inadequate for dealing with high-technology products. Lastly, there are other trade practices that should be covered by the GATT.

Minister Hamish Macleod: One should not over-concentrate on amending the rules, but rather look at how the rules are used, how they are bent or abused.

Minister Pat Carney: The GATT must deal more effectively with the question of subsidies and their definition, in particular at the level of dispute settlement, otherwise it will not survive.

Financial and trade imbalances

Laurent Mossu: The fall of the dollar has more effect on trade than any tariff level. One can imagine, therefore, that the tariff negotiations could take an academic turn. How can the GATT help the international community to get out of this difficulty? What contribution can be made by a country like Japan with a substantial trade surplus?

Minister Sosuke Uno: As regards the unstable relationship of the dollar and the yen and the weak dollar situation, the United States of America and Japan should co-operate with each other. At the trade level, Japan has introduced a domestic demand expansion programme amounting to 15 trillion yen, which should increase imports. In addition, Japan has decided to recycle 30 billion dollars vis-à-vis the developing countries.

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Minister Michel Noir: The problem is in fact to reconcile two spheres of activity – trade, financial and monetary matters – which operate individually. Today these are inseparable issues. It would be appropriate to establish a common body – of the G7 or G10 type – to work on aspects linked to both these spheres.

Minister Haq: I feel that the long-term implications of these situations are not receiving enough attention. One should set up a new international central bank, strengthen the international trading system and then bring these institutions to work together.

Minister Michel Duffy: That would be failure. One can take a pessimistic view or an optimistic one as to the chances of changing the present situation. Today I am marginally optimistic. All the proposals acknowledge that subsidies are a problem, and I think that the positions of the Cairns Group, the United States and the EEC can be reconciled. That is a matter of negotiation.

Commissioner de Clercq: We all agree on the diagnosis and on our collective responsibility; there is thus a common basis for starting the negotiations. The EEC has not awaited the various Summit meetings before taking severe measures, sometimes unpopular with its farmers. (In response to a request from the audience for clarification): This means cutting down production in a first phase, which automatically means less exports. In the second phase, if we can achieve sufficient co-operation to bring our markets to a healthier condition, we are prepared to reduce government support to agriculture in a co-ordinated and progressive way.

Ambassador Yeutten: The United States of America is taking two-thirds of all the manufactured-product exports of developing countries. We would hope that other developed countries can take a larger share of these exports and that the developing countries can diversify their markets.

Minister Paul Tarso Flecha de Lima: I think that many of these questions and concerns were settled at Punta del Este and that we established criteria that allowed us to work very constructively in 1987. Of course, the negotiations will be a very complex exercise. Brazil, for its part, has put forward negotiation proposals on each of the five points under discussion in regard to services. The system would have to take account of the debt difficulties of developing countries.

Ambassador Yeutten: International commerce is not confined to goods today, but includes services and involves investment, as companies know well. If the GATT is to facilitate commerce, it has to be functional in all these three spheres of activity - trade, financial and monetary matters - to work on aspects linked to both these spheres.

Minister Michel Bouvier: If the developed countries agreed to implement adequate financial policies, the role of GATT could be essential. This would change the pattern of trade of these countries. Chile has endeavoured, in particular, to diversify its exports to markets other than the United States of America. We hope that the GATT will facilitate access for smaller countries to the markets of developed countries.

Agriculture – A crisis situation needing remedy?

Laurent Mossu: Agriculture will be one of the important items of the new Round, and things are starting to move. Are any convergence proposals emerging? Or are the discussions likely to turn towards market-sharing?

Minister Michael Moore: It is vital to catch up on the delay accumulated in this sector for forty years. I realize that one cannot expect progress in agriculture alone, that it is needed also in other sectors. The real test of faith will be in regard to standstill, and we shall have a good indication by mid-1988.

Minister Noir: Much political courage was needed in the European Community to begin to implement a programme of reducing production and guaranteed prices for cereals, milk and meat. At Geneva, the Community has proposed immediate measures, and the ball is now in our partners’ court. The only way to ensure the success of the negotiations is to ensure their globality, in other words, the possibility for each participant to achieve progress. A mid-term review would respect the globality, a “early harvest” would not.

Prem Shankar Jha : Services now represent a growing proportion of trade of the developed countries, so a code would in principle be desirable. But there are a series of problems: inter alia, would such a code be beneficial for all or only for some? Which services should be covered? Are we really talking about trade in services, or about services-linked investment? In such a case, a real extension of GATT would go very far and for some countries would imply reviewing their perception of national security. The fundamental question for developing countries is that of their ability to compete with companies from developed countries. There is also the fear that progress in the negotiations on goods and on services might be cross-linked.

Minister Rachmat Saleh: The developing countries see successful conclusion of the negotiations on tropical products not only as beneficial for their trade but as a symbol of good will on the part of the negotiators and of the ability of the GATT to achieve results. We did agree in Punta del Este to make this an item for an early harvest.

Services, “The New Frontier”

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areas. I do not see why general principles such as transparency or non-discrimination could not apply to services.

**Minister Haq:** Services are the new economic frontier for the developing countries. I only hope that they will not encounter new barriers raised by developed countries, as has been the case in the textile and footwear sectors. I think the developing countries have not yet realized that they have everything to gain from the establishment of a predictable framework for services, even if they are not yet developed in that sector. But services must also include transfer of labour and capital, with a provision for the protection of infant services.

**Prem Jha:** The most important question is indeed to ensure that developing countries will benefit from such an agreement in the long term.

**James Morgan:** Could the Hungarian Minister tell us about services in the Socialist world?

**Minister Peter Veress:** The role of services is becoming more and more important in the Socialist countries. Trade in the field of services is vital for us and we are in favour of more freedom of trade in this sector.

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**Textiles**

**Minister Haq:** We have not yet mentioned one issue that is extremely important for developing countries – that of textile quotas. If they did not exist, trade in these products would be much greater. The Multifibre Arrangement IV must be the last one, and textiles should be integrated into the GATT framework.

**James Morgan:** Are you confident that the developing countries would be better off without the MFA?

**Minister Haq:** The whole world would be better off. Comparative advantage would prevail, so that the low cost countries and producers of raw materials such as cotton, would be the textile centres of the world, not the centres which have developed under artificial quotas.

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**GATT CELEBRATES FORTY YEARS (continued)**

**Julio Lacarte-Muro**

**The road to growth is still through GATT**

“Discouragement must be met with optimism. Hesitation must be met with firmness” – such was the keynote of the message presented by Ambassador Julio Lacarte-Muro (Uruguay) whose career has been linked to GATT since its creation forty years ago.

While growth, prosperity and the easing of tension are the features characteristic of what GATT has achieved, there have been shortcomings in regard to compliance with obligations and the coverage of the General Agreement, noted Ambassador Lacarte. “In the early days the GATT was implemented strictly. Any departure from the agreed rules was met by a prompt collective reaction in which each and everyone – whether or not adversely affected – felt involved and insisted on observance of the commitment concerned. This state of mind has changed. Today, the response is all too frequently one of resignation, apathy or, on occasion, measures of retaliation,” particularly in the areas of agriculture and textiles.

Referring to the dangers of the absence of GATT monitoring in regard to measures outside the GATT rules and disciplines, in particular what are termed “grey area” measures or the emergence of new concepts such as rates of balance in bilateral trade between contracting parties, Ambassador Lacarte stated that “we are responsible for one shortcoming”.

“There is no valid solution for restoring general growth other than through GATT... there will be no growth of prosperity without the consequent increase in international trade,” he said.

“Rather than hoping for magic solutions – which anyway do not exist – from other quarters, let us recognize and accept with unshakeable optimism the tremendous responsibility incumbent on us, and provide the international community with the agreements and solutions it expects from us.” In so doing, it is necessary “to rise above minor everyday difficulties and set our sights on the common interest, which is also our own,” he concluded.

**Snags and pitfalls for linguists...**

With three GATT working languages (English, French and Spanish), the language staff have often encountered delicate and tricky problems in translating not only the letter but also the spirit of complex and subtle clauses and interpretative notes. Speaking of the heroic days and of minor incidents in which he has been involved since GATT’s creation, one of its longest-serving translators-interpreters, Roger Glémet, gave some amusing examples to illustrate that translation from one language into another can sometimes be tantamount to negotiation and calls for a keen sense of diplomacy.

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**GATT FOCUS**

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In conclusion, Paul Volcker expressed the view that "the sense of concern about the trading order, and the erosion of confidence in the GATT itself, is a symptom of wider international economic difficulties. Those difficulties must be dealt with on their own terms, or the GATT process will be one of the casualties."

Realistic exchange rates and regional arrangements

Today we are far from the "naive optimism" of fifteen years ago regarding the beneficial effects of exchange rate flexibility on international equilibrium of trade and current account position and, indirectly, on protectionism. "The health and vitality of an open international trading order will be importantly dependent over time upon the willingness of governments of large trading countries to reach some realistic collective judgements about the broadly appropriate level of exchange rates. These judgements will, in turn, need to influence the design and implementation of domestic policies if they are to be meaningful and durable," said the former Chairman of the Federal Reserve Board.

By attaching importance to maintaining some reasonable degree of exchange rate stability to facilitate their trade, trading partners are led, in the absence of satisfactory multilateral understandings, to set up regional or bilateral exchange-rate arrangements of varying degrees of formality that ultimately lead to customs unions or free-trade areas. In view of the multiplication of such arrangements, which challenge the principle of non-discrimination fundamental to the GATT, the situation needs to be reassessed, said Paul Volcker, who favours the application of conditions more stringent than those laid down in the General Agreement.

Trade and development: Progress needed in two directions

Financial arrangements cannot substitute for more fundamental economic change if growth is to be sustained; one must recognize the key role that international trade can play in economic development.

Progress needs to be made in two directions, however, in Paul Volcker's view: "There must be greater assurance that export markets of the industrialized world are reasonably open to developing countries," but "the reverse side of the coin is equally relevant. Developing countries are explicitly exempted from the reciprocity rules of the GATT" which "imposes few obligations upon them to liberalize specific existing restrictions." A constructive international bargain requires "liberalization of trading practices by the middle-income developing countries (and the newly-industrialized countries) while the industrialized world provides greater assurance that its markets will remain open." In his view, a strong case can be made for the GATT rules to specify criteria and guidelines for "graduation" from developing-country status.

Intensifying co-operation among international institutions

All the international institutions share the goal of encouraging growth and development in the context of an open trading order, and in fact there is "a natural division of labour" among them.

Interest and energies must be engaged

Paul Volcker does not consider that spectacular initiatives are needed: "Rather, an intensification of what is already being done or under way, drawing on the special strengths of each institution."

"The basic purposes of the GATT should be well served by drawing the international financial institutions more fully into concerns about trade. Those institutions potentially can bring more effective incentives and penalties to bear."

The former Chairman of the Federal Reserve Board also favours engaging the interest and energies of officials who are likely to be at the centre of economic policy-making within their governments, in particular finance ministers and central bankers.

"Over time, GATT's authority must rest on a general perception that the GATT rules and approaches are indeed relevant to the new trading problems that are emerging in the world of business and finance."

Paul Volcker suggested that each year, with the sponsorship of GATT's Director-General and under their own authority, distinguished academics and persons with practical government experience might carefully investigate an important trade issue. By way of example, he mentioned the costs of protectionist measures put in place or the consequences of substituting non-tariff barriers for tariffs. Such studies, he said, would contribute to increase public understanding and support for liberal trade.

In his concluding remarks, Paul Volcker underlined that there can be only one effective answer to fears for the future of the GATT: "to move ahead and deal effectively with the points of contention." Yet "that cannot be the work of the GATT and of trade ministers alone. However energetic and enlightened they may be:

- Turning back the protectionist tide will require a more benign economic environment, with smaller trade imbalances and less extreme exchange-rate fluctuations.
- Progress toward trade liberalization will need to be nurtured by the Fund and the Bank -- and by the OECD -- as well as by the GATT.
- These purposes will need to engage the attention and energies of the heads of government and their principal economic ministers not just in the days and weeks before the summit meetings but all through the year.
- And we all need to work to bring the issues more clearly into the open by encouraging careful analysis -- and also, whenever possible, by discouraging quantitative restraints, hidden subsidies, and so-called "voluntary" agreements.

If the GATT were to wither away, multilateral trade would soon give way to economic discrimination. Political cooperation would be impeded by mutual recrimination . . . "How much better that we collectively see to it that the GATT moves ahead with confidence into a vigorous middle age," concluded the speaker.

Otto Benès

The birth of the GATT

Even if not on record, there are many anecdotes about the days when the General Agreement was being conceived and drafted. The speech by Dr. Benès, who represented Czechoslovakia at the preparatory meetings for Havana, at the Conference itself and during part of GATT's early life, threw a new and humorous light on this part of the history of an organization that is usually considered somewhat austere.

As Dr. Benès pointed out, all too often, one tends to underestimate GATT's merits or to take them for granted: "Before the establishment of GATT . . . tariffs were being changed from day to day and the occasional most-favoured-nation treatment was ensured only by a web of bilateral agreements that could be easily cancelled or were limited in time. You never knew where, when or by what your trade would be hit. So whatever shortcomings you may see in the GATT, I ask you to remember, as I do, that before the GATT was created there was no economic order at all."