The central problems of economic policy as seen by GATT’s economists

"Policy choices made in the next year or two in such areas as inflation, protectionism and adjustment are likely to determine the economic character of the remainder of the decade." This is the view of GATT’s economists as stated in the first chapter of their annual report on international trade in 1980/81.

Arresting inflation

It is being suggested that we should “learn to live with inflation” and focus economic policy on boosting employment. The view of inflation developed by GATT’s economists in their preceding reports is that “inflation at present levels will not allow the industrial countries to attain a rate of economic growth sufficient to permanently reduce unemployment. Over the long period, inflation and unemployment have been rising together.”

What can be done to stop inflation? Monetary policy alone seems insufficient and in need of two supplementary measures, namely, policy changes which improve the efficiency with which resources are used (for instance, promotion of competition), and an appropriate fiscal policy to reduce the burden placed on monetary policy.

Arresting protectionism

It is sometimes claimed that trade restrictions falling into the “grey zone” are only temporary expedients, taken to alleviate “the strain on the rules”. GATT’s economists believe that “protectionism, particularly through its conjunction with agreements restricting industrial competition, is itself an important link in a downward spiral.”

As to the contention that the multiplying conflicts in the trade system can be more easily settled by amending, adjusting or creating new international rules, the effect of such an approach will be that the “interests of particular domestic groups are placed above international commitments, and the effort to ‘beggar thy neighbour’ will come to dominate international economic relations. A system of general rules is the only device by which economic policies of sovereign countries can be made mutually compatible in an interdependent world economy.”

They say that “it would also be an illusion to believe that the momentum of protectionism can be arrested by an act of political will to defend the status quo.” There is a tendency, however, for protectionism to spread by sectoral arrangements—a tendency which is most difficult to arrest for economic as well as political reasons. If the continued decline of the rule of law in international trade is to be avoided, the force of these precedents must be acknowledged and an effort made to dismantle the existing systems of sectoral protection.

The adjustment problem

Adjustment is the way in which an economy exploits its growth opportunities as they are discovered and created in the process of competition. In that process, factors of production are continuously converted towards higher productivity and towards higher and more useful employment. It is therefore fundamentally misleading, according to GATT’s economists, to say that “adjustment is easier when the economy is growing more rapidly”.

There are three categories of obstructions which, increasingly in recent years, have been impeding the adjustment process:

- the acceptance and enforcement by public authorities of competition-restricting arrangements among firms, the political determination of particular prices, and the application of quantitative import restrictions;

- a second rapidly expanding category, embracing a variety of measures that narrow the scope of entrepreneurial initiative or create costly delays in the execution of business decisions;

- lastly, measures taken under the influence of various interest-groups for the preservation of existing industrial structures which have the effect of attenuating the incentive for firms to adapt and adjust to competition.

Colombia has now formally notified its accession to GATT, and will become the 86th Contracting Party to the General Agreement on 3 October 1981. (See Focus no 4)
TEXTILES

The latest negotiations on the future of the Multifibre Arrangement (MFA), which governs most of world trade in textiles, were held between 14 and 20 July in GATT’s Textiles Committee. While all parties to the MFA agree that the arrangement should be extended when it expires at the end of this year, there are notable differences of opinion on the conditions and procedures to be incorporated in an MFA III.

The exporting developing countries submitted seven specific proposals in favour of a more liberal interpretation of the Arrangement.

For example, the proposals favour a stricter definition of the terms “market disruption” and “minimum viable production” used in the MFA. They also call for elimination of the so-called “reasonable departures” clause in the 1977 Protocol.

Furthermore, the LDC proposals seek special treatment for “new entrants” in the textile export field and for small suppliers. Lastly, they advocate establishment of a time-bound programme of “adjustment measures” and the progressive elimination of import restrictions.

Most of the importing industrial countries favoured more restrictive interpretation of the MFA, i.e. greater latitude in differentiating among suppliers. They cited recession in their textile industries, growing unemployment, increasing penetration of their home markets by foreign goods, and falling demand. A number of these importing countries said the developing countries should themselves contribute to the expansion of international trade by progressively opening their own markets to textile imports. They also called for stricter rules to deal with cases of fraud.

The state-trading countries challenged the “price clauses” appearing in certain bilateral agreements; they generally expressed support for the proposals of the developing countries.

Since the MFA expires at the end of 1981, the negotiations must be energetically pursued and brought to a successful conclusion as soon as possible. Uncertainty about the future of the MFA benefits neither importing nor exporting countries, and is harmful to both the world textile industry and to international trade.

The next meeting of the Textiles Committee takes place from 21 to 25 September. It will meet again on 18 November and will continue as long as necessary to complete its work.

MFA II: Protocol of 14 December 1977, extending the Arrangement for a further four years until 31 December 1981.

COUNCIL

The GATT Council met on 15 and 17 July to examine various trade policy matters; in particular, it discussed the refunds granted by the European Community on sugar exports, an issue already taken up at several earlier meetings. On 10 March the Council had decided to revert to the matter as soon as the Community had notified to GATT its new sugar regulations and the intervention prices for the 1981–82 season. On the basis of that notification, the Council considered how the examination should be conducted. Some members of the Council favoured an examination by a working party, while others felt the Council itself should examine the issue. After consultations with interested parties, it was finally decided that the Council would examine the situation on 22 September.

The Council also considered the deposit scheme for foreign currency purchases, introduced by Italy in May 1981, and notified to the Council at its meeting on 11 June. Under that scheme, and until 1 October 1981, purchases in Italian lira of foreign currency for payments abroad by residents are subject to making a prior deposit in lira with approved banks. The Italian representative gave some information on the effects of the measure: it had allowed a good part of the surplus liquidity existing in the market to be mopped up, and had improved Italy’s balance-of-payments situation, which had been substantially in deficit. In the view of the Italian authorities, this was a monetary and not a trade measure; it did not create any protectionist barriers, and was not discriminatory. The measure is currently being examined in detail by the Commission of the European Communities, which is following developments closely.

The International Monetary Fund, for its part, has authorized the measure, considering it to be a restriction on current international transactions.

While sympathizing with the difficulties that led to the Italian decision, some members of the Council expressed concern as to possible trade-restrictive effects of the proliferation of such schemes, which they considered to be inconsistent with the Tokyo Round agreement on trade measures taken for balance-of-payments reasons. They hoped the Italian measure would be removed as soon as possible.

The Council agreed that the Italian deposit would be examined at the earliest opportunity by the GATT Committee on Balance-of-Payments Restrictions.

1 See FOCUS Nos. 2 (April) and 5 (July-August).
2 See Tokyo Round “framework” agreements.

Discussion centres on EEC sugar export refunds and Italian deposit requirement

The fifty-second commercial policy course organized by GATT opened on 10 August for a duration of four months. The twenty participants, all French-speaking, are drawn from eighteen developing countries and two regional organizations. These courses have a practical orientation and aim at giving the participants a full knowledge of GATT activities.

1 See FOCUS No. 1.
GATT AND THE TRADE PROBLEMS OF LEAST-DEVELOPED COUNTRIES

Many international organizations are taking action in favour of the least-developed countries, whose economic situation has deteriorated in recent years. One can point to the work of the recent Paris Conference on the Least-Developed Countries; UNCTAD; FAO; the United Nations regional commissions; the IMF and GATT; each, in its own area, contributing to the search for solutions to the problems faced by these countries.

The trade problems of the least-developed countries have already been taken up in GATT, in particular during the Tokyo Round of multilateral trade negotiations where special and differential treatment was granted to them, and in the framework of the Committee of Trade and Development. Creation in November 1980 of a sub-committee on the trade of least-developed countries reflected a growing awareness among GATT member countries of the serious problems which the least-developed nations are facing. The sub-committee is designed to act as a catalyst for efforts in favour of these countries within GATT.

The main tasks of the sub-committee are:

- to define the export interests of least-developed countries, and to identify the tariff and non-tariff barriers that affect their exports;

- to examine international trade trends relevant to the interests of least-developed countries, in order to gain an overall perspective of their situation;

- to examine trade measures taken or envisaged by developed countries, so as to give special treatment to least-developed countries within the framework of the “enabling clause” regarding special and differential treatment for developing countries.

The sub-committee can also take up any other matter relevant to GATT activities that might be raised by its members and that bears on the trade interests of least-developed countries.

Like all developing countries, the least-developed among them can obtain technical assistance from the GATT secretariat.

The sub-committee has held two meetings since it was established. It began by discussing information furnished to it by the secretariat regarding its three present areas of activity, in particular those concerning tariffs and certain non-tariff measures applied to products exported by the least-developed countries. These countries have been invited to notify other non-tariff measures that might adversely affect their exports. It has been agreed that where specific problems are identified, the countries concerned should consult together so as to clarify those problems and seek a practical approach for solving them.

International Trade in 1980/81
Decline in World Trade is confirmed

GATT has just published the first chapter of its annual report, International Trade 1980/81.¹ The slow-down in world trade, already noted at the beginning of the year², has become more marked, and more precise statistics on the main elements of this trend are now available.

Main Developments

Growth in the volume of world trade has declined, from 6 per cent in 1979 to 1.5 per cent in 1980, and this trend is apparently continuing. Moreover, because of the considerable appreciation of the United States dollar, which resulted in an effective decline in the value of exports, the value of world trade appears to have declined during the first half of 1981.

The strong rise in petroleum prices in 1980 brought about further changes in the relative shares of the main product-groups in the value of world trade. Fuel exports accounted for nearly 25 per cent of world trade, i.e. the highest percentage since the Second World War. The share of manufactures declined for the second straight year, dropping to 55 per cent, while that of agricultural products amounted to 15 per cent, the lowest percentage since 1945.

As regards trade by major areas, the share of the industrial countries in world exports dropped to 61.5 per cent, its lowest level in the last two decades, while their deficit on current account went from $31 billion in 1979 to $75 billion in 1980.

The share of the traditional oil-exporting developing countries in world exports reached a new peak of 15 per cent in 1980. their current account surplus amounted to an estimated $115 billion. On the other hand, in spite of the much higher value of their sales, the newer oil-exporting developing countries suffered a widening current-account deficit, which amounted to $10 billion.

Trade of the oil-importing developing countries declined in value and showed marked deceleration in volume, their deficit on current-account widening for the third year in a row to reach $60 billion in 1980.

For the Eastern countries, the value of both exports and imports grew by about 17 per cent in 1980, with significant differences between regions. The fastest expansion in trade occurred in China, which reduced its trade deficit by nearly 50 per cent to $1 billion. The trade surplus of the Soviet Union rose further in 1980, to an estimated $8 billion, while the trade deficit of Eastern Europe fell slightly to $4.8 billion.

¹ The full text of the first chapter appears in a press release, GATT/1295. The complete report will be published shortly.
² See FOCUS n° 2, April 1981.
Trends in trade and economic policy in the oil-importing developing countries

The oil-importing developing countries were able to maintain their economic and trade performances during 1980, in spite of the slowdown in the economic growth of the industrial countries, say GATT's economists in their latest annual report. Trade among the developing countries was found to have increased more rapidly than their exports to the industrial countries. Another factor was the growing importance of sub-contracting abroad.

Nevertheless, there is a growing uncertainty about the LDC's ability to maintain their performance. While deceleration could be expected in the foreign indebtedness of the most advanced oil-importing developing countries, the relatively poor countries, more dependent on foreign assistance, might find themselves affected by increased weakness in markets for many of their primary products, if the recession in industrial areas continues.

If one compares the performances of four groups of oil-importing developing countries (Far East, Latin America, South Asia, Africa), it is found that countries with higher rates of growth have "revealed a remarkable flexibility in both their imports and exports. The composition of exports adapted more easily to changes in the level and pattern of demand in the industrial countries and to increased import restrictions on a number of manufactured goods of importance to these countries". This analysis would seem to support the proposition that "countries which combine domestic policies offering adequate incentives for prompt market adjustment, with outward-looking policies in the trade area and realistic exchange rates, are likely to show more rapid economic progress, not just in terms of output growth, but in terms of employment, income distribution and ability to adjust to external change". But at the same time, the GATT economists report, "together with liberal trading policies in the industrial countries, the adoption of more efficient and open policies by the more advanced developing countries would also help the poorest countries to achieve sustainable growth on their own by providing new trade opportunities for them".

In conclusion, it may be said that a stable development process can only be ensured in the framework of an open economic system. Both the developing and the industrial countries are dependent on the security and predictability which the rules of such a system ensure, and they cannot escape their responsibility.

Working Party on Structural Adjustment begins its work

At its meeting on 2 July, the working party on the relationship between structural adjustment and trade policy organized its future work. In June 1981, the working party was asked by the Gatt Council to undertake a study and discussion on the relationship between developments in trade and changes in production structures, and to discuss and analyze information communicated by GATT members on their experience in regard to structural adjustment. The working party has requested all contracting parties to communicate that information to the GATT secretariat before 31 December 1981.

The working party's programme of activities also includes analysis and discussion of the relationship between the articles and instruments of GATT, including Part IV concerning developing countries, and the process of structural adjustment. It discussed a note by the secretariat on this aspect; the note points out in particular that attainment of GATT objectives—in particular liberalization of international trade—has implied a continuous process of adjustment of production structures and utilization of resources. In addition, certain provisions of the General Agreement such as Article XXXVII:3(b), and certain international trade agreements, such as the Multifibre Arrangement and the Agreement on Subsidies and Countervailing Duties, make specific reference to structural adjustment. The note also recalls that the question of adjustment has been examined by various GATT bodies in the past. For instance, in the period 1965 to 1972, there was a group of experts on adjustment assistance measures, and discussion on this subject has taken place in the Committee on Trade and Development. The question of adjustment was also raised during the Tokyo Round, during negotiations over improving the international safeguards system.

In brief . . .
Committee on Government Procurement

Meeting on 8-9 July, the Committee on Government Procurement continued its review of national legislation taken to implement the Tokyo Round Agreement on Government Procurement. There was also discussion of the coverage of the Agreement in regard to leasing and similar transactions, as well as identification of contracts covered by the Agreement in order to improve transparency and allow foreign suppliers to tender. The Committee continued its discussion on treatment of taxes and customs duties and their possible inclusion in the minimum value of contracts; the Agreement applies to individual government contracts worth more than SDR's 150,000 (about U.S. dollars 200,000), for specified government agencies listed in an annex.

Coming GATT activities

Provisional programme of meetings for October:

- 1-2 International Dairy Products Council
- 6 Council
- 7-8 Working Party on EEC/Greece
- 13-15 Committee on Government Procurement
- 13-16 Committee on Balance-of-Payments Restrictions
- 14-16 Consultative Group of 18
- 19 Committee on Tariffs
- 10-21 Working Party on Structural Adjustment
- 20-23 Committee on Technical Barriers to Trade
- 26-27 Committee on Anti-Dumping Practices
- 27-28 Technical Sub-Committee and Committee on Trade in Civil Aircraft
- 28-30 Committee on Subsidies and Countervailing Duties
- 28-30 Textiles Surveillance Body
- 30 Committee on Trade in Civil Aircraft

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