REGIONAL TRADING ARRANGEMENTS SHOULD BE BUILDING BLOCKS, NOT STUMBLING BLOCKS, FOR THE MULTILATERAL SYSTEM - SAYS SUTHERLAND

Without a strengthened GATT, regional arrangements face a bleak future

"It is critical that regional trading arrangements provide building blocks - not stumbling blocks - to the creation of a strengthened, rules-based multilateral trading system in the post-Uruguay Round era," warned Peter Sutherland, Director-General of GATT, in an address to a seminar on regional integration, organised by the EC/Rio Group (CEFIR) in Montevideo today (16 September).

"A regional trade grouping does not exist in a vacuum any more than a country does," he continued. "It is only through the multilateral GATT system, strengthened after a successful conclusion to the Round, can members of regional agreements define their trade policy vis-à-vis the rest of the world - and each other - on the basis of multilaterally agreed concepts, principles and rules. In turn, regional arrangements that lead to expansion of openness are a shot in the arm for the open and liberal rules-based multilateral system. Inward-looking hostile blocks are a shot in the foot."

Drawing attention to the fact that there were 85 regional arrangements in existence, 28 of which had been set up just since 1992, Mr. Sutherland emphasised that such arrangements were consistent with the GATT, provided they remained open to trading relationships with the rest of the world.

"The fact is that the surge of interest in regional trade pacts is taking place for good economic and political reasons which owe much to the successes of the GATT multilateral system. In many cases, it is clear that GATT membership was the starting-point for the regional initiatives. Being a GATT member has provided the critical sense of security that has permitted them to pursue complementary regional initiatives.

"Only by completing the Uruguay Round by 15 December this year, with strengthened GATT rules and disciplines and a substantial package of multilateral trade liberalization commitments, can we be sure of a healthy GATT system. Without this, not only the multilateral system but also regional arrangements face a bleak future."

The full text of Mr. Sutherland's remarks is attached.
Ladies and Gentlemen

I am pleased that my visit to Uruguay has given me this opportunity to meet with you and say a few words on a very important theme. I see that the title of your seminar is "The Challenges of Integration; Management, Legal and Institutional". I want to add another challenge to that list - the multilateral challenge. By this I mean the challenge of constructing and operating regional trade arrangements that will strengthen - not weaken - the multilateral trading system based on GATT concepts, principles and rules.

Simply put: it is critical that regional trading arrangements provide building blocks - not stumbling blocks - to the creation of a strengthened, rules-based multilateral trading system in the post-Uruguay Round era.

Latin America is a part of the world where regional economic integration initiatives are well advanced. It is also, not accidentally, a region where the trend is towards greater openness and market orientation in both domestic and external trade policies. Many Latin American countries have undertaken dramatic reforms in their economic policies during the eighties and the nineties. Past experience all around the world has led to the rejection of inward-looking import substitution policies in favour of outward oriented development strategies which emphasise growth through trade.

The adoption of outward-looking policies has, in turn, provoked a second look at regional trade arrangements and the various benefits they have to offer. Economies of scale and specialization coupled with the advantages of larger, more integrated markets provide the ground for more rational investment and production decisions. As a result, regional arrangements which have remained dormant are being revitalized and new ones are being planned. Similar trends are noticeable around the world; for example in Asia, in the Pacific, and even in Europe.

In fact, 28 new regional trading arrangements have been notified to GATT since 1992 and 12 working parties are in the process of examining the conformity of these arrangements with GATT obligations. This is far more than at any time in GATT history. These new arrangements are, of course, to be added to the 57 arrangements already in existence. Of these existing arrangements, 8 involve Latin American countries.

Along with these developments, some quarters have queried whether regional trade arrangements proliferate at the expense of the multilateral system. The fact is that the surge of interest in regional trade pacts is taking place for good economic and political reasons which owe much to the successes of the multilateral system embodied in the GATT. I must emphasise that regional trading arrangements

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are not illegal in the GATT context and, provided they remain open to trading relationships with the rest of the world, are to be welcomed as being both within the letter and spirit of GATT.

So far from being evidence of the decline of multilateralism, this surge of regionalism parallels and complements a rapid expansion in GATT’s membership and renewed commitment to its principles. Provided that regionalism remains open - and the rules and procedures of the GATT offer the only generally available means of ensuring that it does - there is no reason why regional trade agreements and the multilateral system should not continue to be mutually supportive.

In order to make sure they do remain that way, I suggest three questions are relevant with respect to new or prospective regional arrangements:

- First, are they born out of a desire to implement accelerated liberalization commitments in accordance with GATT obligations, and thereby expand regional and world trade and strengthen the multilateral trading system?

- Second, do they seek to achieve an improved organization of participation in the global economy? Or, are they part of a move to greater discrimination and away from the disciplines of the multilateral system; a trend which leads ultimately to isolationism in both commercial and political terms, with all the well-known consequences for world economic and political stability?

- Third, are they driven by a desire to provide a more effective negotiating counter-weight to other trading entities with a view to enlarging global liberalization and improving conditions of competition? Or do they represent an inward-looking process born out of frustration with the failure to conclude speedily the Uruguay Round?

Quite clearly, the answer to these questions will determine whether or not a particular arrangement is to be considered to provide a shot in the arm for the multilateral system. While in reality no one answer holds true for the various regional schemes now in place or under consideration, there are some general trends that permit me to 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 Latin America. Not everyone is aware that the dynamic trading performance of this region, together with the ASEAN countries, has considerably lifted the global trade figures for the last year, thereby lessening the effects of the recession in the OECD countries.

Second, these countries clearly see no contradiction between pursuing a faster pace of liberalization through regional integration while pursuing more far-reaching global market openness through multilateral liberalization. These countries include some of the most recent members of the GATT, and in many cases it is clear that GATT membership was the starting-point for the regional initiatives. Being a GATT member has provided the critical sense of security that has permitted them to pursue complementary regional initiatives.

Third, 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. This is especially so for those looking to a strengthening of the GATT system through a successful conclusion to the Round to consolidate their unilateral domestic economic reforms. Their desire for more rapid trade liberalization according to
agreed rules and principles is no doubt a factor encouraging them to explore regional possibilities. In the absence of strengthened GATT rules, regionally negotiated rules become a second best alternative.

Countries - like businesses - cannot afford to neglect any profitable commercial opening. It is perfectly reasonable that they should pursue whatever advantages regional initiatives offer, while simultaneously working to maximize these advantages in the global negotiation. Indeed it would be surprising if they did not.

My final observation is that the growth of regional trading arrangements would become a threat to the multilateral system only if these groupings were to turn inward, 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 drastic consequences. In fact, the GATT was born from a collective determination on the part of governments not to repeat those mistakes. 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.

Regional trading arrangements that lead to expansion of openness are a shot in the arm to the open and liberal rules based multilateral trading system. Inward looking hostile blocks are a shot in the foot.

The crucial challenge for policy-makers is to ensure that existing and future regional agreements remain open. Meeting this challenge means designing regional arrangements to be GATT consistent in both letter and spirit. 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.

Countries committing themselves to regional trade arrangements must also, therefore, renew their commitment to the open multilateral trading system centred on the GATT. Only through a healthy GATT system - and indeed a strengthened GATT system after a successful conclusion to the Uruguay Round - can members of regional agreements define their trade policy vis-à-vis the rest of the world - and each other - on the basis of multilaterally agreed concepts, principles and rules. Any thing other than this will be the law of the jungle, a further strengthening of the strongest at the expense of the weakest.

Only by completing the Uruguay Round by the 15 December of this year, with strengthened GATT rules and disciplines and a substantial package of multilateral trade liberalization commitments, can we be sure of a healthy GATT system for the rest of this century and beyond. Without this, not only the multilateral system but also regional arrangements face a bleak future.

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