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REGIONALISM AND MULTILATERALISM ARE TWO SIDES OF THE SAME COIN
- GATT SURVEILLANCE ENSURES THE COINAGE IS NOT DEBASED

Arthur Dunkel, Director-General of GATT, dismissed threats to pursue regionalism exclusively as mere rhetoric which may serve as a useful auxiliary weapon in the final stages of a major trade negotiation like the Uruguay Round.

Speaking today at a seminar in Rio de Janeiro on "The Challenge of Hemispheric Integration", Mr. Dunkel reminded his audience that the global and the regional approaches to trade were two sides of the same coin.

"It is not coincidental that the Uruguay Round has been paralleled by such widespread initiatives for closer regional cooperation," he said. "The GATT provides the groundrules for multilateral trade, but it also sets the route to be taken by GATT members when they decide to enter into regional agreements within the framework of their multilateral trade obligations. Multilateralism and regionalism can coexist: better, they can actually reinforce one another."

A full text of Mr. Dunkel's statement is attached.

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As you know, it is a sure sign of a negotiator that he always looks for hidden motives. No wonder then, when I was invited to address this seminar on the Challenge of Hemispheric Integration, that I asked myself whether I was in reality being offered one of my last chances to plead before a distinguished audience the cause of multilateralism versus regionalism.

After all, don't we hear time and again very influential voices saying that regional and multilateral cooperation are basically alternatives, and inviting us to draw the conclusion that the unquestionable difficulties which are involved in following the multilateral route make regional cooperation the only practical option available. Looking at the deeply disappointing situation of deadlock which is plaguing the Uruguay Round negotiations at present, and at the clear trend towards building and reinforcing regional trade groupings all over the world, not least in Latin America, that opinion cannot just be rejected out of hand.

Or, alternatively, have I been invited with the expectation that I would come in strong agreement with the view that regional and multilateral approaches to trade liberalization are mutually supportive? This is a position which can, indeed, claim support from the experience of trade relations since World War II, as well as from the provisions of the General Agreement on Tariffs and Trade itself.

In any event, you could not have chosen a better time to take a serious look at the relationship between regional and multilateral cooperation under the GATT; and I suppose that is what you expect from me, so let me stress those three words, "under the GATT". They are at the centre of the subject. Certainly, the GATT provides the groundrules for multilateral trade, but, and this fact has to be stressed again and again, it also sets the route to be taken by GATT members when they decide to enter into regional agreements within the framework of their multilateral trade obligations. In other words, the founders of the GATT never thought to place the global and the regional approaches to trade liberalization in opposition -- they considered them as two sides of the same coin.

That this remains the basic view of the Contracting Parties is amply demonstrated in the real world. Just last week, the successful conclusion of the North American Free Trade Agreement (NAFTA) negotiations led straight away to calls from the trading partners of Mexico, Canada and the United States for the need to examine the agreement under the relevant provisions of the General Agreement. And the same thoughts were present some weeks ago when MERCOSUR received its baptism in the GATT. Each time one hears of a new move in terms of regional cooperation in the context of international trade relations, the rallying cry by the rest of the world is GATT. And the underlying questions are always the same: How will the regional and the multilateral perspectives fit together?; Will trade be created or diverted, and if diverted, from whom? Or to draw from the military vocabulary -- too fashionable in my view in commercial circles -- is a new fortress being constructed?

At this point I cannot resist making one comment off the record, even though I doubt that I shall escape in practice from it quite as cleanly as that. In the course of the years I have spent in the trade policy business -- too many, perhaps -- I have seen very drastic changes in national positions in respect of the balance to be sought between regionalism and multilateralism; changes which -- of course -- had nothing to do with an interest in the emergence of new regional agreements and their membership!

My concern can therefore only be that the opportunities for deepening regional cooperation should always be viewed objectively from a multilateral perspective, or in other words under the GATT.

A propos the GATT, let me make two points. First, that today's GATT bears little resemblance to what it was even just ten years ago. It is moving towards universality in terms of its membership, but also in terms of the level of observance of its market-based principles. I am sure you are all aware that soon all Latin American countries will have joined the GATT, and that the former republics of the Soviet Union as well as the successor states of Yugoslavia are seeking observership and membership. Similar moves are taking place in other parts of the world. This evolution should be taken as a vote of confidence in the multilateral system.

Second, a point that is more in the way of a question. Has not membership of the GATT been, for a number of countries, their first step towards closer regional integration?

Economic and political reform, as well as the alignment and realignment of alliances have been a constant feature in the history of international trade relations and the GATT has facilitated and very often been a reference point for these changes in the past forty-five years.

In that time, the Contracting Parties have carried out eight major rounds of multilateral trade negotiations. One can only marvel at the foresight of the original drafters of the GATT for setting out rules and procedures, as well as a system for dispute settlement, which have never lost their relevance during any of those eight rounds.

For the first five rounds, up to and including the Dillon Round in the early 1960s, it was the reduction of barriers at the border that was most intensively pursued. But as those fell, many to such a level that traders were able to exploit the opportunities of truly world markets, it became clear that they were not the only obstacles to cross-border competition.

This explains why the more recent Rounds of GATT negotiations began to focus also on other factors distorting competition. Here again, the GATT, as drafted in 1947, supplied many of the answers. I have in mind such measures as technical barriers to trade and national standards, dumping, subsidization, safeguards, government procurement practices, and so on. In all of these areas the task of the negotiators amounted mainly to interpreting and expanding existing rules. One area of innovation, of course, was the negotiation of the Enabling Clause in 1979 which is intended to facilitate the integration of developing countries more fully

into the trading system by providing them with additional flexibility to meet their GATT obligations.

With the Uruguay Round, the name of the game turned out more and more to be undistorted competition in the widest possible sense. For a number of sectors and rules, this meant deepening the results of the Tokyo Round. For others, such as agriculture and textiles and clothing, the challenge was to bring them back into the mainstream of trade liberalization. In two areas, however, -- trade in services and trade-related aspects of intellectual property rights -- which are basically not covered by the GATT, the Uruguay Round breaks entirely new ground even if the prospective agreements in these areas are to a very large extent inspired by the original rules and principles of the GATT.

Coming now to the evolution of regional cooperation, what we can observe is that it has followed during the last forty-five years much the same path as multilateralism. This is true both for the areas subject to integration as well as for the number of existing or prospective regional groupings.

First, in respect of substance, regional arrangements tended initially to concentrate on the elimination of border trade barriers among member countries. But as the process of integration became deeper there was no avoiding the need to turn serious attention to the mutual compatibility of domestic measures that affect competition, in trade in goods as well as in services.

The parallel between regionalism and multilateralism is, unfortunately, not only on the positive side. GATT Contracting Parties have always found it difficult to apply the rules cleanly to such areas as agriculture, textiles and clothing, steel, and so on. In much the same way, and for much the same reasons, these sectors have been either excluded or given special treatment in the majority of cases of regional cooperation. One of the very few examples where agricultural trade has been fully integrated at the regional level is within the European Community through the Common Agricultural Policy, and I do not feel I need to say more on that particular subject.

Second, in respect of the number of existing or prospective regional groupings, there is no doubt that the trend goes in an upward direction with the sad exceptions of the disintegration of the national markets in the former USSR, Yugoslavia and Czechoslovakia. I have with me a tentative Secretariat listing of all known -- and maybe some unknown -- regional cooperation arrangements around the world. It would take me a while to read it to you, but what counts, here and now, is of course Hemispheric cooperation.

There has been no lack of regional initiatives in this part of the world, but what strikes me is that their effective implementation has, practically without exception, been linked to the introduction of drastic reforms in the economic and trade policy fields by the member governments concerned. And since these reforms have been very much welcomed by the

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Contracting Parties, the fact that they have also led to closer regional cooperation has found widespread support. This does not, however, mean that the rallying cry to GATT that I referred to earlier does not also apply here. The fact is that MERCOSUR is being examined in GATT, as has and will any other step in this direction in Latin America or elsewhere. I am also certain that NAFTA will be very carefully scrutinized.

Now, since the GATT is above all a legal instrument, let us have a look at what Article XXIV has to say. I know that many of you are experts in this matter. But even so, my experience -- part of it very recent -- tells me that some confusion still exists in this respect.

Article XXIV of the GATT maps out two main routes to regional integration: the free trade area route and the customs union route. Both require members of the region to remove trade barriers among themselves. In a free trade area each member keeps its own tariffs and other restrictions against non-members, and in consequence, continues to conduct its own trade policy. The main complication involved is that of maintaining a system of rules of origin to govern trade within the region, to ensure that goods do not slip in from outside via members with lower external protection.

Customs unions avoid that problem, because all members in the region adopt the same tariffs against the rest of the world. But in doing so, they abandon at least part of their treaty-making power with third countries, since a common external trade policy inevitably requires that members speak and negotiate in common on trade issues. For example, whilst the Member States of the European Community have retained their status as Contracting Parties, it is the spokesman of the EC Commission who negotiates on their behalf in GATT.

It is a fact of life that some member countries in each regional grouping are likely to be stronger, economically or politically, than their partners in that grouping. In the absence of multilateral rules to guide the trade policies of regional groupings, those policies will tend to respond predominantly to the interests of the most powerful members, to the probable disadvantage of smaller or weaker members. Multilateral rules are thus essential to the conduct of consistent policies by regional groups.

What we find also in Article XXIV is recognition that the process of economic integration is a continuum, not a specific point in time. The rules reflect this, but equally important is the process of review of the implementation of the integration process, particularly as it affects the trade of third countries. And it is in this review area that the major improvements would be brought to the existing Article through implementation of the draft Uruguay Round agreements. Furthermore, the Uruguay Round draft agreements that will extend multilateral trade co-operation into the areas of services and intellectual property also take account of the fact that some of their signatories will be acting in a regional framework, both among themselves and in their relations with other GATT members.

But most important of all, it is instructive to note that the basic approach underlying Article XXIV has not been altered in the Uruguay Round. The Contracting Parties have confirmed their support for the fundamentals.

Among them, a guiding principle remains that regional integration should not be at the expense of third parties. This may seem Utopian, but it is not. Regional agreements can include individual provisions that cause difficulties for non-members, but there is no inherent reason why they should not, on balance, provide gains for members and non-members alike. The key lies in the administration and implementation of an agreement and the degree of shared commitment to real economic integration.

I believe it is clear that if two or more countries decide to work towards making trade between themselves as free as it is within each of their own domestic markets, then that decision should not be judged to be a threat to the multilateral trading system.

Of course, our experience with regional integration agreements during the past forty years suggests that they are seldom, if ever, as far-reaching as the rules governing the domestic markets of participating countries. In the case of the European Community, the most advanced of the integration agreements, 1992 unquestionably represents an impressive landmark in further European integration. Yet it has taken 34 years to reach the point of phasing out most internal non-tariff barriers to trade. What this means is that the compatibility of a regional integration agreement with the multilateral trading system can only be judged on the basis of the specific provisions and implementation of the agreement.

Once drawn up and put into force, each new Article XXIV agreement is examined in detail by a GATT working party, in which the member governments are obliged to explain and defend all its provisions. And scrutiny does not end with the working party. The normal GATT institutions and procedures - Council debates, notification procedures, consultations and dispute settlement - are there to ensure that any non-member which feels its GATT rights are being infringed by the operation of the regional arrangement can bring the matter up and seek redress.

Implementation is indeed a key factor in assessing the compatibility of regional arrangements with the GATT. I have emphasized that abstract judgements on regionalism, and its compatibility with multilateralism, are likely to be misleading. Closer surveillance of regional agreements, through an extension of GATT's new Trade Policy Review Mechanism might be useful in this respect: at present the European Community is the only regional grouping reviewed as a single entity under the TPRM exercise.

Let us now, looking at future agreements, see what lessons we can draw from the past.

Past attempts to achieve regional integration in the Western Hemisphere are particularly instructive. At the risk of oversimplifying a complicated story, a common thread was the reluctance of participating countries to accept fully the challenge of real competition. In each

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regional initiative, either the original plans to open up markets were too cautious - too limited, too slow and too reliant on propping up each other's overprotected and uncompetitive enterprises - or governments failed to stick to more ambitious plans when difficulties were encountered.

In retrospect, the resulting failures were inevitable. Regional trade groupings in Latin America were seen as an extension of national trade policies based on import substitution, i.e. trade barriers, detailed controls, and a fundamentally pessimistic view of possibilities for economic diversification and export growth. Those policies are now widely discredited, because the alternative of market-oriented, open policies has been demonstrated to work much better.

Today, ambitions to build regional trading arrangements in the Western Hemisphere are taken more seriously, both internally and by outside observers, because they are supported by market-oriented national policies and have as their basic premise the need to encourage competition, rather than to erect defences against the rest of the world. Those same policies have also permitted the Hemisphere to become a fuller participant in the multilateral trading system. That has been proven in the Uruguay Round negotiations, where Latin American countries are active players at all levels. Because they are prepared to compete, to open up, they have both a growing stake in the future of world trade and a strong bargaining hand to play as negotiators.

History also shows that regional integration can help advance multilateral economic co-operation.

Having made the fundamental choice to open up to the world, to accept the challenge of competition, it can make very good sense for governments to pursue both regional and multilateral objectives in trade policy. Regional trade liberalization can offer economies of scale, opportunities for specialization, a magnet for foreign investment, a stronger collective voice in the world's economic councils, and often important political gains as well. In a regional context, among like-minded neighbouring countries, it can sometimes be easier to solve problems than in a larger, global context.

On the other hand, some issues cannot be tackled effectively in a regional framework. The obvious advantages of the regional approach - proximity and a common outlook - are less important when modern transport, communications and broader-based markets make it easy and natural to do business worldwide. Firms are more and more dealing globally - not just in trade, but also in their investment and licensing activities.

There are other good economic and political reasons why regional and multilateral trade liberalization tend to go hand in hand. Successive GATT rounds over the past 30 years have been motivated, at least in part, by the desire of countries outside the European Community to minimize their competitive disadvantage in the emerging single European market. This tendency for regional integration to spark off multilateral negotiations for a general lowering of trade barriers is often overlooked. GATT members

continue today to pursue regional and multilateral efforts in parallel. Mexico's participation in NAFTA, for example, is not a tacit rejection of trade with the rest of the world -- Mexico's active participation in GATT at the same time shows that its regional and multilateral interests have a shared basis in the country's fundamental shift to liberal economic policies.

I do not believe it is coincidental that the Uruguay Round has been paralleled by such widespread initiatives for closer regional cooperation, nor do I believe that the current deadlock in the Round is responsible for countries giving up hope in the multilateral system and turning to regional opportunities as their only option.

The energy that is brought to conducting trade negotiations on a multilateral level is invigorating for all aspects of the economic policies of participating countries, and the process of domestic policy review which it entails can open any number of previously unconsidered possibilities. Also, some areas of trade lend themselves more naturally to being liberalized on a global than on a regional basis, because of the difference balance of trade interests that prevails between a regional and a multilateral level.

In summary, from what I have said, it should be clear that it can be highly misleading to regard regionalism as a rival or alternative to multilateralism. Rhetorical threats to pursue regionalism if one's multilateral objectives appear blocked may be a useful auxiliary weapon in the final stages of a major trade negotiation like the Uruguay Round, but in practice they are indeed likely to be no more than rhetoric. Multilateralism and regionalism can coexist: better, they can actually reinforce one another.

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