
**EMBARGO: NOT FOR PUBLICATION BEFORE 1900 HOURS GMT, TUESDAY
31 AUGUST 1993**

NUR 062
31 August 1993

SUTHERLAND CALLS ON GERMAN INDUSTRY TO FIGHT FOR ROUND SUCCESS

"One of the truly reliable means of stimulating growth without the risk of undesirable inflationary side-effects is increasing trade. This is what the Uruguay Round negotiations are all about."

This was stated today by Mr Peter Sutherland, Director General of GATT, during a speech in Cologne. Mr Sutherland was addressing a dinner of the Bundesverband der Deutschen Industrie, the German industry federation. He pointed out the considerable benefits that would flow from a successful conclusion to the Round and called in his speech for German industrial and political leaders to stand up and fight for a successful Uruguay Round.

"You hold in your own hands the key to new investment, higher employment, more trade, less economic and political tension and uncertainty. Is this a time for industry leaders to be complacent? To take a low profile? Will the judgement next December be that we lost the Uruguay Round because European industry - including German industry - failed to speak up sufficiently strongly for its own interests? That a false calculation of its interests lost Europe and the world the best opportunity for growth in the foreseeable future?"

Mr Sutherland said that a failure to conclude the Round by next December would "seriously undermine the multilateral trading system with unimaginable economic, political and security consequences; the full dimensions of which will only become apparent when it actually happens."

The full text of Mr Sutherland's speech follows.

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"GATT Equals Growth"

Address by
Mr. Peter Sutherland
Director-General of the GATT
to the
BUNDESVERBAND DER DEUTSCHEN INDUSTRIE (BDI)

Köln, Germany
Tuesday, August 31, 1993

These are difficult times for German industry. The enormous structural adjustment in the former East Germany is a heavy burden for the German economy. Demand and output are down, orders are low, unemployment is high. This must hit all the harder for being unusual. If the German economy has been the locomotive of Europe, the manufacturing sector has provided its power. The locomotive will pick up speed again - but all of us know there is a climb still ahead before we can say this recession is over.

The wider European context certainly offers us little immediate relief. Community average unemployment is at 10 and a half per cent and rising. It can be no consolation that Germany's joblessness rate remains among the lowest. The persistence of the recession across Europe is threatening to exhaust the patience of the public and the credibility of political leaders. And the recent currency turmoil helps neither our current economic problems nor the longer-term prospects for closer European integration.

Looking outside Europe the signals are mixed. The brightest spots on the world economic horizon are to be found outside the major industrialized countries, in Asia and in Latin America. But even if we take satisfaction in these examples of new economic dynamism, we must remember that these new shoots have yet to consolidate their development. Many of the liberal political and economic changes that have occurred recently in these regions are still fragile. Moreover, economic uncertainty in the G7 countries risks creating a wider malaise. Here at the start of the post-Cold War period it is as though we are living through the aftershocks of a great earthquake and are scared of what might fall on us next. There is certainly a noticeable increase in voices calling for protectionism, as well as for other ways in which nations seek to pull back into their shells and hide from a new and challenging world.

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Still, we must not allow ourselves to become prisoners of pessimism. It is essential to remember that the political, economic and social tremors that are shaking our countries now result from the fall of some mighty structures of oppression. Their collapse may leave us blinking as the dust settles, but above all we have an opportunity to rebuild a better international order.

Visions of a better world are not enough to satisfy anxious workers, investors or voters when set against the hard realities of recession. Indeed, unless we can pull out of the recession soon this vision itself could be discredited. Short and long-term prospects for practically everything that our societies value depend on restarting sustainable economic growth. Policy-makers operating within a purely national framework are finding that they do not have too many levers to pull any more; those they have tend to come off in their hands, or to throw the machinery into reverse.

One of the truly reliable means of stimulating growth without the risk of inflationary undesirable side-effects is increasing trade. This is what the Uruguay Round negotiations are all about - that and ensuring better competitive conditions for trade - and that is why I can say without qualification "GATT equals growth".

II

Recent international experience confirms that trade is where we should look for recovery. Trade has consistently been the leading edge of the world economy, moderating the global slowdown since 1989. In 1990-91 export growth provided almost all the growth there was in an otherwise stagnant US economy. Likewise in 1992 Western Europe's exports grew much faster than output.

For Germany - the world's second largest trading nation - the case is not in doubt. You have after all proved it in action. Germany's post-war economic miracle occurred in the context of GATT negotiations which cut average OECD tariffs from 40 per cent to around 5 per cent and encouraged a 12-fold increase in world trade since 1950. German industry had the skills and the energy to make the structural adjustments necessary to take advantage of those trading opportunities, and I have no doubt that it still does.

The Uruguay Round offers the chance to recreate growth opportunities by injecting new dynamism into the international trading system. Recent estimates by the OECD have tried to put a figure on the global income gain we could expect from the Round. Amounts of the order of \$200 billion have been quoted. But such estimates are far from telling the whole story. They do not include the value of trade in services, for example. And they cannot reflect the beneficial economic effects of improved trade rules and relaxation of trade tensions.

Even more important is where the growth comes from, and what kind of growth it is. To look first at where the growth comes from: some of the biggest immediate trade gains are likely to go to developing countries. Some estimates show that a result along the lines of the Draft Final Act would add at least 3 per cent to the value of developing country export earnings. This is largely because for the first time this Round will make significant cuts in trade barriers on agricultural products and textiles - the chief sustainable export sectors of many developing countries.

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And if anyone wonders why I should highlight developing-country growth prospects in a speech to German industry, it is because this is where your best growth prospects are too. Developing countries have the fastest-growing economies and the greatest reserves of unfulfilled demand. Many have opened up their previously protected markets unilaterally since the Uruguay Round began - Latin America provides the most striking examples, such as Argentina, Mexico and Chile. This region has shown the world's highest import growth for the last two years.

Overall a much larger share of the European Community exports to third countries goes to developing countries than to North America and Japan put together. This is true for Germany also. Even more important, when in 1992 the German economy started to slow down, manufactured exports to developing countries rose by 14 and a half per cent - more than twice as much as to all other regions combined.

Whether these countries can sustain and increase their demand for your products depends almost entirely on their possibilities for earning foreign exchange through their own exports. Developing countries don't bury their export earnings in the sand - they spend them on the goods and services that they need for their development and that their people want, and they buy these in - for example - Germany. In trade as elsewhere in life the old saying holds: what goes around comes around.

To this audience in particular I should add that the point I am making about developing countries holds also for Central and Eastern Europe and the former Soviet Union. These economies have serious structural problems to overcome and thus have much further to go than the South-East Asian "tigers" in their journey to the free market, but they nonetheless have a potential of which I know German exporters are highly conscious. Last year the value of Germany's trade with Central and Eastern Europe rose by more than a quarter, at a time when total trade grew by only 5 per cent. And this increased trade showed a modest balance in Germany's favour. Like the developing countries of Asia, Africa and Latin America, Central and Eastern Europe and the former Soviet republics need better possibilities for earning export income if they are to fulfil their potential. If richer countries deny them opportunities they are also, in the end, limiting their own.

III

Let me now turn to what sort of growth we can expect from a successful Uruguay Round. The answer is twofold: non-inflationary growth and growth with jobs.

The first point is fundamental because policy-makers do not have many options for stimulating growth which do not also risk stimulating inflation. Trade liberalization, which actually lowers many prices - is one of the few.

The second point answers a concern which I know is particularly felt in this country and other OECD members. It is that economic recovery may not be matched by recovery in employment - what President Clinton has called "this riddle about job creation which is gripping every advanced nation in the world". Since a great deal of misinformation is being put around concerning the effect

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trade liberalization has on employment, it may be useful to recall some relevant facts.

First of all the current situation. In the G7 countries close to 23 million jobs are supported by merchandise exports, and many more by exports of services, for which reliable figures are not available. In the European G7 countries - Germany, France, Italy and the United Kingdom - export-dependent jobs are estimated at around 7 million. And, to take the example of the US manufacturing sector, virtually all the job growth between 1986 and 1990 was due to exports.

When we look to the future the choice is clear; countries may try to preserve some jobs in uncompetitive industries by using trade barriers, but they will do so at the cost of jobs in the efficient export sectors. The less we buy in other countries, the less they can afford to buy from us. And in the end it must be seriously doubted whether efforts to protect uncompetitive industries and their jobs can succeed more than temporarily. Experience suggests that protected industries fail to adapt quickly enough and they come more and more to rely on costly protection. Alternatively, countries can accept that trade liberalization can stimulate inefficient industries to become more competitive and also create jobs in more efficient export industries. And wages are typically higher in export industries - 17 per cent above the average in the US, for example.

I should add that attempting to protect jobs through trade barriers can often cost several times the job's actual wage, through the extra burden trade barriers put on consumers and producers. Countries do not prosper by paying \$100,000 a year to protect a \$15,000 job.

You may have heard of a pamphlet which the GATT Secretariat has just published outlining the costs of protectionism to the consumer. It is important to remind people that industry is a consumer too. Protective measures on steel or semi-conductors raise your input costs, restrict your supplies and ultimately hurt your ability to compete internationally. Industries affected in this way may in their turn call on governments for increased protection, spreading the problem from input to finished product. This is not just a vicious circle, it is a downward spiral to extinction.

IV

So far I have - quite deliberately - kept to points where factual evidence is available, even if it is often ignored. But we should not overlook aspects of the Round which are harder to quantify - they are none the less real for all that.

Business confidence is a prime example. You know at first hand what a sensitive thing is confidence. You know what a boost a Uruguay Round agreement would give it - and how damaging to it a failure would be.

The Uruguay Round is a clear test of the ability of the world's leaders to make an effective choice for growth. Their commitment in principle is not in doubt - almost a hundred countries signed up for the Uruguay Round in 1986, and the reasons why they did so are even more convincing today. Just recently the G7 leaders in Tokyo declared that maintaining and expanding the multilateral trading system is essential for world growth, and agreed that their highest trade priority was a successful

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conclusion to the Uruguay Round. But this commitment has to be carried through difficult domestic and international negotiations without weakening.

So much is at stake. To take a case I mentioned earlier, economic liberalization efforts by developing countries - and the transition to the market by the formerly centrally planned economies - are very vulnerable as long as they stand alone. These countries need to be brought into the larger community of nations in a mutually sustaining way. They need the assurance of a set of improved international trade rules and reciprocal commitments by their trading partners. If they don't get this we shall see - and we are already seeing some warning signals - increasing pressure to revert to the bad old ways. And of course these bad old ways were not confined to the economic sphere.

The Uruguay Round is the only chance we have - and the only one we are likely to have for a long time - to make a trade agreement which is truly global, both in its geographical scope and its coverage of world trade. Regional agreements are no substitute. Indeed, a successful Round is crucial to the future of the developing countries. They need a strengthened multilateral framework within which they can develop. Otherwise they simply risk repeating the protectionist fallacy on a grander scale.

Only the Round can maximise the benefits of trade liberalization - and minimize the adjustment costs - by spreading them around the world. And only the Round offers the chance to combine short-term benefits with a renewal of the long-term basis for sustainable growth and development.

IV

I have outlined a number of the significant benefits that can flow from a successful conclusion to the Round. It is vitally important, however, that industry also appreciates fully that the costs of failure would be appallingly high. No country, even the stronger amongst us, could readily bear the self-inflicted wounds that would inevitably flow from a failure to conclude the Round by next December. For let no one be under any illusion, failure to reach agreement by the end of this year will give rise to considerable tension in international trade and economic relations.

We must all understand that the Uruguay Round is not an optional extra - that it is merely an additional development of the multilateral system to which we can choose to say yes or no without any harmful consequence for the existing trading rules and disciplines. On the contrary, already within the GATT system we are faced with a very large number of potentially destabilising trade disputes between the major trading nations. And in recent years, the trend has been increasing. Thus, over the past seven years since the Uruguay Round began, the GATT dispute settlement system has seen a significant increase in activity compared to the previous seven year period. For example, in the period from 1987-93 there was a 50% increase in GATT dispute settlement findings compared to the period 1980-86; similarly, there was a 100% increase in disputes which required the establishment of a GATT panel. A successful conclusion of the Round should provide a framework for rapid resolution of many of the outstanding disputes.

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I should stress too that the ending of the Cold War has facilitated an acceptance amongst developing countries of the market economy system as a model for economic development in recent years. This is one of the reasons why a number of significant developing countries have introduced significant economic reforms. Their political leadership, notwithstanding some painful social consequences, has had the courage to begin the process of liberalisation in the belief that the industrialised countries are ready to expand global market through the Uruguay Round. A failure to conclude the Round will at the very least contribute to great economic uncertainty in these countries.

In some cases there is a serious risk that those who have espoused liberalisation as a means of generating economic welfare and greater political democracy will lose credibility. Indeed, we could witness a return to short sighted protectionism and even autocratic political structures and indeed, new problems of security, including political antagonisms between regional blocs.

In short, a failure to conclude the Uruguay Round by next December would seriously undermine the multilateral trading system with unimaginable economic, political and security consequences, the full dimensions of which will only become apparent when it actually happens. If we have no Round, we are not simply back where we started. We will have wrought serious damage to the multilateral system. Thus, what is at stake is not just the benefits of the Uruguay Round both to consumers and producers, but the very effectiveness and future of the multilateral trading rules that have underpinned global economic development in the latter part of this century.

V

For forty-five years the political and strategic imperatives of the Cold War dominated international thinking. The world is rediscovering, with the breakup of the old power blocs, the virtues of collective security as envisaged by the founders of the United Nations. The GATT represents collective economic security. Its basic principles of non-discrimination and equity are as valid now as they ever were; the Uruguay Round is the means of applying them in a new era. It is time for trade to be given its rightful place as a priority for national leadership. It would be a cruel irony - a bad joke of history - if just as the political blocs were breaking up, the walls coming down and closed circles opening up, the reverse were to happen in our economies. Ultimately, openness in one area of national or international life cannot survive in isolation.

This is why finishing the Uruguay Round successfully and soon is about more than tariff cuts and farm subsidies. It is arguably the most important and urgent issue on the world agenda today. And so it is very hard to understand how some people can be so short-sighted as to want to put all this at risk by pandering to a relatively small number of inefficient producers, while at the same time holding back the efficient parts of the economy.

I have come here tonight to address you with pleasure, but with expectation. You represent the core of German industry and thus, in significant measure, an important part of European industry. Many of you face difficult problems in the current business environment. You are doing what you can, in the German context, to resolve them. Frankly, that is not enough. You have a responsibility also to the rest of Europe and, indeed, to the rest of the world.

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Germany has prospered as much as any nation from the wave of trade liberalisation in the post-war period. German industry has much to gain from a successful conclusion of the Uruguay Round. We need to hear the voice of German industry raised more frequently and more vigorously in support of open trade, the GATT and the Uruguay Round.

You have a responsibility. You hold in your own hands the key to new investment, higher employment, more trade, less economic and political tension and uncertainty. Is this a time for leaders of industry to be complacent? To take a low profile? Will the judgement by next December be that we lost the Uruguay Round because European industry, including German industry, failed to speak up sufficiently strongly for its own interests? That a false calculation of its interests lost Europe and the world its best opportunity for growth in the foreseeable future?

Surely, not. Surely, your message - as the real driving force in the German economy - must be strong and categoric. Europe's future is trade, trade and more trade with the rest of the world. There is no alternative. The world is your market. But only with the Uruguay Round can it grow sufficiently for you to find your opportunities.

My appeal to you and your colleagues throughout Europe - and the world - is not an appeal to altruism, it is an appeal to enlightened self-interest. Germany need a successful Uruguay Round; and a successful Uruguay Round needs Germany's industrial and political leaders to stand up and fight for it. I hope you will leave political leaders in no doubt of where you see German and European Community interests.

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