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MORE COMPETITION, LESS CONFRONTATION - SAYS PETER SUTHERLAND

"Our future is not merely a question of competition between three regional blocs which leave out most of the human race"

"The only valid and viable prospect is for Europe, North America and the Far East to develop their regional arrangements of integration and cooperation within a stable multilateral framework. And if we are to develop, and not to lose, the multilateral system, we have no choice but to conclude the Uruguay Round by 15 December 1993," said Peter Sutherland at a panel discussion on "Global Competition: Europe versus North America versus the Far East", held in Cernobbio, Italy, on 4 September 1993.

"At a time when the European Community faces renewed malaise, it is more important than ever that it and other regional groupings remain open to the rest of the world. A successful conclusion to the Uruguay Round would enable all these regional integration efforts to develop on a positive path. But if the Round fails, it would be a serious body-blow not only to the multilateral trading system but also to internal cohesion within these regions."

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

"More Competition, Less Confrontation"

Remarks

by

Peter Sutherland

Director-General, GATT

to the

Villa d'Este Workshop

Panel Discussion

on

GLOBAL COMPETITION:

EUROPE vs. NORTH AMERICA vs. THE FAR EAST

Cernobbio, Italy

September 4, 1993

"Global Competition - Europe versus North America versus the Far East" -the very title of this panel suggests confrontation, conflict and divisiveness. When nations stop trading goods, they start trading blows. If this scenario sounds uncomfortably familiar, that's because the 1930s is not that long ago, and the protectionist policies that were pursued then with such disastrous consequences are once again finding advocates today. It sometimes seems that chronic myopia may be an occupational hazard facing the world's leaders.

Since the 1930s, far-sighted political leaders have fought against protectionism in all its guises, and the post-war world order was fashioned in the cast of global cooperation with the GATT being established in the wake of the other new multilateral organizations dedicated to international economic cooperation - notably the Bretton Woods institutions.

Regional integration was not outlawed by the new world order. On the contrary, the founders of the General Agreement recognized the benefits of customs unions and free-trade areas as long as they were developed within a worldwide framework of rights and obligations underlying the multilateral rules on trade. And it is the GATT's multilateral trading system which provides the framework under which regional economic integration can validly function as a positive force for competitive interaction between and within regions.

Once parochial priorities begin to pull at the sleeve of global integration, a downward spiral of deepening isolationism is set in motion. Multilateralism gives way to inward-looking regionalism, degenerates into nationalist protectionism and descends into industrial "sectarianism". The economic consequences of protectionist tendencies is inevitably negative. Pessimism, uncertainty and self doubt replace confidence. Investment stalls. Growth becomes sluggish. It becomes difficult for the economy to generate new jobs. It is no accident that such tendencies accompany the onset of recession.

The European Community is the most advanced example of regional integration and has evolved into a dynamic entity with worldwide commercial influence, stimulating not only internal trade but also trade with third countries. It has evolved in tandem with GATT's multilateral trading system. The process of European integration has been sustained by its common external trade policy which,

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in turn, has found a mutual support in the multilateral trading system. The Community's decision to complete the internal market by 1992 had important positive economic consequences. It overcame years of sclerosis; it increased confidence, it stimulated investment, deregulation and innovative restructuring across Europe during the late 1980s. Economic growth and new employment was the result. But most importantly, the Community signalled a rejection of "Fortress Europe"; it declared its intention to remain an open trading entity with the rest of the world. At a time when the Community, for other reasons, faces renewed malaise, it is more important than ever that it and other regional groupings remain open to the rest of the world. A successful conclusion to the Uruguay Round would enable not only the Community but also other regional integration efforts to develop on a positive path. But, if the Round fails, it would be a serious body-blow not only to the multilateral trading system but also to internal cohesion within their regions. And the reverberations would be worldwide.

For example, one of the great successes of the Community has been its common commercial policy. If the Round were to fail because of a fundamental disagreement within the Community, can any one doubt that it would not undermine one of the foundations of the Community itself? Because how can there be an effective single internal market if conflicting interests result in such disarray for the common external policy.

The Uruguay Round, therefore, signifies more than just a score-card of arithmetical figures totting up losses and gains. It is, at its simplest, an integral contribution to confidence, investment, growth and jobs. Economic recovery and development, geo-political stability and security - all will benefit from a success. Short and long-term prospects for practically everything that our societies value, depend on sustainable economic growth. And one of the truly reliable means of stimulating economic growth without the risk of inflationary undesirable side-effects is increasing trade. The Round offers the chance to recreate growth opportunities by injecting new dynamism into the international trading system - a system which has already evolved through seven previous rounds under the GATT, cutting average OECD tariffs from 40 per cent to around 5 per cent and encouraging a 12-fold increase in world trade since 1950.

Here, at the start of the post-Cold War period, world leaders have within their grasp a unique opportunity to consolidate the principles of global economic cooperation. Against the harsh realities of economic recession and growing unemployment, policy-makers operating within a purely national framework are finding that they do not have too many levers to pull any more. They need a multilateral solution. Many developing countries throughout the world have embarked upon politically and socially painful reform programmes in order to integrate themselves into the international economic system. Central and East European countries, together with the newly-independent republics of the former USSR, have all launched ambitious economic reforms, using the multilateral system, for the most part, as their lodestar.

It would be morally and economically reprehensible if the countries in North America, Western Europe and the Far East which have gained the most from the multilateral trading system should repudiate their responsibility to reinforce it NOW when the system has proved its universal appeal.

This does not call for any altruism on the part of the major players. Developing countries have the fastest growing economies and the greatest reserves of unfulfilled demand. Latin America, for example, has shown the world's highest import growth for the last two years. Overall, a much larger share of the EC exports to third countries goes to developing countries than to North America and Japan put together. Whether these countries can sustain and increase their demand for developed-country products depends almost entirely on their possibilities for earning foreign exchange through their own exports.

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Trade liberalization, therefore, is not a one-way street. Producers and manufacturers need to import in order to export. The less hindrances there are, the more efficient and productive they will be. And as trade grows, so will the opportunities for new jobs. In the G7 countries, for example, close to 23 million jobs are supported by merchandise exports, and many more by exports of services. And in the US manufacturing sector, virtually all the job growth between 1986 and 1990 was due to exports.

Countries may try to protect some jobs in uncompetitive industries by using trade barriers or resorting to managed trade, but if they do so it will be at the cost of jobs in the efficient export sectors, and then only temporarily. Experience suggests that protected industries fail to adapt quickly enough and they come to rely more and more on costly protection and labour under a false notion of their ability to compete internationally.

To put it simply: "The secret of success is honesty and fair dealing". But some of these protectionist policy-makers would add: "If you can fake those, you've got it made!"

And when abuse of agreed rules becomes more and more frequent, conflict is not far behind. Within the GATT system, we are already faced with a very large number of potentially explosive trade disputes between the major trading nations. In recent years, the trend has been increasing. 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 1987-93 there was a 50 per cent increase in GATT dispute settlement findings compared to the period 1980-86; similarly, there was a 100 per cent increase in disputes which required the establishment of a GATT panel. A rapid and successful conclusion of the Round should provide a framework for resolution of many of the outstanding disputes.

Global competition will then no longer breed divisive confrontation. It will stimulate innovation and growth - whether it is between regional groups, nations or individual companies. Because, if we do have a platform of multilateral acceptable rules, competition between companies, regions and nations will have enormously positive effects. Growth and development imply constant change, continual adjustment to new market conditions and technological developments. Competitive interaction assists innovation leading to a constant stream of new products and processes. It is utterly counter productive to resist these positive economic changes. It is important to adapt to them constantly, to seek out new opportunities, and to identify the key factors that give a firm, a region or a nation comparative competitive advantage.

Our future is not merely a question of competition between three blocs - relationships which leave out most of the human race. Where is the future for the African continent, the whole of the former Soviet Union, Latin America and Australasia? The only valid and viable prospect is for Europe, North America, and the Far East to develop their regional arrangements of integration and co-operation within a stable multilateral framework - a common roof - that provides clear and predictable rules and mechanisms for resolving trade disputes in a coherent and objective manner. And if we are to develop, and not to lose, the multilateral system, we have no choice but to conclude the Uruguay Round successfully by 15 December 1993.

The Uruguay Round is the only chance we have to make a trade agreement which is truly global, both in its geographical scope and its coverage of world trade. A failure to achieve what is now within our grasp would undoubtedly be a fatal blow to our ambitions for greater prosperity and global economic development.

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