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GATT AFTER THE TOKYO ROUND

Trade Policy Problems of the 1980s

Note by the Secretariat

The Consultative Group of Eighteen had a first exchange of views on the subject of "GATT after the Tokyo Round" at its seventh meeting in June. To help launch the debate, the secretariat provided a brief questionnaire (CG.18/W/24, annexed for convenience to the present document) which suggested a number of themes for thought and discussion. The aim of this note, prepared in the light of the June exchange of views, is again to stimulate debate; to this end it is deliberately somewhat provocative.

Which trade policy problems will demand priority attention in the 1980s depends on many things, most importantly on (a) the level of economic activity and employment in the developed countries and (b) the outcome of the Tokyo Round. With respect to both crucial conditions, only hypothetical assumptions can be formulated at present.

As to economic developments, it would seem prudent to expect growth to continue, with interruptions caused by inflationary flare-ups, at approximately the present, less than satisfactory, rates at least into the early 1980s. Rapid and stable economic growth cannot be recaptured without price level stability, and disinflation is a slow process. Pressed by rapid population growth, industrialization of developing countries will continue apace. The growing international indebtedness of these countries and even their food problem will ensure that a substantial part of their new manufacturing production will seek outlet in the industrialized market-economy countries. The presence on these markets of products of the centrally planned economies will also be increasingly felt.

As to the results of the Tokyo Round one should probably assume that the attainable degree of trade liberalization would exert a positive but only modest influence on economic growth in the industrialized countries. Indeed, unless most of the protective measures imposed since 1974 are undone soon, the negotiations might end with global trade conducted under a régime scarcely more, or even less, liberal than that in existence at the outset of negotiations. It

seems prudent to base long-term policy planning on the assumption that the Tokyo Round will not have eliminated any of the existing threats to liberal trade. What can be realistically hoped for, however, is that it will improve the opportunities and institutional arrangements for the international community to resist these threats.

1. Implementing the results of the Tokyo Round

It is to be expected that a number of new codes and institutional arrangements will be established in the negotiations - inter alia arrangements for trade in meat, dairy products and cereals; a subsidy and counter-vail code; codes on technical barriers to trade and government procurement; and new procedures of emergency protection (safeguards). Among the over-riding problems to be faced immediately after the end of the negotiations are those of making the various codes, arrangements and procedures operative, and determining how they can, together, create an internally consistent system of principles and rules to guide trade policies so that conflicts among them can be avoided or minimized.

Negotiated rules cannot fully anticipate all the future contexts in which they will apply. What the Tokyo Round can attain in this whole area is the establishment of a political and legal basis on which a more continuous diplomacy can proceed with interpreting, adjusting and developing these rules.

A continuous development of the international trade order presupposes the existence of rules by which the largest trading powers are themselves willing to be bound. This question will be answered by the very first cases to be brought up under these new rules, and by the first precedents so created. It would be difficult to over-stress the importance, for the whole future development of trade relations, of the general political situation prevailing at the moment when the new codes come into effect. The decisive consideration would appear to be whether the contracting parties will be sufficiently concerned with principles and long-term developments to invoke the newly created multilateral rules in cases which may be difficult and thus inviting bilateral accommodation. If most or even many problems involving large trading countries were to be solved by bilaterally negotiated compromises, there would soon be no rules for the smaller countries to follow, and hence no order. For these reasons a clear specification of the rôle of the secretariat, in particular as regards notification of outstanding problems and infractions of the rules will be important.

Conflicts are minimized by effective consultation. Various forms of consultation will have to be made routine, some of them having perhaps no other function than to articulate problems to be referred to more representative bodies, if various foreseeable issues are to be prevented from generating conflicts.¹

2. Competition (anti-trust) policy and international trade policy

The rules of the GATT do not contain any provisions as to restrictive business practices yet they are predicated on the assumption that international trade is conducted through competitive markets. International trade policy, in other words, has so far relied on national anti-trust and anti-cartel policies to keep the international market in a state of competition. Since 1974, however, under the pressure of foreign trade contingencies, national competition policies have been yielding to a wave of international cartelization. The momentum which the cartel movement has achieved in the last few years, and the problems it is beginning to pose for the integrity of national anti-trust and competition laws and their administration, make it probable that the issue of competition will have to be dealt with explicitly in the context of international trade policy in the 1980s.

¹For example, the safeguard and the subsidy-countervail rules will, in conjunction (though perhaps only implicitly) establish a framework within which governments will conduct national policies in aid of industrial adjustment. Eventually, an explicit discussion of norms to guide such policies may become necessary in order to avoid a reassertion of protectionist pressures in the guise of adjustment assistance. Thus, and again only as an example, within the subsidy-countervail area it is to be anticipated that governments will eventually have to face the problems posed by State-owned industries and enterprises continuing to operate at a loss and threatened by complete unviability if they ceased to export.

3. The problems of adjustment to competition

Over the period of generally slow growth anticipated for the 1980s, the capacity of the industrialized countries to maintain open markets particularly in the face of continuing dynamism of developing country exports will depend crucially upon the speed and efficiency with which the process of adjustment operates in their domestic economies. The GATT will therefore need to follow closely policy trends and developments which have a bearing on the process of structural adjustment and on the flexibility with which resources move between different economic sectors in response to market developments.

Difficulties in individual sectors tend to be experienced when the speed of adjustment cannot keep up with the pressures exerted by imports or other price and demand developments. In its task of watching over the emergence of new trade problems and forestalling difficulties that may arise, the CONTRACTING PARTIES may need to follow the development of potential trade flows, particularly as these may affect the need for adjustment in specific sectors.

4. Trade relations between developed and developing countries

The maintenance of open markets and adjustment to import competition in the industrialized countries will be facilitated if there is confidence that the rules governing international competition are operating in a basically equitable fashion. This implies that while developing countries should be accorded the additional flexibility that maybe justified in terms of their particular development needs or requirements, they are also seen, consistently with the development of their economies, to be progressively accepting the common rules and disciplines which are applied by other countries with respect to their own trade policies. The basic concepts underlying this approach are being currently discussed within the context of the multilateral trade negotiations. But the practical application of these concepts is likely to constitute a continuing exercise in the management of trade relations during the 1980s.

5. Issues relating to the growing intervention of governments in production and trade

The commitment of governments to the protection of national income and employment has led them to make an increasing use of fiscal, tax and other public policy instruments to influence levels of activity, investment and profits in different sectors of the economy. Increasing government intervention in favour of industry through the use of quotas, subsidies or other forms of assistance financed from public funds has been accompanied by a

trend towards direct government participation and ownership in industrial or trading enterprises. This, of course, is a development that has been particularly pronounced in a number of developing countries. Underlying some of the points raised in the earlier sections of this note, but also a distinct issue in itself, is the question as to how the growing intervention of governments in economic and trading activities may be reconciled with the maintenance of open competitive markets in which goods produced by enterprises in different countries can move freely across national frontiers. This is a question which could prove an important preoccupation for those responsible for trade policies in the 1980s.

6. East-West trade

Trade between the market-economy and socialist countries is bound to grow, for a number of reasons. The ability to service indebtedness accumulated earlier in the 1970s, and likely future requirements for oil implies (though not necessarily) an increased level of merchandise trade, probably in the form of manufactures.

Exports of manufactures from centrally planned economies to the West compete with only a limited range of Western production, namely that whose main competition comes from developing countries. This is, especially at the present time, a neuralgic area. It is never easy for Western trade unions to accept the principle of an international division of labour realized through fair competition of firms. The political case becomes extremely difficult, however, where the competing imports appear to be subsidized or dumped, an impression which, whether justifiably or not, imports from centrally planned economies frequently give.

Fundamentally, the question may be one of security of supply. It is to the benefit of the importing country to accept imports which, by virtue of their cheapness, displace domestic production - provided these imports can be expected to be available on stable terms. This expectation of stability is necessary, among other things, to enable the domestic import-competing firms to plan their adjustment and conversion to other lines of production. A key requirement if the socialist countries are to be really integrated into the world trading system, and to derive reliable (bankable) benefits from it, may be that they can offer their trading partners stability guarantees comparable to those provided by comparative advantage realized through the pursuit of private profit by large numbers of firms - they have, in other words, to offer a substitute in this respect for the stability, and thus security, otherwise provided through the existence of a number of competing suppliers.

7. Agriculture

It is obvious that problems arising from the need to support farm income will continue beyond the Tokyo Round. In this area, the search for arrangements reconciling the economic and social objectives of exporting and importing countries will occupy the policymakers in the 1980s as much as it did in the preceding decades.

8. The growth of regional arrangements

The last two decades were characterized by the growth of regional integration arrangements and by a tendency for trade within regional groupings to grow even faster than world trade. In the coming years some of the existing regional groupings may be enlarged by the adhesion of new members. This could have some implications for the management and organization of trade relations in the 1980s. It is also to be expected that the coming years will see further progress in the harmonization of technical regulations, import/export procedures, procurement practices, competition and tax policies, etc. within the framework of regional or sub-regional groupings. Also regional or sub-regional arrangements for economic co-operation among developing countries could involve accommodation being found for new provisions covering treatment of products of regional enterprises, regional joint ventures, etc. How to accommodate within the framework of a global approach towards trade liberalization and harmonization of non-tariff barriers, the newly developing forms of regional economic co-operation could be another trade policy concern in the 1980s.