

GENERAL AGREEMENT ON TARIFFS AND TRADE

CONFIDENTIAL

CG.18/8
17 November 1978

Special Distribution

Consultative Group of Eighteen
Eighth Meeting
12-13 October 1978

NOTE ON THE EIGHTH MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

12-13 October 1978

Introduction

1. The Consultative Group of Eighteen held its eighth meeting on 12-13 October 1978. An annotated provisional agenda was circulated in document CG.18/W/25 and a list of participants in document CG.18/INF/8.

Agenda

2. The Group adopted the following agenda:
- (1) Recent developments in trade policies and international trade
 - (2) The GATT after the Tokyo Round
 - (3) Other business

Opening remarks of the Chairman

3. The Chairman opened the meeting by pointing out that ten out of the fifteen groups and sub-groups in the Tokyo Round negotiations were aiming at the adoption of new rules for the conduct of commercial policies. Success of the Tokyo Round would therefore stimulate world trade not only by reducing trade barriers but above all by providing traders with assurance, through the new trade rules, against arbitrary application of new trade barriers. While the reductions of specific barriers agreed in the Tokyo Round could take place more or less automatically in accordance with a time schedule, the implementation of the new rules would require continuous high level attention and decision making. The administration of the new rules could in his view only be successful if trade policy leaders had a common perception of the basic principles that should govern trade relations. Without such a common and guiding view there would be the risk that proper rule administration would give way to ad hoc responses to the pressures that arose from case to case. The result would inevitably be inconsistency, inequality and hence a return to uncertainty. The Chairman concluded by expressing the hope that the Group could make in this meeting a further step towards a common vision of where we were now in international trade relations and where we should go in the coming decade.

Recent developments in trade policies and international trade

4. In order to stimulate debate on this agenda item the secretariat had prepared for the Group a paper entitled "Recent Trends in International Trade" (CG.18/W/26), which contained a section on "Growth of protectionist pressures". While the paper on the whole was welcomed by members of the Group, the section on protectionism gave rise to critical remarks by some members. It was said that the warnings of the secretariat, which had been widely reported in the press, could worsen the present atmosphere of investment uncertainty. Warnings about protectionism tended to be self-fulfilling and the augurs of protectionism might therefore be co-responsible for the evil they foretold. One member, however, said the secretariat's analysis deserved the attention it had received. There was at present the danger that free trade became like the emperor's clothes in Andersen's fairy tale.

5. Another criticism of the section on protectionism was that it failed to distinguish between measures that were truly protectionist and those that were legitimate defences against unfair trading practices of other countries. The United States trigger price system for trade in steel should not have been described by the secretariat as a protectionist measure. It should have been taken into account that this system was set up in a situation in which most steel was sold at dumping prices and that it helped restore orderly conditions.

6. Several members of the Group did not share the secretariat's pessimistic assessment of present protectionist trends. They believed that the liberal trading system had so far proven remarkably resilient and that on the whole protectionism had not increased. Relative to what could have happened in the difficult economic circumstances the trading system had been managed well. Other members took a different view. One member stated that over one hundred of his country's export items had been subjected to restrictions by industrialized contracting parties since the beginning of the Tokyo Round in 1973; in twenty-three cases the restrictions had been applied since the beginning of 1977. He appealed to the Group to take these alarming figures as a reference point in its assessment of protectionist trends. Another member added that if one took the overt and hidden protectionist measures together there could be no reasonable doubt that protectionism was increasing. Particularly disturbing was the fact that protectionist actions were concentrated in sectors in which developing countries had a comparative advantage.

7. One member suggested that three definitions of the term protectionism should be distinguished in GATT discussions. First, the term protectionism could be said to comprise all policies that impede change, including for instance regional policies introduced for social purposes. Second, it could be used to describe any trade restricting measure whether or not it

fell within the legal framework of GATT. And, third, the term might be used to describe trade policy measures in conflict with GATT. He expressed doubts about the appropriateness of discussing in the GATT protectionism in the first and second meaning. The GATT's principal concern, he suggested, should be protectionism conflicting with the rules of GATT. Another member, in a similar vein, said that the problem of protectionism arose essentially from a failure to comply with international commitments. He pointed out that the Textiles Arrangement contained detailed rules providing for the gradual adjustment to increased imports of textiles and that, under Part IV of GATT, the developed contracting parties were committed to refrain from applying new import barriers on products of export interest to less-developed contracting parties. Neither of these commitments was presently being observed. A member did not find the distinction between protection according to the rules and protection outside the rules very relevant. The developing countries suffered from, and were defenseless against, either form of protectionism.

8. One member regretted that the analyses of economic problems presented by international organizations, including the GATT, emphasized the specific problems of the industrialized countries. Thus, inflation was described in the analyses as the major problem but the developing countries' main problem was not inflation but unemployment. Global inflation was caused by the monetary and fiscal policies of the industrialized countries, and the developing countries, due to their inexorable demand for imports of manufactured and capital goods, were forced to import that inflation. Statistics showed that the main beneficiaries of the current account imbalances were at present, and were likely to remain in the 1980's, a handful of industrialized countries. It was an incontestable fact that the burden of adjustment had in the recent difficult years been borne by the developing countries and that these countries had helped alleviate the recession in the industrialized countries by accepting an increasing share of their exports.

9. Several members referred to the growing interdependence between commercial, financial and monetary policies which forced trade policy makers to take their decisions with an increasingly broad perspective. Thus the indebtedness of the developing and the Eastern European countries and the resulting trade adjustment problems were closely linked and could only be solved by taking into account both the financial and the commercial aspects of the problem. The inter-relationships were reflected in efforts of the industrialized countries to co-ordinate the policies in the various policy fields in international fora, in particular the OECD and summit conferences. The developing countries were profoundly affected by the policy decisions taken in these fora and they should therefore be made co-partners in the analyses, discussions and debates leading to these decisions.

10. The view was widespread in the Group that there should be greater emphasis on positive rather than defensive adjustment policies. Efforts should be made to adapt production to foreign competition in economic upswings instead of preventing such adjustment during recessions. Consequently, an early warning system should be devised permitting governments to anticipate adjustment problems, and arrangements similar to the MFA which were merely reacting to adjustment problems should be avoided.

11. The Chairman said in concluding the discussion that he found it gratifying to hear, for the first time in the Group, remarks suggesting that protectionism might be subsiding. In the Interim Committee of the IMF, which had met on 24 September, he had also noted some optimistic comments on the prospects of international adjustment. The overall balance-of-payments imbalances were seen to be improving. This, he said, would no doubt alleviate the trade policy problems to which these imbalances gave rise. However, at the Annual Meeting of the IMF and the World Bank, Mr. McNamara, President of the Bank, had been less optimistic on the level of protection and the developing countries' export opportunities.

12. The Chairman mentioned in this context that he had met with the new Managing Director of the IMF, Mr. de Larosière, so as to continue the tradition of GATT's close and friendly relations with the IMF. It was understood between the Managing Director and himself that the Fund staff and the GATT secretariat would continue to co-operate fully in the discharge of their duties. He further informed the Group that the International Chamber of Commerce, at its recent twenty-sixth Congress in Florida, had adopted a statement urging governments to bring the Tokyo Round to a successful conclusion. Speaking at this Congress he had welcomed the statement and had recommended that it be promptly submitted by the National Committees of the International Chamber of Commerce to their respective governments.

The GATT after the Tokyo Round

13. The Chairman, in introducing the agenda item, recalled that the Group had at its last meeting a first exchange of views on the GATT in the 1980's. In the light of the Group's discussion the secretariat had prepared a note briefly examining a number of issues that might require priority attention of trade policy makers in the 1980's (CG.18/W/27). The Chairman emphasized that the end of the Tokyo Round was approaching and that it was therefore not too early to debate post-Tokyo Round policies.

14. The secretariat note states in its introductory section that it seems prudent to base long-term planning on the assumption that the Tokyo Round would exert a positive but only modest influence on growth in the industrialized countries and that it will not lead to the elimination of the existing threats to liberal trade. One member of the Group, stressing that

the decisions of businessmen were largely influenced by their expectations, said that such statements by the secretariat would undermine one of the main purposes of the Tokyo Round, namely to create a climate of expectations stimulating new investments.

15. The secretariat note argues in favour of an internally consistent system of principles and rules helping to avoid conflicts and it cautions against bilateral accommodations among the large trading countries. One member said that his primary concern was not that the set of rules that would come out of the Tokyo Round was consistent but that it was subsequently administered in such a way that it would work. Central to that concern was a flexible, workable and realistic dispute settlement system in which both the public and the trade policy makers had confidence. Bilateral accommodations were not undesirable provided, of course, they were within the GATT rules. To promote bilateral settlements should in his view be the primary purpose of the dispute settlement procedures.

16. Several members spoke in favour of strict trade policy rules conscientiously adhered to and supported by effective dispute settlement procedures. It was suggested that the developing countries did not have an overriding interest in the tariff reductions that might be agreed in the Tokyo Round given the structure of their exports and the assurance of a continued application of the GSP. Their main interest was that the existing non-tariff measures be subjected to international rules. It was this aspect of the Tokyo Round that would determine whether the Round was successful from their point of view. It was an illusion to believe that procedures and institutions were an effective substitute for clearly spelled out, equitable and precise rules. The Committee on Trade and Development had, in the absence of such rules, demonstrated its inability to steer trade policy in the directions contemplated in Part IV and became largely a forum for the ritual repetition of well-worn and familiar phrases. The establishment of more such bodies, by itself, would not serve a useful purpose. If the Tokyo Round led to weaker rules and more institutional machinery the effectiveness of GATT would be impaired. It was further stated in this context that the management approach should be kept to a minimum, in particular sectorial management leading to sectorial solutions should be avoided. The Group of Eighteen might contribute to the proper administration of the rules by discussing broad policy issues. Trade policy makers were facing an increasingly complex international economic system in which no individual problem could be solved without regard to the wider implications, and this in an age of uncertainty about basic values. It was therefore essential for GATT to have a forum in which not only concrete issues but also basic principles could be discussed.

17. The secretariat note states that the capacity of the industrialized countries to maintain open markets in the face of rapidly increasing exports by the developing countries would depend crucially on the efficient functioning of the adjustment process in the industrialized countries. One member, agreeing with this analysis, said that the institutional structure of GATT should be adapted to further the adjustment process. Thus, the Committee on Trade and Development might evolve into a body monitoring the structural adjustment in the developed countries. Another member however felt that adjustment could not be conceived of as a one-sided process: the necessary adjustment in trade policies needed to be made not only in the developed countries but also in the newly industrializing nations. One member of the Group believed that, although the developing countries did not know what to expect from the Tokyo Round since the developed countries were essentially negotiating among themselves, it was clear already now that the Round, even if all envisaged agreements were reached, would be a disappointment for the developing countries for the simple reason that the industrialized countries and the GATT were lacking effective management procedures to move factors of production out of sectors in which the developing countries had gained a competitive advantage. To underline this point the member distributed to the Group a draft adjustment code in which the contracting parties, inter alia, "pledge their readiness to adjust to changes in the pattern of world production through the implementation of a concerted programme of action ..."

18. The secretariat note states that, while developing countries should be accorded the additional flexibility that may be justified in terms of their particular development needs, they should also be seen, consistently with the development of their economies, to be progressively accepting the common rules and disciplines. This gave rise to critical remarks by several members. The secretariat, it was said, prejudged the outcome of the MTN by predicting the future importance of the concept of graduation. It also created the impression that the concept of graduation was a refined and established concept. In fact, however, it was still not clear how the concept was to fit into either the existing or future GATT. It was for instance not clear how graduation could be reconciled with the fact that, although most contracting parties were developing countries, most developing countries were not contracting parties. Would graduation mean, one member asked, that the developing countries in GATT had to assume greater obligations than the developing countries outside GATT? Other members thought that graduation was not a theoretical concept that could be challenged but a fact of life that had to be dealt with in the context of special and differential treatment. The newly industrializing countries had an important stake in the open trading system and they should contribute to the maintenance of that system by gradually assuming greater obligations themselves. The GATT had to ensure not only that the trade of the developing countries received support but also that it brought shared benefits.

19. The secretariat note states that the exports from centrally-planned economies to the West compete with only a limited range of Western production whose main competitors come from developing countries and that their exports frequently give rise to the impression that they are subsidized or dumped. One member said that this statement did not reflect the real situation. The planned economy countries were concentrating their efforts on the export of manufactures for whose production they had a comparative advantage. Only a rather small number of anti-dumping cases involving planned economy countries had arisen in recent years. The secretariat note further states that the full integration of the socialist countries into the trading system is only possible if they provide their trading partners with a stability of supply similar to that created in the market economy countries through the existence of a large number of competing firms. The member said that this amounted to an attempt to attribute to the planned economies the rôle of cheap suppliers obliged to guarantee supplies at low prices. This idea was contrary to the basic principles of the rules of trade, in particular to the concept of commercial considerations in trade, and would introduce into trade relations certain elements of inequality. He further stressed that the present imbalance in East-West trade, largely financed by Western credits, could not go on forever and that the necessary adjustments could be furthered inter alia by the removal of measures which inappropriately linked economic and political objectives.

20. Several members felt that the secretariat note did not deal with some of the essential concerns of the developing countries. One criticism was that the note mentioned East-West and North-South trade but not South-South trade. Trade among developing countries was growing in importance and should be given corresponding attention. The Chairman noted that the participants in the Protocol Relating to Trade Negotiations Among Developing Countries were actively considering this matter. The omission of a reference to trade among developing countries should by no means be interpreted as disinterest on the part of the secretariat.

21. One member offered a broad tour d'horizon on present and future trade policies seen from the point of view of a developing country. In his statement he underlined the importance of avoiding a further erosion of the trade rules by the very countries that had originally fashioned them to their interest, and emphasized that differential and more favourable treatment should be seen as a belated recognition of the requirements of an equitable trading system. He also stressed the need for ensuring the continuity and security of the GSP and for clarifying the relationship between the MTN codes and the General Agreement. Among the other points covered by him was the need to improve the developing countries' term of trade through commodity arrangements, to increase financial transfers to them, to achieve a more equitable distribution of world liquidity and to devise rules that check the influence of transnational enterprises.

22. The Chairman concluded the meeting by expressing the hope that the Group's discussion had furnished the members with food for thought and that the reflection on the various subjects would continue in capitals so that, once the Tokyo Round was over, one could see how the ideas that had been put forward could be followed up in practice.

Date of next meeting

23. It was agreed that the next meeting would, barring unforeseen developments in the MTN, be held around March 1979. The exact date of the meeting would be fixed by the Chairman in consultation with members of the Group.