

INTERNATIONAL TRADE AND ECONOMIC GROWTH

Speech by Mr. Arthur Dunkel

Attached is a text of the speech given today by Mr. Arthur Dunkel, Director-General of GATT, to a meeting of the European Atlantic-Group in London.

In his speech, Mr. Dunkel discussed the economic value of the General Agreement since its inception in the 1940s, he considered current tensions in US/EC trade relations and their effect of the developing world and, finally, gave his view of the prospects for a new round of multilateral trade negotiations.

Address by Mr. Arthur Dunkel, Director-General,
General Agreement on Tariffs and Trade, to the
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1. It is a great honour to be invited to speak to such an audience in this building, and I am grateful to the European-Atlantic Group for making it possible for me to do so.

2. I should perhaps begin by reassuring you, in case the title of this speech has induced in you the slightly grey feeling which I had (even though I chose the subject myself) when I sat down to contemplate it: I am not going to spend half an hour trying to prove to you, with copious use of statistics, that international trade has made an immensely valuable contribution to economic growth and welfare since the Second World War and that it must be allowed to go on doing so. In London of all places these things are certainly well understood. Indeed, if we may judge by the central place given to the subject in recent ministerial declarations - from Summit meetings, from the OECD, from UNCTAD and of course from GATT - there is virtually unanimous support for the proposition that the free flow of international trade is a necessity for a healthy world economy. These statements have real value in helping governments to stand together against pressures which might be too great for any one of them alone. They should also serve as an assurance to industry that markets will not be repeatedly disrupted by the effects of trade disputes. But there is a danger of devaluing the currency if governments' support in practice for the discipline of open markets does not match up to the expectations created by their undertakings.

3. This contradiction is the real subject of my speech. In discussing it I shall deal first with relations between the USA and Europe - firstly because this is the focus of your society's interests but primarily because the health of the trading system is largely conditioned, for better or worse, by the behaviour of the great trading powers. The unsatisfactory relations between them which have persisted for some time have disturbing implications for all other countries, and I shall come back to these later.

4. The debt we owe to those who created the rules and institutions which have given stability to the post-war economy can hardly be measured (and since I am in London I should like to pay tribute to Professor James Meade, who in 1942 wrote the first draft of the set of rules that subsequently became the GATT). But I think it is instructive to consider the following - admittedly hypothetical - question: if international economic and trade policies since the Second World War had been similar to those of the 1920s and '30s, what would the economic, and still more the political, state of the

world be today? There were good judges who in 1945 feared that economic distress caused by the damage to Europe's economy - far more severe than in 1918 - would cause the collapse of liberal societies. Pre-war experience gave good cause for fear.

5. As it turned out, the contrast between the two periods, in terms of economic progress and of political stability, was remarkable. Between 1925 and 1938, the volume of world production grew at an average rate of about 1.5 per cent per year and of international trade at less than 1 per cent - well below the rate of population growth. In the 25 years between 1948 and 1973 the annual rate of growth of world production was about 5 per cent, and of trade as much as 7 per cent. Trade thus increased nearly sixfold in this period. That there is a causal connection between this expansion of trade and economic growth cannot be proved mathematically, but the presumption must be very strong. It has been estimated, for example, that between a quarter and one-third of all investment in plant and equipment in the industrial countries is trade-related - that is, made with a view to exports or dependent on competitively priced imports. In some at least of the developing countries the figures would be substantially higher. Post-war reconstruction and development, population growth and technological innovation are of course the real determinants of growth, but without the security for international exchanges which the GATT system provides, they could not have produced the great economic expansion which in fact took place.

6. The period of rapid growth ended in 1973. Since then, and particularly since 1979, growth rates of production and trade have been depressingly close to pre-war levels. Under the pressure of unemployment higher than they have known since the 1930s there has been a resurgence in some industrial countries of ideas which one hoped had disappeared for ever from serious economics, such as the pursuit of bilateral balances in trade and the "management" of markets through what amount to government-sponsored cartels. These policies are not openly avowed; governments understand well enough that protectionism damages efficiency and is contagious, but in a recession the industry lobby that is hammering on the door, or the impending factory closure in a marginal constituency, will tend to take precedence over concern for the health of the world economy or even over the long-term domestic interest. I fully realize how much easier it is to state fine principles than to withstand the pressures to which politicians are subjected every day, but it has to be said that lasting harm can be done, and has been done, by the accumulation of such decisions.

7. But there may also be a more fundamental problem. The basis of the multilateral trading system was recognition that international trade is what the Americans call a positive-sum game. Liberal access to world markets, and confidence that the rules governing such access will be respected, makes possible a degree of specialisation, and an efficiency in the allocation of resources, from which all participants benefit, whatever their degree of development. This is true, of course, only as long as markets are

allowed to work, which is why a necessary element in the system is the acceptance by governments of limits, defined by the rules, on their freedom to interfere with trade flows. The sacrifice of sovereignty which this entails is more apparent than real, if by sovereignty we understand the ability of governments to pursue long-term objectives effectively. For the alternative to a legal framework accepted by all is the play of power politics in international affairs and constant ad hoc reactions to pressure groups at home. It is an illusion to believe that absence of legal constraint makes control of our environment easier. We construct legal systems in our wiser moments to constrain ourselves from destructive - usually self-destructive - reactions under pressure. What I fear may be happening now is that the sense of common interest which makes the sacrifice of sovereignty acceptable is breaking down.

8. People like myself who make too many speeches easily fall into the habit of what I understand Bernard Levin calls phobotherapy - frightening people for their own good. We identify a crisis in our particular area of interest and predict catastrophe if it is not attended to. We normally wind up by deploring the decline of confidence in the future. This is a bad habit, only partly excused by the fact that when we try to give the good news audiences generally seem disappointed. But in this case I am in good company. Only a month ago the US Trade Representative, Bill Brock, spoke of a "fundamental divergence" between the US and Western Europe over economic and trade policies which he saw as a serious threat to the survival of the post-war system. To avert the threat he called for a major reduction of state intervention, and especially of subsidies, in European economies. In replying for the European Community Vicomte Davignon said that changes of the kind that Mr. Brock suggested, notably in the CAP, could destroy the Community and with it the transatlantic partnership.

9. When such words are used by two statesmen whose dedication to international cooperation is beyond question we are bound to take them seriously, more especially since I know and respect the efforts both sides are making to limit the damage that current disputes between them are capable of causing, to themselves and the rest of the world. But is it not extraordinary that the trade exchanges which have so enormously enriched both Europe and the United States should now be seen as a threat to their relationship?

10. It is striking that these fears were expressed not in the depths of the recession but with an American recovery in full swing, and with some of the European economies at last showing clear evidence of an upturn. The expectation, explicitly stated in the Williamsburg Summit communiqué, for example, that renewed growth would permit a rollback of the protectionist measures which proliferated during the recession, and must have impeded the recovery, has so far proved quite unfounded. In the US, in fact, the opposite has happened; the protectionist mood seems stronger than at any time since the war. We know there are special factors

at work, one of them being the approaching elections. America's lead in the recovery, and the strength of the dollar, which is a severe challenge to the competitiveness of American industry, have helped to produce a massive trade deficit. The trade deficit is a major contribution to recovery in the rest of the world, and it will be amply repaid as America's trading partners are restored to strength, but in the meantime a long list of industries is demanding increased protection from imports - often, it must be said, against the strong opposition of the Administration.

11. This has added new tensions to what was already an unsatisfactory situation. Trade relations between the United States and the Community, and between both of them and Japan, have been darkened by a series of long-standing disputes which, so long as they are allowed to fester, represent a danger to the trading community in general. The most serious irritant is probably what is seen by the US and other traditional agricultural exporters as the excessive protection of European and Japanese agriculture and the disruption in world markets caused by the subsidized exportation of EEC farm surpluses. (May I say that while I do not wish to enter the delicate internal debate over the CAP, I would beg those who will make the decisions to bear in mind the external repercussions of what they do). The three great powers have also been heavily involved in the very disturbing increase in the bilateral negotiation of export restraints, which in one sector after another are producing a trend towards market sharing and cartelisation. They involve not merely ailing industries where it has so long been said that time is needed for modernisation and restructuring, but also a range of high-technology products, from video recorders to the most advanced machine tools. I find it hard to see a case for infant industry protection in the high technology area and I see no case at all for limiting the access of Community producers to the tools they need to compete on level terms with Japan and the United States.

12. I know that great efforts are being made to ensure that the recovery is not choked off by an outbreak of protectionism, but it cannot be done on the basis of bilateral arrangements which are themselves protectionist. I have spoken so far as if the problem concerned essentially the major industrial powers, referring only in passing to the aspect which, as far as I am concerned, overshadows all the rest. There is a world outside the North Atlantic, and many of the countries in it are infinitely more vulnerable than the great industrial powers. They depend, because for them the bilateral approach is really not available, on the guarantees provided by the multilateral system. This means that even bilateral differences between the US and Europe, as over steel or agricultural subsidies, should be resolved in the multilateral context, because there is no other way to ensure that the interests of third countries (one might take the example of Brazil, which is a big exporter of both steel and agricultural products) will be protected.

13. This relates directly to another critical problem of international economic policy, which is the management of the debt burden of a large number of developing countries. To take the most heavily indebted region, the foreign debts of only six Latin American countries amount to over 300 billion dollars, and servicing these debts, at current interest rates, swallows up over 50 per cent of their total export revenues or nearly two-thirds of their earnings from merchandise exports. So far the huge redressment of trade balances which the debt service entails has taken place almost entirely through contraction of imports, which is undesirable from every point of view. The developing countries cannot afford to forego the imports needed to generate exports and for their own development, and if they are obliged to do so those who export capital goods to them, largely in the industrialized world, will lose business and jobs. It is already happening, on quite a big scale.

14. In the short term the debt problem can only be handled by ensuring continuation of the capital flows that are necessary to avert collapse of the debt structure and grave damage to the financial system. Trade policy makers can contribute to this process, indirectly but in an important way, by making sure that the right signals are reaching the financial community. Unless potential investors of private capital are satisfied that export markets for the products of developing countries will be kept open and expanded, investment on the necessary scale is unlikely to be forthcoming. Unfortunately a very large number of the trade restrictions imposed by the developed countries in recent years have given precisely the opposite signal - that the manufactured exports of developing countries must expect to face restrictions in the industrialized world as soon as they become really efficient. You have only to think of textiles, steel, footwear, watches - I could go on.

15. There are two basic questions which have to be answered in the near future. They not only must, but they will be answered - twice over: on the level of political declarations and on the level of events. Future growth will depend to a large extent on what the answers are. The first question is, what kind of economic system are we going to live with for the rest of this century? Will it be what we say we want, a global economic system in which the forces of competition decide the allocation of investment capital and other resources? Or will it be a system of managed markets in which trade and production decisions are effectively taken by politicians and bureaucrats? Fortunately, there is increasing realisation, as last week's meeting of OECD Ministers in Paris made clear, of the danger of continued drift in the direction of state intervention in the market process.

16. The second basic question depends partly on the answer to the first. If we assume that governments will choose the market system and will therefore submit themselves to the disciplines necessary to make it work, how wide is participation in that system going to be? There has been a long effort to convince developing countries

that their own need for efficiency and growth requires fuller exposure of their economies to international competition. A growing number of them, overcoming their suspicion that the GATT system was tilted against them, have made and are still making big strides in opening their markets, not out of altruism but because they recognize that efficiency depends upon it.

17. I have no doubt that this is the right course for the developing world to follow. The World Bank's annual report on development for 1983 demonstrated very convincingly that those developing countries which had been most successful in eliminating internal price distortions resulting from subsidies, exaggerated protection, artificial exchange rates and the like had also achieved the highest rates of GDP growth. This continuing pressure towards greater efficiency is the major gain from acceptance of market disciplines - even more than the improved access to export markets. But it is necessary, if the pains of adjustment are to be accepted, that the rewards of greater efficiency should be available, and these must include access to world markets for the products of competitive suppliers. The huge needs of the developing countries represent the biggest potential for economic growth in the world; while they are unsatisfied, to talk of a long-term shortage of demand is an absurdity. The industrialized countries are right to urge their developing partners to accept more of the obligations of GATT membership, but they are unlikely to carry conviction while they continue to settle their own problems outside it.

18. The answer to both questions, and I think to most of the trade disputes I have mentioned in this speech, lies in the capacity and readiness of economies to adjust to changing conditions. The GATT has been preaching for years, with no doubt boring insistence, that failure to adjust is the central economic problem and that most of the conflicts between member countries, over market access, the distortion of competition through subsidies or whatever it may be, are symptoms of this larger failure. I think this would be generally accepted now. For example, there is far more willingness than existed eighteen months or two years ago, when mention of subsidies in international debate was hardly permissible, to discuss their rôle as an impediment rather than a spur to industrial adjustment.

19. One can in fact see, notwithstanding all the recrimination and protectionist rhetoric, the beginning of a move in a number of capitals towards the negotiation of lasting solutions to the underlying difficulties of which specific protectionist measures are only symptoms. The rules governing the use of subsidies are an obvious case. Trade in agricultural products has to be brought under discipline so that it ceases to be a battleground where innocent bystanders are at greatest risk. The GATT safeguard provision which in emergency permits the temporary restriction of imports needs to be rescued from desuetude and the contagion of so-called voluntary export restraints brought to an end.

20. The Government of Japan, which has in the past been urged to take a greater share in trade policy leadership, in line with its trading strength, has in this instance taken a clear position by calling for the preparation of a new round of multilateral trade negotiations. The call has been taken up in Washington and in some of the countries of the Pacific region, notably in Australia. I welcome the idea, because I strongly believe that it is easier to settle difficult issues if they are taken as a package in which each negotiator can find advantage, than to attack them one at a time. I also believe that a multilateral negotiation - not a series of bilateral deals based in the last resort on power politics - is the only way to move forward from the present impasse.

21. However, to reach the stage of negotiation requires that we survive the stresses of the next few months without serious conflict, and that the ground be prepared with the greatest possible care. A premature initiative, not based on a widely-shared understanding as to what the agenda and objectives of a negotiation should be, would merely be counterproductive. As it happens, virtually every one of the subjects I have heard mentioned as possible candidates for negotiation - and the list is far longer than the few examples I have given - is covered in a work programme which Ministers adopted in the GATT in November 1982. The work programme is due to be completed in the coming November and it provides an opportunity for all member countries of the GATT to begin to define their objectives in terms of the strengthening and improvement of the trading system - that is, to pass from the phase of good intentions to that of constructive action.

22. Multilateral negotiations inevitably take time. In one sense this is not a bad thing, because while they are in progress they provide a sense of common purpose and a counterweight to protectionist pressures, but it means that there is a tendency to shelve immediate problems in the hope that they can be swept up in the general settlement. That is a dangerous policy and for this reason I would very much like to see real content given to the standstill commitment undertaken by OECD countries last year and confirmed by the Williamsburg Summit. However, given the large number of protectionist measures already in place, many of them illegal, a standstill alone would merely concretise an unsatisfactory situation. It is therefore necessary to proceed to the next stage of rolling back protectionism. The obvious place to start is with measures of dubious legality. Preparations for a new multilateral round could run in parallel with this process and would be greatly facilitated by it. I hope the participants in the high-level meetings of the coming summer will take advantage of a healthier economic climate to give real effect to their earlier undertakings and to transform the mood of the watching world from one of cynicism to one of hope.