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GATT DIRECTOR-GENERAL CALLS FOR BUSINESS INVOLVEMENT  
IN URUGUAY ROUND

In a speech delivered today, Wednesday, to the 29th Congress of the International Chamber of Commerce in New Delhi, Mr. Arthur Dunkel, Director-General of GATT, called upon businessmen to help ensure the success of the Uruguay Round. He also discussed the central rôle of agriculture in the Round.

The full text of Mr. Dunkel's address is attached.

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ADDRESS BY MR. ARTHUR DUNKEL, DIRECTOR-GENERAL,  
GENERAL AGREEMENT ON TARIFFS AND TRADE, TO THE  
29TH CONGRESS OF THE ICC, NEW DELHI

11 February 1987

It is a personal pleasure and a great honour for me to be able to address you today. I have always considered it essential to relate the rôle of the GATT to the "real world", the world of economic and social activities. In this respect, the close links we maintain with the International Chamber of Commerce are invaluable.

The choice of New Delhi for this 29th Congress of the ICC is of symbolic importance. The same was true of the choice of Uruguay for the launching of the 8th Round of Multilateral Trade Negotiations. I see in these decisions a reflection of the growing rôle of the developing countries in world trade and in shaping the future of the world trading system. This rôle has been particularly evident in the negotiations leading to the launching of the Uruguay Round.

The New Delhi Congress of the International Chamber of Commerce has been very much in my mind in the last two months. During this period, as some of you may be aware, intensive consultations were taking place at GATT headquarters with a view to establishing the negotiating structures, the negotiating plans and a mechanism of surveillance for the standstill and rollback commitments called for by the Punta del Este Declaration. In face of the difficulty of this task, I repeatedly had to ask myself if we would be able to accomplish it in time, and, if so, what I would have to report to you today. As you know, we did reach agreement - without reservations - some days ago in the three main negotiating bodies of the Uruguay Round, the Trade Negotiations Committee, the Group of Negotiations on Goods and the Group of Negotiations on Services. In GATT terminology these are, the TNC, the GNG and the GNS. (As you can see one problem which was not solved in Punta del Este is the proliferation of obscure acronyms.) The recent developments in these bodies will enable the New Round to move forward in accordance with the ambitious schedule agreed upon by the Ministers in Punta del Este. During the present week, four of the fourteen negotiating groups created to carry out the negotiations on specific subjects, are

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meeting. From next week until April, all of the other negotiating groups will have held at least one session. From now until June the GNS will hold 12 days of meetings.

Let me emphasize that since each of the negotiating plans have been agreed upon these groups can get down immediately to some very solid work. This means that we are moving forward at a much faster pace than in the Kennedy and Tokyo Rounds - a fact which, in itself, should be a source of reassurance for producers and traders around the world.

The innovative character of the Uruguay Round is also apparent in the undertakings by participants on what I have referred to as standstill and rollback. The standstill on trade restrictions which are not in conformity with the GATT is designed to preserve existing levels of market access by limiting and regulating the conditions under which countries can impose new restrictions on trade. It is also meant to ensure that, while the negotiations are progressing, no participants will seek to improve its bargaining position by introducing new trade restrictive or distorting measures. The rollback commitment is directed to the phasing out, over the life of the negotiations, of measures which are not in conformity with the GATT. To ensure that these commitments are honoured by the participants in the negotiations, the Punta del Este Declaration calls for the establishment of an effective surveillance mechanism. Such a mechanism is now in place following the decisions taken on the 29th January.

While we have made good progress until now, we should not forget that the real challenges are still ahead of us. Since the main theme of this afternoon's session is the rôle which the business community should be playing in support of the New Round, I owe you a clear indication of the major problems that the negotiators will have to face so that their efforts can benefit from your understanding and support.

In so doing I will first have to discuss those aspects of the trading environment that, even with the best of their will, the trade negotiators can only influence indirectly. Then I will move to the questions which do fall, without any doubt, in the area of their competence.

In placing the Uruguay Round in the global economic context, to which it belongs, it is important to start by looking at the current performance of world trade. The situation is not encouraging. After the recovery year of 1984 when trade grew by  $9\frac{1}{2}$  per cent, there was a 3 per cent volume increase in 1985 and something close to 4 per cent in 1986. Overall, trade growth has averaged less than 3 per cent a year thus far in the 1980s compared to  $5\frac{1}{2}$  per cent in the 1970s and  $8\frac{1}{2}$  per cent in the 1960s. There is unfortunately no reason to believe that the picture is going to be very much better by the end of 1987.

These trends have been compounded in recent years by a number of factors affecting political approaches in the trade policies area.

One of these factors is the emergence of large and sustained trade imbalances involving historically large surpluses or deficits in the major industrial countries. It is widely accepted that such imbalances reflect underlying macroeconomic differences, in particular a tendency for expenditure to increase more rapidly than production in the United States and less rapidly in West Germany and Japan. In this context, there is no need for me to dwell on the link between the large budget deficit and the large trade deficit in the US. Even though their roots are in the area of macroeconomic policy, the protectionist sentiment nourished by these imbalances is a considerable source of concern for the trading community. It has exacerbated the debate in such areas as the future of the MFA, the consequences for the trade of third countries of the recent enlargement of the European Communities and the conditions of competition in the world market for civil aircraft.

Another source of concern has emerged in the shape of rapidly changing currency relationships. In recent years, both an extraordinary rise and an extraordinary fall in the dollar's rate against the Deutchmark and the yen have taken place. While the two-year decline of the dollar has, as yet, had only a limited effect on the US trade deficit the large movements in exchange rates have introduced an additional element of unpredictability in trading relationships. It is therefore not surprising that the Punta del Este Declaration which launched the Uruguay Round called attention to the financial and monetary instability in the world economy and the need for concurrent efforts to improve the international monetary system.

The Punta del Este Declaration also addresses itself to the relationship between the functioning of the trade system and the capacity of indebted developing countries to service their debt. GATT's economists have been following the experience of 16 such countries over the past several years.<sup>1</sup> The trade figures show that all of the balance-of-payments adjustments which these countries, as a group, have had to achieve to meet their debt obligations have been through import contraction. Thus, the dollar value of the imports of these 16 countries declined from \$200 billion in 1981 to less than \$150 billion in 1986 - a decline of more than 25 per cent in five years. The dollar value of their exports declined to the extent that in 1986 it was about \$15 billion below the 1981 level. Of course, developments in petroleum markets explain a fair amount of this, but even the non-oil exporters have found it very difficult to avoid an emphasis on import contraction. As a result, the indebted countries have been forced to buy less and the rest of the world has been selling less. Balance-of-payments pressures have also been important constraints on the efforts of developing countries like India to liberalize their economies.

We are, therefore, faced with challenges in the fields of monetary, fiscal and financial policies which impinge heavily on international trade and trade policies but for which the basic solutions have to be found outside the strict trade policy field. It can be reasonably suggested that, while the trade ministers have set the scene for progress in the field of trade policies, which of course does not mean that their job is done, their cabinet colleagues will have to come to terms with other major economic challenges if the trade negotiations are to make their full contribution to the international economy.

However, and I am now coming to the area of responsibility of trade policy, none of these comments should suggest that the Uruguay Round is not, itself, a major economic event. Even a short outline of its content reveals the scope for revitalization and extension of the trading system.

The new round will advance through simultaneous action on five broad fronts: first, by carrying forward the process of market opening; second,

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<sup>1</sup> Argentina, Brazil, Chile, Colombia, Egypt, Indonesia, Republic of Korea, Mexico, Morocco, Peru, Philippines, Thailand, Turkey, Venezuela and Yugoslavia.

by redressing the errors and inadequacies of the past; third, by establishing predictable and equitable conditions of competition; fourth, by reinforcing the legal and institutional rôle of the GATT; and fifth, by preparing the ground for the development of multilateral disciplines in new areas of international trade.

Let me take these five points one by one.

- To carry forward the process of market opening means essentially further reductions in tariff and non-tariff barriers. This is the classic part of every GATT round.
- Redressing the errors of the past means bringing back to GATT disciplines certain sectors of world trade, such as textiles and clothing, as well as agricultural goods. It also means ensuring GATT disciplines for segments of international trade which are subject to arrangements concluded outside the GATT in the so-called grey areas. I have in mind steel, automobiles, household electronics, machine tools, and so on.
- The establishment of predictable and equitable conditions of competition is a must. It is not possible to get support for more open markets, which implies more competition, if the actors in international trade remain under the impression that this competition is not subject to agreed rules of the game. What are involved here are the use of safeguard measures for temporary import protection, and of export and production subsidies. All sectors of international trade are suffering from the existing lack of consensus in respect of these rules and disciplines, but more particularly agriculture. In this sector, the trading situation has indeed evolved more irrationally than in any other. Competition on the basis of comparative advantage no longer exists, having been replaced by competition between Finance Ministers through all sorts of direct and indirect subsidies. Over-production has led to a combination of huge stocks and subsidized exports in such products like cereals, sugar, dairy products, rice, meat, etc. This has artificially depressed world market prices, and seriously affected the export earnings of a number of efficient producers in developed and developing countries. It is,

therefore, very encouraging to note that for the first time in the history of GATT rounds, agricultural trade is now considered to be at the centre of negotiations and not at the periphery. Because agriculture is at the centre, everyone with an interest in a successful outcome of the New Round has a stake in what happens in this area.

- With a view to reinforcing the legal and institutional rôle of the GATT, the Punta del Este Declaration calls for a review of the functioning of its Articles, a strengthening of its dispute settlement procedures, enhanced surveillance of trade policies, as well as through a strengthened relationship with other international organizations responsible for monetary and financial matters.
  
- The last of my five points refers to the inclusion in the new round of new areas such as trade-related aspects of intellectual property rights, trade-related investment measures and, above all, trade in services. In respect of services, which are dealt with in the GNS, the negotiations shall aim to establish, with due respect for the policy objectives of national laws and regulations, a multilateral framework of principles and rules for trade in services, including elaboration of possible disciplines for individual sectors. The aim is to ensure the expansion of such trade under conditions of transparency and progressive liberalization, as a means of promoting the economic growth of all trading partners and the development of developing countries.

At this point, I can very well imagine that those of you engaged in the work of producing, buying and selling goods and services in international markets must ask themselves the following question: When will we begin to feel the positive results of this ambitious enterprise on our day-to-day activity? I should recall that the Ministers have allowed themselves four years to carry the Uruguay Round to a successful conclusion. They have also insisted that the launching, conduct and implementation of the outcome of the negotiations shall be treated as part of a single undertaking.

My answer is that trade Ministers in Punta del Este were far-sighted enough to envisage also the possibility under certain conditions of the early implementation of some agreements. In other words, tangible results in some areas could be expected before 1990.

Naturally, all the participants have their own declared or undeclared priorities within the wide range of negotiating topics on the agenda. However, in my view, the nature and the degree of urgency of certain problems will play a key rôle in determining the rate of progress in the different areas.

Let me now turn to the question of what businessmen can and should be doing to ensure that their interests are looked after in the Uruguay Round.

To begin with, it is useful to recall that producers and traders are important beneficiaries of the GATT rules and disciplines. The immediate purpose of the rules and disciplines is to reduce the uncertainty surrounding transactions across national frontiers. Current market access is made more secure and future market access more predictable by limiting the scope of ad hoc interventions in trade. Eventually, of course, nearly everyone - consumers, workers, shareholders and taxpayers - benefits from the faster rate of economic growth which results from expanding world trade.

Keep in mind that the GATT rules also provide for temporary increases in import barriers when a particular industry is being injured by sudden surges in imports, or when balance-of-payments difficulties can be dealt with only through temporary restrictions on imports. They also allow governments to protect their domestic firms, in accordance with internationally agreed criteria, against competition based on dumping or subsidies.

The practical character of the GATT suggests that the business community should be a staunch and vocal supporter of the GATT. In fact, my experience as a former negotiator, as well as my experience since taking over as Director-General, is that this is not always the case. Generally speaking, the more a particular industry relies on foreign markets, the more the businessmen in that industry favour an open and liberal trading system. This explains why countries with small internal markets, where

access to foreign markets is essential for achieving efficient levels of production, have been strong GATT supporters. Small and medium size countries are also attracted to the GATT system because it emphasizes the rôle of multilateral rules and disciplines - rather than economic and political power - in determining international commercial policies.

This does not mean, however, that there is any lack of solid ground for entrepreneurs in large countries to support the GATT. For some sectors, such as most parts of agriculture in the United States, the output potential at world market prices is so great that a large domestic market is not sufficient to satisfy possibilities for efficient production. Commercial aircraft, motor vehicles, computers, and petro-chemicals are just some of the industries that also come to mind. And of course there is a large range of highly specialized products - such as telephone switching equipment, designer clothes, and studio-quality portable tape recorders - which are likely to find the demand in even the largest country insufficient.

Enlightened support for the GATT system also comes from the business community and policy makers in large countries who understand the importance of exposure to world market competition, even if the share of international trade in national income is likely to remain relatively small because of the large domestic market. They recognize that the ever-present potential competition from the world market is a tremendous boost to efficiency and innovation, and thus to economic growth, job creation and growing consumer demand, regardless of the size of the domestic market. This was a major motivation behind Mexico's joining the GATT last year, as well as the decision of China - with its domestic market of one billion people - to notify the Contracting Parties that it wishes to resume its seat in the GATT.

Despite this substantial general support for the GATT principles, there is a need for more active and concrete involvement of businessmen in the trade policy debate at the national level. This is a matter of evident self-interest.

We have always known that high import barriers reduce a country's participation in world markets. It is now being increasingly understood

that the reduced participation will eventually affect the export sector as well. Trade is a two-way street, and any attempt to reduce traffic in one direction is bound to affect traffic in the other direction. In other words, it is not only the consumers and tax-payers who bear the costs of protection, but also many workers and shareholders throughout the economy, particularly in the export sector.

Recent work on estimating the costs imposed on the economy by restrictions on imports attaches numbers to some of these costs. Estimates for the United States, for example, suggest that the annual cost of protecting one job generally ranges from two to eight times the annual wage in the industry in question. These are important results because a person doesn't have to be a trade expert to realize that paying \$100,000 a year to protect a \$25,000 a year job may not be good economic policy. My example happens to involve the United States because that is where most of the initial work has been done, but there is no reason to believe that the basic conclusion - that it costs two to eight times the annual wage to protect jobs through trade barriers - is fundamentally any different in other countries.

We hope very much that these advances in understanding the costs of protection and who bears those costs, will substantially increase private sector support for bringing the Uruguay Round to a successful conclusion. One way to increase the chances that this will happen is to encourage more work of the type I've just described, and to increase the business community's and the general public's awareness of the costs of trade restrictions.

This brings me to my specific suggestions for ways in which the business community could play a more active rôle in strengthening the GATT and promoting further trade liberalization - as opposed to the self-defeating approach of market sharing. I believe it would be very helpful if the members of the ICC - and of other business groups - were to develop well organized and vocal campaigns for persuading their respective governments to do two things. First, governments should apply cost/benefit analysis systematically in considering trade policies. Second, governments should establish independent trade policy review bodies that provide full opportunities for public debate on the costs and benefits of

specific policy measures. This proposal has a double attraction that is very rare in the trade area: it concerns something that is important, namely greater openness and transparency, and it is not politically controversial. Openness and transparency in policy making have only one function, and that is to improve the quality of public discussion and debate. Very few people are willing to stand up in public and argue that a better informed electorate is bad for the country. I have no doubt that a more transparent process of decision-making on policies affecting trade at the national level would result in improved trade policies globally.

Equally, of course, members of the ICC need to improve the dialogue between different segments of the business and financial community. Those producing for the domestic market and those producing mainly for export need to co-operate more actively in seeking government and corporate policies conducive to efficiency, competition and growth. There is today a particularly important rôle for groups like the ICC to play in reducing narrow, parochial pressures on governments for short-sighted protectionist policies.

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