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The following is a full text of the speech delivered today,
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Thank you for inviting me to be here today. I look forward to these opportunities. And Wharton is, of course, something special because the excellence of this school attracts talent from all over the world. In a vital sense, you and the General Agreement on Tariffs and Trade - the institution I represent - are partners in trade. Our common goal is to ensure that true competitiveness and skill get their just reward. Your part of the deal is imparting expertise and training to future business operators, to equip them for meeting the challenge of competition. Our part of the bargain is to ensure that the environment of international competition remains stable; that trading and business relationships are conducted through clear, equitable and enforceable rules. GATT's future will depend mainly on whether its activities benefit, as they have until now, the business community who are the actual users of the trading system. This is the link between GATT and the "real world".

It is important to keep this link alive and well, though, often, this is easier said than done. Take, for example, the United States. I have often had the feeling here that Geneva, which is the seat of GATT, is too far away, that the work we are doing there and its direct and indirect impact on American producers, investors, exporters, importers and consumers, is too frequently lost or forgotten in the turmoil of everyday life. To an extent this is true of all countries who are members of the GATT system. It is certainly true of the European Community despite the geographical proximity to Geneva - and of Japan. But if I have chosen to make a special point of the United States it is because this country has played a particularly important leadership rôle in creating and expanding

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the liberal multilateral trading system since World War II with a view to avoiding a repetition of the errors of the Thirties; because American inspiration and beliefs are clearly evident in GATT's rules and disciplines as they exist today; and because, to a large measure, it will be America's continued commitment to multilateralism and liberalism or its drift away from these principles that could determine the shape of things to come.

There is, of course, an apparent contradiction here. I have spoken of the need for greater public involvement and awareness in respect of GATT. This is true. But it is also true that the general question of trade policy has been very much in the news recently - in the United States and elsewhere. It is the centre of attention in business circles, in financial and monetary circles, in gatherings of economists and academics and even among government leaders in charge of foreign policy and security issues. Most discussions focus on the changing parameters of the world economy and the need for adjustment to ensure orderly growth. Attempts by China to rejoin the GATT, developments in the Soviet Union and Eastern Europe, the movement towards economic reform, deregulation, and open markets in developed and developing countries, the emergence of the service economy, increasing interdependence among nations and firms, the globalization of capital markets, the demand for technology and investment, are cited as examples of these changes. Again, quite rightly so. But what is often forgotten is that the multilateral trading system as enshrined in the GATT - and the nature and scope of GATT's contractual framework - is also changing and adjusting in a fundamental way. In fact, the GATT, as we know it, is slowly but surely passing into a new, strengthened and expanded system designed to meet the needs of governments and business for the rest of this century and beyond. And since we have no alternative to an open and liberal trading system, we must all encourage GATT's evolution. By the same token, we must also guide this evolution in the right direction. This is the public involvement and awareness I have in mind today. I shall come back to this point later.

Trade policy has been discussed in the media from four broad angles.

The first is from the point of economic analysis and forecasting based on data regarding global and national performances in international trade. Economic forecasting is risky business at the best of times - and this is not to blame our economists at all. In fact, they invariably come up with best possible guesses at any given time using the tools available. I am only pointing out how difficult the task is - particularly now - when many familiar indicators like production structures and patterns, consumer preferences, investment flows and government policies and programmes are subject to sudden and radical change. Add to this the increasing pressure on governments to come up with short-term or medium-term responses to what may be very temporary situations reflected in monthly or even quarterly statistics and you have a recipe for "instant success" stories or "instant disaster" stories which are so popular.

For obvious reasons, therefore, I will not attempt any detailed forecasting. I should, however, point out that the world economy seems now to be entering a period of higher growth rates for output and trade than

MORE

economists might have predicted some years ago. More importantly, this growth seems more dispersed. Both developed and developing countries have benefited from it even if to varying degrees.

We still have, of course, some ominous clouds. For example the global picture hides the serious economic stagnation that exists in nearly all the least-developed countries and in many of the highly indebted countries. With one-fifth of the world's current population living in these two depressed areas, their dismal economic prospects present a major challenge not only to their own policy makers, but also to policy makers in the capitals of their trading partners and creditors. In an increasingly interdependent world serious problems are increasingly shared problems, and ignoring the fate of some countries, will sooner or later entail costs for all.

It is no accident, therefore, that the integration of developing countries into the GATT system is a major objective of the Uruguay Round of multilateral trade negotiations currently under way in Geneva. It is also no accident that a number of developing countries have been negotiating their way into the GATT in recent years and that many are waiting in the wings. Stability and predictability are essential for growth, adjustment and job creation. GATT rules and GATT's dispute settlement process are, of course, needed by all - but more, perhaps, by the small and vulnerable than by the big and powerful. An essential element of GATT's evolution is that more and more governments recognize the value of membership in the GATT system.

Another cloud is the uncertainty of the environment in which investment and trade decisions have to be made. One major source of uncertainty - as we saw in October 1987, and, again only a few days ago - lies in the area of exchange rates. Increasingly, exchange rates are seen to be determined more by capital flows than by current account transactions. Exchange rates at odds with economic fundamentals handicap world trade by making price signals harder to interpret and less reliable. Decisions on investment also become more difficult in a situation of a violently fluctuating exchange rates.

Uncertainty also brings to mind - almost automatically - the debt problem and its future management. I spoke a moment ago of the stagnation in the highly indebted countries of Latin America. Let me give you only one example of this stagnation. Between 1981 and 1986, the dollar value of world trade increased by 7.5 per cent; over the same period, the imports of the sixteen most heavily indebted countries declined by almost a quarter. This import contraction has affected, first and foremost, the citizens of these countries and its immediate impact has been on levels of consumption and standards of living. But in the longer term, the decline in imports of essential capital goods for development and investment could have an impact on the growth rates of these countries for many years to come. Import contraction has also spread the effects of the debt crisis to the trading partners of the heavily indebted countries, including the United States.

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A central concern of the Uruguay Round is to place trade negotiations firmly in the global context of economic cooperation. Trade is seen as an essential part of economic policy, in partnership with finance and development. Integrated and coordinated international action in the economic field is absolutely essential. We have blundered on too long without the left hand knowing what the right is doing.

The second angle of trade policy featured in the media concerns the so-called "external imbalances" that exist among the major trading nations. The need to reduce these imbalances - particularly the United States' twin deficits and the Japanese and West German surpluses - is stressed repeatedly in statements and headlines. Without playing down the importance of this issue, I would suggest that it might be useful to take a broader view of external imbalances - for example, by considering the full current account rather than only the merchandise trade account balance or by relating the imbalances to GDP. As a percentage of GDP, for example, the United States' current account deficit was smaller last year than that of the United Kingdom! Moreover, if you take capital account imbalances into consideration, it is clear that both Japan and West Germany have been supplying large amounts of savings to the world economy while the United States and the United Kingdom have been absorbing large amounts of the world's savings!

The more important point is, of course, that trade imbalances cannot - and should not - be settled unilaterally, bilaterally or even trilaterally because global interdependence will ensure that short-term and patch-work solutions do not work or, even worse, that the problem itself is transferred to other trading partners thereby increasing the area of tension. The micro-chip agreement between the United States and Japan is a case in point!

This brings me to the third aspect of trade policy which has been in the news - the so-called trade wars, conflicts and tensions in the world today. Hormone-fed beef, the European Community's production subsidies for soya, the GATT Panel on Section 337 of the US Trade Act, Korean beef imports, Canadian import restrictions on ice cream and yogurt, Nordic restrictions on apples and pears, the issue of agricultural imports by Japan, the question of intellectual property rights protection in Brazil and India, and a host of other disputes make ideal material for headlines.

But there have always been potentially serious trade disputes lurking on the horizon. They are also with us today, perhaps with an increased capacity for damage because of the climate. Interdependence has made international competition more intense and demanding. It has made nations more vulnerable to distortions and uncertainties in the international economic environment. But in the reverse direction, it has also made the impact of domestic policies and programmes overflow national frontiers. Demands for better surveillance of national policies, for more complete information on these policies and for effective discipline on national initiatives are natural in such a situation. It will not come as a surprise to you that even before the Uruguay Round has ended - as it will in December 1990 - nations have agreed to strengthen GATT's surveillance of

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national trade policies by setting up a Trade Policy Review Mechanism. Coupled with this is the work being undertaken to further stream-line GATT's dispute settlement system, again, in the context of the Uruguay Round. The objective is clearly to give teeth to the GATT.

There is, incidentally, another aspect to trade disputes. In contrast to our experience of earlier GATT rounds when people tended not to invoke normal GATT procedures when the negotiating process was underway, most of the current trade disputes are being handled inside and not outside the GATT system even when the Uruguay Round is still on. Normal GATT activity has, in fact, increased during this Round rather than the other way round. I take this as a clear indication that nations are turning more and more to GATT rules and disciplines for solving their differences. In other words, with all its present inadequacies, the GATT system still remains for them the only multilaterally agreed yardstick for responsible behaviour by governments and firms in the trade policy field.

The fourth aspect of trade policy I have in mind is the one that pertains directly to me - the GATT and the Uruguay Round, though, naturally, I have had to refer to both these subjects frequently in my comments on the other three aspects. Unfortunately the GATT and the Uruguay Round have smaller potential for the kind of sensationalism the media wants. We have either had very well-informed, in-depth coverage - to the delight of serious policy makers or the more exposed members of the business and academic communities - or attempts at sweeping analysis aimed at predicting failure, or irrelevance or other catastrophes. But I do not want to sound unduly harsh. The subject is difficult to present even to the most sophisticated of audiences and the challenge is to strike the right balance between generalities and detail.

Let me try and put the Uruguay Round in a practical perspective.

To begin with, these negotiations are the most complex and ambitious ever attempted in GATT. Domestic policies, border measures, national legislations - in other words, all aspects of trade policy - are up for negotiation. This is a great departure from the days when the GATT was negotiating only tariffs and a few selected non-tariff barriers, with all else being considered in the realm of national sovereignty. The Uruguay Round goes even further because it aims not only to address the problems of today by correcting past errors, but also by taking in hand the problems of the future, in particular by bringing into new areas the advantages of multilateralism and rule making.

Another unique aspect of this round is the broad participation. Over one hundred nations are involved - developed and developing. The Uruguay Round is, therefore, a clear political signal by governments. When it was launched in September 1986 in Punta del Este, Uruguay, it reflected unanimous agreement that no country or government could any longer afford the luxury of muddling through from conflict to conflict. This consensus exists even today.

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For the first time, developing countries have been active from the very beginning. This is welcome news. It speaks of their readiness to become active players in the trading system and to make contributions. This is the starting point of their integration. Their motivation is rooted in self interest.

First, for developing countries, special treatment or exemptions from the rules is less and less attractive when the main system is itself decaying because of frequent violations, circumventions or neglect. In a sense, therefore, faith in multilateralism has been revived precisely because the dangers of arbitrary deals and unilateral action have become more imminent.

Second - and this factor is of fundamental importance - is the increasing rôle of foreign trade in generating growth in the world economy. Trade in goods accounts today for nearly 20 per cent of total GDP for the trading nations and that share increases if trade in services is added to the calculation. 20 per cent is of course an average, and for many countries, the ratio of exports and of imports to DGP is considerably higher. This trend is also true for the least-developed and for the heavily-indebted countries. Africa depends on extra-regional trade for 95 per cent of its foreign exchange earnings. The figure for Latin America is 85 per cent. This is why trade policy has come to be seen as a key factor in national policy making. And this is why multilateral cooperation has become a necessity for all.

Let me come now to the substance of the Uruguay Round negotiations. With fourteen months to go, the Round has entered the final and critical phase. There are fifteen subjects and a number of other important questions to settle. To be successful, the negotiations will have to come up with a politically balanced package of results, acceptable to all participants. The negotiating agenda has three basic elements for the final package: one, improved market access or the further opening of world markets; two, rule making or strengthening and expanding the existing framework of multilateral trade rules and disciplines; and three, the inclusion of new areas of international trade.

Let me take these elements one by one.

- Improving market access means essentially further reductions in tariff and non-tariff barriers, the classic part of every GATT round. The negotiations are expected to result in a reduction of tariffs in developed and developing countries by 30 per cent, significant negotiated reductions of national non-tariff barriers and multilateral disciplines in controversial areas like rules of origin for imports. Improving market access also means bringing back to GATT disciplines certain sectors of world trade, such as textiles and clothing, as well as agricultural goods. It 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.

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- Rule making involves the establishment of predictable and equitable conditions of competition. This 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. The negotiations provide for a review of existing GATT articles. Of special importance are the use of safeguard measures for temporary import protection, the use of export and production subsidies and the use of anti-dumping procedures. 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 evolved more irrationally than in any other. Competition on the basis of comparative advantage has been replaced by competition between Finance Ministers through all sorts of direct and indirect subsidies. Consistent over-production has led to a combination of huge stocks and subsidized exports in such products like cereals, sugar, dairy products, rice, meat, etc. There have, of course, been occasional periods of temporary relief when droughts or tight supply situations have reduced stocks and helped increase world prices. We are going through such a period now. But, even so, the problem of structural surpluses has remained with us and tended to keep market prices artificially depressed. This has 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.

- The new areas are trade-related aspects of intellectual property rights, trade-related investment measures and, above all, trade in services. In respect of services, the negotiations shall aim to establish a framework of multilateral cooperation in an area which is of growing importance to the economies of a very large number of countries and where problems are only now beginning to be identified. 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.

I have referred to the launching of these negotiations as being a clear political signal by governments that they will strive to create a more liberal, more equitable and more dynamic framework for the conduct of world trade for the benefit of every trading nation. It is important to keep this signal in mind because a long exercise in political will and determination still lies ahead of us from now up to December 1990 when we will end this Round of negotiations and, who knows, begin another.

And, finally, a thought which I would like to leave with you. Whatever the results of the Uruguay Round, it is clear that after its conclusion the international trading scene will no longer be the same.

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Change will come whether we like it or not. I think there is no alternative but to work together to ensure that the change is for the better and not for the worse.

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