

GATT/1483  
13 June 1990

"WILL THE MULTILATERAL TRADING SYSTEM COPE WITH THE  
CHALLENGES OF A RAPIDLY CHANGING WORLD?"

The following is the text of an address made by Mr. Arthur Dunkel, Director-General of GATT, on 1 June in Tokyo. Mr. Dunkel was speaking at a symposium organized by the Ministry of International Trade and Industry and the Research Institute of International Trade and Industry.

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Living in the last decade of the twentieth century, we are all witnesses to the dramatic political and economic changes that are taking place on the world's geopolitical stage. I have in mind not only the recent developments in Central and Eastern Europe and the Soviet Union, but also the wave of democratization and deregulation in Latin America, Asia and Africa.

There is something distinctive in these reform processes. In contrast to the past, they represent strong moves by an increasing number of countries towards integration into the world economy by basing their growth and development on the play of market forces. As a way of achieving their goal, these countries are now turning to the GATT system.

As you are aware, the Soviet Union asked for observer status in the GATT, and this was finally granted by the GATT's contracting parties two weeks ago. Bulgaria is negotiating accession. The other "outsider" - the German Democratic Republic is waiting in the wings. Whilst the Central and East European countries, members of the GATT, are seeking revision of their present status.

GATT's increasing attraction goes beyond specific regions or areas. Indeed, membership in the GATT has grown rapidly to the current level of 96 countries as a result of the recent accession of a number of developing countries. It is even more significant that many of these countries - Bolivia, Costa Rica, Mexico, Morocco and Tunisia, for example - have undertaken substantial contractual commitments to open their markets in order to gain entry. Venezuela is expected to follow a similar path.

A number of countries in Asia, Latin America and North Africa, members of GATT, have also undertaken important reforms of their economic and trade systems. In this part of the world, for example, you are no doubt familiar with various measures taken by the Republic of Korea and by the ASEAN countries. Australia and New Zealand are in the process of implementing programmes aimed at further opening up their markets to outside competition. The desire of the People's Republic of China to return to the GATT is also well known, and a GATT Working Party is now deliberating their request.

As I said a moment ago, this is a concrete expression of the political will of the Governments and the people of these countries to consolidate their fundamental, far-reaching political, economic and social reforms, by integrating themselves into a solid system of multilateral cooperation. It is a remarkable development if we only look back 40 years when the GATT was founded. At the end of the Second World War, the community of nations attached overriding importance to the foundation, side by side with the United Nations, of strong and reliable instruments for world-wide economic cooperation: in the area of international trade, the result was the GATT; in the financing of development and reconstruction, it was the World Bank; in monetary matters, it was the International Monetary Fund. These systems of economic cooperation were essentially designed to serve as the framework for international security and political stability. After over 40 years of existence, these same systems are now being given renewed importance in

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serving their original objectives with much wider international participation.

It is also encouraging that at the very moment when parameters that guided governments in the conduct of international security policies are being called into question, economic and trade cooperation is being given a greater rôle in maintaining peace and strengthening the global system of security. This reflects increasing economic interdependence among nations - an interdependence which supersedes ideological and economic frontiers between East and West, North and South. This also reflects a renewed awareness, worldwide, that the global system of international security depends more and more on enhanced political and economic cooperation.

This new situation is, without doubt, to be welcomed. But it is also important to foresee the consequences. Increasing interdependence makes the fight to win markets abroad daily more fierce and competition in every domain more and more intense. As military threats subside, economic and trade relations, including investment flows, become major determinants of national security needs or the threat to such needs. Take, for example, the attitude towards Japan as seen from the results of a recent opinion poll in the United States about American perception of threats to national security.

The rapidly changing world scene raises great challenges to the multilateral trading system? Is the GATT still playing the rôle which the international community intended it to have in the international system of collective security? In other words, for the 96 member countries of GATT and for those nations who are now turning towards it, can the GATT system continue to function as a truly effective and credible system of international cooperation in the area of trade?

The problems currently facing the multilateral trading system are familiar to you, and you have already discussed them in previous sessions. I am told the Japanese language has a useful word to describe the danger presently confronting us: "Keigai-ka" that is the hollowing out of the system with its substance being dealt with outside the system. Looking back at the international trading environment in the 1980s, we have to recognize that the danger of the "Keigai-ka" of the multilateral trading system has been, and still is, real. This was the main reason behind the launching of the Uruguay Round of multilateral trade negotiations in 1986 at Punta del Este in Uruguay, and why its success is so vitally important for the trading system of the future.

The challenges to the multilateral trading system are indeed formidable. First, the most immediate test of the system's effectiveness is whether it can tackle the new problems being faced every day by producers, investors, exporters, importers and consumers the world over. Trade policies are being increasingly used as a scapegoat for other macro-economic difficulties. But, for the multilateral trading system to cope with problems in such difficult areas as agriculture, textiles, automobiles, and semi-conductors, it has to be equipped with clear and

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effective rules and disciplines which allow international competition to take place under undistorted and open market conditions.

The need for an effective multilateral trading system is all the more important if we keep in mind that the economies of an increasing number of developing countries are growing and diversifying. In sectors where they are competitive - textiles, machine tools, consumer electronics, agriculture, tropical products, and footwear, for example, - they are demanding the application of GATT rules of non-discrimination and open markets rather than special and differential treatment which has been their traditional battle-cry. This is also the option which the Eastern and Central European countries have selected.

Another important challenge to the multilateral trading system is to find ways and means to maintain and enhance its credibility. Rule-making is one thing. Whether rules are observed or not is quite another. If rules are not observed or if deals are made outside the rules, can the system remain credible? Throughout the 1980s, the danger of arbitrary deals and unilateral action became concrete and imminent. Because of this danger, support for multilateralism is reviving, and needs to be encouraged.

Japan, you will agree, is no stranger to these problems. Japan - and, indeed, other trading nations as well - have often been exposed to demands for bilateral deals under threat of unilateral action. The important question, however, is whether Japan has not played a part in the proliferation of the so-called "grey-area" measures by accommodating bilateral demands from its trading partners, particularly from the United States, through whatever ways and means possible, with little regard for international rules and disciplines. There is an impressive list of important products subject to "grey-area" measures: textiles, steel, colour TVs, passenger cars, machine tools, semi-conductors to name a few. About 30 per cent of Japan's exports to the United States are already subject to such "grey-area" measures. Japan is not of course, the only country taking such measures. These measures are widespread, and they tend to remain in force much longer than originally envisaged. The poison has spread from one area to another and now threatens to overtake the system itself.

I know very well that in Japan there is a strong view within both the Government and the private sector that recourse to voluntary export restraints is less harmful to the multilateral trading system than the danger of outright violations of GATT rules by way of trade restrictions imposed unilaterally by an importing country. Several years ago in Japan, I met a top leader of one of the major business associations who advocated exactly this view. I would like to repeat here what I told him: the multilateral trading system cannot remain unhurt by the proliferation of voluntary export restraints and other "grey-area" measures. "Grey-area" measures distort the proper functioning of market forces at the expense of consumers in the importing countries and create vested interests in the exporting countries. Moreover, GATT's dispute settlement procedures exist for the very reason of dealing with eventualities such as outright

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violations of GATT rules. Bilateral pressures for "grey area" solutions to trade problems are, therefore, best resisted through recourse to GATT's multilateral dispute settlement procedures.

It could be argued that the avenue of "grey-area" measures may have been Japan's political choice for "harmonizing" trade relations with the major partners. I should, however, point out that exchanging export restraints -voluntary or not - for harmony in trade relations is far removed from the reciprocity principle that we apply in the GATT. Reciprocity in GATT terms implies the exchange of improved market access opportunities abroad for improved market access in your domestic market, with the resulting benefits being automatically extended to all GATT members on the basis of the most-favoured-nation clause which is the corner-stone of the GATT. This reciprocity creates trade and increases growth. The other reciprocity - the one achieved through "grey area" measures - seeks to manage markets and causes trade to shrink through restrictions on either imports or exports.

This leads me to a further point. In the past, a major preoccupation of Japan's trading partners has been the strong competitiveness of Japanese firms in export markets. This is a fact of life which Japan's trading partners have lived with for some time now. In more recent years, however, Japan's trading partners have become increasingly interested in the prospects of competing in the Japanese market itself, and, therefore, in the elimination of the visible and invisible obstacles which they feel they face as exporters to Japan. The focus has been shifting increasingly from border measures to trade-distorting non-border measures.

After seven rounds of multilateral trade negotiations, import barriers at the border have been substantially reduced in many countries particularly in the industrialized world. However, negotiators have learned that the benefits of certain market-opening measures can be reduced or even nullified by other more subtle means of import restriction. This is why the coverage of progressive rounds of GATT negotiations has been enlarged to go beyond tariffs and now includes a wide range of non-tariff measures and policies many of which had earlier been considered the unquestioned sovereign right of national governments and, therefore, non-negotiable.

It is widely recognized - and rightly so - that Japan has made major efforts to improve access to its domestic market, and this not only in the context of implementing the findings of GATT Panels. Tariffs have been generally lowered and import quotas have been largely phased out. Imports are rapidly growing, particularly in areas where market-opening measures have been recently taken, such as leather, tobacco, wines and alcoholic beverages, beef and citrus. With still fewer border measures, Japan may have sufficient ground to believe that its market is as open as any other market in the world.

On the other hand, however, Japan's trading partners continue to point to containing import restrictions under the guise of practices such as state trading for a certain number of agricultural products, including

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dairy products and rice. Also, there are concerns that imports of many agricultural and industrial products are still subject to unduly complicated procedures on standards, certification and other import procedures as evidenced by the 400 or so complaints filed with the Trade Investment Ombudsman during the last eight years. Other issues such as the prior confirmation system, the import licensing system, administrative guidance, public regulations, anti-monopoly measures, the rôle of advisory bodies and so on have also attracted calls for greater transparency and simpler treatment in the eyes of Japan's trading partners.

The Uruguay Round provides a golden opportunity for Japan to engage in a collective, positive-sum game. The multilateral negotiations can be used to reduce the problems, and threats, Japan is facing in external markets in exchange for improved and more stable and transparent access to the Japanese market which has now grown to account for 14 per cent of world output. In this sense, the negotiations are also an opportunity to address the issue of unilateralism which is one of Japan's main concerns with respect to the trade policies of its trading partners.

Unilateralism is, in fact, the major phenomenon which undermines the credibility of the multilateral trading system, and no country in the world is immune to its temptations. Japan and, in fact, every trading nation, big and small, has repeatedly emphasized this in various GATT fora. There is no need to remind you that the GATT was established after unilateralism and bilateralism had been tried and failed. We know only too well that unilateralism will re-create many of the most undesirable aspects of 1930s. It is important, however, to note that unilateralism is not possible without a willing partner. It is also important to note that if a unilateral action in violation of GATT obligations effectively remains in force for some time, it indicates either that multilateral surveillance is not functioning well, or that the parties concerned are deliberately shying away from the multilateral dispute settlement mechanism for some reason. Often, it is a combination of both these factors. If the latter is the case, the country taking unilateral action, the targeted countries, and also third parties, if any, who are collaborators in such arrangements, are all guilty of participating in undermining the foundations of the multilateral trading system.

The third important challenge to the multilateral trading system is its expansion through the Uruguay Round negotiations, to enable it to cope with an emerging new world of services, the increasing interdependence among nations and private firms, the globalization of capital markets, and the unprecedented demand for technology and investment. Japan is now in the forefront of these new developments, and it comes as no surprise that Japan is actively participating in negotiations in all these areas.

With these formidable challenges facing the multilateral trading system, where do we now stand in the Uruguay Round? To begin with, let me emphasize that the negotiations are now in their final and critical stage. No doubt you are aware of this. MITI officials and their colleagues in other ministries are working day and night to prepare Japan's negotiating positions. Trade Ministers are scheduled to meet to conclude the

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negotiations in Brussels in the first week of December. For the December meeting to be successful, broad agreements must be reached in Geneva on the fifteen negotiating subjects by July, that is within just two months. As you can see, we have very little time left for substantive negotiations.

The negotiating agenda has three basic elements for the final package. The first element is improving market access, or the further opening of world markets. This means essentially, further reductions in tariff and non-tariff barriers. Negotiations are now underway, with offers from a significant number of participants. The objective is to reduce tariffs in developed and developing countries by 30 per cent, negotiated reductions of national non-tariff barriers such as import quotas, and multilateral disciplines in controversial areas such as rules of origin for imports. A major test of success in this area of the negotiations is the extent to which developing countries participate in the "give and take" exercise which will enter an intensive phase during the first half of this month. I believe this will be the case.

Negotiations on improving market access deal with a broad range of sectors such as agriculture, textiles and clothing, tropical products and natural resource-based products such as minerals and metals, wood and fishery products and the so-called energy-based products. Most of them are hard-core protected sectors, and leftovers of past negotiating rounds. Producing meaningful offers will certainly not be an easy task for governments, but the challenge has to be faced.

As the recent OECD Ministerial meeting has shown, a critical stage has now arrived in the negotiations on agriculture. This is an area of vital importance and, more than any other, holds the key to the success of the Uruguay Round. There is now an increasing acceptance by all parties of the need for the reform of agricultural trade. Governments have also accepted the principle of substantial reduction in agricultural support and protection. But even with these breakthroughs, a great deal remains to be done in order to arrive at concrete solutions. Important differences remain as to the extent to which protection and trade-distorting support must be reduced, whether import levies and quotas should be prohibited or permitted under certain rules, whether non-tariff barriers should be replaced by tariffs, to what extent domestic and export subsidies should be phased out, and so on. There are also questions related to the food security concerns of importing countries, including Japan, and to the flexibility needed by developing countries in supporting domestic agriculture.

It is not my intention to dwell on where these negotiations, in the hard-core market-access areas, will go. Every country acts, of course, in its own self-interest and wants its specific needs to be taken into account. But it is also important to remember that the core system of rules and disciplines for keeping the markets open should not be broken apart by elaborate attempts to accommodate exceptions to the rules.

Take the question of market access. All countries have specific problem areas which they would like to protect; for some it is

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uncompetitive agriculture, for some, uncompetitive industrial sectors and for others, weak or infant service sectors. But all countries also invariably have sectors in which they are competitive and where they stand to gain by increased market access for their exports. One set of weaknesses is, therefore, balanced by a second set of strong points. That is why the Uruguay Round is a single, global undertaking and the results must be a balanced package acceptable to all participants. It is neither possible, nor logical, to pick only what is attractive and drop what is difficult or inconvenient.

The second element of the package is rule-making in critical areas such as safeguard measures for temporary import relief, export and production subsidies, countervailing and anti-dumping procedures, dispute settlement, various GATT articles, and rules in specific sectors such as agriculture. It is certainly no surprise that Japan is interested in negotiating clear and objective rules in areas such as anti-dumping, rules of origin, safeguards and dispute settlement. Let me stress again that rule-making can only be meaningful so long as the rules are strictly observed and procedures properly followed.

Indeed, Japanese exports have been frequently subject to anti-dumping actions, rules of origin regulations, and safeguard actions by Japan's trading partners. Moreover, during the past 13 years, 13 cases involving Japanese trade measures, mostly import quotas, have been brought before GATT Panels. Japan has never taken recourse to anti-dumping or countervailing-duty actions, nor safeguard actions under GATT's Article XIX. Japan has also, at least until recently, been very reluctant to ask for the establishment of GATT Panels to deal with its trade disputes.

The conspicuous absence of recourse to GATT-approved measures and procedures cannot be taken as an unqualified victory for anti-protectionist forces within the Government. In a number of cases, "grey-area" measures or bilateral agreements were substituted for GATT procedures.

The third element for the final package is the inclusion of new areas of international trade related to intellectual property rights, investment measures and services. The Uruguay Round seeks to establish rules to govern international trade in services as well as agreements on intellectual property rights and trade-related investment measures. Many controversial aspects have still to be dealt with. As Japanese representatives have often stated, unless we establish clear multilaterally agreed rules and disciplines in these new areas, disputes would invariably be left in the hands of those advocating unilateral or bilateral action. This realization appears to be gaining force among the participating countries, developed and developing.

Finally, let me say a few words about an idea which is now widely discussed and which has gained increasing attention in the media, particularly in Japan - the establishment of a world trade organization. Proposals are still in a nebulous state. I am sure that Trade Ministers will be discussing the idea extensively in the coming months. While the

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importance of this subject cannot be denied, our first priority should be to ensure that the discussion of this idea does not distract us from the substance of the Uruguay Round negotiations. We still have a large number of difficult differences to sort out in a very limited period of time. Indeed, we cannot afford to put the cart before the horse!

The question of a world trade organization is linked to two other important issues. The first is the issue of homogeneity of membership; in other words, the question whether all members of the trading system will participate in future agreements and arrangements, or whether we will continue to use the so-called "code" approach which has proved to be so unsatisfactory. To understand the problems inherent in the code approach, it is sufficient simply to look at the limited numbers of signatories to the individual Tokyo Round Codes. The Government Procurement Code, for example, has only eleven countries and the European Community, and they are all developed countries except for Hong Kong, Israel, and Singapore. Where, then, is the integration of developing countries into the world economy or their greater participation in the multilateral trading system?

The second issue is related to the dispute settlement system to be agreed upon in the Uruguay Round; or, more specifically, how the new rules for dispute settlement will address the capacity of governments to take unilateral retaliatory action in terms of national legislation. This issue is also closely linked to the delicate political question of whether cross-retaliation, for example, from goods to services, or to intellectual property rights or investment is feasible and desirable.

These issues must be carefully considered when discussing the establishment of a new world trade organization. As you can see, we need to see substantive results from the negotiations before we can arrive at any decisions on the broader institutional questions.

Whichever way we look at it, therefore, the immediate task before us is that of successfully concluding the Uruguay Round. Substantial differences in the negotiating positions of over 100 participating countries must be bridged soon, and a meaningful consensus must be hammered out on each of the issues under discussion. This cannot be achieved without the strong political will of each and every government to make the Uruguay Round a great success. The consequences of the failure of the Uruguay Round would be the disruption of international trade and unilateral and bilateral actions becoming rampant. It would also mean the failure of countries which have benefited from the multilateral trading system for the last 40 years to rise to the challenge put forward by the nations now aspiring to follow this same path of economic growth and development. I cannot believe that countries such as Japan can afford the consequences of a failure. And this is why I am optimistic that the forces working to make the Uruguay Round a success will win the day.

And this brings me back to the question which is also the title of my remarks this afternoon: "will the multilateral trading system be up to the challenges of a rapidly changing world?" My answer is a definite, unqualified yes. Yes, because we have no long-term, or even medium-term,

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alternative to multilateralism. Yes, because only an effective multilateral framework of rules can provide stability, predictability and transparency in the economic environment which are so essential for generating production, expanding trade and increasing employment all over the world. Yes, because only multilateral agreements are flexible enough to accommodate newcomers and new trading areas on the basis of comparative advantage. And yes, because in a world of increasing competition for markets it is only the multilateral approach which can objectively define the conditions of competition and establish dispute settlement procedures designed to benefit the international community as a whole.

Let me conclude with a specific comment. In two months time, at the very beginning of August, the entire range of Japanese trade policies, including Japan's recent efforts to improve market access, will be carefully examined by the CONTRACTING PARTIES in a Special Session of the GATT Council. The policies of the United States, Australia and Morocco were similarly reviewed last year. Sweden and Colombia are up for review next week. And, along with Japan, the policies of Canada, Hong Kong and New Zealand will be examined. The European Communities, Hungary and Indonesia are on the programme for the end of this year. The programme for 1991, intended to cover up to sixteen contracting parties, is currently in the making.

As you are aware, these reviews are being conducted under the framework of the Trade Policy Review Mechanism. This mechanism is a creation of the Uruguay Round, and has already been in operation since December of last year. It provides for multilateral surveillance of the trade policies of all contracting parties, and examines the impact of these policies on the multilateral trading system. Japan's trading partners are looking forward to a meaningful dialogue. They are keenly interested in hearing about the tremendous achievements of the Japanese economy but also about your government's plans for the future.

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