

NUR 045
4 February 1991

ADDRESS BY ARTHUR DUNKEL, DIRECTOR-GENERAL OF GATT TO THE
1991 ANNUAL MEETING OF THE WORLD ECONOMIC FORUM

Davos, 4 February 1991

Ladies and Gentlemen. Two years ago, an eminent American economist came here and declared that GATT was dead. Since the Brussels Ministerial meeting of the Uruguay Round last December, the general tenor of public comment has been that GATT is at risk. So things are getting better!

There is a tendency to tie the fortunes of GATT to success in the Uruguay Round. It is certainly true that comprehensive and substantial results in the Round are necessary if we are to make of GATT an instrument which can meet the challenges that lie ahead for the multilateral trading system and from which the business community can continue to draw the maximum benefit. But let us go a step further: is it also true to say that in the, almost inconceivable, circumstances that we lose the Round we lose the GATT too? Here I would only note that there has never been another period in which public, political and business support for the GATT system was so evident. This because the international community recognizes that by contributing in the last forty years or so to increasing market openness, to limiting discrimination and distortion to trade and by providing a framework for settlement of disputes it has proved itself as an indispensable tool of political and economic cooperation that no sensible Government will take the risk of throwing away.

Even in its existing form and without the strengthening and expansion we are seeking through the Uruguay Round - the GATT is indeed about opportunity. By providing a framework for security and predictability in world markets and in trading relationships among nations it gives businessmen the opportunity to invest, to create jobs, to develop technologies and products, to evolve new marketing strategies and, of course, to trade. Simple rule-based concepts - like the binding of tariffs, non-discrimination, undistorted competition and the opening up of markets - lie at the heart of a system devoted to opportunity.

So for the future and following the suspension of talks in Brussels there is only one question which counts: can the new opportunities represented by the Uruguay Round be grasped or not? And here I should emphasise that I do not merely mean opportunity for entrepreneurs in the major trading nations, of course, but also the immense possibilities for economic and social advancement around the world.

In fact, I would contend that new opportunities have already been created by the Uruguay Round, that it is something of a success even before its conclusion.

Take for example, the institutional reforms that were implemented after the Mid-Term Review two years ago. The GATT has already switched to new and more efficient, dispute settlement procedures. But we need to go much further, especially in ensuring more effective implementation of panel findings. Another example is the new Trade Policy Review Mechanism. This has brought national trade policies under GATT surveillance in a concerted and comprehensive manner. The mechanism is fully in operation. You can already place orders with the GATT Secretariat for analytical reports on countries such as the United States, Colombia, Japan, Morocco or Sweden to name a few. But again, we need to develop it further. And while I am talking about the Mid-Term Review results, I should remind you that we already have achieved an appreciable lowering of protection in respect of tropical products, which should be of some advantage to exporters and consumers.

Of more significance, perhaps, has been the extent to which the Uruguay Round has allowed us to hold the line on new protectionist measures by governments. Whether it was for reasons of negotiating credibility or in order not to poison the negotiating atmosphere, participants have generally lived up to their undertaking to ensure a standstill on new measures of protection and have largely avoided intensifying existing ones. There have been some regrettable exceptions and many threats of restrictive measures and legislation. But care and restraint have been exercised. The views of trading partners have been heard. And, incidentally, the potential weapon of resort to the GATT disputes settlement procedure seems to have encouraged amicable settlements. So the GATT has teeth after all.

We can go further still in examining the positive influence of the Uruguay Round in the real world. Many governments are engaged in trade and economic reform with a view to their integration into the GATT system but also, as a process of adjusting to the new trade disciplines and market opening obligations which will result from the Uruguay Round negotiations. In other words, these governments are assuming the success of the Round and are acting accordingly.

In the case of the Eastern and Central European countries the reforms are part of the fundamental restructuring of their political and economic systems. For a number of developing countries, they are a move away from old style, inward-looking economic and trade policies - at least partly in the context of efforts to cope with their overwhelming and continuing balance-of-payments problems. In each case, the trend is towards greater

MORE

acceptance of the long-standing principles of the multilateral trading system and less insistence on being an exception to the rule. Taking just one example; Poland decided last year to seek to completely renegotiate its membership of GATT, replacing its commitments to achieve a planned level of imports with unequivocal GATT market-oriented disciplines.

These are the well-known cases, there are many more examples of individual countries taking autonomous trade liberalization measures over the past years. It would take too long to name them all but I could list as many as thirty countries taking such action, often affecting some of the most sensitive industrial sectors. At one end of the scale you would find small developing countries like Bolivia and, at the other end, the big trading nations where, like it or not, economic and trade policies are evolving with GATT obligations and Uruguay Round objectives very much in mind. This is true of the classic GATT domain of trade in goods, including textiles, agriculture, steel, civil aircraft and so on, but also of the new areas such as services.

In the traditional area, let me pick one subject - agriculture. The distortions in world trade and production - and the unaffordable expense involved for even the most affluent treasuries in maintaining these distortions - have forced governments to agree that the present situation cannot continue. It is no accident, therefore, that the reform of agricultural trade has become a central point not only in the Uruguay Round agenda, but also in the internal debates on economic and social policies practically everywhere. It is also hardly surprising that relating multilateral agreement to the pace and content of the domestic reform process continues to pose a major challenge. The Brussels Ministerial Meeting in December last year and the debate surrounding the reform of the Common Agricultural Policy demonstrate this very clearly. This being said, it cannot be denied that the Round has made governments and the general public more aware of the costs of trade protection and distortion.

Turning to the new areas, let me take the services sector. Here we see a surprising degree of change worldwide - from reform which includes the previously centrally-planned economies, through privatization of services - airlines, for instance - in many countries to deregulation of financial services. Many of these trends have been affected if not initiated by concepts relating to liberalization of trade in services and greater competition developed in the Uruguay Round services negotiations. Many governments are also adapting their legislation for the protection of intellectual property rights under the influence of the Uruguay Round process.

By now, you may have begun to suspect that this litany of Uruguay Round benefits is just a case of international civil servants viewing the world through rose-tinted spectacles. On the contrary, I think the GATT is a down-to-earth institution. The facts are before you. There is only one real point to be added. Allowing the Uruguay Round to drift on and lose momentum is to risk not just the closing of new opportunities but also losing much that has already been achieved through collective and

individual effort over the past four and a half years and which the Round must nail down.

From a political point of view the present situation in the Round begs the question of governments; what do they want the GATT to be? Why? Because, in an unprecedented way, the Round has brought governments face to face with the interaction between the interests of their traders and some of the most exposed areas of their domestic economy. As we move towards concluding the Round, governments will continue to find some of the implications of this change uncomfortable because of pressure or resistance from vested interests. I hope that, despite this discomfort, the view that this change is essential will prevail. The task is not an easy one. Again, the Brussels Ministerial Meeting demonstrated the tensions involved.

I have no intention here of conducting a post mortem on the Brussels meeting. It is sufficient to say that it was neither one party nor even one subject that prevented the final package emerging. It was a more complex picture than that. But let us plan ahead rather than wasting time and energy on the past.

The challenge of the post-Brussels phase of the Uruguay Round is to find the means of resuming negotiations in a manner which is most productive. My consultations in recent weeks have convinced me that the consensus in favour of a successful conclusion of the Round remains intact. We have also the advantage that the Brussels meeting has led to a much clearer perception of the major stumbling blocks - and this, at the highest level in national capitals.

The dust has begun to settle down. The negotiations are gradually, but effectively, gaining momentum again. All participants are aware that this phase calls for political statesmanship. Moving forward on the outstanding areas of the Round must take into account the changes or adjustments that have occurred in positions since Brussels. The major problem is to reconcile the legitimate objective of achieving substantial results in all areas of the Round with the understandable impatience of legislators and, even more of the business community. In fact there is no choice. We can neither lower the ambitions of this Round nor spend unnecessary time trying to achieve them. I have good reasons to believe that governments are preparing for this challenge.

And this is critical in the present political and economic situation. World trade growth has been slowing - probably to less than 6 per cent last year. There is reason to believe that the slower growth will continue this year. Inflation is again present, and there is no lack of pressures on the world economy. The last thing we need now is to see governments failing in their determination to strengthen and improve the multilateral trading system.

More specifically, such a failure would be a major set-back for the progress of reform in Eastern and Central Europe. So, too, for the prospects for those developing countries which, as I mentioned earlier, have set out on the path of radical reform. The industrial world would be

MORE

taking major risks - political as well as economic - if it failed to make every effort to stimulate trade at such a time.

I know there is a school of thought which considers the multilateral approach and the regional or bilateral approaches as two separate options. The temptation, here, is to play the one against the other. I do not need to comment on GATT's view of this. The General Agreement provides for extension of the benefits of bilateral agreements to all GATT members through the Most Favoured Nation clause. It also provides for free trade agreements and customs unions because it believes that, under the right disciplines, these are trade creating not trade reducing or distorting. There is no more reason to consider that a negotiation between the US, Mexico, Canada and others aimed at creating larger integrated markets in the Americas is any more of a threat than the fact that members of EFTA are negotiating with the Community on a European Economic Space. Conversely to operate effectively and produce the expected results, such arrangements would have to be part and parcel of the stronger multilateral trading system emerging from the Uruguay Round. It is not in the presence of an audience of business that I need to make the point that for enterprises which operate on a global scale - and there are more and more - regional disciplines and regional markets must be eventually be integrated with global disciplines and global markets.

I hope that this time next year you will hear reports of how the results of the Uruguay Round are being implemented. At the same time, we should be able to observe that the constantly renovated GATT is continuing to play its full and indeed indispensable role in supporting the activities of the business community around the world.

END