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**"THE CONCEPT OF 'MANAGED TRADE' IS A MISGUIDED AND DANGEROUS
APPROACH" - SAYS PETER SUTHERLAND**

"Once bureaucrats become involved in managing trade flows, the potential for misguided decisions greatly rises."

"A new outbreak of bilateral trade tensions is putting the achievements of the Uruguay Round to the test even before they are fully operational," said Peter Sutherland, Director-General of GATT, in an address to the Swedish-American Chamber of Commerce in New York today (3 March).

Stressing the "misguided and dangerous approach of managed trade", Mr. Sutherland said: "Governments should interfere in the conduct of trade as little as possible. Once bureaucrats become involved in managing trade flows, the potential for misguided decisions greatly rises. Managed trade is damaging to the multilateral trading system. It has the potential of escalating trade conflicts implied by agreements outside the system. Such agreements can only be enforced by the threat of trade sanctions. In addition, it is very difficult to operate quantitative numerical targets for the market share of foreign producers in the domestic market in a manner that effectively gives businesses from all countries equal opportunity - as required by the most-favoured-nation principle."

Pointing to the significance of the successful conclusion of the Uruguay Round multilateral negotiations, Mr. Sutherland said it represented a choice by 116 countries to strengthen their commitment to the

multilateral framework for trade. "It says decision-making on world economic matters must reflect a more multi-polar and diverse community of nations." He drew attention to the worldwide surge in favour of multilateralism by pointing out that 24 countries had joined the GATT since the beginning of the Round, with an additional 19 queuing up to join, including Russia and China.

Turning to the critical problem of economic development, Mr. Sutherland emphasized that it was only through effective international cooperation based on a strong multilateral system that there was any hope of finding lasting solutions to such urgent problems.

"Extending the benefits of economic growth more widely is one of the essentials for a more stable and peaceful world. The economic situation of Russia and the former Soviet republics becomes more serious every day, and the threats to the continuing development of a market economy and an open political system become more grave. And so much of Africa remains unable to participate effectively because of a vicious circle of poverty and dependence. Aid is no foundation for long-term development. Trade is.

"The establishment of the World Trade Organization, with its comprehensive membership and wide range of functions, gives an opportunity that the world has not seen in fifty years to improve the framework of international economic cooperation. The belated completion of the Bretton Woods structure of IMF, World Bank and the World Trade Organization can be the basis for turning hopeful words about a new world economic order into reality.

"The top priority on the world economic agenda now is to complete the various national ratification processes quickly so that the Uruguay Round agreements ministers will sign in Marrakesh in April are implemented from the beginning of 1995. This effort needs and deserves the active and urgent support of all those in the business community - and beyond - who live by trade. It will be equally needed to help the infant WTO live up to its promise."

The full text of Mr. Sutherland's speech is attached.

MORE

The New Multilateral Trading System: What is at stake

Address by

Peter D. Sutherland

to the

Swedish American Chamber of Commerce

New York, 3 March 1994

"The Uruguay Round negotiations ended successfully on December 15 last year, but trade has not therefore ceased to be a political priority. Quite the contrary. There is the essential work of ratifying and implementing the Round's results to be done; there is a list of new issues being proposed for the trade agenda, to join the existing problems which still await solutions; and a new outbreak of bilateral trade tensions is putting the achievements of the Round to the test even before they are fully operational. Most of these issues involve one way or another a fundamental choice in the conduct of trade policy: whether to rely more on bilateral or on multilateral approaches and remedies. It is more and more clear each day that the success of the Round - though it has greatly strengthened the multilateral system - has not settled the question definitively.

"This, then, is the question I want to take up today, though I should make it clear at the outset that I am in no doubt about the answer. I am convinced that the multilateral trading system, as embodied in the GATT since 1947, and soon in the World Trade Organization, is one of the great achievements of the twentieth century. It has already proved its worth in promoting economic growth, and the results of the Uruguay Round will lift it to a higher plane of effectiveness as a basis for global economic cooperation. Bilateral - and regional - trade arrangements will of course always be part of the picture, and there need be no necessary conflict with multilateralism. But when any country privileges the bilateral approach over the principles of the multilateral system it runs the risk of weakening that system and the improvements in it that have just been so painstakingly negotiated.

"I am clearly not thinking of the bilateral trading relationship between the United States and Sweden as a high-risk area in this sense. But even an apparently low-key and businesslike relationship like this one, between two highly-developed and friendly countries, can show up the absolute necessity of a strong GATT system. And the same could be said of any other bilateral trade relationship.

"Bilateral arrangements can be inherently discriminatory, in favour of the other partner and against everybody else. They may also lack long-term legal certainty, as in the case of some preferential arrangements applied to trade of developing countries.

"Today we are seeing pressure for bilateral - or unilateral - actions on both the import and the export side. Where imports are concerned a range of familiar concerns - and some new ones - lead certain interest groups to advocate restrictions or penalties. The fear of low-cost imports is a longstanding theme in developed countries, one which ignores the fact that trade is a two-way street. It is being joined by concerns about the social, labour or environmental conditions in developing-country

MORE

exporters - concerns which to many seem like little more than old-fashioned protectionism in a new guise.

"And on the export market side we have a resurgence of the concept of "managed trade". I think this is a misguided and dangerous approach from all points of view, and I would like to make it clear why this is so. I start from the proposition - with which I am sure you will agree - that governments should interfere in the conduct of trade as little as possible because there is no reason to believe they do it better than businesses. Once bureaucrats become involved in managing trade flows, the potential for misguided decisions greatly rises. The extreme version of managed trade, as the Eastern European experience so amply demonstrates, leads eventually to uncompetitive manufacturing and the implosion of living standards.

"Managed trade is damaging to the multilateral trading system in several ways, including the potential for escalating trade conflicts implied by agreements outside the system. Such agreements can only be enforced by the threat of trade sanctions, themselves very often incompatible with the obligations of parties under the system. In addition, it is very difficult to operate quantitative numerical targets for the market share of foreign producers in the domestic market in a manner that effectively gives businesses from all countries equal opportunity - as required by the most-favoured-nation principle.

"These points are all so obvious that they should not need repeating - but they clearly do. They are in fact the reasons why the GATT was set up in the first place, as part of the Bretton Woods structure for international economic co-operation which also included the World Bank and the IMF. They are the reasons why the GATT is founded - as the WTO will be - on a few simple but vital principles. The most basic is non-discrimination. This also means applying most-favoured-nation treatment to all members, and it means treating imported products in the same way as local ones. The rules which give force to these principles are the negotiating framework and the legal guarantee for the collective process of trade liberalization which has fuelled world growth.

"The system that these rules and commitments together make up came into being because total reliance on bilateral trade relations had been tried and had not been adequate. Tried in fact for centuries, during which time trade tensions contributed significantly to countless wars and held back economic development. Previous efforts to rise above the limitations of the bilateral approach were usually based on one country's domination, economic and military, of its neighbours. The reason GATT was such a milestone in international relations is that for the first time a stable system was built on consensus, not on conquest, and on principles of equity and legality.

"This system as it existed from 1947 was admittedly far from perfect. Non-tariff barriers and discriminatory practices remained despite the GATT, or were tolerated by means of exceptions. Some of these involved whole sectors, such as agriculture or textiles. The rules governing the use of subsidies, countervailing duties or anti-dumping measures, were weak and difficult to enforce. The same applied in respect of technical barriers to trade. Major growth areas of international trade such as services and intellectual property were in fact completely outside GATT rules, and thus exposed to arbitrary government intervention and limits on their future growth potential. Furthermore the dispute settlement mechanism was increasingly seen as ineffectual. This reflected the institutional weakness of the GATT itself, which had never been more than an interim body.

"The great achievement of the Uruguay Round is to put most of these defects right, so that the fundamental principles of the GATT system can be applied more effectively across practically the whole of world trade now and in the future. The GATT of 1947 was a far-sighted and wise response

MORE

to the needs of the post-war world; the WTO of 1995 will be a multilateral system for the new century. I am sure it will prove to be every bit as much a launching-pad for prosperity, and stability in international relations, as the GATT has been.

"The decision of 15 December was, above all else, a choice by 116 countries to continue and strengthen their commitment to a multilateral framework for trade. That they could arrive at a commitment after so many setbacks and in a gloomy economic climate says something important about the way the world is changing. It says decision-making on world economic matters must reflect a more multi-polar and diverse community of nations.

"There has been a slow realization of the fundamental changes in the global politics of trade and economics that took place during the seven years of the Uruguay Round. During this period over seventy countries made autonomous moves to open up previously controlled and insulated economies. For many this went hand-in-hand with political liberalization. From being often reluctant participants, many developing countries became the most active supporters of the Round - while some constituencies within the industrial nations who had first pressed for it appeared to have second thoughts.

"Multilateral trade liberalization and strengthened rules became more and more relied on by developing countries as the essential underpinning of their own individual moves to a market economy. Countries in Asia, in Latin America - and in Central and Eastern Europe - who are turning away from import substitution and protectionism are turning to the multilateral system with renewed commitment. For countries whose weight in international politics has not yet caught up with their economic growth, effective multilateral rules and commitments are what stands between them and the law of the jungle.

"Smaller nations thus have far greater weight inside the multilateral system than outside it. This is shown perhaps most clearly when it comes to a trade dispute with a more powerful partner, but it is equally true in trade negotiations. Another of the lessons of the Uruguay Round is that a multilateral negotiation gives smaller countries the possibility of constructing linkages among participants and issues in a way which considerably magnifies their individual leverage.

"So, the great majority of the world's trading nations have made it clear that a weak multilateral system has little to offer them. On the contrary the Uruguay Round negotiations showed that countries were concerned to maintain the fundamental benefits of a strengthened GATT system.

"Nothing shows the worldwide surge in favour of a multilateral approach in trade more clearly than the recent increase in GATT membership and the queue of aspiring members. 24 countries have joined the GATT since the Uruguay Round began and a further 19 - including Russia and China - are in the process of negotiating either accession or resumption of contracting party status.

"All of this adds up to an overwhelming vote in favour of a strong multilateral system. The countries that have made the strongest commitment to multilateralism include those with the fastest-growing economies, the expanding markets of Asia, Latin America and elsewhere which are vital to the G7 countries' hopes of a durable recovery in growth and employment. For any of them, to yield to the temptation to use bilateral actions or discriminatory sanctions to force open markets or limit imports would be to limit their own prospects. You cannot hope to expand trade and restrict it at the same time, and yet it is into exactly this contradiction that advocates of purely bilateral solutions fall.

MORE

"Furthermore, it is only through effective international co-operation based on a strong multilateral system that there is any hope of finding lasting solutions to the urgent problems which are crowding on to the world economic agenda.

"One of the most urgent is development, which I mean in its fullest sense.

"Extending the benefits of economic growth more widely is not just a matter of altruism or even of creating business opportunities - it is one of the essentials for a more stable and peaceful world. The economic situation of Russia and the former Soviet republics becomes more serious every day, and the threats to the continuing development of a market economy and an open political system become more grave. Among other economies in transition, and developing countries too, the victory of liberal principles in trade, economics or politics should not be regarded as irreversible. And so much of Africa remains unable to participate effectively because of a vicious circle of poverty and dependence.

"Unilateral and individual efforts can do, and are doing, much to relieve the immediate crises in such regions. Aid is always likely to have a place as long as there is need. But it is no foundation for long-term development. Trade is. One of the most effective things the industrialized democracies can do to help the efforts that reforming countries are making to help themselves is to encourage their full, rapid integration into the world trading system. The legal security this will give to their reforms and to their place in the world economy, not to mention the economic benefits of improved worldwide trade opportunities, are beyond the scope of even the most powerful individual nation to offer.

"Multilateral agreement is also the only way of interpreting the relationship between trade and the environment that makes sense. Unilateral imposition of one country's norms on others, or the erection of new trade barriers under the banner of environmental protection, is likely to be bad environment policy as well as bad trade policy.

"If the Uruguay Round had failed, taking with it much of the credibility of the GATT system, it would have been understandable that countries might have sought to define these issues on their own terms without sufficient consideration for the interests of others. But the Round did not fail, and the multilateral system will be immeasurably more effective as a result. There is simply no need to go outside it, whether to settle trade disputes or explore new policy areas.

"The new dispute settlement mechanism provides for automatic implementation of its findings, thus removing one of the main criticisms that has been used to justify action outside GATT in the past. The coverage of the rules and the dispute settlement system under the WTO will extend right across trade in goods, in services and in intellectual property. The basis on which a case may be brought is equally broad - certainly broad enough to make it hard to see a problem which would be right outside the system's scope.

"Establishing the WTO means making the multilateral negotiating process a continuous one, rather than having to reinvent it for successive GATT Rounds. This means there will be a permanent forum for addressing new issues and for negotiating consensus on new solutions to old problems. Trade and the environment is already on the WTO agenda, for example.

"Furthermore, as I suggested recently at Davos, the establishment of the WTO, with its comprehensive membership and its wide range of functions, gives an opportunity that the world has not seen in fifty years to improve the framework of international economic co-operation. The belated

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completion of the Bretton Woods structure of IMF, World Bank and WTO can be the basis for turning hopeful words about a new world economic order into reality.

"There are therefore all the reasons in the world to make this great achievement a working, productive reality as soon as possible. The priority now - I would say the top priority on the world economic agenda - is to complete the various national ratification processes quickly so that the Uruguay Round agreements ministers will sign in Marrakesh in April are implemented from the beginning of 1995. This effort needs and deserves the active, urgent support of all those in the business community - and beyond - who live by trade. The support of those most directly involved in trade continues to be crucial to the success of the negotiating process. It will be equally needed to help the infant WTO live up to its promise."

END