

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Consultative Group of Eighteen
Sixteenth Meeting
14-16 October 1981

PROPOSED MINISTERIAL MEETING: BACKGROUND ISSUES

Note by the Secretariat

1. The fifteenth meeting of the Consultative Group of Eighteen, in June 1981, reached the conclusion that "it would be useful to consider at the political level the overall condition of the trading system. There was broad agreement that to this end it would be appropriate for the GATT CONTRACTING PARTIES to envisage convening a ministerial meeting during 1982". Paragraphs 2 and 3 of the press communiqué (GATT/1291)¹ issued after the meeting summarize the considerations leading to this conclusion.

2. The thirty-seventh session of the CONTRACTING PARTIES, in November 1982, will have before it the annual report of the Group to the Council, including an account of the exchange of views in the Group on the proposal for a ministerial meeting. The present note is intended as a contribution by the secretariat to the further discussion of this proposal which the Group agreed should take place at the present meeting. A separate secretariat note (CG.18/W/60) puts forward some considerations regarding procedural issues.

International trade and GATT

3. Over the history of GATT, negotiation and co-operation among its signatories can be seen as having passed through successive phases, in response to changes in the pattern and perceived needs of international trade. Each new phase has required a stocktaking, generally at the political level, so as to arrive at a shared view of the situation, and on the direction of future work of the CONTRACTING PARTIES.

4. Initially, the CONTRACTING PARTIES, reacting to the widespread protectionism of the 1930's and the high trade barriers prevailing in the immediate post-war period, concentrated on the gradual removal of quantitative restrictions and the reduction and binding of tariffs, the traditional barriers to international trade. Subsequently, the CONTRACTING PARTIES had to respond to the situation resulting from the emergence of important regional groupings. Tariff negotiating techniques were modified and extended. By the conclusion of the Kennedy Round in 1967, successive negotiating rounds had led to an impressive lowering of tariffs, and most developed contracting parties had ceased to invoke GATT's balance-of-payments exception to justify quantitative restrictions although restrictions continued to

¹See Annex

be applied in certain areas. The original membership of GATT had tripled, and both the legal structure and the institutional framework of GATT had been adapted to respond more adequately to trade policy issues of concern to contracting parties.

5. With the Tokyo Declaration of September 1973, the scope of co-operation in GATT was greatly extended, particularly in the area of non-tariff measures such as domestic subsidies, technical standards and government procurement. Provisions relating to special and differential treatment of developing countries were written into most of the agreements on non-tariff measures, and, through a decision adopted by the CONTRACTING PARTIES, into the legal framework of the General Agreement itself.

6. While the results of the multilateral trade negotiations were substantial, they did not respond to all the concerns expressed at the time of the adoption of the Tokyo Declaration. When the CONTRACTING PARTIES adopted a new GATT work programme in November 1979 it was therefore natural that they stressed the need, both to ensure a prompt and full implementation of the agreements reached in the Tokyo Round, and to carry forward work in areas where the results of the negotiations did not correspond to the expectations of many contracting parties (such as safeguards, the development of a framework for agriculture, and the trade problems of developing countries).

7. The CONTRACTING PARTIES are now engaged in implementing the Tokyo Round results and carrying forward the GATT work programme of 1979. At the same time, however, new stresses and opportunities have been emerging in international trade relations, and problems of longer standing have become more pronounced. Many have a direct impact on the operation of the multilateral trading system, and thus deserve the attention of the CONTRACTING PARTIES.

8. Many of these trends and problems have been discussed in the meetings of the Consultative Group.¹ The secretariat has explored them in papers submitted to the Group and in its annual report "International Trade". Governments have in the Group and elsewhere drawn attention to their specific new trade problems and will most likely do so again if it is decided to prepare a ministerial meeting. A detailed analysis would be beyond the scope of this paper but some major trends may usefully be distinguished here.

¹ Specific issues raised, in addition to the generally recognized need to maintain the effectiveness of the GATT trading system and to resist protectionist pressures, include trade in agricultural products; safeguards; implementation and possible strengthening of the agreements resulting from the multilateral trade negotiations; trade in services; structural adjustment; restrictive business practices; investment performance requirements; rules of origin; export restrictions and charges; and more generally, a renewed effort to pursue trade liberalization, especially for the trade of developing countries.

Trends in the world economy

9. In retrospect, the year of the Tokyo Declaration can be regarded as a turning-point not only for GATT, but also for the world economy. It saw the abandonment of fixed exchange rates between the major currencies, the end of a long period of low-cost energy, and a cyclical peak in economic activity. The years since 1973 have been marked by disappointing economic growth world-wide; by severe payments difficulties for many countries, and particularly for developing countries which are not oil producers; by high unemployment levels; and by persistent inflation in both developed and developing countries. In developing countries, investment growth was maintained, but only at the cost of heavy borrowing and slower growth in their already-low consumption levels. In most industrialized countries, the share of national income devoted to consumption rose at the expense of growth in productive investment and of labour productivity. In consequence of these factors, there has been a general increase in uncertainty about economic prospects.

10. International trade could not fail to be influenced by these developments. Taken as a whole, its performance has continued to be fairly impressive: in the 1970's, as in the 1950's and 1960's, it has remained among the most dynamic elements of the world economy. The growth in the volume of trade, although sharply lower than in the previous decades, has remained above that of world production, and in consequence the importance of trade in each country's economic activity has continued to increase.

11. Established trends in the broad product composition of trade have in general been maintained. Trade in manufactures has remained the most important product category. Four fifths of exports of manufactures are still accounted for by industrialized countries, although the share of developing countries has risen slightly but consistently, reflecting in particular the success of a fairly small number of countries. The share of agricultural products in trade has continued to fall, and from more than 30 per cent in the early 1960's, and 20 per cent in the early 1970's, is now down to 15 per cent. Developments in services, the sector which now accounts for the largest share of employment in the industrialized countries, have also affected international trade: rapid technological progress has not only stimulated trade in services themselves, but has influenced the form in which many goods are traded.

12. A particular feature of trade in recent years has been the sustained demand for imports by developing countries. Financed by export earnings, external assistance, and significantly increased foreign borrowing, these imports have accounted for a rapidly growing share of total exports of the industrialized countries. The overall surplus of industrialized countries in their trade with oil-importing developing countries grew from \$4 billion in 1973 to \$12 billion in 1980; in manufactures, it grew in the same years from \$24 billion to \$60 billion.

Trends in the GATT system

13. In the face of the economic difficulties of the 1970's, the CONTRACTING PARTIES have remained committed to the framework of rights and obligations established under GATT, and have indeed elaborated and refined it in the multilateral trade negotiations. Nevertheless, there is cause for concern. A number of problems of long standing have not only persisted, but have shown signs of worsening. New problems have also appeared. Difficulties in arriving at agreed interpretations of the GATT rules are increasing, and instances are accumulating in which the GATT disciplines are evaded by resorting to policy measures that fall outside the General Agreement.

14. It is of course true that there have always been imperfections in the operation of the GATT rules. CONTRACTING PARTIES have differed over the application of key provisions, such as those on subsidies and on customs unions and free-trade areas. Some of the GATT provisions - for instance those stipulating the general elimination of quantitative restrictions - have never been fully applied. However, there now appears to be a widespread feeling that the problems have become more numerous and more acute than in the past, and that, if present trends continue, they could undermine the existence of an international trading system based on GATT rules and principles.

15. There are a number of sectors in which difficulties in international trade relations are particularly pronounced. Trade in agricultural products has been subject to widespread restrictions and distortion throughout the lifetime of GATT. Certain GATT rules have been applied with less force for agriculture than for manufactures, and efforts to achieve liberalization have been less successful in this area than in others. The countries that are highly dependent on agricultural exports have made the point with increasing force that they have not shared equally in the benefits flowing from the General Agreement. This may help to explain why, in recent months, the majority of trade disputes brought to GATT have concerned agricultural products, and why agricultural issues have become an increasing preoccupation of the Consultative Group of Eighteen.

16. A second area of long-standing difficulty is trade in textiles and clothing, which has encountered serious problems throughout the post-war period, and of which a large proportion has since the 1960's been regulated by special arrangements involving departure from the rules of GATT.

17. To these persistent problems, others have been added in recent years. Sectoral difficulties have been encountered in trade in steel, automobiles, shoes, consumer electronic products, and certain petrochemicals. Many of these have been handled through bilateral agreements or other actions falling outside the scope of the GATT rules; in particular, only limited use has been made of the safeguard procedures established by Article XIX of the General Agreement.

18. In an increasing number of instances, government actions, taken for domestic reasons, have had a distorting effect on international competition. This is of course a reflection of the greater integration of national economies. Actions have also been taken without full regard to the GATT procedures on notification and consultation, leading to uncertainty about the trade rules that apply, and to concerns over the implications of unilateral or bilaterally-agreed measures for trade flows from third countries. Some contracting parties have also come to feel that certain policy practices and areas of international trade are not adequately covered by existing GATT provisions.

19. A renewal of strong economic growth in the major industrialized economies might be expected to ease the pressures that have given rise to these difficulties. However, it could just as well be argued that a return to growth may depend to an important degree on action being taken to overcome the difficulties themselves. Their accumulation over a long period, even during the multilateral trade negotiations, when the broad thrust of international co-operation in GATT was in the direction of liberalization, must support the judgement of the Consultative Group of Eighteen that "trade relations are beset by a number of complex and potentially disruptive problems, reflecting growing protectionist pressures, and that there is a need for improved international co-operation to solve these problems".¹

20. Studies by the secretariat² have led it to argue that the economic root of most of the trade problems described lies in a failure of the domestic industries concerned to adjust adequately to changing market conditions, and that this reflects a general decline in flexibility in the economies of most industrialized countries. Whether the adjustment difficulties result from rapid technological innovation, from economic growth and change elsewhere, or from domestic policies may be debatable. It is, however, undeniable that the more and more frequent demands of industries that the normal adjustment process of the market be obstructed, through subsidies or import controls, have become a central problem for economic policy. Concern over the proliferation of government aids has led contracting parties to negotiate commitments in such areas as the use of subsidies. The realization that an accumulation of obstacles to prompt adjustment may hamper the growth of the world economy, and the full integration of developing countries into the international trading system, has also led governments to discuss the process of structural adjustment.

¹ Communiqué of 15th meeting of Consultative Group of Eighteen (see Annex).

² See GATT Studies Nos. 4 ("Trading Liberalization, Protectionism and Interdependence") and 5 ("Adjustment, Trade and Growth in Developed and Developing Countries") and International Trade, annual issues from 1975 onwards, especially International Trade 1980/81.

21. The costs of a deterioration in international trading conditions are high for all contracting parties, particularly because of the investment-inhibiting uncertainty it produces. At a time of growing financial difficulty, this situation is of special concern to developing countries. Better and more secure access to export markets is important to their growth prospects, and hence also for their possibilities of providing markets for the exports of the industrialized countries.

22. A major element of uncertainty is the safeguards issue, still unresolved eight years after the Tokyo Declaration called for an examination of the adequacy of the multilateral safeguard system. In the continuing absence of agreement on this issue, bilateral ad hoc settlements are increasingly used, depriving contracting parties of the protection that general rules provide, and setting undesirable precedents. This, besides showing the urgent need to settle the safeguards issue itself, underlines the importance of efforts to maintain and improve the effectiveness of the GATT system in general.

Conclusion

23. The foregoing review supports the conclusion that there is need to provide an opportunity for those responsible for GATT at the political level to carry out a new stocktaking, so as to arrive at a common assessment of the situation and a shared commitment to an appropriate response to this situation by the CONTRACTING PARTIES. Such a stocktaking could also give a decisive stimulus to work in progress in GATT, and help to develop considered approaches to concerns which have already been identified and to tasks that lie ahead.

ANNEX

FIFTEENTH MEETING OF THE CONSULTATIVE
GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its fifteenth meeting on 25 and 26 June 1981 in Geneva. The Chairman was Mr. Arthur Dunkel, Director-General of GATT.
2. The Group continued its discussion of the implications for the world trading system of the worldwide slow-down in economic activity and the trade tensions associated with it. It noted the continuing efforts of governments to resist protectionist pressures and to maintain liberal trade policies. Nevertheless some contracting parties had considered it necessary to introduce or intensify restrictive measures, and pressure for bilateral arrangements to regulate imports in specific sectors had grown. The Group noted that the trade and payments situation of many developing countries continued to give rise to concern and necessitated their fuller participation in world trade. In reviewing current and forthcoming negotiations in the GATT, the Group gave particular attention to the renegotiation of the Multifibre Arrangement.
3. The Group stressed the importance of a strong political commitment on the part of governments to the maintenance of liberal trade policies and the improvement of the multilateral trading system. They agreed that the conclusion of the Tokyo Round of multilateral trade negotiations had strengthened the framework for the conduct of international trade and that the highest priority should continue to be given to the effective and faithful implementation of the Tokyo Round agreements. The Group noted the continuing efforts to reach a satisfactory agreement on outstanding issues such as the use of safeguard measures. However, the Group also noted that trade relations are beset by a number of complex and potentially disruptive problems, reflecting growing protectionist pressures, and that there was a need for improved international co-operation to solve these problems. The Group agreed that it would be useful to consider at the political level the overall condition of the trading system. There was broad agreement that to this end it would be appropriate for the GATT Contracting Parties to envisage convening a ministerial meeting during 1982. Adequate preparation for such a meeting would be essential, and for this purpose an analysis would need to be carried out of the issues confronting the trading system and of the trends and problems likely to emerge in the 1980s. The Consultative Group of Eighteen intends to pursue its discussion at its next meeting, with a view to facilitating the task of the Contracting Parties.
4. The Group also continued its exchange of views on trends in international trade in agricultural products, and reviewed progress in the implementation of the results of the Tokyo Round negotiations.
5. The next meeting of the Consultative Group of Eighteen will take place on 14-16 October 1981.