

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

CG.18/W/77

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Special Distribution

Consultative Group of Eighteen  
Twenty-second meeting  
19-20 October 1983

## MEETING OF 19-20 OCTOBER 1983

### Opening Remarks by Chairman

At the twenty-second meeting of the Consultative Group of Eighteen it was requested that the preliminary remarks of the Chairman on the first item of the agenda - Trade Policy and the International Financial System - should be circulated in document form. The Chairman's remarks appear below.

#### Item 1 - Trade Policy and the International Financial System

1. It was agreed at our last meeting that the Group should return to the question of the relationship between trade policy and the international financial system, and I undertook that the secretariat would produce a second paper on the subject. We thought that it would be particularly helpful to go into somewhat more detail on the institutional questions which were only lightly touched upon in CG.18/W/74. This second paper has now been circulated as CG.18/W/76. It is shorter than the previous paper because we did not have a great deal to add to the economic analysis which the earlier paper contained. The first chapter of the secretariat's Annual Report for 1982/83, which has been published as GATT/1340, also deals with some of these issues and I am assuming that you will all be familiar with that. Copies are available in this room.

2. All of these documents have a common and basically simple message. It is that the crisis afflicting the trade and financial systems cannot be resolved in the absence of trade recovery on a major scale, and that this in turn will not happen unless positive steps are taken to remove the negative effects of trade policy measures and initiate a process of liberalization. Nothing of this is new. The same message was contained in the Ministerial Declaration of last November and it has been repeated since then in one international forum after another, notably at the Williamsburg Summit. Yet throughout this year the trading environment has failed to improve and in my contacts with politicians and businessmen I find that the general expectation, despite the pronouncements of governments, is that it is not likely to do so.

3. This paper does not suggest, and the GATT has never suggested, that trade liberalization is a sufficient condition for resolution of the financial crisis. But it is a necessary condition. All countries must, in the medium-term, be enabled to service their debts and resume growth by expanding

exports. It is difficult to see how the redressment of the trade balances of the most indebted countries through a reduction of imports could be carried much further without severe structural damage to their economies and heavy repercussions on the exports of their trading partners and on the prospects for general economic recovery. In the immediate future dealing with the debt crisis must be largely a matter of arranging the necessary financial flows. Trade policy measures cannot be effective in this time-frame - except in one very important respect: if the world's business circles were really able to believe that governments were determined to restore the health of the trading system, the immediate effect on confidence and investment could be substantial. This is the main link, in the short term at least, between trade policy and an improved functioning of the macro-economic environment.

4. Just now I mentioned the possible effect of trade measures on the restoration of business confidence; perhaps nothing could be more valuable in this respect than an improvement of trade relations between the major trading countries, particularly if this helped to produce agreement on some of the basic rules of the game, notably in relation to subsidies and agriculture. Talk of trade war between the major powers, however unlikely that prospect is in reality, must add to uncertainty.

5. I hope we may come to specifics later, but there is an important and delicate point which I feel I should make now. In nearly all discussions of the debt crisis and the possible rôle of trade policy in alleviating it, attention has focussed, quite naturally, on the difficulties of the most indebted countries and on what might be done to help them directly. The same tendency is visible in our own papers, including CG.18/W/76 and, as I said, it is natural: too often, it is only through crisis that we are brought to recall the fundamental relationships like that between finance and trade. But it is extremely important that in trying to solve the temporary crisis of indebtedness we avoid doing long-term damage to the international trading system, which must continue to function efficiently long after the debt crisis is past. The most essential characteristic of an efficient trading system is that it should be multilateral. Bilateralism in any form distorts trade flows and reduces efficiency.

6. The implication of what I am saying is that even if the most pressing concern of the moment is the desire to alleviate the problems of the most indebted countries, the benefits of any trade concessions made should be multilateralized through the MFN principle. This is, of course, the way in which the process of liberalization in GATT has always proceeded: negotiations between small groups of countries - for example, principal suppliers and importers of particular products - have resulted in multilateral benefits through the operation of the MFN clause. It is therefore possible for the trade system to contribute to the resolution of the financial crisis, even in the short- to medium-term, without compromising its essential character. This is why, although Part I of this paper pays particular attention to the problems of the most heavily indebted countries, all the operational proposals in the second part of the paper are intended to apply to all developing countries without distinction.

7. We thus come back to the old dichotomy between words and acts. Further declarations, ministerial or otherwise, will have no measureable impact. The question is whether anything can be done to bring governments to act. This does not necessarily imply the start of a major round of negotiations, (though it is certainly true that the value of any limited steps taken now would be much enhanced if they would be seen in the context of a longer-term effort to redress the trading situation). But the GATT is a permanent negotiating forum, as Ministers recognized last November. This is why, in the paper now before you, we have referred to the consultations on Part IV of the GATT and the consultations with developing countries in the Balance-of-Payments Committee as fora in which the political will to contribute to the resolution of this crisis can find practical expression.