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GENERAL AGREEMENT ON TARIFFS AND TRADE

Consultative Group of Eighteen
Eleventh Meeting
3-4 March 1980

NOTE ON THE ELEVENTH MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

3-4 March 1980

Introduction

1. The Consultative Group of Eighteen held its eleventh meeting on 3-4 March 1980. An annotated provisional agenda was circulated in document CG.18/W/36 and a list of participants in document CG.18/INF/11.

Agenda

2. The Group adopted the following agenda:
1. The trade policy aspects of the North-South Dialogue
 2. Structural adjustment and trade policy
 3. Other business

Opening remarks by the Chairman

3. The Chairman recalled that the Council, at its meeting of 22 November 1979, had accepted the recommendation by the Group that it be established as a permanent GATT body. He said that he was happy about this decision because he was convinced that the Group had an important rôle to play in dealing with the dangers and challenges that were likely to arise in the world trading system in the 1980's as a result of protectionist pressures, the implementation of the Tokyo Round and the growing interdependence of national economies. The CONTRACTING PARTIES expected the Group to contribute effectively to the solution of these problems, as their decision to put the Group on a permanent basis showed.

Item 1 - The trade policy aspects of the North-South Dialogue

4. In introducing this item the Chairman said that the trade policy aspects of North-South relations were presently being discussed in many different fora. It was necessary for the GATT to determine which contribution it could make to

the North-South Dialogue. He pointed out that the secretariat had prepared a brief overview of the discussions in various international bodies, which had been sent to the members of the Group as document CG.18/W/38. He concluded by saying that the raison d'être of the GATT was to solve concrete problems rather than to exchange views on abstract ideas and that the members of the Group could usefully focus on specific trade-related problems in North-South relations that can be pursued in the GATT.

5. Several members said that GATT's presence at the North-South Dialogue was essential. The GATT should follow the Dialogue closely so that it could adjust its activity accordingly and it should assist it by making available its bank of data, the studies it had undertaken, the experience it had gained in negotiating tariff reductions and the codes, and its effective negotiating machinery.

6. Other members cautioned against a duplication of GATT work in the United Nations. The GATT should remain the main forum for negotiations on trade matters. It should be made clear in the forthcoming global negotiations that the GATT had successfully liberalized trade during the past three decades, that it was the body with the authority, expertise and experience to deal with specific trade matters, and that its work programme was a positive contribution to the North-South Dialogue. GATT's non-universal membership did not really limit the range of subjects that it could take up, as evidenced by the fact that non-contracting parties had in fact been able to participate in the work of the GATT in specific areas of interest to them. One member said that while the GATT should indicate its willingness to deal with all trade policy matters that might be considered important in the global negotiations, it would be preferable if it took up these matters before it was asked to do so by others. Another member added that the best way to ensure that matters under the jurisdiction of GATT were not discussed elsewhere was to deal with them effectively in the GATT.

7. Several members stressed that efforts should be made to avoid that trade matters were discussed in inappropriate fora in inappropriate ways. What would happen, asked one member, if the discussions on safeguards were to drift into the United Nations? Might this not lead to a resolution which possibly satisfied political considerations but which lacked practical elements considered essential by trade experts? The point was made in this context that the members of the Group, as senior trade policy officials, had the responsibility to ensure that there was consistency between what was said in the GATT and what was going to be said in the global negotiations in New York.

8. A number of comments were made on the specific contributions the GATT could make to the North-South Dialogue. One member said that the GATT could contribute by giving greater attention to three closely interrelated subject areas: (1) the further liberalization of trade in products of interest to the developing countries, (2) safeguards, and (3) structural adjustment. As to the further trade liberalization, the first step might be to identify sectors of particular importance to developing countries and types of trade policy measures particularly affecting developing countries' exports, such as illegal quantitative restrictions and tariff escalation. In the area of safeguards the negotiations should be pursued further with special attention to the interests of the developing countries. Structural adjustment was the final aim of GATT's liberalization efforts and it would therefore be appropriate if the GATT were equipped with a forum that would facilitate the exchange of information on structural adjustment, the adoption of basic principles on adjustment policies, and the establishment of notification and consultation procedures. Other members proposed the implementation of the Enabling Clause and the working of the special code provisions on developing countries as additional subjects for the North-South Dialogue. One member said the discussions on trade in services should now be moved to a forum accessible to developing countries.

9. There was general agreement in the Group that the discussions on safeguards should be pursued vigorously in the GATT. One member said that a compromise should be found between the desire for selectivity on the one hand and the desire for checks and balances to ensure that selectivity is not abused on the other. In the view of another member the objective was to ensure that safeguard actions were not arbitrarily taken and that there was a committee in which big and small trading partners were ensured objective and equitable treatment. One member said that if the matter was not pursued in the GATT it would be taken up elsewhere with results that would be less expert and less fortunate. Other members agreed that a great effort should be made to avoid that the issue became politicized. This could be achieved if the issue was resolved in the GATT before the agreed deadline of 30 June 1980 and the beginning of the global negotiations.

10. The Group discussed in some detail the concept of graduation. One member said that graduation was sometimes proposed as a legal principle to govern North-South trade relations. Graduation in this sense was unacceptable because it implied the possibility of arbitrary discrimination between developing countries. Another member stressed that the structural differences within the group of the developing countries were much smaller than between the developed countries on the one hand and the developing countries on the other. This reality should not be blurred by the use of the concept of

graduation. The view was expressed that the graduation principle was not necessary to ensure that the developing countries assumed more obligations as their economies advanced. One member pointed out that his country had liberalized its trade autonomously and without external pressure as soon as its foreign exchange position had permitted it to do so.

11. For other members there was a political reality behind the concept of graduation which could not be ignored. Protectionist demands could not be refuted easily if industrialists complained not only that they were hurt by the imports from the more advanced developing countries but also that they were not able to export to them. These countries therefore shared the responsibility of making the international trade order work. One member said that for him graduation was a process in which developed countries absorbed more exports from developing countries, thus promoting their industrialization and thereby enabling them to absorb more exports from the developed countries.

12. The participation of developing countries in the codes negotiated in the MTN was referred to by many members of the Group. It was widely agreed that efforts should be made to ensure that as many developing countries as possible join the codes. The codes were the centre-piece of the evolution of the trading system in the 1980's, one member said. The more countries adhered to them, the better they could be implemented and help prevent protective or arbitrary actions. The General Agreement could only succeed through a wide sharing of responsibilities and this applied also to the codes. Some members doubted that the implementation of the codes and their wider acceptance should be a major subject in the North-South Dialogue. The codes first had to be adapted in the GATT to the needs and possibilities of the developing countries. Several appeals were made to the signatories of the codes to ensure that conditions were created which enabled the developing countries to join. There was general agreement in the Group that the GATT had the duty to inform the developing countries of the advantages of the codes and to instill confidence in them.

13. Several members stated that the North-South Dialogue, and North-South relations generally, would benefit from more, and more widely publicized, factual analyses by the GATT secretariat. They pointed to recent GATT and OECD studies which had shown that the developed countries' economies had undergone substantial structural adjustments which had made room for developing countries' exports, that increased imports had not resulted in the demise of industries in the developed countries but only in their greater specialization, and that the overall trade impact of the newly industrializing countries had been relatively small. More analyses of this kind would assist policy makers in resisting domestic political pressures and would help the members of the Consultative Group in steering the North-South Dialogue on a responsible course.

Item 2 - Structural adjustment and trade policy

14. On this agenda item the Group had before it a discussion paper on adjustment policy prepared by the secretariat (CG.18/W/37) and a paper distributed at the request of Ambassador K.G.A. Hill, alternate member from Jamaica (CG.18/W/39).

15. The Chairman introduced the discussion under this agenda item by pointing out that the issue of structural adjustment was discussed in a number of fora, including the UNCTAD and the OECD, and might also be taken up in the global negotiations on international economic co-operation for development to be launched in August by a Special Session of the United Nations General Assembly. The task of the Group was in his view to determine how the GATT should approach the problem of structural adjustment in the context of the CONTRACTING PARTIES' continuing efforts to maintain and further improve trade liberalization. The Chairman concluded by drawing the attention of the Group to Ambassador Hill's paper.

16. At the outset of the Group's discussion one member noted that the discussions of senior officials on structural adjustment in various international fora should not lead anyone to believe that something new and spectacular had been discovered. There had always been structural adjustment; in fact, structural adjustment was inherent in economic growth.

17. It was recognized by members of the Group that the potential rôle of the government in the adjustment process depended on the economic system and the underlying economic philosophy. In some systems the government could purposefully intervene in the economy to promote adjustment; in others it could only set a broad policy framework conducive to adjustment. It was pointed out that the GATT membership comprised the whole spectrum of economic systems and philosophies: some contracting parties had centrally planned economies, others relied mainly on the market mechanisms. These differences had to be taken into account in GATT's approach to adjustment problems. In this context one member observed that, while the market economy countries tended to become more interventionist, the centrally planned economy countries were making greater use of the market mechanism.

18. One member stated that the economy of his country was in principle based on the market and free enterprise, but his government did attempt to indicate in broad conceptual terms the desirable orientation of the economy and to encourage industries to move in that direction. He thought that his government had on the whole been successful in this endeavour. Another member said that the idea that a government could predict the future of industries and then restructure them accordingly was certainly tempting. But in his view this required a foreknowledge and powers of intervention that at least his authorities did not possess.

19. Several members of the Group insisted that structural adjustment should not be seen solely as a North-South issue. Structural adjustment was part of a worldwide process affecting all countries, in the North and the South, and the East and the West. It would therefore be inappropriate to discuss the issue only with developing countries' interests in mind. Other members thought that what was new about the issue and what had given rise to its discussion in international fora was its North-South aspect. The issue should be seen primarily against the background of the industrialization of the developing countries and the complementary structural adjustments required in the developed countries. From that perspective the visible signs of progress in structural adjustment were a rise in the share of the developing countries' trade in manufactured products and a decline in safeguard action by developed countries against developing countries' exports.

20. Some members observed that, in a market economy, the adjustment process could be slowed down through protective measures but its acceleration could not be legislated or mandated. One member thought that this was contradictory: if a government had the power to delay adjustment, for instance by granting subsidies to an industry in distress, it could use that power also to speed up adjustment. The task the international community was facing now was to deliberately accelerate the adjustment process in the developed countries for the benefit of the newly industrializing nations.

21. Several members pointed in this context to the social and political factors that determined the speed with which adjustment to external competition could take place. One member said that governments were now widely expected to play a positive rôle in maintaining employment opportunities and income levels. In playing this rôle they were often exposed to protectionist pressures. The issue of structural adjustment should be approached with an awareness of the need for governments to join their efforts in dealing with these pressures.

22. It was emphasized in the Group that structural adjustment was not only prompted by changes in the pattern of foreign trade induced by shifts in comparative advantage. Capital flows, investments, technological innovation, inflation and taxation policies were among the other factors involved. Several members, while welcoming the secretariat paper, believed that it had failed to take the non-trade factors into consideration.

23. Some members stressed that much could be done to improve the flow of information on structural adjustment both between and within nations. Governments should inform each other on pressures building up in particular sectors and on the political constraints that they faced in dealing with such pressures. The meetings of the Group gave its members the opportunity to exchange such information informally. Governments should also inform the public in their own countries of the advantages of adjustment. The public should be made aware of the fact that the burden of adjustment was temporary

and limited to specific sectors whereas the advantages accruing to the consumers and to other sectors were permanent. Structural adjustment should be projected as a both inevitable and beneficial process. Such information efforts would help mitigate the resistance to adjustment.

24. It was widely agreed that the rules, procedures and negotiating mechanisms of the GATT enabled governments to join their efforts in dealing with domestic pressure groups demanding that structural adjustments be avoided or delayed through protective measures. In this way the GATT was furthering the international adjustment process and this should continue to be its main contribution. However, opinions in the Group diverged as to the question of whether the GATT should take additional actions aimed at the deliberate acceleration of the adjustment process in specific sectors. One view was that the GATT should play an active rôle in promoting adjustment. The alternate member from Jamaica proposed that the GATT secretariat establish a list of sectors which had become or were likely to become sensitive to changes in the pattern of world trade, that information on governmental measures to facilitate structural adjustments in these sectors be collected, and that recommendations with regard to the sensitive sectors and the governmental adjustment measures be made (cf. CG.18/W/39). Another view was that such a refined and formal approach to adjustment problems would be counter-productive. Any attempt to agree internationally on targets for the restructuring of industries would tend to provoke demands for protection. Even a modest step in this direction, such as the listing of industries sensitive to changes in the pattern of world trade, would have this effect. Some members said that the final aim of all GATT negotiations was to arrive at contractual undertakings; it was difficult to see how this aim could be reached in the context of positive adjustment measures.

25. Different views were expressed on the forum in which questions of structural adjustment should be discussed. One view was that such questions were best discussed informally either in bilateral contacts between capitals or between members on the occasion of the meetings of the Consultative Group. Other members thought that a formal framework to discuss adjustment issues should be established. The alternate member from Jamaica proposed that a Committee on Structural Adjustment be established which would be open to contracting parties and developing countries participating in the work of the GATT (cf. CG.18/W/39). Other members thought that the Committee on Trade and Development should deal with the issue, perhaps by reviving its Group of Experts on Adjustment Assistance Measures which had not met since 1972. A third proposal was that the Council establish a Working Party. This was suggested by members who strongly felt that structural adjustment was not merely a North-South issue and should therefore not be discussed exclusively in bodies concentrating on developing countries' interests. They thought that the Committee on Trade and Development might discuss the matter but it should not be the sole GATT body in charge. In this context the point was made that, in the choice of the forum, it should be taken into account that structural adjustment problems affected both industry and agriculture and that the interests of agriculture dependent economies should not be overlooked.

26. The Chairman concluded the meeting by saying that the Group should continue its discussion at its next meeting, with a view to carrying out the task conferred upon it in the GATT Work Programme, namely to advise the Council, and through it the Committee on Trade and Development, on the modalities for carrying out further work in the area of structural adjustment and trade policy. The Group's discussions might then possibly be based on Ambassador Hill's submission (CG.18/W/39) and a further secretariat paper written in the light of the comments made at this meeting.

Item 3 - Other business

27. Secretariat report to the Committee on Trade and Development. The Group authorized the secretariat to give a short oral report on the Group's discussion on structural adjustment to the Committee on Trade and Development at its meeting on 6 March 1980.

28. Date of next meeting. The Group decided that it would meet again on 15 and 16 July 1980 beginning at 3 p.m. on the 15th.