

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

CG.18/22

11 November 1983

Special Distribution

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

NOTE ON THE TWENTY-SECOND MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-second meeting on 19-20 October 1983. The annotated provisional agenda was circulated in CG.18/W/75 and the list of participants in CG.18/INF/23.

2. The agenda was as follows:

1. Trade Policy and the International Financial System
2. Implementation and present state of the Ministerial Work Programme
3. Other Business

Item 1 - Trade Policy and the International Financial System

3. The Group had before it a paper on this subject by the GATT secretariat (CG.18/W/76), the first part of which dealt with trade policy and the international financial system, and the second part with action in the GATT framework including cooperation between GATT and the multilateral institutions. The Group also had before it the first chapter of the secretariat's report, International Trade 1982/83 (GATT/1340).

4. Introducing the discussion, the Chairman said that the crisis afflicting the trade and financial systems could not be resolved in the absence of trade recovery on a major scale, which would not happen unless positive steps were taken to remove the negative effects of trade policy measures and initiate a process of liberalization. Trade liberalization was a necessary but not a sufficient condition for the resolution of the financial crisis. There was little scope for further reduction of imports by indebted countries without severe damage to their economies and to the prospect of general recovery. In the immediate future, dealing with the debt crisis was largely a matter of arranging the necessary financial flows. In this time-frame the main effect of measures aimed at restoring the health of the trading system would be on business confidence and investment, and here an improvement of trade relations between the major trading countries would make a major contribution. In nearly all discussions of the debt crisis and the possible role of trade policy in alleviating it, attention had been focussed, perhaps inevitably, on the difficulties of the most indebted countries and on what might be done to help them directly. But it was extremely important that in trying to solve the temporary crisis of indebtedness, long-term damage to the international

trading system be avoided. The most essential characteristic of an efficient trading system was its multilateral character. Bilateralism in any form distorted trade flows and reduced efficiency. Therefore, the benefits of any trade concessions made should be multilateralized through the MFN principle. This was why all the operational proposals in the paper were intended to apply to all developing countries without distinction. The paper 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 the crisis could find practical expression. The Chairman's opening remarks have been circulated in CG.18/W/77.

5. After a thorough examination of CG.18/W/76, members generally supported its analysis of the linkages between trade and finance. They also gave broad support to the paper's proposals for adapting the work of certain GATT committees to take greater account of these linkages. There was complete agreement that efforts to solve the problem of indebtedness should be pursued in a manner that safeguards the integrity of the multilateral trading system.

6. Some members considered that the latter point was not brought out with sufficient clarity in the secretariat paper. While they agreed with the principle of closer cooperation between the IMF and the GATT, these members also warned that the secretariat should avoid any direct involvement in negotiation between the Fund and indebted countries on the liberalization of their trading régimes or which could be seen as monitoring their fulfilment of standby agreements negotiated with the Fund. The point was also made that many debtor countries had already stretched their resources to the limit and were simply unable to increase imports further, so that additional liberalization by them would merely lead to a shift of imports from capital to consumer goods. With this in mind, one member suggested that, as a first step, developed contracting parties might agree to a standstill on trade restrictive measures between themselves and to roll back restrictions by them affecting developing contracting parties, while for their part developing countries should agree to a standstill on measures affecting developed contracting parties.

7. One member said that whereas in the current economic situation the GATT might have been expected to bring a positive influence to bear on the perceptions of the international financial institutions as regards the position of developing countries, the opposite seemed to have happened; this was reflected in the excessive attention paid to problems and trade policies related to the servicing of debts in the secretariat paper. For debtor countries, as for other developing countries, the problem was not simply repayment of debt but the continuation of economic development. To urge trade liberalization now, if it merely brought about the substitution of capital goods imports by consumer goods, would be to nobody's benefit. The paper also strayed outside the competence and the contractual framework of the GATT in dealing with such issues as investment policy and creditworthiness. Since surplus countries also had an obligation to contribute to the restoration of equilibrium, their policies also should be examined in the GATT, and this should have been reflected in the paper.

Another member agreed that the burden of adjustment had to a large extent been shifted from the strong to the weak through the operation of such factors as high interest rates, exchange rate instability and debt repayment conditions.

8. It was however suggested by a number of speakers that opposition to any development or change in the activities and responsibilities of GATT risked stifling the organization and would reduce the benefits all contracting parties could derive from it.

9. Another member said that in his view the problem of indebtedness resulted largely from misguided policies pursued by debtor countries, though their situation had certainly been exacerbated by the current economic environment. In this emergency austerity programmes involving reductions of imports - and hence of exports from other countries - were probably inevitable, though restriction of trade could not be the right way to restore long-term equilibrium. Debtor countries could make an important contribution to their own economic recovery by creating a favourable climate for private investments from overseas and at a later stage it would be very much in their interest to pursue trade liberalization policies, in order to ensure that their industries remained competitive.

10. One member said it would be useful to analyze in quantitative terms the possible impact of trade liberalization on alleviating the debt problem. He and another member also stressed the importance of agriculture in the process of international economic adjustment. A meaningful liberalization must cover both industrial and agricultural products. One of these members said that his own country had been moving steadily to make its economy open to competition. He expressed the hope that other countries would do likewise as everyone would gain from such a process. Increased transparency, particularly in the agricultural sector, would greatly facilitate the process.

11. In a discussion of the possibility of further trade liberalization in the short and medium term, several members expressed doubt as to the ability of countries in chronic deficit to participate in such a process, particularly so long as existing GATT obligations were not fully respected. These included the special obligations of developed countries towards developing contracting parties. Other members maintained that in the light of the multilateral principle and in order to secure for their own economies the efficiency gains deriving from the open trading system, all contracting parties should contribute to the liberalization process to the degree permitted by their economic circumstances.

12. Other members stated that further opening of markets would depend in part on the pace of world economic recovery. They could not at this time commit themselves to significant steps towards liberalization in isolation from what others did. The pace, and the political and social costs, of restructuring in their traditional industries were already very high, but nevertheless access to these markets for developing countries was being maintained and very large trade deficits with the most indebted contracting parties were being absorbed. It was suggested by others, however, that debate about whether recovery or liberalization should come first would be unproductive. Liberalization would in itself contribute to recovery by increasing efficiency of resource allocation in both debtor and creditor

countries. There was clearly a need for increased coordination at the national level between trade and finance ministries, so that the effects of factors contributing to the current crisis, such as excessively high interest rates and currency disequilibrium, could be properly appreciated and the necessary action taken.

13. One member informed the Group that in the coming days his authorities would announce the implementation of an important series of measures aimed at stimulating economic activity and facilitating access to its domestic market. Another member said that his country had also been pursuing autonomous policies of trade liberalization, with the result that in the last five years imports had increased threefold while exports stagnated. Now, confronted with a \$US 3 billion deficit, they had no option but to subsidize certain exports.

14. Another member said that trade liberalization could perhaps contribute more quickly and directly to general recovery than most other remedies. Even in the short term its psychological effects would be important. His own country was making a substantial contribution to recovery elsewhere by deliberately refraining from action to reduce a trade deficit likely to reach \$US 100-115 billion next year. They were also willing to liberalize further, but could not act alone: it would be impossible to obtain the necessary parliamentary authority unless it could be demonstrated that all sides, including major developing countries, were willing to participate.

15. Turning to the question of cooperation between the GATT and the multilateral financial institutions, several members noted that some contracting parties were strongly opposed to IMF conditionality, and consequently felt that GATT should in no way act as the monitoring arm of the Fund. The point was made that if it were a question of ensuring that commitments undertaken in IMF arrangements were not inconsistent with GATT, it was open to contracting parties, by the reverse notification of trade measures or by recourse to Article XIII, to raise these issues in the GATT.

16. It was agreed that contacts between the GATT and IMF Secretariats should be more regular and systematic, but that care should be taken to stay within the respective spheres of competence of each institution. Some members felt that the GATT secretariat could assist borrowing countries by making the Fund more aware of the trade problems facing them, and by trying to orient the Fund's recommendations as far as possible in the direction of export expansion rather than import restriction. In response to a suggestion that the secretariat might give technical assistance to borrowing countries, the Chairman undertook to consider the possibility but pointed out that any contracting party could seek the advice of the secretariat at any time.

17. One member said that in his opinion the IMF had become a victim of its own orthodoxy; there were doubts as to whether its prescriptions really contributed to balance-of-payments equilibrium. It was suggested in reply that if this were true, the case for closer cooperation between GATT and IMF as a means of inculcating the reality of trade problems, was strengthened. Another member added that the desirability of establishing more formal, as well as more regular, links with the Fund should be further studied.

18. In reply to a question concerning cooperation between the GATT and the World Bank, the Chairman recalled that there was no institutional link between GATT and the Bank as there was with the IMF, but he said that informal contacts were increasing between the two secretariats and a seminar on GATT by senior GATT staff would be held in the Bank in the near future.

19. In discussion of the possibility of holding joint meetings between the CG.18 and the Group of Twenty, as had been proposed by the Chairman of the Bank/Fund Development Committee, some members expressed support for the idea. The Chairman noted that if they were to be of practical use, such meetings would require very thorough and precise preparation. He added that the next meeting of the Development Committee was expected to be devoted to the link between trade and finance.

20. The Annex to CG.18/W/76 contains proposals concerning the work of the Balance-of-Payments Committee and the Committee on Trade and Development. These received a wide measure of support, but some members felt that it would be wrong to over-emphasize the rôle of the trade policies of countries consulting in the BOP Committee in promoting development and the efficient use of resources. It was generally agreed that the Committee should pay more attention to the impact on consulting countries of trade restrictions maintained by other contracting parties. It was noted that paragraphs 11 and 12 of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes were relevant here. One member said, however, that there could be no obligation for the consulting country to notify trade liberalization measures taken under IMF arrangements, as suggested in paragraph 3 of the Annex to the secretariat paper. The only legitimate question was whether the contracting parties concerned were observing GATT rules. The Chairman commented that the secretariat was not suggesting that there should be notification in the legal sense, which would imply an obligation to notify, but rather the voluntary submission of information as a means of ensuring fuller recognition of their liberalization efforts.

21. One member suggested that developing countries in severe balance-of-payments difficulties should be allowed certain departures from GATT obligations - for example, by subsidizing exports without provoking countervailing measures. Another member said that while the Balance-of-Payments Committee might have a rôle in identifying possible remedies for the problems of developing countries, he would prefer to rely on the preventive functions of the Committee on Trade and Development.

22. It was agreed that the Chairman should suggest to the Chairman of the Balance-of-Payments Committee that the proposals made in the Consultative Group be considered by the Committee itself and that perhaps some specific suggestions could be submitted to the Council before the next meeting of the Group.

23. Members welcomed the creation in the secretariat of a Trade Policies division. It was noted that the question of secretariat resources might have to be addressed in this connection.

24. In his concluding remarks, the Chairman said that the Consultative Group had touched upon some very sensitive areas of policy which required better co-ordination not only between international institutions but also between interested ministries in the different capitals. All members had

agreed that the trading and financial communities were more than ever interested in trade expansion and in a predictable and solid trading system. There was also a wide consensus in the Group that the expansion of trade could be a key contribution to the world recovery and in particular to the recovery of those countries which were in a difficult debt situation. But in terms of the need to increase the flow of financial resources this was only part of the whole picture. The Group had regarded two points as essential. The first was that great care should be taken not to infringe the principle of multilateralism which was the basis of the GATT; the second, that trade problems and trade negotiations should be dealt with under the aegis of the GATT. All members had recognized the fact that through its standby or other arrangements, and in particular through its surveillance activities under Article IV of the Articles of Agreement, the Fund looked at the general economic policy its members, and that this included trade policy. As regards the improvement of GATT/Fund cooperation, there had been support for the improvement of communication, to ensure that the Fund was fully aware of trade policy problems and better able to take full account of the external trading environment facing debtor countries. The GATT secretariat could give technical support to the Fund but at this stage could not envisage a different approach. In order to maximize its own contribution the secretariat should pursue its normal activities - identifying trade problems, defining possible solutions and helping in their implementation. With regard to synchronization of Balance-of-Payments Committee consultations and Fund consultations, the Chairman said that this might be very difficult to arrange in practice, but if it proved possible it could provide better information on the trade policies of the consulting countries, and on any moves towards trade liberalization by these countries. This would help them to get full credit for such moves, but he reasserted that there was no question of GATT monitoring commitments under IMF standby or extended arrangements.

25. In response to a specific question, the Chairman said that the background papers prepared for consultations in the Balance-of-Payments Committee could be extended to include the trading environment facing the consulting country. The secretariat would concentrate on facts and not attempt to pass judgement on any contracting party's policies, but in accordance with normal practice it would present such papers on its own responsibility.

26. To a question by a member who feared that providing information to the Fund's staff and not to the consulting country might be prejudicial to the country's interests if, as a result of the information provided, the Fund were to demand stricter conditions than would have otherwise been the case, the Chairman said that in his view the briefing of Fund staff would not create such prejudice. The purpose was to allow the Fund to make an accurate and complete assessment of the trade situation of the consulting country. The role of the secretariat was to try and promote liberalization and expansion of trade, not its restriction.

27. One member said in this connection that the GATT should be careful, throughout the process of information exchange, not to invite the Fund to involve itself in trade disputes between contracting parties, or take positions on them.

28. The Group agreed to keep this item on its agenda for the next meeting.

Item 2 - Implementation and present state of the Ministerial Work Programme

29. The Chairman said that the work programme adopted by Ministers in November 1982 was at the half-way stage and it therefore seemed appropriate to consider whether this work was on course for a satisfactory outcome at the 1984 Session. The work programme represented the result of a major effort by the CONTRACTING PARTIES to counteract what was seen as a dangerous and perhaps critical threat to the world trading system. Nobody was entirely satisfied with this as the main product of the Ministerial meeting but it was generally agreed that a conscientious and thorough implementation of the work programme would have at least three beneficial effects. First, it would give a demonstration that the trading nations were still capable of working together with a view to the maintenance and improvement of the trading system. Second, it would provide a chance to remove or alleviate some of the causes of friction which had plagued trade relations for so long and thirdly, and most important, this work programme should, if implemented in full, provide a basis from which, if the will to do so existed, the trading community could move forward.

30. The Chairman suggested that the Group should reflect whether the thirty-ninth session should be used to give the work programme a higher profile and a stronger political emphasis. It should also start considering what decisions would need to be taken at the 1984 session so as to chart the future course of work in GATT on the basis of the conclusions to be drawn from the work programme.

31. In the discussion which followed it was generally recognized that the work programme was not an end in itself but constituted a basis for strengthening the GATT and its multilateral framework. Some positive results had already been achieved, for example in the Aircraft Committee. The Committee on Trade in Agriculture had also made a good start, and it was important that its work be pursued with urgency.

32. One member pointed out that the outside world was not sufficiently aware of the good work being done in various GATT bodies, such as the recent agreement to extend the duty free coverage of the Agreement on Civil Aircraft, which could certainly help to keep up the momentum of liberalization. At the same time he had to express his disappointment at the slow progress of the work on safeguards. He further referred to concrete measures his Government was taking in order to contribute to the progress of liberalization. Those included the accelerated implementation of tariff cuts agreed in the Tokyo Round, major revision of the standards and certification systems, extension of the GSP scheme and special tariff reductions in favour of the least developed countries. He expressed the hope that other major trading countries would make similar efforts.

33. Another member said that from the perspective of a middle ranking country the present situation in the world trading system gave rise to serious concern. His country had recently suffered a number of protectionist actions, ranging from restriction of access to certain markets for its exports to increased competition through cheap credits and export subsidies in third country markets, and was thus obliged to share the burden of others' adjustment problems. He was also concerned about the increasing frequency of bilateral discussions outside the GATT on matters of crucial importance to other contracting parties. All these developments

put his country on the defensive and were forcing it to take action to protect the interests of its industry. He therefore considered that the GATT system should be strengthened and contracting parties given the means to do their job within it. He appealed to the major trading countries to stop the trend towards bilateralization and to accelerate the implementation of the Ministerial programme.

34. One member said that the commitment in paragraph 7(i) of the Ministerial Declaration had so far had little impact on liberalization. On the contrary, protectionism continued to spread and the number of trade disputes to increase. The Group should consider, in the wider context of improving the functioning of the dispute settlement mechanism, how to make the conciliation process in GATT more effective.

35. Summarizing the discussion, the Chairman noted the general view that the work programme should be implemented and brought to constructive proposals so that governments could act on it. Some of the work was proceeding satisfactorily, but concern had been expressed about the slow progress of work on safeguards. He suggested that at its next meeting the Group should discuss another major problem, that of subsidies, and this was agreed.

Item 3 - Other business

36. One member proposed that the secretariat prepare, as a basis for further consideration by governments, a study on problems related to counter-trade and barter arrangements, dealing with such issues as the nature and extent of counter-trade and the relevance to it of GATT rules. It was agreed that such a paper would be prepared, if possible for the next meeting.

37. The date of the next meeting - late February or early March 1984 - will be agreed in consultation between the Chairman and members.