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WORLD TRADE IN THE 1980's
PROBLEMS AND OPPORTUNITIES FOR MNCs
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I.

It was on 12 April, five and a half years after the Tokyo Declaration of September 1973, that for all practical purposes the Multilateral Trade Negotiations ended. Those of the negotiators who have been at it since the start, thought for years that they had been taking on a lifetime sentence, that like the negotiations on military disarmament the MTN might go on forever.

We in the Community are happy at the conclusion, happy that it has come to an end with the Member States firmly on board, headed towards finalisation and implementation so that the concrete results can start to enter into force beginning 1st January next. It is a great step towards freer trade and away from protectionism. More liberal trade will increase the efficiency of production, improve the allocation of resources both domestically and internationally and help curb inflation.

We hope that participants will see fit promptly to ratify the complete package and to translate the stipulations of the various agreements and codes accurately and faithfully in their implementing legislation. This the Community intends to do in parallel with the other main developed countries.

There is considerable concern about this for we can recite a list of initialled trade agreements that were never ratified or even of some agreements that were accepted but not fully implemented. There is indeed a risk that the pact may be rejected or that implementing laws may depart from what was agreed upon at Geneva. Opposition from potential losers may be more forceful than the support of potential winners. The business community has a rôle to play here, on both sides of the Atlantic.

II.

The Tokyo Round, the 7th round since the GATT started, was very different from the previous ones. For after the first Conference in 1947, which established the basic rules for international trade, countries basically negotiated for tariff reductions within the framework of these rules. This time, apart from the tariff sector, the negotiations were mainly about the GATT rules themselves.

We have successfully negotiated a balanced set of reductions of the customs tariffs of the industrialised countries of the order of 30 percent. The Community welcomes progress towards the further dismantling of tariff barriers to trade, and appreciates in particular the reduction of the remaining high tariffs. For notwithstanding currency fluctuations, present tariffs continue to matter, although less than before, if only because rates low in absolute terms can be high in terms of effective protection of the added value or because they can affect margins of profit in a significant way. A 5 percent tariff cut can mean a 50 percent cut in profits on the sale. Since the reductions will be made in small steps over a long period, industries will have ample time to adjust to lower tariff protection. In addition, the Community considers that all participants might wish to pause after five years of gradual implementation and take stock at that time in the light of the economic situation and the progress that has been made in implementing the range of undertakings.

Estimates of extra trade the cuts will lead to are so much wasted paper. However, when we reach the final implementation, industrial tariffs will, except in a few sectors, almost be negligible as a factor influencing imports of industrialised countries. The post Tokyo Round common external tariff of the EEC will only have one item dutiable above 20 % (i.e. trucks 22 %), 28 items between 15 and 20 %, and 145 items between 10 and 15 %, on a total of 2.100 items. The picture is similar for Japan, Switzerland and the Nordic countries but in the case of Canada and the USA, much higher rates will still remain. Moreover, this general assessment does not apply however to some developed countries such as Australia, South Africa, and to a lesser extent to New Zealand, where tariffs continue to be high and often free of any bindings and can therefore be adjusted at will.

The Tokyo results include not only tariffs. They also cover other, more sophisticated, forms of national interference with international trade. The so called "codes of conduct" will prove very important and several of them such as those on subsidies/countervail, on government procurement and on standards have great potential for development.

Among the many results coming out of the MTN, I should like to single out the code on Subsidies and Countervailing Measures for it deals with especially difficult issues of trade.

Subsidies, whether direct or indirect, are widely used by governments for purposes only indirectly and often quite remotely related to foreign trade. It is evident that governments will continue to spend public money to foster certain activities to help solve the problems of ailing sectors or regions. The distinction between unfair assistance and acceptable policies to aid disadvantaged domestic activities or foster growth in specific regions are not always easy to draw. Great caution has to be exercised in formulating judgments about fairness in international trade.

To take only one example. In the US as in other advanced countries, large public funds are nowadays spent on assisting research and development in alternative sources of energy. Some of these ventures will in due course evolve into selfsustaining profitable economic ventures, fully competitive on world markets. But will it altogether be reasonable for such mature industries to make complaints when, in 3 or 5 years, other governments might financially assist the development of similar lines of production, in order to help them to become competitive ? Their arrival on the market occurs at a time when the initially assisted industries have a head start for these new products. How many of the industries which are today economically efficient in the advanced countries have received considerable direct or indirect protection or financial assistance, eg. through military contracts in their infancy ? Business where considering that it is affected by such practices should reflect on this before complaining about fairness and justice.

The Code on Government procurement may be very important for the industrial sector although it also covers some agricultural products. Its object is to prevent de facto and de jure discrimination between domestic producers and foreign suppliers and ensure transparency in the procedures. It covers a large amount of purchasing including civil purchases for defense.

This sort of Code is rather experimental in nature - in the Communities we have only just introduced a parallel internal procurement agreement and our experience with it, as yet, is relatively slender. More even than all the other Codes it will probably require a good deal of "management" and careful monitoring. It is for this reason, essentially, that a clause providing for major review every three years has been built in to the Code. If the Agreement develops in the right direction, and we feel there is every possibility it will, then the road will be open to improving the scope and coverage and adjusting the agreement itself to meet new requirements and developments.

The code on Standards will make an important contribution to opening up those markets excessively reliant on use of standards as a trade policy instrument, by providing a means of tackling unnecessary obstacles to trade and improving access to certification systems.

It also contains one important provision which will ensure that individual elements of federal states and private bodies which are active in the field of standardization behave in a more responsible way in international trade matters - if they infringe the obligations of the code e.g. by creating unnecessary obstacles to trade. The provision in question imposes international responsibility on the central government for such a breach. Some leverage and right of retaliation is thereby granted to other signatories where federal governments or their constituent parts don't live up to their international responsibilities.

There are also several other codes, more humdrum ones such as those on customs valuation and licensing. Some countries use byzantine customs

procedures to raise the value of imports for tariff purposes. Under the Customs Valuation code, in cases where a trader's invoice price is not accepted, the customs officials will have to follow carefully designed formulas for setting a revised value. The code on Licensing aims at preventing trade from being obstructed by the very procedures of import licensing i.e. by delays in issuing licences, lack of publication of available quotas, licensing fees, etc.

One central issue in the trade talks that has not yet been resolved concerns Safeguards, the process through which countries may suspend their GATT commitments for a temporary period and restrict imports if their domestic industry suffers serious injury or is threatened as a result of a disruptive surge of imports. Under an interpretation of the current rules of the GATT which has wide support, such restrictions whether they take the form of increased duties or quotas, have to be applied to imports from all sources. The Community for its part, as well as the Nordic countries, consider that such safeguard measures should, in particular cases, when exponential rates of growth of exports from one or a few sources only disrupt markets, be applicable only to those suppliers which are causing the market disturbance rather than to all suppliers, thereby penalising trade all around. Under this approach such action would have to be limited both in scope and in time and be subject to proper surveillance procedures. The Community's position is based on what it considers a realistic assessment (i) that with modern patterns of production and transportation, exports can and sometimes do grow by leaps and bounds and (ii) that selective measures have already - and will continue - to be taken inter alia in the form of O.M.A.s so that actions of this sort had better be brought within the fold of multilaterally negotiated rules. Negotiations are continuing on this delicate subject with a view to reaching an agreement by the middle of July.

Displaying disappointment - ritual disappointment according to a journalist - at the results, LDCs have cried bitterly that nobody took any notice of them. This is not true.

The results for the developing world are by no means insignificant. The increased discipline and transparency in trade which developed countries and some others accept under the Tokyo Round will benefit the LDCs as a group more than any one else. They will benefit through the MFN clause from the increased liberalisation of trade and the greater effectiveness of the GATT code of liberalisation.

This generally applies to the various codes and to the agricultural arrangements. In the field of tariffs, the reductions will represent another step after the many earlier ones, in particular the Dillon and Kennedy Rounds, towards low, bound tariffs. Tariff cuts are beneficial not only to goods presently exported by LDCs, but also over the years, to an even widening range of products. In many areas of the results of the Tokyo Round, differential, more favorable treatment is provided for them.

These developing countries, even the more advanced ones will largely continue to be exempted from many of new rules. They will be allowed to continue excessively to protect their developing industries. Indeed, efforts of the industrialised world to encourage the semi-industrial developing countries whose levels of development are not far below those of European countries such as Ireland and Spain to accept stronger commitments in the tariff and non-tariff field have not been successful.

However, amongst the more advanced developing countries, South Korea, India, Mexico, Argentina and, to a much lesser extent, Brazil have in recent months started to liberalise their import regimes and they have indicated their firm intention to continue on that path. They have not, on the whole, taken significant or irrevocable commitments, i.e. they have not bound their high tariffs against further increases, but at least in the case of some of them it is possible to expect a unilateral opening of their markets in the coming years.

These advanced developing countries have as vital an interest as we in the future of the international economy, and in the continued and improved operation of an open and secure international trading and monetary system. This would provide the stable environment in which the shifts in the international division of labour necessary for their rapide economic growth can take place. And they also have an interest in assisting the poorest countries in their attempts to reach levels of selfsustaining growth.

With respect to the poorer developing countries, although both the EEC and the USA and other developed countries have attempted to maximise the participation of these countries and to negotiate on their demands, they have been faced with great difficulties in manning their delegations properly for such a wide ranging complex and drawn out negotiations. This, in our view, explains some of the more strident complaints of some developing countries that they have not been able fully to participate in the negotiation.

III.

What are the prospects for trade in the coming decade ? An appreciation of the future is particularly hazardous as the trading world has altered considerably over the last decade and the process of change has by no means run its course.

A significant quickening of the pace of trade expansion between the developed countries and the developing world is likely in the medium and long term. The traditional complementarity of raw material producers/ industrial producers is in a number of cases being supplemented by a competitive relationship in the field of manufactured products with reciprocal specialisation. A small but increasing number of developing countries is rapidly emerging as new economic powers. We often hear about Korea, Singapore and Mexico, but Southern Europe is also a region which has achieved singular success in the process of industrialisation. Their growing investments, the introduction of modern technology and their rising levels of purchasing powers are turning them into more active and interesting trading partners for the developed world. These countries may now be assuming in the expansion of world trade the rôle Western Europe and Japan played in the first two decades after World War II. Some protectionism and insufficient expansion of external purchasing power may slow down this trend. Unilateral transfers of resources would accelerate the process of development to the mutual benefit of both parties. The same pattern of promising economic development combined with insufficient growth of foreign exchange receipts may well occur in the trade of the West with the centrally planned economies.

As for trade between industrialised regions, i.e. in particular trade between Western Europe and North America, one cannot exclude that trade integration between the two blocks may have reached a kind of zenith and that in the next decade some slackening in the pace of growth of trade may occur. Monetary instability will probably constitute one factor. Slower population growth, in Western Europe in particular, may also play a rôle. A more important element however may be the interrelated production apparatus of mutual investments set up over the last decade : instead of exporting, production capacity has been developed on the spot. To the extent this

hypothesis is correct, only large divergencies in productions costs, such as may result from strong and lasting currency movements, would stimulate trade.

Trade between developing countries has been growing only slowly ^(rapidly) on account of their barriers to their mutual trade. One could simply say that the GATT disciplines do not apply to their trade. There are signs however that this may change. A new multilateral negotiation on the exchange of mutual tariff preferences between these countries is in the offing. One reads about the Brazilian automobile industry setting up a plant in Egypt. World trade may be boosted by such developments.

But let us not hide the fact that we will be facing difficulties in the field of international trade in the coming decades. National economies are more interrelated today than at any time before because of reduced barriers at the borders, because of technological improvements in transportation and communications, and the multiplication of services relating to financing and insurance of trade. With the stronger entry on world markets of numerous semi-industrial developing countries, with the onrushing pace of economic development in others, with the technological revolution in different areas such as microelectronics, genetic and biomolecular science, alternative sources of energy, etc., with evolving tastes and patterns of consumer demand, and uncertainties in the price and availability of energy, we can expect changes of such a magnitude that they will create upheavals and put at severe test our possibilities of adaptation. Crises however are salutary provided they can be mastered and that adaptation can occur at the right moment and in the correct framework.

It is in the interest of the industrialised world to specialise in research and technology intensive products and in sophisticated services. Such a transformation of their economic structure, entailing shifts from lower to higher productivity activities will ensure their own economic growth, assist them to avoid protectionism and enable the developing countries to gain foreign exchange and to become full partners in world production and trade. This will require shared responsibility for the management of the

international economy which is increasingly important as domestic economic management becomes more and more dependent on the world economy and vice versa. And that is precisely where the Tokyo Round results with the modernisation and strengthening of the world's commercial code, the GATT, which they entail, will be of great assistance in mapping out the future for us. Given that leadership of the industrial democracies is today more economically experienced and international minded than at perhaps any time before, given also the strengthening of shared responsibilities which results from the existence of the European Community, we can be confident that the answers to the problems which I have outlined will be found.