

PROTECTIONISM:
OUTLOOK FOR THE '80S:
THE EUROPEAN COMMUNITY VIEWPOINT

SPEECH GIVEN

BY

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TO

THE WORLD ECONOMIC OUTLOOK CONFERENCE

(WHARTON ECONOMETRICS FORECASTING ASSOCIAT^{ES} ~~ION~~)

WASHINGTON D.C.

IN JUST OVER A WEEK FROM NOW,
SEVEN INDUSTRIALIZED NATIONS AND THE
EUROPEAN COMMUNITIES - THE E.C. - WILL
BE MEETING IN VERSAILLES FOR THE EIGHTH
"ECONOMIC" SUMMIT OF INDUSTRIALIZED NATIONS.

ONE OF THE MAJOR ITEMS ON THEIR
AGENDA WILL BE THE VERY SUBJECT YOU HAVE
BEEN DISCUSSING HERE AT THIS CONFERENCE,
PROTECTIONISM.

THE NATIONS THAT WILL BE MEETING
NEXT WEEK ARE ALL COMMITTED TO RESISTING
PROTECTIONISM AND TO THE DEVELOPMENT OF
FREE TRADE. AND YET, PROTECTIONIST TRENDS
PERSIST, AND WE ARE CONSTANTLY SPARRING WITH
ONE ANOTHER OVER ACTIONS TAKEN OR THREATENED
TO BE TAKEN BY OUR TRADING PARTNERS TO
IMMUNIZE NATIONAL ECONOMIES FROM THE VAGARIES
OF INTERNATIONAL TRADING.

I. THE E.C. AND FREE TRADE:

THE PROGRESSIVE LIBERALIZATION OF TRADE AND RESISTANCE TO PROTECTIONISM HAVE BEEN FUNDAMENTAL OBJECTIVES OF THE WESTERN WORLD SINCE THE END OF THE SECOND WORLD WAR. THE CREATION OF SUCH INTERNATIONAL INSTITUTIONS AS THE GATT, THE IMF AND THE OECD REFLECTED THE CONCERN OF THE INDUSTRIALIZED WORLD'S LEADERSHIP THAT THERE NOT BE A RETURN TO THE BEGGAR-THY-NEIGHBOR POLICIES OF THE 1920s AND 1930s.

IN EUROPE, THE EUROPEAN ECONOMIC COMMUNITY - THE COMMON MARKET - WAS FORMED, ABOLISHING TRADE BARRIERS AMONG THE MEMBER-STATES AND HARMONIZING EXTERNAL TARIFFS.

COMMITMENT TO FREE TRADE WAS A KEY ELEMENT IN THE CREATION AND DEVELOPMENT OF THE COMMUNITY AND REMAINS AN ESSENTIAL ELEMENT OF EUROPE'S ECONOMIC SURVIVAL, AS

/THE E.C. IS HIGHLY...

THE E.C. IS HIGHLY TRADE-DEPENDENT. IMPORTS AND EXPORTS CONSTITUTE OVER 20% OF THE E.C.'S GNP. THE CONSOLIDATION OF TEN NATIONAL ECONOMIES HAS CREATED THE WORLD'S LARGEST TRADING ENTITY. TOGETHER, THE UNITED STATES AND THE E.C. ACCOUNT FOR 50% OF ALL WORLD TRADE.

THE E.C. IS THE LIVING EXPRESSION OF EUROPE'S BELIEF IN FREE TRADE. THAT BELIEF HAS NOT WEAKENED IN RECENT YEARS.

II. THE POST-WAR INTERNATIONAL TRADING SYSTEM

IN THE 1950s, AND PARTICULARLY IN THE 1960s, THE WORLD MOVED TOWARDS FREER TRADE AND GREATER PROSPERITY, WITH MANY QUOTAS AND TARIFFS SHARPLY REDUCED OR INDEED ELIMINATED UNDER THE IMPACT OF THE DILLON AND KENNEDY ROUNDS OF TRADE NEGOTIATIONS.

/FURTHER PROGRESS...

FURTHER PROGRESS WAS ACHIEVED DURING THE TOKYO ROUND IN THE 1970s, WHICH LED TO FURTHER DECREASES IN TARIFFS AND TO THE REDUCTION OF A NUMBER OF NON-TARIFF BARRIERS.

NEVERTHELESS, WHILE FREER TRADE WAS HAILED AS A NECESSARY OBJECTIVE TO ENSURE WORLD PROSPERITY AND ECONOMIC GROWTH, THE SPECTER OF PROTECTIONISM NEVER TOTALLY DISAPPEARED.

IN THE EARLY 1970s, THE THREEFOLD INCREASE IN OIL PRICES SLOWED THE LONG POST-WAR EXPANSION OF WORLD PROSPERITY. THE OIL CRISIS EVENTUALLY IGNITED A MAJOR WORLD RECESSION THAT HAS NOT YET SUBSIDED AND WHICH SUCCEEDED IN CREATING A FAVORABLE ENVIRONMENT FOR PROTECTIONISM,

PROTECTIONISM BEGAN TO RE-EMERGE AS

/A POLICY OPTION...

A POLICY OPTION, IF NOT POLICY INSTRUMENT, IN MANY NATIONS, AIMED AT ALLEVIATING THE EFFECTS OF THE RISE IN ENERGY COSTS. IN ADDITION, THE SLOWDOWN IN THE EXPANSION OF WORLD TRADE WHICH RESULTED FROM THE ECONOMIC CONTRACTION INDUCED BY OIL PRICE HIKES ACCENTUATED THE EMERGING NEW COMPETITIVE BALANCE AMONG THE PARTICIPANTS IN INTERNATIONAL TRADE. THE MAJOR INDUSTRIALIZED COUNTRIES FOUND THEMSELVES STRONGLY CHALLENGED BY NEW COMPETITORS, FIRST IN THEIR HOME MARKETS, AND SUBSEQUENTLY IN THIRD MARKETS.

THUS PROTECTIONIST PRESSURES DEVELOPED IN SECTORS SUCH AS STEEL, AUTOMOBILES, TELEVISIONS, SHOES, TO CITE A FEW.

IN ADDITION, IN THE LAST DECADE, TRADE BEGAN TO BE USED AS A POLICY TOOL

/FOR ACHIEVING...

FOR ACHIEVING POLITICAL OBJECTIVES, (I.E. JACKSON-VANIK AMENDMENT, OIL EMBARGO, GRAIN EMBARGO).

AS WE MOVE INTO THE 1980s, THESE PROTECTIONIST PRESSURES REMAIN. WHILE THOSE PRESSURES ARE NOT NEW, THEY ARE A SOURCE OF CONTINUING CONCERN TO WESTERN EUROPEAN GOVERNMENTS AND THE EUROPEAN COMMUNITY. DISTURBINGLY, ADDITIONAL PROTECTIONIST PRESSURES ARE GROWING IN THE COUNTRY WHICH HAS THE MOST TO GAIN FROM THE MAINTENANCE OF A FREE-TRADE SYSTEM.

IN THE UNITED STATES, THE ADMINISTRATION HAS IMPOSED QUOTAS ON SUGAR IMPORTS; LEGISLATION SEEKING RECIPROCITY ON A BILATERAL OR SECTORAL BASIS HAS BEEN INTRODUCED IN CONGRESS; THE CONCEPT OF MINIMUM LOCAL CONTENT REQUIREMENTS IN AUTOS IS ADVOCATED BY THE UNIONS. IN ADDITION, SEVERAL STATES

/HAVE INTRODUCED...

HAVE INTRODUCED "BUY AMERICA" RULES FOR STATE PROCUREMENT CONTRACTS. PRIVATE COMPANIES HAVE INCREASED RECOURSE TO U.S. TRADE LEGISLATION, SEEKING "RELIEF" FROM FOREIGN COMPETITION.

III. WORLD RECESSION

THE DEEPER AND LONGER-THAN-EXPECTED WORLD RECESSION CONTINUES TO SHACKLE DOMESTIC ECONOMIES. HIGH INTEREST RATES AND LOWER LEVELS OF DEMAND HAVE RESTRICTED ECONOMIC GROWTH THROUGHOUT MOST OF THE WORLD.

FORECASTS INDICATE THAT THE WESTERN NATIONS' ECONOMIC GROWTH RATE WILL BE A MERE 1.5% IN 1982. IN 1981, THE E.C. COUNTRIES' GNP DECREASED IN REAL TERMS BY NEARLY 1%, AND THE U.S. ECONOMY GREW BY LESS THAN 2%. UNEMPLOYMENT IS AT ITS HIGHEST LEVEL SINCE 1941 ON BOTH SIDES OF THE ATLANTIC.

/IT IS QUITE CLEAR...

IT IS QUITE CLEAR THAT THE CONTINUING WORLD RECESSION IS THE BACKDROP AGAINST WHICH CURRENT PROTECTIONIST TENDENCIES SHOULD BE VIEWED. IN TIMES OF ECONOMIC DOWNTURN, IT BECOMES POLITICALLY ATTRACTIVE AND ECONOMICALLY EXPEDIENT TO USE, OR THREATEN TO USE, TRADE RESTRICTIONS TO SATISFY THE DEMANDS OF INDUSTRIAL AND AGRICULTURAL INTERESTS AFFECTED BY COMPETITION FROM FOREIGN SUPPLIERS, OR BY THE CONSEQUENCES OF MEASURES TO RE-STRUCTURE AND STREAMLINE CERTAIN SECTORS OF INDUSTRY.

IV. NEED FOR TRADE

PERSISTENT HIGH UNEMPLOYMENT, STAGNATING INCOMES, BUDGETARY CONSTRAINTS, REDUCED PRODUCTION, AND INFLATIONARY PRESSURES CREATE AN ENVIRONMENT IN WHICH PROTECTIONIST PRESSURES CAN THRIVE.

/PARADOXICALLY...

PARADOXICALLY, ONLY TRADE EXPANSION RATHER THAN TRADE RESTRICTIONS CAN ALLEVIATE THE VERY ILLS THAT PROTECTIONISM IS SEEKING TO CURE. PROTECTION OF INTERNAL MARKETS IS THE TYPE OF MEDICINE FOR THE WORLD'S ECONOMIC MALADY THAT MAY RENDER THE PATIENT EVEN SICKER.

GROWING PROTECTIONIST TRENDS IMPEDE RATHER THAN PROMOTE IMPROVEMENTS IN THE ECONOMIES OF INDUSTRIALIZED COUNTRIES. THEY:

- INCREASE THE COSTS OF PRODUCTION;
- CREATE UNEMPLOYMENT;
- PROVIDE ILLUSORY BREATHING-SPACE TO INDUSTRIES IN NEED OF RE-STRUCTURING;
- SPREAD EASILY AS OTHER COUNTRIES SEEK TO ADJUST TO A REDUCTION IN EXPORT OPPORTUNITIES BY RESERVING THEIR DOMESTIC MARKETS FOR THEIR OWN FIRMS.

/MOREOVER...

MOREOVER, A BASIC CONDITION FOR A GENERALLY OPEN TRADING SYSTEM IS AN EFFECTIVE INTERNATIONAL MONETARY SYSTEM. WHILE WE HAVE COME TO REGARD THAT A MORE FLEXIBLE EXCHANGE-RATE REGIME THAN THAT PROVIDED BY THE BRETTON WOODS SYSTEM IS NECESSARY, THERE HAS BEEN MOUNTING CONCERN OVER THE INSTABILITY CAUSED BY THE ACTIONS OR - MORE APPROPRIATELY - THE INACTIONS OF SEVERAL OF THE MAJOR PARTICIPANTS IN THE SYSTEM IN EFFECT TODAY.

V. MONETARY POLICY AND TRADE

GIVEN THE INCREASING INTERDEPENDENCE OF WESTERN ECONOMIES, AND THE STILL-DOMINANT ROLE OF THE DOLLAR IN INTERNATIONAL TRANSACTIONS, THE FISCAL AND MONETARY POLICIES OF THE UNITED STATES UNQUESTIONABLY HAVE A DIRECT IMPACT ON EUROPEAN ECONOMIES. EUROPEAN COUNTRIES HAVE BEEN, AND ARE STILL TODAY, DE FACTO PRISONERS OF U.S. MONETARY AND CREDIT
/POLICIES...

POLICIES. SINCE 1979, EXCESSIVELY HIGH REAL INTEREST RATES IN THE U.S HAVE PROVOKED A RENEWED FLOW OF FUNDS INTO THE DOLLAR. THESE RECORD HIGH REAL U.S. INTEREST RATES AND THE RELATED OVER-VALUATION OF THE DOLLAR, WHILE BENEFITTING EUROPEAN EXPORTS OVER TIME, IMMEDIATELY DEPRESSED CAPITAL INVESTMENT IN EUROPE, AND MADE THE RE-STRUCTURING PROCESS MORE DIFFICULT.

HIGH AND RISING DOLLAR INTEREST RATES HAVE CONFRONTED EUROPEAN GOVERNMENTS WITH DIFFICULT CHOICES INVOLVING BUDGETARY EXPENDITURES. THEY HAVE HAD TO CHOOSE BETWEEN INCREASING THEIR DOMESTIC INTEREST RATES AT THE RISK OF DEEPENING THE RECESSION AND INTERFERING WITH WHAT FEW SIGNS THERE HAVE BEEN OF ECONOMIC REVIVAL, OR ALLOWING A DEPRECIATION OF THEIR CURRENCIES AT THE RISK OF INCREASED IMPORTED INFLATION.

THE

SITUATION HAS BEEN SO SEVERE THAT SEVERAL PROMINENT EUROPEAN FINANCE MINISTERS HAVE EXPRESSED THE DESIRE FOR A CONCERTED EUROPEAN INTEREST RATE POLICY TO COUNTER, OR IN FACT, INSULATE EUROPEAN ECONOMIES FROM THAT OF THE UNITED STATES. IN THE PURSUIT OF GREATER MONETARY AUTONOMY, HOWEVER, IT IS CLEAR THAT EUROPE DOES NOT POSSESS THE CAPABILITY TO WIDEN ITS SCOPE FOR INDEPENDENT ACTION QUICKLY AND EASILY.

OF COURSE, THE EFFECT ON EUROPE OF AMERICAN INTEREST RATE DEVELOPMENTS AND BUDGETARY POLICY IS ALSO A REFLECTION OF THE WEAKNESSES OF THE EUROPEAN ECONOMIES THEMSELVES. GROWING BUDGET DEFICITS AND INFLATIONARY PRESSURES WITHIN EUROPE ARE COROLLARY FACTORS TO THE PERSISTENCE OF HIGH INTEREST RATES IN EUROPE. NEVERTHELESS, IN LARGE PART BECAUSE OF A CONSIDERABLE HIGHER EUROPEAN
/RATE OF SAVINGS ...

RATE OF SAVINGS - WHICH CONTINUES TODAY - EUROPEAN NATIONS HAD NOT EXPERIENCED DIFFICULTY IN FINANCING THEIR DEFICITS BEFORE U.S. RATES HIT RECORD HIGHS STARTING IN 1979. THIS IS NOTEWORTHY DUE TO THE FACT THAT EUROPEAN PUBLIC-SECTOR DEFICITS MEASURED AS A PERCENTAGE OF GNP HAVE TRADITIONALLY BEEN MORE THAN DOUBLE THAT OF THE UNITED STATES.

APART FROM CONCERNS ABOUT THE HIGH LEVEL OF U.S. INTEREST RATES, THERE IS ALSO WIDESPREAD CONCERN IN EUROPE REGARDING THE VOLATILITY OF U.S. INTEREST RATES AND THE EFFECT THAT IT HAS HAD IN RAISING EXCHANGE-RATE VOLATILITY. THE EXCHANGE-RATE VOLATILITY THAT WE HAVE RECENTLY WITNESSED TENDS TO DISCOURAGE INVESTMENT, IMPEDE GROWTH, AND REPRESENTS A SUBSTANTIAL BARRIER TO INTERNATIONAL TRADE. INDEED, EXCHANGE-RATE VOLATILITY FORCES MANAGERS IN THE INVESTMENT AND TRADE FIELDS ON BOTH SIDES OF THE

/ATLANTIC TO ...

ATLANTIC TO CONCENTRATE MORE ON TRYING TO GUESS EXCHANGE-RATE MOVEMENTS RATHER THAN ON IMPROVING PRODUCTION PROCESSES, INVESTING IN NEW PRODUCTS, AND SEEKING NEW MARKETS.

THERE IS ALSO UNIFORM AGREEMENT IN EUROPEAN QUARTERS REGARDING THE NEED FOR A GREATER EFFORT TO STABILIZE EXCHANGE RATES, WHETHER THROUGH INCREASED OFFICIAL INTERVENTION OR THROUGH COORDINATED GOVERNMENT ACTIONS. SUCH A POLICY, HOWEVER, DIRECTLY CONFLICTS WITH THE CURRENT U.S. ADMINISTRATION'S REFUSAL TO ADANDON ITS "BENIGN NEGLECT" OF THE DOLLAR ON FOREIGN EXCHANGE MARKETS. OFFICIAL INTERVENTION ON THE CURRENCY MARKETS IS NECESSARY TO BACK UP BETTER-BALANCED MONETARY AND FISCAL POLICIES AIMED AT EXCHANGE-RATE AVAILABILITY. A RECENT PRIVATE REPORT ISSUED BY THE GROUP OF THIRTY, A GROUP OF INTERNATIONAL BANKERS AND ECONOMISTS (WHICH INCLUDES SUCH PEOPLE AS JOHANNES /WITTEVEEN...

WITTEVEEN, ANTHONY SOLOMON, HENRY WALLICH
CLAUDE PIERRE-BROSSOLETTE) HAS STATED THAT, AS
A RESULT OF EXCHANGE RATES GETTING OUT OF
LINE WITH UNDERLYING TRENDS IN COMPETITIVENESS
AND OTHER STRUCTURAL FACTORS, "RECENT SWINGS
ON EXCHANGE MARKETS ARE STOKING UP THE FLAMES
OF WORLD PROTECTIONISM."

FIGHTING INFLATION IS A LAUDABLE
GOAL, WHICH WE ALL SHARE. HOWEVER, A CERTAIN
POLICY MIX WHICH EMPHASIZES MONETARY PRUDENCE
RISKS CREATING ECONOMIC CONDITIONS THAT CAN
BRING ABOUT RESTRICTIVE MEASURES IN THE TRADE
AREA. ECONOMIC GROWTH WAS BOTH THE CAUSE AND
EFFECT OF THE INCREASE IN THE VOLUME, VARIETY
AND VALUE OF TRADE IN THE 1950s AND 1960s,
AND A PRIME DETERRENT TO TRADE WARS AND
PROTECTIONIST ACTIONS. THE REALITY IS NO
LESS TRUE TODAY.

VI. OUTLOOK

VI. OUTLOOK

PREDICTING WHAT THE FUTURE WILL BRING FOR INTERNATIONAL TRADE IS NEVER EASY. IF WE LOOK AT THE POST-WAR PERIOD, IT IS QUITE CLEAR THAT THE SO-CALLED "TRADE WARS" WERE MERE SKIRMISHES AND NEVER DETERIORATED INTO FULL-SCALE CONFLICTS OR TO A DISINTEGRATION OF THE POST-WAR INTERNATIONAL TRADING SYSTEM.

A. U.S. ECONOMIC POLICIES

THERE ARE, HOWEVER A COUPLE OF CURRENT DEVELOPMENTS IN THE UNITED STATES REGARDING TRADE WHICH ARE CAUSING CONCERN IN WESTERN EUROPE.

- ONE IS THE GROWING PROCLIVITY OF THE UNITED STATES TO PUT THE BLAME FOR RECENT DIFFICULTIES IN INDUSTRY AND IN AGRICULTURE, ON THE EUROPEAN COMMUNITY. IN AGRICULTURE, PARTICULARLY, IT IS DOWNRIGHT FALSE /TO PLACE...

TO PLACE THE RESPONSIBILITY FOR THE DIFFICULT SITUATION OF THE AMERICAN FARMER TODAY, SUCH AS LOWER PRICES FOR CERTAIN COMMODITIES, ON THE COMMON AGRICULTURAL POLICY.

FOR EXAMPLE, IN THE CASE OF WHEAT, WORLD PRICES ARE DETERMINED BY THE SIZE OF THE U.S. CROP AND THE DEMAND FROM THE SOVIET UNION, OVER THE PAST THREE YEARS, THE ~~U.S.~~ U.S. CROP HAS INCREASED FROM 58 MILLION METRIC TONS TO 76 MILLION METRIC TONS. THE 18 MILLION-TON INCREASE WAS MORE THAN DOUBLE THE TOTAL E.C. WHEAT EXPORTS, MEANING THAT MARKET PRICES WOULD HAVE BEEN DEPRESSED EVEN IF THE E.C. HAS NOT EXPORTED WHEAT. THE E.C. REMAINS THE WORLD'S LARGEST IMPORTER OF AGRICULTURAL GOODS AND HAS A \$ 7 BILLION AGRI-

/CULTURAL TRADE ...

CULTURAL TRADE DEFICIT WITH THE
UNITED STATES.

- A SECOND DISTURBING DEVELOPMENT IS THE APPARENT DESIRE IN THIS COUNTRY TO CHALLENGE INTERNATIONAL TRADING ARRANGEMENTS, PAINFULLY WORKED OVER A GENERATION, BY THREATENING TO SEEK A REVISION OF GATT RULES.

HERE AGAIN, LET US TAKE AN EXAMPLE IN THE "FIELD" OF AGRICULTURE. THE E.C. STANDS ACCUSED OF SUBSIDIZING ITS EXPORTS OF AGRICULTURAL COMMODITIES. THIS ALLEGEDLY UNDERCUTS U.S. PRODUCTS IN THIRD MARKETS; THEREFORE, U.S. PRODUCERS CLAIM, THEY MUST BE REMOVED. THE EXISTENCE OF AGRICULTURAL SUBSIDIES IS PERMITTED BY A "CODE" NEGOTIATED AND AGREED TO IN THE TOKYO ROUND OF NEGOTIATIONS, WHICH PERMITS SUCH

/SUBSIDIES AS LONG ...

SUBSIDIES AS LONG AS THEY DO NOT
ENTAIL THE ACQUISITION OF MORE THAN
AN EQUITABLE SHARE OF WORLD TRADE.
WE HAVE ABIDED BY THE CODE.

IN FACT, OVER THE LAST DECADE, E.C.
EXPORTS AS A PERCENTAGE OF WORLD
AGRICULTURAL EXPORTS WENT FROM 10
TO 11% WHILE U.S. EXPORTS ROSE FROM
14 TO 17%.

THESE DEVELOPMENTS, IT SEEMS TO ME,
CONSTITUTE CRITICAL STEPS TOWARDS GREATER
PROTECTIONISM, BECAUSE THEY ON THE ONE HAND
ASCRIBE BLAME WHERE IT IS NOT WARRANTED, AND,
ON THE OTHER, QUESTION THE VERY FRAMEWORK
WITHIN WHICH INTERNATIONAL TRADE HAS BLOSSOMED
OVER THE PAST THIRTY YEARS, AND WHICH HAS
SERVED TO DEFUSE PROTECTIONIST MEASURES.

B. INTEREST RATES

MOREOVER, ONE MUST REALIZE THAT MUCH

/OF THE TROUBLES ...

OF THE TROUBLES EXPERIENCED BY THE AMERICAN FARMERS AND THE STEEL AND AUTOMOBILE INDUSTRIES ARE LARGELY A RESULT OF THE STRONG DISINFLATIONARY POLICIES WHICH THE CURRENT U.S. ADMINISTRATION HAS CHOSEN TO ADOPT. HIGH INTEREST RATES LIMIT THE AVAILABILITY OF FINANCIAL RESOURCES FOR INVESTMENT AND FORCE BANKRUPTCIES IN THE FARM AND RETAIL SECTORS. THE CONCURRENT INCREASED VALUE OF THE DOLLAR HAS MADE U.S. GOODS LESS COMPETITIVE ABROAD, CURBING EXPORTS OF U.S. INDUSTRIAL AND AGRICULTURAL PRODUCTS AND INCREASING IMPORTS, ALTHOUGH REDUCED CONSUMER DEMAND - DUE TO THE RECESSION - IS ALSO A FACTOR.

C. RECIPROCITY

THE POTENTIAL ENACTMENT OF RECIPROCITY LEGISLATION IN THE U.S. CONGRESS, TO ENSURE "EQUAL" ACCESS FOR U.S. GOODS TO FOREIGN MARKETS ALSO ADDS TO THE TRANSATLANTIC PROTECTIONIST ATMOSPHERE. A RECENT REPORT SHOWS
/THAT THERE ARE...

THAT THERE ARE 14 BILLS BEFORE CONGRESS CALLING FOR RECIPROCITY IN TRADE RELATIONS AND OVER 50 BILLS THAT CONTAIN SOME ELEMENTS OF PROTECTION. ONE MOTIVATION BEHIND THIS LEGISLATION IS A GENERAL FEELING OF A PERCEIVED STRENGTHENING OF PROTECTIONISM IN WORLD MARKETS; ANOTHER IS THE DESIRE TO REACT AGAINST JAPAN'S SLOWNESS IN DISMANTLING NON-TARIFF BARRIERS.

RECIPROCITY ON A BILATERAL OR SECTORAL BASIS COULD POSE SEVERAL PROBLEMS FOR THE INTERNATIONAL TRADING SYSTEM. IT WOULD UPSET THE BALANCE OF CONCESSIONS, CAREFULLY NEGOTIATED IN THE MULTILATERAL TRADE NEGOTIATIONS, AND BE PERCEIVED AS ANOTHER PROTECTIONIST POLICY TOOL, WHICH COULD LEAD TO RETALIATORY MEASURES BY TRADING PARTNERS.

E. GATT

PERHAPS MORE DANGEROUS THAN THIS
/RHETORICAL ...

RHETORICAL AND LEGAL CHALLENGE TO EUROPEAN POLICIES IS AN AMERICAN PREOCCUPATION FOR ALTERING THE ARRANGEMENTS FOR MONITORING TRADE POLICY. WHILE WE CANNOT BUT WELCOME THE U.S.'S USE OF GATT INSTRUMENTS TO SEEK ADJUDICATION OF A SERIES OF DISPUTES ON BOTH INDUSTRIAL AND AGRICULTURAL GOODS, WE HOPE THAT THE U.S. WILL NOT CARRY OUT ITS THREAT TO SEEK A REVISION OF GATT RULES, SHOULD THE CASES NOT GO ITS WAY. THIS WOULD SET A DANGEROUS PRECEDENT FOR OTHER COUNTRIES, THAT IN TURN COULD THEMSELVES SEEK RENEGOTIATION OF GATT RULES IF FUTURE CASES WENT AGAINST THEM. AN ADDITIONAL DANGER WOULD BE NON-OBSERVANCE OF DECISIONS TAKEN BY GATT PANELS.

IT IS A MISCONCEPTION TO BELIEVE THAT GROWING CONFLICTS IN INTERNATIONAL TRADE CAN BE MORE EASILY SETTLED BY AMENDING, ADJUSTING, OR CREATING NEW RULES.

/AS A RECENT GATT...

AS A RECENT GATT REPORT CONCLUDES:

"WHEN PUBLIC POLICY IS USED TO PROTECT DOMESTIC GROUPS FACING COMPETITION FROM ABROAD, THE PLANS OF THE FOREIGN PRODUCERS WILL BE UPSET AND THEIR GOVERNMENTS WILL, IN TURN, BE CALLED UPON TO TAKE CORRESPONDING MEASURES."

FURTHERMORE, THE LARGE NUMBER OF CASES BROUGHT AGAINST THE E.C BY U.S. PRODUCERS OF WHEAT FLOUR, SUGAR, POULTRY, PASTA, CANNED FRUITS AND CITRUS IS NOT ONLY UNPARALLELED, IT ALSO RISKS STRAINING THE DISPUTE SETTLEMENT PROCESS IN THE GATT AND WITH IT THE LEGAL WORLD TRADE ARRANGEMENTS - AS ONE EUROPEAN TRADE EXPERT STATES IT - "JUST AS CERTAINLY AS OVERLOADING WITH TOO MANY BULBS AN ELECTRIC CIRCUIT."

A KEY ELEMENT IN THE E.C.'S POSITION ON INTERNATIONAL TRADE IS STRICT ADHERENCE TO GATT. WE HAVE ABIDED BY THE RULES OF GATT AND WILL CONTINUE TO DO SO.

/AT THE SAME TIME, HOWEVER,...

AT THE SAME TIME, HOWEVER, WE MUST RECOGNIZE THAT A POTENTIAL DANGER EXISTS THAT, SHOULD MANY OF THESE CASES VINDICATE THE COMMUNITY POSITION, POLITICAL LEADERS WOULD BE PRESSED TO RE-EXAMINE THE RULES GOVERNING WORLD TRADE.

IT WILL BE IMPORTANT IN THE FUTURE TO ENSURE THAT THE INTERNATIONAL INSTRUMENTALITIES WHICH REGULATE WORLD TRADE BE USED WITH PRUDENCE AND WHEN THE SITUATION TRULY WARRANTS IT, RATHER THAN IN REACTION TO UNWARRANTED DOMESTIC CONCERNS.

RECIPROCITY LEGISLATION, COUNTER-VAILING DUTY AND ANTI-DUMPING CASES AGAINST E.C. STEEL EXPORTS, AND THE ATTEMPTS TO REVISE GATT RULES COULD LEAD TO PRESSURES IN EUROPE FOR COUNTER-MEASURES WHICH GOVERNMENTS WOULD FIND DIFFICULT TO RESIST IN THOSE TIMES OF ECONOMIC CRISIS. BESIDES, REVISION OF GATT

/RULES WOULD BE...

RULES WOULD BE A CONTROVERSIAL AND LENGTHY PROCESS. IT COULD CREATE AN ADDITIONAL ELEMENT OF UNCERTAINTY IN A VERY UNCERTAIN WORLD.

F. JAPAN

OUR PROBLEM, AS I ALLUDED TO A MOMENT AGO, HOWEVER, DOES NOT REST SOLELY WITH THE UNITED STATES. JAPANESE IMPORT RESTRICTIONS, ITS UNABATED EXPORT DRIVE, ACCOMPANIED BY AN UNDERVALUED YEN, AND ITS HERMETIC FINANCIAL AND CAPITAL MARKETS, HAVE CREATED A SITUATION IN WHICH THE E.C. HAD A \$ 14 BILLION DEFICIT WITH JAPAN IN 1981. WE HAVE SOUGHT CONSULTATIONS UNDER ARTICLE 23 OF GATT CONCERNING JAPAN'S TRADE PRACTICES.

JAPAN HAS TAKEN STEPS TO LIBERALIZE THE ACCESS TO ITS DOMESTIC MARKET BY RECENTLY DECIDING TO REMOVE OR LOWER 67 NON-TARIFF BARRIERS. JAPAN HAS ALSO INDICATED ITS
/WILLINGNESS TO ...

WILLINGNESS TO ALLOW EASIER ACCESS TO ITS FINANCIAL MARKETS. SUCH STEPS ARE NOTEWORTHY, AS THEY REDUCE THE RISK THAT FURTHER RESTRICTIONS ON JAPANESE IMPORTS WOULD BE IMPOSED. HOWEVER, THEY ONLY CONSTITUTE A FIRST STEP IN THE RIGHT DIRECTION.

VII. CONCLUSION

A. PRESERVING THE GATT SYSTEM

IN SPITE OF MANY PRESSURES AND DIFFICULTIES, THE WESTERN NATIONS HAVE BEEN ABLE TO RESIST EXTREME FORMS OF PROTECTIONISM THUS FAR.

THE MULTILATERAL TRADE NEGOTIATIONS, PARTICULARLY THE TOKYO ROUND, HAVE BEEN A MAJOR FACTOR IN COMBATTING PROTECTIONIST TENDENCIES.

A SET OF RULES IN THE GATT, PAINFULLY
/NEGOTIATED AND ...

NEGOTIATED AND AGREED TO, GOVERN OUR TRADING RELATIONSHIP. LARGELY BECAUSE OF THOSE RULES AND PROCEDURES, WE HAVE BEEN REMARKABLY SUCCESSFUL IN PREVENTING THE ERUPTION OF TOTAL CHAOS IN THE INTERNATIONAL TRADING SYSTEM.

AFTER VERSAILLES, THE GATT MINISTERIAL IN NOVEMBER WILL AFFORD AN OPPORTUNITY TO RE-ASSESS OUR TRADE RELATIONS IN GREATER DEPTH. THE COMMUNITY WELCOMES ANY OCCASION TO DISCUSS MUTUAL PROBLEMS AND TO CONSULT WITH OUR TRADING PARTNERS ON HOW BEST TO DEAL WITH GROWING PROTECTIONIST PRESSURES. THE E.C. DOES NOT WISH TO PURSUE AGGRESSIVE TRADE POLICIES AND WELCOMES THE EXPANSION AND REINFORCEMENT OF THE CONSULTATION PROCESS AMONG CONCERNED PARTIES, BE THEY THE INFORMAL MEETINGS ON TRADE, THE BI-ANNUAL U.S.-E.C. HIGH-LEVEL CONSULTATIONS, OR CONSULTATIONS WITHIN THE CONTEXT OF THE OECD AND GATT.

/JUDICIOUS USE OF GATT PROCEDURES...

JUDICIOUS USE OF GATT PROCEDURES WILL ENSURE THEIR CONTINUING STRENGTH AND UTILITY. DAMPENING RHETORICAL EXCHANGE ACROSS THE ATLANTIC WILL CREATE A BETTER ATMOSPHERE FOR SOLVING PROBLEMS AND ACHIEVING SOLUTIONS TO TRADE DISPUTES.

THE MECHANISMS ARE NOT PERFECT. THEY CONSTITUTE, IN A SENSE, "DAMAGE-CONTROL." BUT THEY ARE A BUFFER AGAINST MOUNTING PRESSURES TO RESORT TO MISGUIDED POLICIES. GREATER BARRIERS IN TRADE IN TIMES OF ECONOMIC DOWNTURN WOULD ONLY FURTHER ARREST THE RETURN TO ECONOMIC GROWTH AND PROSPERITY. AS ENERGY PRICES STABILIZE AND AS THE TRADING NATIONS OF THE WORLD SLOWLY ADJUST TO CHANGES IN THE PATTERN OF TRADE AMONG THEM, THE WORLD ECONOMY CAN RECOVER FROM ITS LATEST CONJUNCTURAL CRISIS.

AS THIS "DAMAGE-CONTROL" OPERATION
/HAS BEEN ...

HAS BEEN SUCCESSFUL, SO NOW MUST WE COMMIT OURSELVES FOR THE FUTURE TO WHAT CAN BE DONE IN A POSITIVE WAY TO RESIST PROTECTIONISM AND PROMOTE INTERNATIONAL TRADE.

WE NEED TO MAKE PROGRESS IN THE FIELD OF SERVICES AND INVESTMENT, FOR THE FIRST TIME, WE WILL BE CONSIDERING THIS ISSUE IN THE CONTEXT OF GATT.

WE MUST SEEK TO INVEST AND COLLABORATE FURTHER IN RESEARCH AND DEVELOPMENT IN ORDER TO IMPROVE OLD TECHNOLOGIES AND DEVISE NEW ONES, PARTICULARLY IN THE FIELDS OF ENERGY AND TELECOMMUNICATIONS.

GENERALLY, WE MUST CREATE THE CONDITIONS IN OUR RESPECTIVE HOME MARKETS WHICH WILL ENSURE THE EXPANSION OF TRADE AND , IN CONJUNCTION WITH IT, ECONOMIC GROWTH,

/BUT THESE IDEAS ...

BUT THESE IDEAS ARE FERTILE GROUND
FOR ANOTHER SPEECH - OR PERHAPS ANOTHER
CONFERENCE.

WHAT IS IMPORTANT TO RECOGNIZE TODAY
IS THAT, JUST AS WE HAVE BEEN SUCCESSFUL IN
USING THE LEGAL INTERNATIONAL INSTRUMENTS AT
OUR DISPOSAL TO DETER TRADE WARS AND OTHER
ECONOMIC ALTERCATIONS, WE NEED TO MARSHAL
THE RESOURCES - INTELLECTUAL, SOCIAL, AND
ECONOMIC - NECESSARY TO RETURN TO THE PROSPERI-
TY WHICH HAS BEEN ONE OF THE WESTERN WORLD'S
HALLMARK ACHIEVEMENTS AND A FOUNDATION OF
PEACE FOR OVER A GENERATION,