

Editorial

AS WAS EXPECTED the summit meeting in Bonn on 2–4 May came out in favour of a new round of trade negotiations, but this appears to be an uncertain start to a process carrying considerable risks. If however the open trading system of the industrialized countries established under the General Agreement on Tariffs and Trade (GATT) is to be saved it is essential that a new round should be attempted. The alternative is a return to a high level of protectionism with a break-up of the present multilateral trading arrangements and a return to the bilateral trade agreements of the 1930s.

In spite of the fact that the governments in the United States, Britain and West Germany are as liberal in their attitude to international trade as is likely to be obtained, the build up of protectionism has been very extensive, and in the United States, with the high value of the dollar threatening U.S. exports, it has become intolerable. In order to forestall further protectionist measures from Congress, the U.S. Administration called for the immediate beginning of a new round of trade negotiations in GATT, which would (in the original proposal) include services, trade-related investment and high technology, as well as agriculture, and which might, it was hoped, stimulate the world economy by an expansion in world trade. It would also give the countries with large debt burdens the assurance that export markets would remain open, and there could also be improvements which might be made to the Tokyo Round agreements, as well as to the structure of the trading system as a whole.

The Community is also ready to participate in the launching of a new round, as was made plain in the declaration of the Council of Ministers in March (printed elsewhere in this issue of the Journal). The Community statement was not without reservations. It insisted on parallel talks on monetary issues and finance. And it has stipulated that the basis of the common agricultural policy should not be placed in question (although this may not prevent some modification of its details). The Community has also allied itself to the developing countries and insisted that there should be a reconfirmation of the previous commitments to standstill and roll-back of protectionism as well as the implementation of the 1982 GATT work programme. The developing countries, while not greatly enthusiastic for a new round have made it clear at the Interim Committee of the IMF that there must be no relaxation in the measures required for the liberalization of trade in goods.

Points 10 and 11 from the final communiqué of the Bonn summit on the multilateral trading and international monetary systems read as

follows:

10. Protectionism does not solve problems: it creates them. Further tangible progress in relaxing and dismantling existing trade restrictions is essential. We need new initiatives for strengthening the open multilateral trading system. We strongly endorse the agreement reached by the OECD Ministerial Council that a new GATT round should begin as soon as possible. Most of us think that this should be in 1986. We agree that it would be useful that a preparatory meeting of senior officials should take place in the GATT before the end of the summer to reach a broad consensus on subject matter and modalities for such negotiations. We also agree that active participation of a significant number of developed and developing countries in such negotiations is essential. We are looking to a balanced package for negotiation.

11. It is also essential to improve the functioning of the international monetary system. We take note that the Finance Ministers of the Group of Ten, at their meeting in Tokyo in June, intend to complete their current work on ways to improve the functioning of the monetary system and to put forward proposals, to be discussed at the next meeting of the Interim Committee of the International Monetary Fund in Seoul in October, with a view to making the international monetary system more stable and more effective.

GATT measures in the past have consisted of rounds of tariff negotiations carried out every few years, in which concessions offered could be traded against one another. The precedent of tariff reductions was continued in the Tokyo Round, to which there were substantial additions in the form of the agreements covering a number of non-tariff barriers. In the Tokyo Round, out of a total of \$190 billion of mfn imports of industrial countries into the EC and nine other developed countries, \$60 billion were already free, over \$112 billion were subjected to tariff cuts and only \$17 billion were subject to no reduction. In agriculture, out of \$48 billion mfn imports, \$15 billion were subjected to tariff concessions. It was significant however that on the subject of safeguards under Article XIX there was no agreement, and in spite of considerable effort there has still been no agreement up to this day.

It must not be thought that a new GATT round will produce any easy or guaranteed results, for the contracting parties are now up against the hard core issue of protectionism which so far has not been addressed with any success. If a comprehensive agenda is required for the new round, it is not necessary to look further than the report of the seven independent experts under Dr. Leutwiler set up by the Director-General of GATT to report on the international trading system. A summary of its conclusions and recommendations is also to be found in this issue. Its main thrust is to

recommend a return to the obligations of the General Agreement, with some additional suggestions for strengthening the secretariat, introducing permanent representatives of governments into the organization and establishing a mutual system of surveillance of the performance of the member countries.

The novel feature of the new round will be the detailed consideration given to the liberalization of services. Our last issue in March dealt with some of the problems in this sector, and in this issue we print two further important contributions to the subject. All these articles have tended to show that there are no obvious ways in which the process of liberalization can be effected that are likely to receive general approval and it is possible that the ultimate results will not come up to the expectations that the topic has so far aroused.

On the issue of protectionism it is clear that every country wishes to seek a reduction in protectionism by others, but is reluctant to adopt the necessary measures itself. And although the summit meetings and elsewhere have been unanimous in their resolutions condemning protectionism, there is no general will to implement them. Once again the problem is not so much as to agree on what should be done, but how it is going to be possible to induce the governments to deliver. The situation is reminiscent of that in Europe in the 1950s, when OEEC (as it then was) found that it was virtually impossible to get the western European countries to agree on the removal of tariffs and quotas by their own voluntary agreement, and in the end this was only accomplished by the establishment of the EEC. One of the inducements enabling the member states of the EEC to agree was the proposal that the elimination of restrictions would take place over a reasonably long transitional period of from 12 to 15 years. Although this decision was backed by the authority of the European Court, a similar timetable was introduced into the EFTA Convention, which had no supranational features, and EFTA in fact eliminated its tariffs and quotas a little more rapidly than the Community. A suggestion has already been made in these pages¹ for the revival of the trading system through the establishment of a timetable over a sufficiently long period for the elimination of all protectionist measures that are capable of being quantified, and which could therefore be removed by stages. We commend this as a procedure that might well be introduced in this round as a means to make palatable some of the measures that have to be taken. It must also be appreciated that the small but competent GATT secretariat is being called upon to perform a formidable task.

The other way in which governments can be induced to limit protectionism is by the internal pressure that is put upon them. There is great

¹ Siegfried Schultz and Dieter Schumacher, "The Re-Liberalization of World Trade", 18 *J.W.T.L.* (1984), p. 206.

resistance for the maintenance of jobs, however small in number and costly in effort, but there are also internal forces capable of balancing this. Consumer groups could be more vocal in stressing the general benefits of the lower costs of imports. It is significant that clothing retailers in the United States took the Customs Service to the U.S. Court of International Trade to prevent action under the new U.S. Customs regulation affecting textiles (see later in this issue). Governments too could do more to educate the general public on the disadvantages of protection, and in this connection the proposal of the Leutwiler group for publicizing a protectionist balance-sheet is an enterprising one. In addition to this the large numbers of the population in the developed countries that favour action for the benefit of the third world could do more to insist that as a practical matter of reason and justice between North and South, developing countries should be entitled to free access for their exports to the industrial markets of the North. That quotas should be applied, for example, to the few textiles coming from Bangladesh to Europe seems as unnecessary as it is indefensible.

In spite of the difficulties ahead, the prospects for a new GATT round should be seen in a wider horizon. It is to the credit of the United States that they have pushed for a new round on a multilateral basis. The United States has not latterly paid any very great attention to the UN system, and for this reason the initiative is to be welcomed. It should also be accepted on the grounds that every country is likely to do better in a general negotiation than coming to terms one by one with the United States. As is pointed out by Sir Peter Marshall in this issue,

Today, it cannot be seriously questioned that the state of international co-operation is not sufficient to deal with the inexorable realities of our common existence. There is an urgent need to achieve a degree of co-operation and harmonization adequate to meet the demands of interdependence.

In this year of the 40th anniversary of the founding of the United Nations, international management seems to be at a dead point. It is therefore essential that the new GATT round should not be allowed to fail.