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Strategy for an Open World Economy

by Hugh Corbet, London *

New developments in rapidly evolving world economy will require new responses and new initiatives, said President Nixon in his first major statement on foreign trade. For it is clear, he observed, that the commercial problems of the 1970s will differ significantly from those of the past. In announcing a special Commission on World Trade, on whose recommendations new American policies for the 1970s are to be based, Mr Nixon put more than ordinary emphasis on the need for reciprocity in the expansion of world trade and the achievement of "an open world" ¹.

Greater significance must therefore be attached to an idea advanced in 1966 by the privately-sponsored Canadian-American Committee. This sixty-strong group of business, trade union and university leaders proposed a free trade treaty under Article 24 of the General Agreement on Tariffs and Trade (GATT), open to all developed countries, affording less developed countries greater access to world markets and providing, too, for the harmonisation of the agricultural support policies of the signatory governments ².

Without any concerted campaigning, over 120 British members of parliament at Westminster, covering most sections of opinion in the three main political parties, have expressed support for what would amount to the formation of a multilateral free trade association extending, as

it were, from Europe to the Antipodes ³. On the other side of the world, the Japanese Government's Economic Planning Agency high-lighted, in a White Paper published in December, 1968, the "regionalisation" elsewhere of trade and aid policies in a way interpreted by the Asahi Shimbun as advocacy of a free trade area strategy which the newspaper itself went on to recommend ⁴.

No government to date has come out in favour of a free trade treaty approach to the further liberalisation of world commerce. The proposal has nonetheless engaged serious attention in major capitals and international agencies. Whether it will be taken up by governments depends on the attitude of the United States which may, but not necessarily will, depend on the development of relations in the immediate future between Britain and the European Communities.

Time for Change in Trade Strategy

President Kennedy's Trade Expansion Act of 1962 introduced a fresh approach to tariff-cutting negotiations. But in the Kennedy Round talks, the across-the-board procedure reverted, in effect, to item-by-item haggling, particularly over the sensitive items in national tariff schedules. The scope for the latter technique is now widely believed to have been exhausted, the last round having been the sixth negotiation of this type since the GATT was instituted over twenty years ago. Indeed, well before the Kennedy Round agreement was finalised, Sir Eric Wyndham White suggested in a key speech at Bad Godesberg,

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¹ Message to Congress on November 18, 1969, which accompanied President Nixon's Trade Act of 1969.

² The basic proposition was set out in "A New Trade Strategy for Canada and the United States", Washington D.C. and Montreal: Canadian-American Committee, 1966. The committee is sponsored by the National Planning Association, in the United States, and the Private Planning Association of Canada.

³ See the "Early Day Motion 171" tabled in the House of Commons in February, 1969.

⁴ "Japan Should Adopt a Free Trade Area Strategy", Asahi Shimbun (in Japanese), Tokyo, December 21, 1968. For the White Paper, see Annual Report on the World Economy, Tokyo: Economic Planning Agency, 1968 (in Japanese).

when he was still Director-General of the GATT, that future negotiations would have to be of a different kind⁵.

After the Kennedy Round was finished in May, 1967, President Johnson initiated a trade policy enquiry, which was headed by Mr William Roth, his Special Representative for Trade Negotiations. The Joint Economic Committee of Congress, and the Senate Finance Committee, also began examinations of the policy options for future trade negotiations. In the course of testifying to the Joint Economic Committee, Mr Roth disclosed in February, 1969, that the free trade treaty proposal was one of the four optional negotiating techniques being explored by his experts⁶. Two others were the possibility of another round of multilateral negotiations conducted on a reciprocal and most-favoured-nation (MFN) basis and a proposal for a sector-by-sector approach to free trade⁷. These three have survived public discussion but the fourth option, a proposal to harmonise tariff levels, appears to have been discarded.

Before examining the free trade treaty option more closely it is as well to dispose of a common tendency to be little the significance of the extant tariffs that will be left after the Kennedy Round has been implemented.

Relevance of Remaining Tariffs

First, the most protective element of a tariff is probably to be found in the last few percentage points, which accordingly represent the "hard core" of protection for the industries concerned. Secondly, the relevant measure of tariff protectiveness is not nominal rates of duty, but effective rates of duty on value added; and the latter are inclined to be higher than the listed figures⁸. Thirdly, tariffs on goods excluded from the Kennedy Round negotiations, either as an automatic consequence of the bargaining process or because they are deemed "sensitive" items, are still relatively high and weigh heavily on the exports of developing countries. Fourthly, there is a vital qualitative difference, especially important to multinational corporations, between free and

freer trade. Once firms have decided to adjust production patterns, in order to specialise, low tariff levels become a nuisance tax and deter full adaption. Without a treaty commitment to free trade there is also uncertainty in corporate planning about the continuity of access to foreign markets.

Although reduced in significance, tariffs are still a serious problem in the integration of the world economy. As they have been lowered, though, the significance of non-tariff barriers has been exposed. But non-tariff barriers are not so much a general problem as a series of specific problems relating to trades in particular goods between particular countries. On this front the biggest issue is trade in temperate-zone agricultural produce which has been increasingly restricted by the protectionist policies of many industrialised countries.

Non-tariff barriers, and agriculture especially, pose formidable negotiating difficulties. Governments have not seemed disposed to grapple with them. Preoccupied with domestic and regional troubles, such as the enlargement of the European Communities, they have preferred to follow a policy of "wait-and-see" which entails consolidating the Kennedy Round achievements and resisting protectionist demands, preparing to negotiate on non-tariff barriers, including agriculture and waiting for a favourable opportunity to launch a major trade initiative⁹.

Attractive arguments can be deployed on this policy's behalf. As Professor Raymond Mikesell, of the University of Oregon, has argued, it is consistent with the prevailing philosophy of consolidation, is highly feasible and acknowledges the present constraints on American foreign economic policy¹⁰.

Waiting, though, for a favourable moment to resume the movement forward involves running a certain risk. For in commercial policy matters the world simply does not mark time. It is moving either forward or backward. A policy of wait-and-see is therefore bound to be a losing one. There are always cogent reasons of expediency

⁵ Sir Eric Wyndham White, "International Trade Policy: the Kennedy Round and Beyond", Address to the Deutsche Gesellschaft für Auswärtige Politik, Bad Godesberg, October 27, 1966.

⁶ This testimony was republished as William Roth, "The President's Trade Policy Study", The Atlantic Community Quarterly, Washington D.C., Spring, 1968.

⁷ For a full discussion of these and other options, see Gérard and Victoria Curzon, "Options After the Kennedy Round", in Harry G. Johnson (ed.), *New Trade Strategy for the World Economy*, London, 1969. Also see Edward English, "Tariffs and Trade", in 1968 Conference Report, Toronto, 1969.

⁸ W. M. Corden, "The Structure of a Tariff System and the Effective Protective Rate", *Journal of Political Economy*, Chicago, June, 1966.

⁹ This was, in fact, the main thrust of the Roth Report: Special Representative for Trade Negotiations, *Future United States Foreign Trade Policy*, Washington D.C., January, 1969. On the free trade treaty option, the report said: "The United States should not jeopardise the chance of a further reduction of trade barriers on an MFN basis by proposing or encouraging plans for participation in a new free trade area. It should be prepared to reexamine this position, however, if circumstances should change so as to make it unlikely that a liberal trade policy based on MFN can succeed." Attention might be directed to the dissenting views of a number of members of the Public Advisory Committee on Trade Policy who were favourably disposed towards the free trade treaty option. See pp. 12 and 13.

¹⁰ Raymond F. Mikesell, "Changing World Trade Patterns and America's Leadership Role", *The Annals*, Philadelphia, July, 1969. Professor Mikesell favours, however, a bolder and more dramatic approach.

for conceding some of the ground already won in the interest of holding what remains.

What the free trade treaty option would offer is a bold and imaginative counter to protectionist forces on both sides of the Atlantic. Yet as a fresh approach to trade liberalisation it would avoid the diminishing returns of a second Kennedy Round. GATT negotiations have only achieved conspicuous success when they have employed a new negotiating procedure as was the case in the first and sixth rounds ¹¹.

The establishment of a multilateral free trade association, implying a treaty commitment, would enable the countries interested in global free trade to proceed towards that goal without being detained by others not yet ready to advance that far ¹². It would amount to an extension of the European Free Trade Association (EFTA), one of whose aims, it is worth recalling, is "to contribute to the harmonious development and expansion of world trade and to the progressive removal of barriers to it".

By contrast to a seventh MFN negotiation, the proposal itself would not require all, or most, leading industrial countries to agree on the desirability of global free trade before discussions could begin. Progress would thus be decided by the most willing and not by the least willing. Nor would those prepared to lower trade barriers be obliged to give a "free ride" to countries unwilling to reciprocate. But the GATT's interpretation of the principle of non-discrimination in international trade would not be infringed because the strategy would be authorised under the article of the GATT which provides for exceptions from this general rule.

By contrast to the sector-by-sector approach, the free trade treaty option would prevent, rather than permit, prevarication. Its set timetable for removing all tariffs would make it impossible to exclude protectionist strongholds from the system. If the developed countries could agree on a strategy governing trade among themselves they should be able to agree on a strategy to encourage less developed countries to exploit the opportunities of world trade. Under a free trade treaty there could be provided a scheme of non-reciprocal tariff preferences for developing countries ¹³.

¹¹ Curzon and Curzon, *op. cit.*, pp. 56 and 57.

¹² For a full discussion of the free trade treaty option, see Harry G. Johnson, "Some Aspects of the Multilateral Free Trade Association Proposal", *The Manchester School*, Manchester, September, 1969.

¹³ A comprehensive analysis of a generalised scheme of tariff preferences related to a free trade treaty can be found in David Wall, "The Third World Challenge", London: The Atlantic Trade Study, Trade Policy Research Centre, 1968.

In the United States firms are making an issue of "fair competition". They are pressing for a code of competition to deal with unfair trade practices ¹⁴. Through a treaty commitment a multilateral free trade association could probably provide a more effective means of harmonising non-tariff distortions of competition than have the ad hoc procedures of GATT experience. For the treaty would require signatory countries to consult and negotiate on those policies and practices which have the effect of frustrating the benefits expected from free trade. A free trade association also allows members to exercise full national sovereignty in trade relations with non-member countries. Member states are not compromised politically. The United States could accordingly participate in a multilateral free trade association without upsetting the political balance of the free world.

On the non-tariff barrier front the most controversial problem is agricultural trade. Solving it will require much patience and goodwill. On a permanent consultative basis it should be possible under a free trade treaty to work out a programme for harmonising agricultural support policies. Some such arrangement may be necessary whatever negotiating option is adopted for further liberalising industrial trade.

US Concern about Farm Trade

The expansion of commercial markets for temperate-zone agricultural products is bound to be a prime objective of what President Nixon says will be "the more ambitious initiative that will later be needed". In particular, it appears the United States is not prepared any more to humour the European Communities, now the most highly protected agricultural market in the world with a level of protection which has tripled over the last eight or nine years. American farm exports to the Communities have fallen by 20 p.c. since 1965-66. Those subject to the variable import levy have dropped by 40 p.c. As if that is not bad enough, the Common Market has been raising its own level of farm production, the resultant surpluses being unloaded on world markets at heavily subsidised prices ¹⁵.

These problems will be worsened if the United Kingdom finally succeeds in joining the European

¹⁴ See, for instance, "Constructive Alternatives to Proposals for US Import Quotas", Washington D.C. and Montreal: Canadian-American Committee, 1968. Also see the testimony of the Emergency Committee on American Trade, as presented by Mr Robert McNeill, before the Roth enquiry early in 1968 and reported in *Business Week*, New York, March 30, 1968.

¹⁵ As a reflection of the American mood, see Harald B. Malmgren, "Technology and Neo-Mercantilism in International Agricultural Trade", Paper given to the American Agricultural Economics Association, Lexington, August 17 to 20, 1969. Also see the despatch from Bonn: Joseph Sterne, "US Officials Worried by Common Market Threat to Food Exports", *The Sun*, Baltimore, November 17, 1969.

Communities. The possible consequences were admirably summarised by Dr Harald Malmgren shortly after he resigned as Assistant Special Representative for Trade Negotiations in the United States Administration: "The probable result of Britain's entry", he said in August last year, "will be the adoption by it of the variable levy system and an alignment of high support prices close to or at present levels. This will raise the level of protection on agricultural imports into the United Kingdom, encourage home production of cereals and meat, encourage the purchase of French and German wheat and feed, as a substitute for imported grains from the United States and other countries, and thus further increase exporters' competition in remaining markets. In addition, the costly accumulation of surpluses within the European Communities could be greatly relieved by this opening of the British market, especially for grains, dairy products and sugar. With a reduction of the pressures on the member countries of the Common Market resulting from costly stockpiling, there is less chance of a fundamental change in the internal policies of the European Communities"¹⁶.

Changing Attitude of the USA

During the latter half of the 1960s the attitude of the United States towards the European Communities has been changing as gradually it has become apparent that Americans have been paying an economic price for a political bargain that is not going to be fulfilled. Unless the European drive towards political union is dramatically revived the United States is not likely to refrain much more from advancing American interests at the expense of the Common Market.

It would therefore be a mistake to believe that the European Communities alone could exercise a veto over the exploration and adoption of a free trade treaty regime if the United States was convinced that the proposal enjoyed the support of other major trading nations. The point is only made though because it is blithely asserted by some that the European Communities would not countenance the idea. What might be recalled in this connection, however, is the initiative in the early 1950s of France and other continental European countries in seeking United Kingdom and United States endorsement of an automatic formula for levelling tariffs across-the-board. If the plan had been endorsed in Washington and London the problem today of reconciling American, British and other trading policies with

those of the European Communities would either not exist or would be more manageable.

In spite of the resources deployed by the followers of M. Jean Monnet, and by the information service of the European Communities, "the European idea" appears to be waning in the countries where it was born. There has never been, and there is still not, any appreciable public interest in either Britain or the other EFTA countries in the cause of a United States of Europe¹⁷. The time may be approaching when it might be possible to try again the proposal contained in the Spaak Report to the Foreign Ministers of the Six in April, 1956. After all the 1957-58 negotiations for a free trade association between the Six and other West European countries came close to success.

Whether by enlarging the European Communities, with associate arrangements for those unable to become full members, or by negotiating special commercial arrangements between the Six and other countries, as was proposed in the Brandt and Debré plans of 1968, the economic organisation of Western Europe seems destined to take on in the 1970s a revised form more akin to a free trade association than a full-blown union. It is difficult to imagine the United States accepting such a new order with equanimity¹⁸. In place of the dream of a European Union would be the nightmare of a preferential trading block. After the pattern of post-war trade liberalisation, which has proceeded on a basis of challenge and response, the Nixon Administration could decide in the light of an unwanted European development to launch a countervailing initiative that is global in its objective and yet implies a high degree of reciprocity¹⁹.

A fresh impetus to the removal of trade restrictions that takes into account the realities of a rapidly integrating world economy should not be unwelcome in Western Europe where the big economic and political issues of the day cannot any longer be settled in a purely European context.

¹⁷ In the present writer's view, the British attitude has been correctly assessed in Heinz Höpfel, "Nicht nur Wilsons Nein", *Frankfurter Allgemeine Zeitung*, Frankfurt, September 9, 1969. Herr Höpfel wrote: "Wilson's rejection of any form of European federation is as authentic as was Churchill's, Eden's and Macmillan's and springs from the same source. Nowhere does the idea of supra-national authority meet with such instinctive rejection as in Britain." This aspect of the crisis of European integration is discussed in Hugh Corbet, "Role of the Free Trade Area", in Corbet and David Robertson (eds.), *Europe's Free Trade Area Experiment*, Oxford, forthcoming.

¹⁸ For an account of the Johnson Administration's reaction to the Brandt and Debré plans of 1968, see *European Community*, London, January, 1969.

¹⁹ On this possibility, see Lawrence C. McQuade, "Foreign Economic Policy: Trade, Payments and Controls". Address to the St. Louis Committee on Foreign Relations, St. Louis, December 12, 1968. At the time Mr McQuade was Assistant Secretary of Commerce in the Johnson Administration.

¹⁶ Harold B. Malmgren, "Troubles Ahead for World Farm Trade", Address to the National Soybean Processors Association, Denver, August 25, 1969.