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# Basic Issues for a New GATT Round

By Hajo Hasenpflug, Hamburg \*

**The most extensive tariff cuts in the history of GATT were completed with the fifth and final stage of the Kennedy Round. Tariffs on a volume of trade in excess of \$ 40 bn have been reduced by an average of 50 p.c.**

The great success which the Kennedy Round<sup>1</sup> has proved to be for industrialised countries by extending their commerce, especially in industrial goods, must not be allowed to hide the fact that there is growing need for another GATT round to tackle the problems which were not solved satisfactorily or not at all in the last round of negotiations. The conflicts left to be resolved by negotiation relate to the relations between industrialised and less developed countries (LDCs) as well as to relations among the industrialised countries, in particular between Japan, the USA and the EEC.

## Declining Importance of the LDCs

The long-term changes in the distribution of world trade have reduced the share of the LDCs continually for some considerable time — between 1953 and 1970 from 27.0 to 17.6 p.c. Over the same period the state trading countries raised their share by 0.4 p.c., from 10.1 to 10.5 p.c., and the industrialised countries theirs by 9.0 p.c., from 62.9 to 71.9 p.c.<sup>2</sup> The principal reason for this trend is to be found in the composition of exports by categories of goods. Exports from LDCs consist in the main of raw materials and agricultural produce and to a smaller extent of semi-manufactures whose share in world trade is on a relative decline.<sup>3</sup>

Important causes of the declining share of the LDCs are the unsatisfactory price trend, which is due to lack of market power, and relatively slow quantitative progress owing to

□ in the case of raw materials, increasing competitions by artificial substitutes and lower specific consumption,

□ in agricultural products, relatively slow growth of the total demand for foodstuffs, which was to be expected according to Engels' Law, and, in particular, extremely restrictive trading practices on the part of the industrialised countries,

□ in the case of finished products, competition by the industrialised countries and their protectionist defence of structurally weak manufacturing sectors in which the LDCs enjoy comparative advantages.

## The Proposals of the Haberler Report

Measures designed to alter the position of the LDCs were proposed as early as 1958 by a group of economists in what has become known as the Haberler Report. On its basis Part IV was inserted in the GATT Articles in 1966. It recommends as most important measures:

□ Arrangement of commodity agreements through which the prices and marketing of raw materials can be influenced,

□ Prohibition of additional trade obstacles for products chiefly exported from LDCs and agreement on priority removal of existing obstacles,

□ Joint actions to advise LDCs, e.g., in the form of market studies.

Little however has so far been done to put these concepts into practice, and what has been done has in part been neutralised by other measures. True, the EEC countries had earlier made concessions in the form of various association and preferential arrangements for certain LDCs. The grant of general preferences by EEC with effect from July 1, 1971, must also be mentioned in this context, and Japan, Norway, Great Britain and Sweden have adopted this arrangement since. The USA and Canada, on the other hand, have

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<sup>1</sup> Cf. N. Wetter, Die Kennedy-Runde — Versuch einer Bilanz (The Kennedy Round — An Attempt at Drawing a Balance). In: Europa-Archiv, No. 4, 1968. P. 143.

<sup>2</sup> Cf. GATT, International Trade 1966 and 1970.

<sup>3</sup> The share of the various categories of goods in world trade in 1953/69 was as follows: industrial manufactures 45.3/64.5, foodstuffs 23.4/14.8, raw materials excluding mineral fuels 18.8/9.2, mineral fuels 10.3/9.2 (all figures in p.c.). Cf. GATT, International Trade 1957–58 and 1970.

hitherto declined to grant such general preferences.

In regard to commodity agreements however no important new concessions have been made by the industrialised states, and agricultural products are threatened by new trade obstacles. This is true of all industrial nations, but more especially of the EEC where France is calling for additional market orders,<sup>4</sup> e.g., for mutton, mushrooms and pine-apples. Such an arrangement would neither suit the LDCs nor benefit the European consumer.

For finished products the LDCs find themselves already in a favoured position because of the unilateral grant of tariff preferences. But whether this is enough to make it easier for the LDCs to set out on the road of industrialisation is doubtful. The preferences should therefore be extended in future to all industrial products, and the ceilings should be raised. The principle of unilateral preferences for LDCs should be made to apply, besides, to non-tariff-barriers to trade.

It must be made clear here that such a policy is not in the special interest of the LDCs alone but conforms with the long-term objectives of the industrialised countries. Continued growth in these countries will depend more and more on structural changes involving a contraction of the non-competitive sections. A policy of restrictions which keeps agriculture and certain industries from "slimming themselves fit" thus hampers their own growth. It also retards economic growth in the LDCs, which cannot be a matter of indifference to the industrialised states because overseas markets will in future determine to an increasing extent what growth they can achieve themselves.

### The Trade Conflict between the Industrial Nations

Acute threats to world trade are posed by more and more frequent conflicts among the industrial nations. As far as relations between the USA and Japan are concerned, a sort of standstill agreement on the imposition of new trade obstacles has been achieved for 1972. But there is enough incendiary material left for other disputes. The USA objects in particular to the fact that Japan effects large sales without hindrance in the US market while in the opposite direction exporters, and not those in the USA alone, are up against import restrictions and see little sign of liberalisation in Japan's capital import policy. Ever since 1965 the foreign trade between the two countries has shown a balance in Japan's favour; from \$ 500 mn in 1965 its surplus rose to \$ 1.4 bn in 1969.<sup>5</sup>

<sup>4</sup> France made the attempt to introduce a market order for pine-apples because they are grown in small quantities on the island of Martinique.

Relations between the EEC and the USA are also strained. Most of the complaints come from the USA and refer to the Community's agricultural and preference policies. As regards the former, the EEC is criticised for its agricultural market orders on the ground that they impede imports. From 1959 to 1969 the USA raised its farm exports to the EEC by as much as 78 p.c., but from 1964 to 1969 the increase was no more than 6 p.c.<sup>6</sup> Besides, the EEC is trying to divert its farm surpluses by means of export subsidies to third markets where they compete with similar US products. The USA, it may be remarked in passing, is at least as protectionist in the agricultural sector — though by a different system. Justified though the criticism of the EEC agricultural market order may be, also from the view of the LDCs, it cannot be founded on the GATT standards because GATT has hitherto segregated this complex. To absorb the agricultural markets in the world trade order will be an essential task for a next Liberalisation Round.

As seen by US interests, the EEC's preference and association policies are a more important subject for censure. The EEC's numerous preferential agreements, especially with Mediterranean countries, have provoked criticism from the USA and some other states as well on the ground of incompatibility with the most-favoured-nation clause of GATT, which lays down that tariff preferences granted to individual nations must be likewise applied to other trade partners. Objection is also taken to the inclusion, as a result of British accession to the EEC, of the Commonwealth states in preference or association agreements with the whole EEC and the wish of the EFTA countries staying outside the EEC to set up a free trade zone together with it. The real core of this European-American dispute is the fear that the EEC will secure for itself increasing spheres of economic influence and thus a growing share of world trade.

### The Danger of Blocs in World Trade

While the Community of the Six accounted for a good 28 p.c. of world trade, the enlarged EEC will command nearly 40 p.c., which means that it will transact more than half the trade of the industrialised countries, compared with the USA's 14 p.c. Even if the EEC intratrade is omitted from the foreign trade statistics, the enlarged Community will be a bloc which, with about 22 p.c., holds the largest single share in international trade; the USA has 17 p.c. The EEC's weight

<sup>5</sup> Calculated from: OECD Statistics of Foreign Trade, Trade by Commodities, Series B, 1965 and 1969.

<sup>6</sup> Calculated from: OECD Statistics of Foreign Trade, Trade by Commodities, Series B, 1959 and 1969.

in world trade shows up even more clearly if allowance is made for the fact that a free trade zone of associated states and residual EFTA countries and preferential zones will be grouped around it. Customs unions and free trade zones are permitted under Article XXIV of GATT<sup>7</sup>, but the fact remains that each of these arrangements weakens the basic GATT principle that preferences given to one country must be granted to all others. The feeling of uneasiness in the USA is easy to understand.

Formation of blocs must also be rejected under the aspect of an optimum international division of labour. In the extreme case it must be feared that each industrial nation, with the possibility of trade disputes in mind, will strive to secure the largest possible marketing area for itself, so that the world would be divided into spheres of commercial interest: it could happen that, beside the eastern bloc and the EEC bloc, a Pacific preference area would form around Japan and a larger American trade zone come into being under US leadership. Nobody would benefit from such a development in the long term. The disadvantages of nation-state concepts to the international division of labour would merely be translated to a higher level.<sup>8</sup> The fact of heavy mutual dependence in all foreign trade however will most probably prevent the confrontation taking such an accentuated form.

#### Continued Development of the GATT Articles

Despite the substantial growth of its intranational trade the EEC still sends nearly 8 p.c. of all exports to the USA; Italy and the Federal Republic of Germany are leading here with 10.8 and 9.1 p.c., respectively. It is well known that the German passenger car industry is particularly susceptible to market changes in the USA; 36.5 p.c. of its total output is sent across the North Atlantic. The USA, on its side, cannot be indifferent to the prospects of the exports to the Six since they amount to 18 p.c. of all its exports; with the four new members included, the EEC's share in US exports rises to 24 p.c.. The point must also be made that if the Community reconsiders its attitude to foreign direct investment, the USA may find it much more difficult to surmount the EEC's external barriers. In the period up to 1969 the USA effected \$ 10.2 bn of direct investments in the EEC; direct investment by the EEC in the USA amounted to one-third of this sum only. The output of US subsidiaries abroad exceeds the total US exports more than twofold.

<sup>7</sup> Cf. F. K. Liebich, *Das GATT als Zentrum der Internationalen Handelspolitik* (GATT as Centre of International Trade Policy), Baden-Baden, 1971. P. 108.

<sup>8</sup> Cf. M. Holthus, *Europe's Growing Strength*. In: *INTERECONOMICS*, No. 3, 1972, P. 66.

The conflicts described here make it imperative that the GATT Articles should be developed further. This is especially true of Article XXIV which deals with preference and free trade agreements. This Article which is today the legal basis of EEC and EFTA was originally not devised for economic mergers of such magnitude and importance. The review will indeed have to be extended to all Articles which permit deviations and exemptions from GATT because they can provide an alibi for trade restrictions of which it cannot be established beyond question whether they conform to GATT. There is, i.a., Article XII which sanctions restrictions if imposed for the protection of the balance of payments so as to avoid or arrest a decline of the currency reserves. Tighter definitions are required for Article XIX, which provides for emergency measures relating to the imports of certain goods, and Article VI, which allows antidumping and compensatory duties to be imposed. These have both been used in excess.

#### A New Arrangement for Non-Tariff-Barriers

To counter the aforementioned dangers to international trade a new GATT round is needed which goes beyond the previous tariff rounds. Its aspirations must be based on an improvement of the international division of labour with due regard to the theorem of comparative costs.

For this purpose it is necessary that, in addition to the reforms of the GATT Articles mentioned,

- ☐ existing tariff barriers should be reduced corresponding to the Kennedy Round and, what is more decisive,
- ☐ non-tariff-barriers are also reduced.

Reference to the non-tariff-barriers to trade was already made during the Kennedy Round, but with meagre results. For GATT itself they have since 1968 only developed into a central issue. In the meantime the GATT secretariat has identified about 800 trade obstacles of this kind throughout the world. They have been subdivided into the following five groups of protectionist measures<sup>9</sup>:

- ☐ State trading, government imports, production and export subsidies;
- ☐ procedural measures (so-called para-tariff barriers to trade) like customs valuation regulations such as the "American Selling Price System", antidumping measures, calculation of charges, regulations concerning forms, and price offsets such as, e.g., the levies under EEC market orders;

<sup>9</sup> Cf. *GATT contra Handelsbelemmeringen* (GATT against Trade Obstacles). In: *Wereldmarkt*, The Hague, No. 29, July 29, 1970.

□ Provisions which can have a constrictive effect on trade such as, e.g., control, health, safety, and packaging and marking regulations;

□ Import regulations like quotas, embargoes, bilateral import agreements, minimum price stipulation and voluntary self-constraint agreements which are being introduced on an increasing scale in lieu of tariffs and quantitative restrictions under threats of more incisive measures;

□ Import and export restrictions operating through the price mechanism or tax equalisation measures.

If these non-tariff-barriers are regarded as the basis for a new GATT round, many opportunities will be found to exist for extending and safeguarding the peace in the sphere of trade. This is bound to be a protracted process, and for this reason the most important of the 800 obstructions should be tackled first so as to make sure of an efficient round of negotiations. Among these most important obstacles should be not only those which in percentage terms present the greatest danger to world trade as a whole but also such as are of special importance to a few states, as for instance the barriers in the fields of raw materials and agricultural products which impinge relatively more strongly on third world states than on industrial nations.

If a recrudescence of protectionism is to be resisted, unequivocal decisions will have to be taken in the next GATT round on the issues of trade preferences for LDCs, the trade in agricultural products, the formation of integration areas and on non-tariff-barriers. In view of the stubborn conflicts of interest in these sectors it will certainly be very difficult to find reasonable compromises. But if appropriate attention is paid to the fact that, all conflicts notwithstanding, there is a common interest in the continuing development of world trade because even great industrial nations depend on it, that the continuing development of world trade requires new rules and that growth in the industrialised countries also depends decisively on the state of the international division of labour, there are grounds for cautious optimism.

In conclusion it may be pointed out that the success of any further measures of trade liberalisation can at any time be put in jeopardy if a challenge arises from the interests of anyone state. GATT must be upgraded by being given more power, so that it can resist such eventualities, for until now GATT has not been an "organ" but a "secretariat". It has done very valuable preparatory work for conferences and is supervising the effectuation of decisions, but so far it has no possibility of imposing sanctions for contraventions.

## An Action Programme for Land-locked LDCs

by Professor Ernst Becher, MCD, Paris \*

**High on the agenda of the UNCTAD III Conference is the problem of least developed countries. It is realised that these countries need special cooperative action to improve their chances of overcoming the worst handicaps of poverty stabilised by stagnation. The hard-core cases within the group of least developed countries are the land-locked countries.**

**F**or a developing country to be land-locked is to suffer additional handicaps in the field of trade and payments". ... as well as in other areas, one might add to this statement of a group of experts invited by the Trade and Development Board of UNCTAD to identify the problems peculiar to land-locked countries. There are 18 such countries in the Southern hemisphere, of which 13 figure also on the list of Least Developed Countries which has recently been drawn up after prolonged discussions in various international fora (see table below). The remaining countries are *Bolivia, Paraguay, the Central African Republic (CAR), Swaziland and Zambia*, of which only Zambia has managed to achieve above-average rates of growth in recent years.

Only a look at the map is needed to single out the land-locked countries, but to agree on the criteria that define the least developed countries is a complex task. In the event, one major indicator (GNP per capita) and two supplementary indicators (rates of industrialisation and literacy) were retained and 25 countries identified with GNP's per head close to \$ 100 or less per year and with comparatively very low levels of manufacturing and general education. It is of course generally known that the data base is shaky. This is part of the very problem of underdevelopment and ill suited as an excuse for indifference in face of a need that is felt politically and among devel-

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