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How to Prevent the Division of the Free-enterprise World

by Hugh Corbet, London *

Two issues will need to be addressed constructively by the enlarged European Community if the multilateral trade negotiations foreshadowed to begin next year are not to founder. They relate, first, to the division of the free-enterprise world into economic spheres of influence and, secondly, to the isolation of commercial markets for temperate-zone farm commodities.

Dealing with these issues in a positive way does not necessarily imply the disbandment of the Community's galaxy of "association" and preferential trade agreements or the abandonment of its common agricultural policy. Defenders of such symbols of "European unity" are apt to over-react to critics both inside and outside the Common Market.¹ In fact Europeans have traded a mite too much on the notion that "European unity" is in the interests of the rest of the world. For it sometimes seems that they interpret outside support for the idea as *carte blanche* to do what suits them regardless of the interests of others. Most notably, the interests that have been largely overlooked are those of low-cost agricultural producers, particularly across the Atlantic² and in the Antipodes, and those of actual and potential exporters of labour-intensive manufactures in the Third World generally.³

Code of Behaviour

Perhaps more important, if less tangible, is the stake that all countries have in international

adherence to a code of behaviour in commercial relations, namely the General Agreement on Tariffs and Trade (GATT). Only by the rule of law can small countries hope to receive a fair deal in world trade. And only by the observance of a body of international law can bigger trading entities prevent or avoid disruption and loss to themselves, as well as to others, of all the gains made since World War II in the field of multilateral commercial diplomacy.⁴ There has been a spate of talk recently about reforming the rules and principles of the GATT system. It may be though that GATT principles do not need to be reformed as much as they need to be reasserted. Certainly the basic one, the principle of non-discrimination, is now more honoured in the breach than in the observance.

The principle finds expression in the GATT's Article 1 which calls for most-favoured-nation (MFN) treatment to be accorded *unconditionally* among all signatory countries except where, under conditions laid down in Article 24, a customs union or free trade area is being formed.⁵ Article 24 was presumably intended originally to facilitate the union of small countries into larger compet-

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¹ For example, in a television interview last year President Pompidou interpreted American efforts to obtain changes in the management of the common agricultural policy as "tending to weaken it — that is to say, make it disappear". See *Le Monde*, Paris, December 24, 1971.

² Cf. Hubert Humphrey, "Agriculture's Place in International Trade", an Address to the Trade Policy Research Centre, London, July 30, 1971.

³ In this connection, see Richard N. Cooper, "The EEC Preferences: a Critical Evaluation", *INTERECONOMICS*, No. 4, Hamburg, April, 1972.

⁴ John McEwen, "European Negotiations: Need for a Third Party Initiative", *The Atlantic Community Quarterly*, Washington, 1970-71.

⁵ There are exceptions, too, for pre-existing preferential trading areas and now (Part IV) for the benefit of, and among, developing countries.

itive areas. It was not intended to provide the basis for a world of trading blocs.

First the European Community, then the European Free Trade Association (EFTA), and finally the "merger" between the two, were sanctioned by Article 24. The situation has been exacerbated over the years, however, by the progressive extension by the Community of its discriminatory trading arrangements with countries in Africa, around the Mediterranean and elsewhere. Meanwhile other groups of countries the world over have also exploited Article 24 to form thinly-disguised preferential trading areas. Apart perhaps from the Anglo-Irish free trade agreement, all of them, like their European predecessors, have failed to comply with the strict conditions laid down in the article.⁶

World of Trading Blocs

With the enlargement of the Common Market, there is the prospect of a further proliferation of similar agreements to incorporate in the Community's economic sphere of influence the EFTA "neutrals" and the Mediterranean, African and Caribbean members of the Commonwealth, besides a number of island states in the Pacific and Indian oceans. There will thus have been created a trading bloc of around sixty countries accounting for about half of world trade.

The European Community's discriminatory trading arrangements have been justified to the world at large on grounds ranging from "European unity" to "historical ties" and "special responsibility". Similar *soi-disant* excuses might have been proclaimed by others to justify discriminatory trading arrangements of their own. But a sense of global responsibility has so far prevented the United States from pursuing that option while memories of "the greater co-prosperity sphere" have not yet faded enough for Japan to try something more peaceful.

When the GATT was being negotiated after World War II it was agreed that no new tariff preferences should be created. At issue then was the Commonwealth preference system which had been consolidated in the early 1930s when beggar-thy-neighbour policies were rife.⁷ Britain and other Commonwealth countries accordingly accepted in 1947 that the preferences they accorded each other should be allowed to erode with the anticipated reduction in MFN tariff levels. In 1964 the British Government offered to generalise Com-

monwealth preferences. The offer, made at the first United Nations Conference on Trade and Development, gave a much-needed boost to proposals for a world-wide system of generalised tariff preferences in favour of developing countries.

Like the British Empire, the European Community's discriminatory trading arrangements appear to have been "acquired in a fit of absence of mind". Except among the Eurocrats, and possibly in Paris, there seems to be little public enthusiasm for them. It is doubtful, all the same, whether they could be dismantled as quickly as they have been negotiated.

Possible Offers by the EEC

Given that industrial tariffs have been reduced to low levels, objections to the arrangements might be assuaged if, in the forthcoming multilateral trade negotiations, the enlarged European Community was to offer to

☐ phase out, over five to ten years, substantially all remaining tariffs on industrial products traded among developed countries, subject to safeguards against "market disruption", and

☐ harmonise special preferential trade arrangements with developing countries into a global system of generalised tariff preferences in which all developed countries shared the "burden" over the transition to tariff-free trade.

The average level of tariffs on manufactured and semi-manufactured goods, weighted by trade between member countries of the Organisation for Economic Cooperation and Development (OECD), is now 8.3 p.c. for the United States, 8.4 p.c. for the European Community, 10.2 p.c. for the United Kingdom (ignoring Commonwealth preferences) and 10.9 p.c. for Japan. In the United States, the Williams Commission has recommended, in spite of protectionist pressures, that "the elimination of most tariffs over the next ten years" should be an objective of American commercial policy.⁸

More so than on previous occasions, the multilateral negotiations due to start in 1973, or not long after,⁹ will need to be motivated by a high objective, compelling enough to induce in the major capitals a political commitment to their eventual success. Merely halving the industrial

⁶ Kenneth W. D a m, *The GATT Law and International Economic Organisation*, Chicago and London, 1970, pp. 274-95.

⁷ For a brief account of the circumstances of the Ottawa Agreements of 1932, see Leonard B e a t o n, "Pioneers of an Open World", in Hugh C o r b e t et al., *Trade Strategy and the Asian-Pacific Region*, London, 1971, pp. 176-77.

⁸ Presidential Commission on International Trade and Investment Policy, *United States International Economic Policy in an Interdependent World*, Williams Report, Washington, 1971, pp. 10 and 304.

⁹ In two joint statements the European Community and the United States, on the one hand, and the United States and Japan, on the other, committed themselves early this year to commence multilateral trade negotiations in 1973, with preparations beginning almost straight away. Other countries have since associated themselves with these commitments.

tariffs that remain might not be deemed worth the effort.

If GATT negotiations are viewed in an historical context, freer trade could be the only realistic objective of the free-enterprise world in the 1950s and 1960s, following the disorders of the 1930s and 1940s and the consequent need to restore orderly conditions in international commerce. The 1970s should be the beginning, therefore, of a new phase in the movement towards an open world economy in which tariff-free trade can be regarded as not only a realistic but also a necessary objective.¹⁰

Negotiating Techniques

In practice this could mean that negotiations would largely be about the industries to be excepted from a general movement to tariff-free trade among developed countries or, at any rate, are to be allowed a longer transition period in which to adjust to international competition. The negotiations would need to focus on measures for adjustment assistance and safeguards against "market disruption". What of the negotiating techniques that might be employed? Four options are being explored: (a) negotiations on traditional lines based on reciprocal bargaining and MFN treatment; (b) negotiations on the harmonisation of tariffs; (c) negotiations on a sector-by-sector basis; and (d) negotiations for an agreement on progressive, linear and automatic reductions over an agreed period on the lines of the European Community and EFTA. These options should not be regarded though as mutually exclusive of one another.

The MFN clause in the GATT requires tariff concessions that have been negotiated between two or more signatory countries to be extended unconditionally to all adherents to the General Agreement. In the past it has therefore had the effect of limiting the progress of multilateral negotiations to the pace of the least willing participants. The Kennedy Round negotiations, based on linear tariff reductions, were designed to overcome resistance to progress posed by the traditional system, but on the "sensitive" products in tariff schedules they in effect reverted to item-by-item bargaining. Before the completion of the marathon negotiations, which nearly broke down several times, it was recognised that a different approach would be required in any future tariff-cutting exercise.

¹⁰ The below discussion of negotiating techniques draws heavily on the report of an Advisory Group of the Trade Policy Research Centre, *Towards an Open World Economy*, London forthcoming, and a supporting paper, Hugh Corbet and Harry G. Johnson, "Optional Negotiating Techniques on Industrial Tariffs", in the same volume. Also see Gerard and Victoria Curzon, "Options After the Kennedy Round", in Johnson (ed.), *New Trade Strategy for the World Economy*, London, 1969.

Extant tariffs, apart from those which retain only a certain "nuisance" value, are unlikely to yield to conventional negotiating techniques. Stronger resistance can be expected from the interests protected by them. Another traditional type of negotiation would thus be so encumbered with "exceptions" that the effort required to reach agreement could well far exceed the will to do so.

Linear Tariff Reductions

Negotiations aimed at harmonising tariffs, proposed in order to overcome the problem of "tariff disparities", would require countries imposing high rates of duty to make larger concessions than those with more even rates of duty. The idea implies a rejection of the principle of reciprocal bargaining at a time when on all sides renewed emphasis is being put on the need for reciprocity in multilateral trade negotiations.

Exploration of the sectoral approach has suggested strongly that that technique has little practical applicability. There are very few industries in which the nature of the trade is such to make bargaining possible among advanced countries on a reciprocally advantageous basis without bringing into the picture the effects on the competitive positions of related industries.

An agreement on progressive, linear and automatic tariff reductions over an internationally agreed transition period would satisfy, since it would entail an equal commitment from all parties, the principle of reciprocity. It would also serve to meet the objective of tariff harmonisation and to contain the problem of exceptions from tariff liberalisation. Furthermore, by permitting the most willing participants to set the pace, this approach could provide the basis for an imaginative counter to protectionist pressures and restore the momentum of world trade dynamics.¹¹

The present writer has argued elsewhere that, although it would ameliorate the problem of trading blocs, industrial free trade would not provide sufficient inducement to the United States, whose manufactured exports are increasingly technologically advanced products not greatly troubled by tariffs.¹² That is why, in addition to non-tariff distortions of international competition, the forthcoming GATT negotiations will need to address the root causes of the disarray in international agricultural trade.

¹¹ This approach appears to be favoured by the GATT Director-General, Olivier Long, "Toward Better Trade Relations in the 1970s", an Address to the Trade Policy Research Centre and the Foreign Affairs Club, London, January 24, 1972.

¹² Hugh Corbet, "Ein Programm für den Wirtschaftsfrieden", in: *WIRTSCHAFTSDIENST* Nr. 1, Hamburg, January, 1972. This article argued for a conditional MFN approach to multilateral trade negotiations, making use of Article 24 to put together a broad trade strategy embracing tariffs, non-tariff barriers, obstacles to agricultural exports and special tariff treatment for developing-country manufactures.

Those root causes are the high farm-support prices in highly industrialised countries which, protected by import quotas and variable levies, stimulate increased production and thereby cut out low-cost foreign suppliers, or which go even further and generate substantial surpluses that have to be either stored or destroyed at high cost or dumped at subsidised prices on world markets. In this way the heavy costs incurred in maintaining a reasonable relationship between rural and urban incomes in industrial economies are passed on to traditional agricultural exporting coun-

tries and to developing countries that, as a result of the Green Revolution, could become major exporters of agricultural produce.

An international agreement among developed countries on the elimination of industrial tariffs could provide the framework for a process of more or less continuous consultation and negotiation on *inter alia* the expansion of commercial trade in temperate-zone farm commodities.¹³

¹³ An analysis of trade problems in the agricultural sector by Dr T. E. Josling will soon be published in *INTERECONOMICS*.

Non-tariff Barriers Are a Manageable Problem

by Dr Dieter Stentzel, Hamburg *

With the advancing general dismantlement of tariffs, it became progressively more obvious that, apart from import duties, there are a number of other obstacles for a free flow of international trade. There are numerous rules, regulations, and restrictive practices imposed and operated by government departments and semi-official bodies which exert a more or less strong influence on the volume, the directions, and the composition of foreign trade. Such measures designed to channel trade into desired directions are collectively known as non-tariff barriers (NTBs).

NTBs, it is clear, are acting as distortions of competition, and if it is intended to establish fair competition, they ought to be done away with. If it should be possible to achieve such an ideal state in industrialised countries, this would set up important growth impulses, not only for the industrial nations themselves but also for LDCs, which are in need of such aid. It is especially their export trade which is gravely hampered by NTBs, because it is much more difficult for them to obtain correct and detailed information about the complicated network of NTBs obtaining in individual industrialised countries. It is also the case that commodities and manufactured goods which form important parts of the LDCs' export trade often compete with the products of structurally weak sections of industrialised countries, e.g. farm produce, textiles, and leather goods, and industrial nations tend to grant these industries special protection.

A Breakdown of NTBs

There are, thus, a number of important reasons why NTBs should be dismantled. How to achieve

this, however, is a much more difficult question than in the case of tariffs. In view of their great variety, it is impossible to arrange simply for linear annual cuts (which is possible with duty rates) to be operated by all the trading partners. It will therefore be necessary to look for different methods for reducing the impact of different NTB types. A breakdown of NTBs according to their method of operation shows the following types:¹

□ Measures whose original purpose was to manipulate trade, including regulations concerning customs declaration and handling, import quotas, import taxes and excise duties, export subsidies;

□ Measures to regulate home production and/or distribution, including public health, standardisation, packing and labelling rules. True, such measures are generally not intended to manipulate imports or exports but there have been, and

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¹ J. Walter, J. W. Chung: The Pattern of Non-Tariff Obstacles to International Market Access, In: *Weltwirtschaftliches Archiv* (Archives of World Trade), Vol. 108, 1972, No. 1, p. 122.