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Unsolved Problems of World Trade Policy

by Franz J. Jägerle, Hamburg *

Talks began early in March in Geneva between the members of the extended EEC and their trading partners. These negotiations are being held in accordance with GATT Statute which insists that third countries must be compensated for any disadvantages they may suffer as a consequence of Great Britain, Denmark and Ireland joining the EEC.

Once before, after the establishment of their common customs tariff, the members of the Community were obliged to make tariff concessions to third countries. At that time, the talks on compensation proved to be the forerunner of the so-called "Dillon Round". The discussions now in progress are also intended to be the prelude to the round of negotiations, which are planned to begin in the autumn of this year, on a further world-wide liberalisation of trade.

Differing Opinions

In the meantime, however, it must be asked whether the present compensatory negotiations and the planned new round of multilateral trade talks will in fact produce the much hoped-for results. For the most recent events in the field of monetary policy and the American threats to take retaliatory action in the sphere of trade have once again clearly demonstrated that immense difficulties must still be overcome before a truly satisfactory solution can be found to the as yet unsolved monetary and trade problems.

The OECD Report which was published in September last under the title "Policy Perspectives for International Trade and Economic Relations" and which contains the conclusions of a working party chaired by Jean Rey¹ confirms the impression that agreement on the many controversial issues is not yet in sight. For, although this working party which consisted of twelve experts—Germany being represented by the former State Secretary Dr Günther Harkort—was able to agree on many general principles, opinions differed on a number of important points. These controversial points, which are clearly recorded in the Rey-Report, faithfully reflect the differences of opinion which for a long time now have persisted between the United States and to some extent also Cana-

da, on the one hand, and the remaining great trading areas, particularly the EEC and Japan, on the other.

In the sphere of trade policy, to which the following remarks are confined, opinions diverge on three points of special importance for a further trade liberalisation. These are:

- ☐ The role the general escape clause contained in Article XII of GATT is to play in future as a means of solving balance-of-payments difficulties;
- ☐ the treatment of the agricultural sector in the forthcoming liberalisation round; and
- ☐ the attitude towards the association and preferences policy of the EEC.

Controversial Escape Clause

Article XII of GATT which permits the imposition of import restrictions to correct external imbalances has proved decidedly unsatisfactory. On this point all the experts of the working party agreed. But opinions differed about how this problem can be tackled in future. The majority felt that imbalances in foreign trade should in principle not be removed by means of restrictive trade measures. Such interferences in the normal flow of trade—so the argument—did not only adversely affect the climate of international trade relations, but also endangered internal stability. To make the demand for an abandonment of import restrictions more easily acceptable, the majority of the experts suggested that the newly to be negotiated international monetary system should provide for a more efficient adjustment mechanism in the shape of greater harmonisation of national economic policies and more frequent parity changes. If, however, in exceptional cases countries did resort to trade restrictions, these should be subject to much stricter supervision than hitherto. Instead of quantitative restrictions, only temporary levies or taxes on imports should be permissible as this type of intervention is less harmful to international trade relations.

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¹ Policy Perspectives for International Trade and Economic Relations, Report by the High Level Group on Trade and Related Problems to the Secretary-General of OECD, Paris 1972, 168 p.

Deviation from these proposals, i.e. the recourse to import restrictions, was defended by two members of the group of experts. They admitted that any interference with the market mechanism is to be regretted and therefore has to remain an exception. But nevertheless they emphasised that such trade control measures must have a certain significance in future, too. It should, however, be taken into consideration whether the scope of their application could be narrowed by a modification of present stipulations and their effectivity improved.

Unsuitable Selective Import Surcharge

The two members who represented the minority view are not mentioned by name in the report, but they were obviously the two North American experts – William Eberle of the USA and the Canadian A.F.W. Plumptre. The US attitude was hardly surprising in view of the present desolate state of the US trade balance—specially if it is taken into consideration that the not altogether unreasonable opinion has been gaining ground that the country's large foreign trade deficit will hardly be removed by a new currency realignment alone. This is apparently the reason why Americans are now inclined to lay the main emphasis on trade policy measures. The idea is being considered to introduce a tax on imports which would be linked to the balance of payments' development. As a counterpart of global or sectoral tariff reductions, this surcharge could be imposed in a balance of payments' deficit situation – either across the board on all imports or on those from specific countries. Apparently, the advocates of this scheme think that it can be incorporated in the GATT Statute.

Whether such an import surcharge system will be able to fulfil its intended purpose is however doubtful. According to current economic theory, the most effective means of restoring external equilibrium are internal monetary and fiscal measures. Restrictions on trade, while not being dismissed out of hand, are nevertheless regarded as steps to be taken as a last resort and only when it is imperative to achieve quick results. Practical experience tends to confirm the theoretical economists, since the effects of such measures on the country which resorted to them have been relatively limited in both amount and duration. The example of the 10 p.c. US import surcharge introduced in August 1971 is a case in point.

Open to serious misgivings is also the modification of Article XII which the Americans are seeking with regard to a selective application of import restrictions. For this would not only mean the

introduction of discriminatory practices contrary to the spirit of GATT; at the same time there would be the risk of world-wide chain-reactions and a strengthening of protectionist tendencies which in any event seem to be gaining ground in all parts of the world.

Equal Treatment of the Agricultural Sector?

Essential for a successful outcome of the forthcoming GATT Round are the efforts to lift at least some of the restrictions which are presently hampering trade in agricultural products. But the experts whose views are recorded in the Rey-Report were unable to reach agreement on this important question. Their opinion differed already in respect of the way they evaluate the set of problems which the agricultural sector is facing. The majority proceeded on the assumption that agriculture is essentially different from industry and that it would be necessary to wait many more years before the task of removing the present trade barriers and distortions in the agricultural sector can be tackled. With a view to enable a gradual dismantlement of the high protective barriers at least in the long run, some members of the majority party once more put forward the concept of the "montant de soutien" which was already discussed during the Kennedy Round; they suggested that at the same time the present price support policy be gradually replaced by direct payments which would not stimulate increased production. The other members, however, were content to recommend a number of measures which, in their view, would be apt to make trading in agricultural produce somewhat easier in the short or medium term without questioning the principles and mechanism which govern the present agricultural policies.

In contrast to the majority, some other members –among them once again Mr Eberle– pointed out that, while agriculture had undoubtedly serious difficulties of adaptation, the same might be said of certain industrial sectors threatened by under-employment. It should therefore be possible to apply to agriculture the same kind of regional policy which numerous governments had pursued to alleviate difficulties of adjustment in industry. If any progress was to be made in the liberalisation of the agricultural sector, agreement would have to be reached now on the general aims to be achieved by a thorough-going reform of agricultural policy.

Long-term Solution

There is no question but that the gradual removal of the discriminatory practices in the agricultural sector is of very great importance to the USA, for,

after all, farm products account for 20.5 p.c. of total US exports. Several other developed countries like Canada, Australia and New Zealand as well as many developing countries are likewise vitally interested in their products gaining freer access to the world market. It would therefore be wrong to dismiss lightly the American objections and in particular Mr Eberle's warning to the effect that a further liberalisation of trade in industrial goods would be impossible without parallel progress in the agricultural sector. And yet, the Americans and the other advocates of an immediate liberalisation of trade in farm products for their part must not forget two things: Firstly, the existing Common Agricultural Market of the EEC, which is most frequently under attack, constitutes an intricate system which cannot be radically altered without endangering the very existence of the Community. Secondly, it is not correct that the problems of adjustment agriculture is facing are comparable to those of other sectors of the economy. A businessman or artisan will always find alternative employment more easily than a farmer. Frequently, the only alternative open to a farmer is to hire himself out as unskilled worker in a far distant factory. In addition, it must not be overlooked that in the EEC 13 p.c. of the working population is engaged in the agrarian sector. This is still a very high percentage compared to other countries, although, in absolute terms, the figure has gone down in the past twenty years by 50 p.c. to 10 mn.

In this situation—on the one hand, the need to include agriculture in the negotiations for a further liberalisation of world trade, on the other, the special adjustment problems the agricultural sector is facing—the above-mentioned proposal put forward by some of the experts would seem to offer the most appropriate way out of the impasse: First of all, the level of farm-support granted by the individual member countries (including export subsidies) should be ascertained and consolidated.

Once this has been done, the national levels of support should be gradually reduced and the price-support policy simultaneously replaced by structural and social aid. In this way, an improved world-wide division of labour in the field of agriculture could be gradually achieved without social and political disturbances in any of the countries concerned.

The EEC Association and Preferences Policy

Perhaps the most contentious points in the present trade policy discussion are those concerning the EEC's preference and association policies.

The Rey-Report came to the conclusion that in the short run no agreement is possible on these knotty problems, and stated that it is the responsibility of GATT viz. its individual members to see to it that GATT and especially Articles XXIV and XXV are properly observed. In view of the fact that some of the present difficulties in this context are the result of the uncertainties surrounding the future of the EEC, the Community should state clearly its aims and intentions as well as the geographical limits of the area with which it wishes to have special trading arrangements.

As for the rest of the points at issue, the Report is content to repeat the well-known arguments for and against the EEC policy. What one misses in this part of the Report even more than in others is a clear statement of the working party's own view. One possible solution to this special problem the experts after all indirectly suggest elsewhere in their report when they come out in favour of complete abolition of all duties within a period of five or ten years. This would, of course, be tantamount to the disappearance of all customs preferences. But whether this is meant to be more than a vague hope is highly doubtful — and the experts themselves make this clear.

Gap between Opposing Views

In the aggregate, the Rey-Report is valuable for the diagnosis of the problems. Its authors avoid the mistake of treating trade policy as a special complex. Due regard is paid to the world economic context in which it operates and especially to the interdependence between trade and monetary policies and to the increasing importance of multinational companies. The Report does not only suggest possible ways of achieving further tariff reductions; it also stresses the need for the removal of non-tariff barriers to trade and recommends that more regard be paid in future to the interests of less developed countries.

There is no question that this comprehensive description of the underlying problems waiting to be solved is a useful basis for the forthcoming discussions. What the Rey-Report was unable to do is to suggest practical ways of narrowing the very considerable gap that exists at present between the American and European or Japanese views of trade policy problems. With no practical solution in sight, it is obvious that the whole complex of unanswered questions will weigh heavily on the forthcoming GATT Round. If this seventh great round of world trade liberalisation is not to be condemned to failure in advance, all interested countries would do well to use the time still available until the start of the talks in trying to narrow the differences between their opposing views.