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The Future Strategy of GATT

by Dr Alfons Lemper, Hamburg *

Scarcely any modern international institution can look back upon such successful, if only unobtrusive, activities as GATT, which celebrated its 25th anniversary last year. While GATT leaves no stone unturned in its present endeavours to summon its members to a further round of trade talks as early as next autumn for the main purpose of bringing about a new reduction of trade barriers, especially the so-called non-tariff-barriers (NTBs), there are more and more signs, from many quarters, of reservations, far-reaching claims and even protectionist interests. Critical observers have been doubtful for some considerable time whether GATT will also this time succeed in continuing the fruitful series of trade conferences, like the Dillon and Kennedy Rounds. Recent trends point indeed in the direction of GATT facing the necessity to change its strategy and self-comprehension quite substantially lest it jeopardise the future fulfilment of its traditional task of being the body to keep world trade in order and direct it, and run the danger of being degraded to a forum or an agency for those who wish to discuss what in fact are particularist interests. Why, then, does GATT need a new strategy and new self-comprehension? There are quite a number of reasons for this.

The first reason is the obvious change of the functions GATT itself has undergone in the course of 25 years of its existence. GATT was founded in

Havana in order energetically to erode the thicket of trade barriers, near enough deadly as it was for world trade, that had grown in a frightful manner during the thirties and the second World War under the umbrella of nationalisms, short-sighted protectionisms and the lack of opportunities for employment. By its initiators the newly established organisation was given an extremely effective instrument in the shape of the principle of the so-called most favoured nations treatment.

Change of GATT's Functions

On the strength of this instrument of liberalisation GATT achieved a widely unexpected success which, in some aspects, strikingly resembles the economic success of the Federal Republic of Germany in the years after 1948. The consistent measures towards liberalisation taken by the then Minister of Economics Professor Erhard came at a time of utter and complete plan-bureaucratic numbness, absence of forthcoming initiatives and, simultaneously, of grotesque supply shortages. The success was called the Economic Miracle and excited the world's attention. Similar in the case of GATT: the liberalisation began after a phase of the gravest disintegration, bilateralism and protectionism. True, the pulling-down of trade barriers did not come over night but took place progressively, and there was no real "trade miracle". All the

same, the six-fold growth of the volume of world trade during the 25 years of GATT activities is to no mean extent due to the indisputable success of the consistent policy of liberalisation.

There are also other parallels. In the Federal Republic of Germany it was recognised fairly soon after the introduction of liberal trade policy, and in spite of its spectacular success, that the liberal concept is usually more effective the more misconstrued situations it meets, but that the liberal concept by itself will soon prove insufficient as sole principle of the order and would have to be supplemented by essentially more differentiated measures based on different conditions. The more opportunities there exist for the liberal principle to spread, the sooner it meets its own limitations and needs supplementing and correcting. GATT, too, has had to make the experience that the principle of trade liberalisation with its accompanying success is also the basis of doubts being cast on itself. Criticism is being heard; the principle of most favoured nations treatment in its absolute application has long been abandoned; preferential systems create problems of their own and, finally, increasingly far reaching exceptions are being claimed. Even outright protectionism becomes again a topical subject.

The symptoms are unequivocal: if GATT is to uphold its role as the body to keep world trade in good order, it is highest

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time more intentionally and clearly to take the step from a strategy of liberalisation, which in any case has been weakened by many exceptions and violations, to a differentiated conception of competition for all trading nations: A conception, therefore, upholding and safeguarding the advantages of the liberal principle, meaning decentralised steering, flexibility and margin for initiatives, and yet being in the position to render justice to the primary interests of all partners and leave the competition intact in the long run.

Disadvantages of Maximum Liberalisation

If the fundamentally liberal doctrine of GATT would hold true, surely its undoubted target would be the total elimination of all tariff-orientated and non-tariff trade barriers, thus a world without tariffs. But even the fathers of GATT never had this ultimate aim in mind and had, for instance under Article XVIII, admitted far reaching exceptions. The fact that the world had never been altogether without tariffs would, as such, be no reason to abandon on principle this aim. But experience has taught that the elimination of open tariff barriers would bring in its wake greater significance of the hidden non-tariff

barriers and that, with a higher level of liberalisation, the difficulties would progressively grow.

However, the real complexity originates from the target itself. This means that it is more than doubtful whether in a world of differences and contrasts a policy of maximum liberalisation could actually be a realisable and desirable maxim. The liberal dogma of trade policy can look back upon a tradition of more than two centuries and has in all relevant textbooks influenced trade policy thinking, more perhaps than any other dogma. This dogma is based on the principle of division of labour according to the comparative advantage and teaches that a consistent application of this principle by optimal allocation of resources would result in a maximisation of production and thus be advantageous for all concerned.

While thorough theoretical and empiric investigations have admittedly not brought doubts about the correctness of this thesis, they did nonetheless question its actual relevance to the complex trade conditions of our time because of the pre-conditions for the application of this thesis not corresponding to our world as it is today. It is also of great importance that the liberal concept assumes

more or less equal partners whereas matter-of-fact politics must take particularly the multifariously-rooted enormous inequality of the partners into account. Under these conditions the principle is not neutral in its distributive implications. It tends, in this tug-of-war, to favour the strong and discriminate against the weak and therefore provokes strong political resistance.

Conceptual Reorientation

We also know from experience that every free competition tends to abnormalities in as far as market advantages, economies of scale, etc., favour the formation and exploitation of positions of strength which, in turn, in the long run undermine the possibility of the functioning of genuine competition. National policies of competition, too, look today as one of their foremost tasks on the definition of the pre-conditions for competition and the correction of gross imbalances. Internationally, the conditions are directly comparable: GATT can in future not restrict itself in the first place to push formal liberalisation but must develop a concept and the instrumentation allowing it to achieve, and maintain, the long-term functioning of international competition.

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Such capability of functioning cannot stem from the conditions of trade alone but must be orientated to the economic development. This fact has long been acknowledged by GATT and in fact been taken account of to some extent in the original Agreement under Article XVIII. In 1965 GATT has, in the enlargement of the Agreement by Chapter IV on trade and development, emphasised this aspect although, in doing so, it competes with UNCTAD. What GATT apparently still lacks is the necessary conceptive processing and strategical evaluation of these coherences.

Trade and Domestic Targets

The fact would have to stand in the fore of a conceptual new orientation that the primary aim of all partners is the economic development to which many other aims must at present be subordinated. Trade, too, is in this respect only of instrumental importance. Unhampered trade can assist the internal economic development but it is also possible that it stands in its way in some cases. In principle, the politicians will assess the prosperity effect of the trade (by real location of the resources) lower than the prosperity effect of the internal economic development. The most recent past therefore shows that, in the conflict between the aims of an unhampered trade as far as possible, and politically more relevant domestic targets like growth, full employment, etc., usually greater and decisive weight will be given to the latter.

International competition therefore foremostly means growth competition. But trade is the means for the purpose. Under operational aspects GATT will henceforth be able to play its role as protector of world trade efficiently only if it includes the manifold constellations of inter-

ests and group formations of the world economy in the concept of its strategy as legitimate basic facts in their own right instead of merely tolerating them as exceptions of the general, liberal rule. Main points would be:

□ the fundamental and growing difference of development up to forty to fifty-times the per capita income which in itself does not allow for competitively equal treatment (see GATT Article XXXVI). Apart from the aspect of resources the top group of industrial countries fulfills all essential pre-conditions for the domination of the corresponding markets. No functioning competition is possible without an effective corrective;

□ the activities of GATT should be guided not so much under the aspect of a global division of labour but rather by conditions for the functioning of individual markets;

□ the ability to function presupposes the safeguarding of a minimum degree of coordination and supervision of actual trade practices and of the activities of multinational concerns if one were to circumnavigate the danger of cumulative defence measures. A correctly understood "orderly marketing" could well be a good beginning;

□ the trade policy should acknowledge the natural regional orientation chiefly of the industrial countries as a normal feature and not only just tolerate it;

□ under certain circumstances GATT should actively further the preferential policy — also between countries not regionally linked but of similar structure, and this particularly under the aspect of market creation at equal chances;

□ the problem of association and preferential treatment of groups of countries with rather different development requires

a fundamental solution because preferences on the one side mean discriminations against partners which could expect equal treatment, on the other.

Monetary Policy

Besides these problems there is, for the future activities of GATT, an entirely changed situation in view of the latest monetary developments towards greater flexibility of the rates of exchange. The politicians have shown that, in their view, trade policy and monetary policy are exchangeable entities up to a certain extent. At fixed rates of exchange trade and tariff measures carry considerably more weight. On the other hand, however, the more flexible the rates the greater the extent to which the monetary policy assumes the function of protection originally exercised by the trade policy. No country will in the end willingly waive such barriers of protection especially in cases of a growing possibility of rather differing partners being involved.

In the case of an overall superiority of a partner, flexible rates of exchange would lead to a displacement of the rates; it would, as it were, set the stronger partner on the longer course and render his competition more difficult. This, then, is one of the decisive consequences of a policy of flexible rates of exchange; it guarantees the international ability to pay but at the same time robs the international competition of a good deal of its sharpness, perhaps even its fairness, because of the permanently changed yardstick for competition.

The gain in liberty, which a successful round of trade talks would bring through a further reduction of trade barriers could easily prove a sham liberty. It could at best bring more and fairer competition if only limited to some sectors.