

# GATT and the new trade world

by Gilbert G. Winham

In November 1982 a Ministerial-level meeting was held in Geneva of the eighty-eight Contracting Parties to the General Agreement of Tariffs and Trade (GATT). This was the first meeting at this level since the Tokyo meeting in 1973 which launched the Tokyo Round trade negotiation. The purpose of this meeting was to take stock of world trade relations at a critical time in the international economy, and to set a liberal tone for commercial relations for the remainder of the decade. This was a harder task than it appeared. The exchange at the Ministerial session was sharp and prolonged, and the meeting only narrowly managed to produce a joint document acceptable to the GATT members.

The meeting coincided with a global recession that has reawakened memories of the 1930s' depression. Global production levels are down, and unemployment figures are the highest recorded in industrial nations since the mid-1930s. The current downturn has jolted international trade. Since the 1950s world production has grown on average about 5 percent per annum, while world trade has grown at about 7 percent. By 1981 trade growth had fallen to nearly zero, and it remained at that level through 1982. It is well known that trade protectionism increases during straitened times, hence the Ministerial meeting was initiated to head off a protectionist response that has in fact been increasing since the late 1970s.

The result of the meeting was a sixteen-page Ministerial Declaration committing the members "to reduce trade frictions, overcome protectionist pressures, avoid using export subsidies inconsistent with Article XVI of the GATT and promote the liberalization and expansion of trade." It is tempting to view the Declaration as empty posturing, particularly when compared to the concrete protectionist actions that nations have taken recently, for example on steel products or automobiles. The meeting was not posturing, however, and the significance of the Declaration can be seen on at least two levels. Most immediately, the United States, which initiated the Ministerial meeting, had raised a series of new and old trade problems on which some international action was likely necessary. These problems, such as agricultural subsidies, trade in services, and investment performance requirements, were intensely divisive, and the meeting provided an opportunity to explore common approaches to these difficult policy areas.

## **Protectionism versus liberalism**

The second level of significance bears on the nature of protectionism and liberalism in the modern trade system.

Protectionism in industrialized countries is a grassroots phenomenon. Its roots are national, and it is initiated through many discrete policy actions, sector by sector, even product by product. It responds to specific domestic pressures, and it is often not accompanied by any governmental plan or guiding economic theory. Liberalism, on the other hand, is a broad-scale phenomenon. Its roots are international, and it is initiated in great spasms centred around multilateral negotiations attended by many nations. The effective pressure for freer commercial relations comes from outside a nation's domestic structure, and an action to liberalize trade typically takes the form of a general plan which is to be implemented over time. In the struggle between protectionism and liberalism, the 1982 Ministerial Declaration could be considered a passable result achieved under exceptionally adverse circumstances. At least it gave trade ministers ammunition to confront their protectionist lobbies with the argument that international cooperation was not dead.

The Ministerial meeting was significant because it tackled tough questions and it avoided a breakdown. To appreciate this result it is useful to compare international processes of the GATT to the exigencies of cabinet government in a parliamentary democracy. Appearances of division within cabinet are assiduously avoided in the conduct of parliamentary affairs, because division weakens the capacity of cabinet to manage the government. Similarly in GATT, irreconcilable divisions among the members weakens the capacity of the collective organization to manage the trade system, and particularly to maintain the momentum of freer trade. The greatest danger in today's economic climate is that a desperate nation might take protective measures that seriously jeopardize the interests of others, and thus pave the way for retaliatory action. By maintaining some modicum of international accord, the GATT meeting probably forestalled for the moment the threat of competitive protectionism that so gravely worsened the economic conditions of the 1930s.

## **Agriculture — most divisive issue**

The Ministerial Declaration was not long on specifics, but the outlines of several important battles are clearly evident. Of these the most important was agriculture, in

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