

CANADIAN

FOREIGN POLICY

SERIES



External Affairs Affaires extérieures
Canada Canada

STATEMENTS AND SPEECHES

Interdependence: Vulnerability
and Opportunity

The Per Jacobsson Lecture by
Mrs. Sylvia Ostry, Ambassador
for Multilateral Trade Negotiations

WASHINGTON, D.C.

September 27, 1987

Canada

Interdependence: Vulnerability and
Opportunity

Mr. Chairman, distinguished guests, ladies and gentlemen.

It is a great honour and privilege for me to deliver the 1987 Per Jacobsson Lecture. The letter of invitation suggested that I might say something about the multilateral trading system so that is what I intend to do. Looking at the list of lectures since 1964, I realized that this was the first time this topic had been the focus of discourse. That omission may be interpreted in many different ways -- which I leave to the audience -- but for me it is another welcome sign of growing awareness of interdependence, the theme of my lecture.

The word interdependence has been overworked in recent years but that is because it captures such an insistent aspect of our reality.

Interdependence has two separate but related aspects: the increasing economic linkage among countries through trade and financial flows and, at the same time a

NOTE: The views expressed in this lecture are those of the author and do not necessarily represent the policies of the Government of Canada.

slightly different concept, i.e. the complex interrelationships between major influences on the world economic system, present and foreseeable. What interdependence entails is amplified risk, and -- since knowledge usually lags behind complex change -- amplified uncertainty. More profoundly, interdependence means that opportunities for joint gains are enhanced but vulnerability is also greatly magnified.

I want to elaborate on the notions of linkage and of interrelationship as they occur in the multilateral trading system and, more specifically, in aspects of the Uruguay Round, the most important negotiations since the formation of the GATT and, without doubt a watershed. But before I do that, I must recall the background for you.

The Punta Declaration of September 1986 which launched the Uruguay Round took interdependence for granted when it stressed the need for "concurrent action" to make the international monetary system work better and increase the flow of resources to developing countries. To put it baldly, the Uruguay Round on its own cannot preserve the multilateral trading system.

In the absence of necessary overall changes in policy the abuse of trade policy will only worsen the imbalances and the disorder in exchange markets. Trade policy is no substitute for macro policy. This audience is well aware of the effects, especially during the 1980's, of the exchange rate system on trading patterns and protectionist pressures. Further, the debt of the middle income countries, whose imports shrank by one-quarter over the 1981-86 period, contributed significantly to the U.S. trade deficit. If the multilateral trading system is to be rebuilt and strengthened, progress in multilateral surveillance and coordination of policy among major industrialized nations is necessary; so is the growth-with-adjustment strategy to address third world debt problems. But these conditions, though necessary, will not be sufficient in themselves. I don't intend to deal with such issues on their own since they have been well rehearsed by my predecessors and in many other places.

Yet -- and I fear this is not well understood by those who focus mainly on macro conditions and policies -- the "not sufficient" is as important as the "necessary". Indeed, the wellspring of protectionist pressures in the OECD, and the rise of the "new protectionism" since the

early 1970's, has been mainly "micro" in origin. The new protectionism reflects incapacity or unwillingness to adjust to ongoing structural change. It is aggravated by supply shocks and by a hostile and turbulent macro environment.

Even without further supply shocks the pressures for adjustment will not abate. What is more, as I shall argue, the world economy faces an unprecedented conjuncture of forces for structural change which capture the two aspects of interdependence, vulnerability and opportunity. Before I go into that I should like to take a brief look at the new protectionism.

The New Protectionism

It sounds like the title of a magazine article -- the new feminism; the new lifestyle; the new skirt-length. But this time it really is new. The new protectionism, because it takes the form of domestic or border non-tariff measures, has been difficult to quantify. There have been plausible estimates of the impact of border measures such as quantitative restrictions, and voluntary export restraints, orderly market arrangements (often GATT-illegal). They suggest

that as much as one-fifth of OECD manufacturing imports were affected by 1980, a quadrupling over the 1970's. In addition, over the same period, the OECD notes a marked increase in domestic industrial subsidies in member countries -- a doubling, in fact, in the share of such transfers in the operating surplus of the manufacturing firms affected. In agriculture, the ballooning of domestic transfers in the industrialized countries has reached monstrous proportions, thus achieving for this sector a dubious distinction as the cautionary tale of political short-termism and economic myopia.

Since 1980, the move to managed trade has not abated. Indeed, despite the so-called porousness of many of the non-tariff measures, during the 1980's the most rapidly increasing protectionist actions have been that subset of NTB's most likely to have the most restrictive effects. There has also been a rise in what is called U.S. "process protectionism," i.e. the increasing use of quasi judicial mechanisms to discourage imports or provoke export restraint. Further, the scope of managed trade has expanded in terms of both industry and country coverage. The protectionist measures applied by the OECD countries after 1980 were mainly directed against exports from each other and from the Newly Industrialized Countries (the

NIC's). In absolute terms, however, non-tariff barriers are significantly more prevalent on imports from developing countries. This is mainly because of the importance of agricultural products and textiles and clothing in the exports of the developing countries.

The new protectionist measures have a number of characteristics which make them particularly threatening to the system. They create a political constituency for their maintenance in both the importing and exporting countries through the generation of scarcity "rents". By fostering trade diversion, both geographic and product-oriented, they build in a dynamic for extension. Often designed to provide a breathing-space for adjustment, they are seldom successful.

The effects on the system are even more damaging. Precisely because they are less transparent and less easily comprehended than are tariffs they evoke little public reaction as the system is slowly transformed. But the new protectionism, by violating the basic principles of the GATT, weakens external counterpressure to domestic protectionist demands. GATT itself loses authority. In sum, there is little in the history or analytics of managed trade which promises

self-correction. There is thus no escaping the need to deal with the political economy of structural adjustment, both at home and internationally, if we are to halt and reverse the erosion of the multilateral trading system. This is especially true in view of the powerful structural changes now overtaking the world economy.

I want to talk about the
Sources of Structural Change

The strong pressures for adjustment in the OECD since the 1970's came from several sources: the rise of the NIC's and the increasing challenge from Japan; continuing technological change, especially in information technology; severe commodity and oil shocks; and the breakdown of the Bretton Woods system of fixed exchange rates. The process of structural adaptation, difficult under the best of circumstances, was impeded by a number of government actions. Imposed mainly during the 1960's and early 70's, these measures had the unintended effect of impairing the capacity to adjust. The degree of impairment, it's true, varied significantly from country to country, being more acute in Europe than in the U.S. or Japan. Slower growth in the 1970's and the deep recession of the 1980's also inhibited mobility and adaptability.

In the earlier postwar decades, when a major industrial transformation took place, the unprecedented surge in real growth made the process of structural adaptation appear almost effortless, much of the reallocation of resources coming out of the growth margin rather than out of someone else's hide. The virtuous circle of the golden decades is familiar: the dismantling of protectionist barriers in goods and capital markets both fed and was nourished by increasing investment, technology transfer and productivity. The consequent robust and sustained rise in growth both facilitated and was enhanced by structural adaptation through improved market signals from the international economy. Since the new protectionism functions to inhibit the flexible response of markets to price signals, the growth of economies is also checked. Slower growth begets slower growth.

The rise of the new protectionism and other symptoms of malaise such as high levels of structural unemployment reflect the "unfinished business" of adaptation to the structural changes of the 70's and early 80's. Unfortunately, the world won't stand still while we tidy up.

Indeed, that other inheritance from the past -- the gross external imbalance in the OECD and the debt of the developing countries -- while macro in origin will require more than macro policy changes in the industrialized world and in the NIC's. It will also require unprecedented structural adaptation in both the OECD and the developing countries. Such structural adaptation is essential if world growth is to be sustained and the multilateral trading system preserved. The required switch in resources within the U.S. economy from domestic absorption into the export- and import-competing sector will entail massive sectoral and regional reallocation of the labour force. It will also demand historically unique levels of investment both from domestic and foreign sources. (It is worth noting that in the course of these adjustments investment flows may well dwarf trade flows yet no multilateral disciplines exist to improve predictability and resolve disputes.)

The opposite structural changes are needed in the surplus countries, Japan and Germany and also from the NIC's. Because of ever-closer linkage, the effect on the non-OECD world of these changes in external balances will also be very significant. The reason is clear: by mid-decade the U.S. was absorbing over half of Latin

American and one-third of East Asian exports.

Protectionist pressures will shift with changing current account positions. The riddle of the 1990's will be: deficit, deficit, who wants the deficit? Let us hope Lord Lever is wrong in remarking: "It used to be said that when America caught a cold the rest of the world got pneumonia. The way we are going, when America gets well the rest of us will get influenza."

How structural adaptation is to be achieved in confronting global imbalance over the coming years has been widely debated by finance and trade ministers and their policy advisors. Less noted and certainly less integrated in that policy debate has been another development. Since the late 1970's, the pace and nature of change in information technology has evolved into a new technological revolution, one of Schumpeter's "creative gales of destruction." This type of pervasive change in technology does not occur often, perhaps two or three times in the past 150 years. As in each instance of transformation to a new "techno-economic paradigm", it will impose far-reaching change in the structure of industrial output and skills, the organization of production as well as the international division of labour.

It is indeed this unique conjuncture of circumstances -- the major imbalances in the world economy and the onset of a new technological revolution -- which represents the double aspect of interdependence, the magnification of vulnerability and opportunity. The opportunity is that the information-technology revolution creates the potential for a quantum leap in overall productivity and growth which could ease the transition to a more sustainable pattern of external balances and global debt. This could be the way back to the longed-for virtuous circle. But it is contingent on the structural change necessary for its diffusion both at home and internationally. And therein lies the vulnerability. For the risks of impeding adjustment are magnified by this technological transformation. The information revolution, again uniquely, entails a trend to ever-greater international integration of production, services and markets. In this way it provokes further resistance to changes in the international division of labour. As we shall see, this was a major consideration in the launch of the Uruguay Round to which I now turn.

The Uruguay Round

The Uruguay Round was, as I have said, launched in Punta del Este in September 1986. The event was rightly

greeted as new evidence of the improved international economic cooperation which had begun a year earlier at the Plaza Hotel. The Plaza meeting was followed by the Bank/Fund meetings in Seoul, with its unveiling of the Baker initiative on debt, and the blessing of multilateral surveillance at the Tokyo Summit in May. These welcome events improved the atmosphere for the Uruguay launch but it must be admitted that a powerful spur to action in Punta was fear. Coleridge's aphorism is apt; "Fear gives sudden instincts of skill." It was not only the steady, largely invisible, systemic erosion of the GATT that moved the assembled trade ministers to begin the negotiations. It was also the very visible and growing external imbalances, with the accompanying protectionist fury of the U.S. Congress, and nightmare visions of "hard landings", which concentrated minds early that morning.

A serious flaw in decisions inspired by crisis is that delay as the crisis builds may allow time for obstructions to a genuine solution. A multilateral trade negotiation has been a traditional remedy, by and large successful, for diverting or deferring protectionist claims in all countries. The U.S. had been trying to launch a new round since the end of 1982. As we have seen, over the ensuing years, protectionist pressures and

actions had flared up, sapping the credibility of the GATT and thereby weakening the potential countervailing force of the negotiation. Thus the reasons for the delay in the launch are important to understand in assessing prospects for the Round itself.

The ostensible reason for delay was the opposition of the G-10, a small group of developing countries led by Brazil and India which, largely on legal grounds, opposed the inclusion of the so-called new issues of trade in services, intellectual property and investment. I shall discuss this shortly. But G-10 opposition could probably not have prevented a launch had the three major trading powers -- the U.S., Japan and the European Community -- been able to agree on timing. The apparent disagreement between the U.S. and the E.C. largely stemmed from the political and institutional complexity of the trade policy formulation process of the Community. The process is inevitably cautious and lengthy, especially when important policy differences exist among member states as they do in agriculture.

There is nothing new about the impact of domestic policy formulation processes on strategic aspects of international decision-making. The troubled birth of the

GATT itself reflects the hostility of the U.S. Congress in the late 1940's to the Charter of the International Trade Organization, the I.T.O. But the significance of this phenomenon is very different today, in a world that lacks an undisputed hegemon. Professor Kindleberger points to the heart of the matter when he argues that international public goods -- in this instance, the liberal multilateral trading system -- will tend to be underproduced in the absence of world leadership. And, as I hope to show before I have done, it is also the core issue and key challenge of the Uruguay Round.

Returning to the major hitch in launching the talks, i.e. conflict over the inclusion of the "new issues", especially services; it seemed to me that though the debate was couched in legalistic and procedural terms, the real issues were of a most basic economic and political nature. These issues should be understood not only because of their intrinsic importance but also because they illustrate the interrelationship of trade, debt and development. For the sake of brevity let us focus on trade in services. The question is worth a diversion.

Trade in Services

Behind the clash over discussing trade in services were two basic concerns. One had to do with fear of a trade-off between goods and services i.e. fear that the developed countries would not open (indeed might further protect) their markets for Brazilian and Indian goods without demanding in return some service penetration into the Brazilian and Indian markets. The Punta compromise was: negotiations inside the GATT for goods, outside the GATT for services, but under one overall negotiating committee and within the same time frame. The formula reflects an unresolved conflict.

The notion of "no trade-off" is understandable in political terms in view of the new protectionism in goods markets and the marked deterioration in agriculture. It is more puzzling in economic terms. It implies a static concept of economic development which would be unique to this sector and, would therefore be unlikely. Even now, the potential in certain service industries of the East Asian NICs and of Brazil and India themselves is clear enough. Fear of trade-off also presupposes a watertight compartmentalisation of sectors -- resources, goods, services -- which doesn't exist today and will rapidly

vanish in the future as industry and sector boundaries blur. In all sectors services are key inputs to production and essential complements to trade. Commingling rather than compartmentalisation is the more appropriate image.

The second concern of the G-10 about trade in services is more important. It originates in a fundamental tenet about the respective roles of governments and markets in the development process. In the judgment of the G-10 spokesmen, certain key service industries -- telecommunications or financial services, for example -- represent the "commanding heights" of future growth and development and therefore must be guided by government. This G-10 view of the critical importance of government control gained force from the consideration that establishing a multilateral discipline on services would inevitably involve confronting the equally sensitive issues of investment and protection of intellectual property. (It will also involve consideration of the temporary movement of labour where political sensitivities are exposed on the side of many developed countries.)

This development aspect of the clash over trade in services should be assessed not simply in GATT terms,

but in the much broader context of the growth-with-adjustment debt strategy. Thus, for example, a prime structural impediment to the restoration of creditworthiness and growth in many of the heavily-indebted countries are shallow and inefficient capital markets. Among economists and in Fund/Bank circles there is widespread agreement that improved financial markets are essential for mobilising domestic savings, improving the efficiency of domestic investment, securing new equity capital and the repatriation of flight capital, facilitating debt-equity swaps and other financial options. Indeed the older model of development economists -- that effective financial intermediation was a consequence of development -- has been turned upside down, now stressing that it is a prerequisite of development. Yet no trace of this analytical framework surfaced during the prolonged debate on services among trade officials at the GATT. Nor, on the other hand, is there a coordinated strategy of financial market reform in developing countries, involving the GATT in cooperation with the Fund and Bank, in utilising opportunities offered by the Uruguay Round negotiations on services. But more of this later.

The example of financial markets is too narrow to illustrate fully the breadth of interrelationship inherent in the services issue. For the most part the growth of service trade to its present share of more than one-fifth of total world trade has reflected the expansion of trade in goods and the growth of international investment and financial markets as a whole.

But if we look to the future, services should be considered in the radically different context of the information revolution. The revolution began in the manufacturing sector in a cluster of technological advances (micro electronics, fibre optics, communications and computer technology). But the main trend of the transformation is rapidly turning to services, as the shift from "hard" to "soft" technologies accelerates. Moreover, the trend to increasing international integration which is inherent in the information revolution is likely, at least for a time, to enhance the role of the multinational enterprise as a carrier of leading-edge technology. Access to this new generic technology and the flows of capital by which it will in considerable part be transferred will become a prime determinant of growth and development around the world. For this reason an "infant industry" approach to strategic

service industries will prove increasingly costly and inappropriate. This point is especially important for developing countries since the new technology is labour-energy- and materials-saving. Developing countries, which in previous Rounds have not played a major role, have suffered to some extent as a consequence. Hence it is vital that they participate actively in the present negotiation. Otherwise they are likely to suffer again.

Finally, it must not be assumed that the contentiousness of the services issue is confined to developing countries. Services are subject everywhere to varying degrees of government regulation. They impinge directly on sensitive issues of national sovereignty and differences of opinion about the role of government. Such issues and differences will have to be taken into account in negotiating multilateral disciplines. In the end, more effective international cooperation is the only way in which constraints on national action imposed by interdependence can be compensated.

Now, after this rather lengthy detour on the rocky road to Punta I want to conclude with some thoughts on a few core issues of the Round, those relating to strengthening the GATT system.

Strengthening the GATT System

Despite - or perhaps because of - the unpropitious economic and political mise en scene for the Punta meeting, the agenda for the Uruguay Round is the most comprehensive and ambitious in the history of GATT. The negotiating groups which were established last January cover the full range of items necessary to improve market access. They deal with agriculture as a central concern for the first time in 40 years. They cover multilateral disciplines for trade-related intellectual property rights, trade-related investment measures and international trade in services. They will update and strengthen GATT trading rules and GATT itself as an institution. In addition, they provide for a mechanism to resist new protectionist measures and phase out existing ones over the course of the Round.

All these agenda items are important. A major round of liberalization would provide a welcome stimulus to world growth. An improvement in the trading rules governing temporary import protection or "unfair" trade practices would greatly enhance predictability and hence improve the investment climate. A successful negotiation in agriculture would reduce the grotesque distortions in

trade which exact such a heavy toll from consumers and producers around the world. This is essential for developing countries such as Argentina whose export earnings have been devastated by the subsidy war. And so on, down the list.

But I want to concentrate on the key systemic aspects of the Round. In the Punta Declaration these aspects are titled Functioning of the GATT System (and, inevitably, the negotiating group is called FOGS, an unattractive and, one hopes, inappropriate acronym). If the GATT system is not fundamentally strengthened there is a high probability that, over the long haul, it will continue to crumble and the gains in liberalization and growth from the Uruguay Round prove transitory. So these are the international public goods issues: there's no reciprocity involved. These public goods will either be provided by governments in active cooperation or not at all. In effect, this aspect of the Uruguay Round provides a real life experiment testing the hypothesis, now widely asserted, that international public goods will not be provided in a world without an undisputed leader.

The two vital components of GATT reform and renewal that I want to describe are first, strengthened

relationships with the Bretton Woods institutions and, secondly, surveillance of trade policies.

To begin with the
Relationship with the Fund and Bank,

The drafters of the GATT fully recognized the need for policy coordination between the Fund and the ITO which was to replace the General Agreement. When the third leg of the tripod of postwar multilateral institutions collapsed, the extensive provisions for coordination lapsed with it. There was only one exception: the exemption provided for use of quantitative restrictions to deal with balance-of-payments problems requires consultations with the IMF. This exception in fact exemplifies the need for reform. The balance-of-payments articles reflect a world of fixed exchange rates, and views of the external adjustment process long since abandoned by economists and by the Fund itself.

There is a major and timely opportunity in the Uruguay Round to spell out new provisions for effective coordination with the Bretton Woods institutions. In recent years, in response to the debt crisis, there has

been an evolution in the process of coordination between the Fund and the Bank and this process should be extended to the GATT.

Thus, for example, trade policy reform is a key component of the growth-with-adjustment approach to debt and some means of ensuring the continuing participation of the GATT should be developed. (More immediately, such reform could be encouraged by providing "credit" in the Round for measures adopted in conjunction with a Fund or Bank programme.)

But this is only half the story. Emphasizing structural adjustment policies in the developing countries requires a symmetrical approach in the developed countries. There is no regular surveillance of adjustment or micro policies in either developed or developing countries which complements the Fund's surveillance activities. If trade policy surveillance is implemented as a result of the Uruguay Round (a proposal I will discuss shortly) this, too, would call for more effective coordination among the three institutions which together constitute the present regime for managing interdependence.

Finally, strengthened coordination between the GATT and the financial institutions is not only desirable in itself. It should also help reinforce the process of consultation within countries between trade and finance ministers. The need for institutional change in the policy-making process both at home and internationally is perhaps nowhere so acute as in trade policy. This is an important consideration in the other key component of FOGS, trade policy surveillance.

Surveillance

The birth defects of GATT account for the attenuation of institutional relationships. It is these defects which largely explain the absence of regular analytical and evaluative reviews of a member country's trade policies: a micro policy counterpart, in effect, to the Fund's macro mandate. Inadequate secretariat resources and the absence of a designated policy forum at both official and Ministerial level are symptoms of the flawed and ambiguous "constitution".

Yet the old saying "where there's a will there's a way" is not without substance. As the new protectionism increased, violating the basic principles of the original

agreement i.e. non discrimination and use of the price mechanism or tariff, no country had a strong incentive to expose its trade-related domestic or border policies to regular scrutiny and discussion. This reluctance may have been increased by the legal nature of the GATT and the difficulty of ensuring that frank policy discussions did not result in invoking the legal obligations of the Contracting Party.

The components of an effective policy-based surveillance mechanism would have to include an enhanced analytic capacity in the Secretariat; a designated policy forum at both the official and Ministerial levels; a link with the rules-based surveillance of the dispute settlement procedure and, desirably, improved transparency of domestic trade policy-making procedures in member countries.

The issue of structural change and structural adjustment should be the theme of the reviews in their analytic and policy evaluative content. I need hardly remind you of the contentiousness of this approach in, for example, defining the policy scope to be surveyed.

The purpose of surveillance would be to exert peer group pressure, at the senior official and Ministerial levels, for policy adjustment and adaptation. It would do this by highlighting the impact of trade-related policies on the country's domestic performance, on other countries' trade opportunities, and on the system as a whole.

Peer group pressure may seem a weak reed to cope with the forces for structural change in the world trading system but, in effect, it is a counterpart of multilateral surveillance in the Fund or the OECD or the G7. There is no neat set of rules which may be found to guarantee "automaticity" in any of these places. And just as the breakdown of the post-war consensus macro paradigm of how the macro economy works has made macro policy coordination more difficult since the 1970's so, today, the new "strategic trade policy" is providing a theoretical rationale for sophisticated forms of protectionism. This weakening of the consensus micro paradigm will doubtlessly make trade policy discussion more ambivalent and inconclusive -- but also much more realistic than the stirring trade pledges of yesteryear.

A valuable complement to effective trade policy surveillance in the GATT would be reform of domestic policy making in member countries. Because losses from structural change are highly concentrated and benefits widely diffused, improving public understanding of the full economic effects of protectionist measures, i.e. greater openness, could mobilize counterpressure.

Thus, the report of the group of "wise men" commissioned by GATT Director General Arthur Dunkel recommends a "protection balance sheet" designed to inform the public of the costs and benefits of trade policy actions. A recent study group chaired by Olivier Long, under the auspices of the Trade Policy Research Centre, proposes that domestic institutional reform, to increase transparency and reduce fragmentation of decision-making along sectoral lines, be included in the Uruguay Round. This could be achieved, for example, by negotiating the broad objectives for these institutions whose focus would be the domestic economy-wide impact of all forms of industrial assistance.

The relationship would have to be spelled out between policy-based surveillance and the rules-based surveillance linked to the dispute settlement function of

the GATT. Improvement of the process for settling disputes in the GATT is in itself a high priority for the Round. It is essential to improve predictability for business decisions and also for reasons of fairness. Effective machinery to settle disputes is the best guarantee for middle-sized and smaller countries against unilateral or collusive action among the major trading powers.

The two forms of surveillance should reinforce each other. As I suggested, in order to encourage frank and broadly-based discussions, policy surveillance must be distanced from the legal mechanisms of the GATT. But distance does not mean isolation. Quite the contrary. Effective policy surveillance might be able to anticipate serious trade friction and perhaps help prevent it. For example, over many years the steadily growing number of disputes centred on agriculture clearly signalled the need for basic reform. Or, let me cite a more recent example: the Japanese-U.S. microchip dispute. I don't think it unreasonable to speculate whether that dispute should be taken as an early warning of more to come in the high technology sector. An analysis of the problem in economic terms would at a least highlight the pertinent policy questions relating to industries with steeply declining

cost curves, rapid obsolescence and major externalities. The discussion would likely not yield a simple answer about a particular rule, in this instance the anti-dumping one. But it might help to decide whether this specific dispute was unique in itself or potentially systemic, and thus required further action.

Indeed some experts on the multilateral system, such as Miriam Camps and William Diebold Jr., have suggested taking the policy-rules relationship one step further. Thus policy surveillance, as the agriculture and micro-chip examples imply, could evolve into a means of more frequent updating and extension of the rules via the designated Ministerial forum.⁽¹⁾

The framers of the original GATT could not possibly have foreseen the world of the late 20th century. Indeed, roughly once a decade, rounds of negotiation have served as a means not only of liberalizing markets but also of refining and strengthening the trading rules. This will also be an important item in the Uruguay Round. But in today's world

(1) The New Multilateralism, Council on Foreign Relations, New York, 1983. See also Richard Blackhurst, "Strengthening GATT Surveillance of Trade-Related Policies", Bielefeld Conference, June, 1987.

of rapid change and uncommon strains in the international economy the shape of the future is shrouded in uncertainty. This could well argue for building into the GATT system an option of more frequent review and adaption based on the surveillance mechanism at Ministerial level.

Conclusion

We have considered the implications of interdependence as they manifest themselves in the multilateral trading system, and have looked more closely at the way they affect the Uruguay Round.

The Uruguay Round offers both a challenge and an opportunity not just for trade ministries but for government policy as a whole. The outcome will affect growth, exchange rates and debt, the terrain of Finance Ministers and Central Banks. Reform of the GATT is important to the effective functioning of the Fund and the World Bank as, indeed, both institutions have strongly demonstrated in the Uruguay negotiations.

The challenge has come at a period of unique transformation in the world economy. The transformation is multi-faceted: the global imbalances; the information

revolution; the unsettled and unsettling state of the discipline of economics; the emergence of a multipolar world. To meet the challenge and seize the opportunity of this GATT Round will require changes in both domestic and multilateral decision-making. The alternative to making these changes will be the emergence of a world trading system which no government planned or desired. The manifold pressures for adjustment will not abate. The genie is out of the bottle and the genie is blind. Governments should have vision.