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STATEMENTS AND SPEECHES

Changes in World Trade and Investment

Speech by Mrs. Sylvia Ostry, Ambassador
for Multilateral Trade Negotiations,
to the 25th Anniversary Conference
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Canada

THE TOPIC ASSIGNED ME UNDER THE UMBRELLA THEME OF THIS CONFERENCE -- MANAGING ENTRY INTO THE 21ST CENTURY -- IS SO IMMENSE THAT I WAS FORCED TO MAKE A VERY DIFFICULT CHOICE. THE OPTIONS WERE TO PRESENT A BROAD BRUSH SKETCH OF THE ENTIRE TERRAIN SPANNING THE COMPLEX NEXUS OF TRADE, CAPITAL FLOWS AND EXCHANGE RATES OR CHOOSE A SMALLER PIECE OF THE TERRITORY FOR MORE DETAILED MAPPING. OBVIOUSLY RISKS ATTACH TO BOTH OPTIONS. I, (ON THE SOUND ECONOMIC PRINCIPLE OF DIVISION OF LABOUR HAVING NOTED THE NAMES OF MY DISCUSSANTS) CHOSE THE LATTER COURSE AND WILL CONCENTRATE ON THE LIKELY EVOLUTION OF THE MULTILATERAL TRADING SYSTEM HIGHLIGHTING THOSE ASPECTS WHICH DIRECTLY OR INDIRECTLY IMPACT ON INVESTMENT FLOWS. BUT IN DOING SO, I INTEND TO TOUCH ON SOME OF THE BROADER MACRO ISSUES TO REMIND MYSELF -- AND YOU -- THAT THE INTERRELATIONSHIPS BETWEEN THE MULTILATERAL TRADING SYSTEMS AND THE INTERNATIONAL MONETARY SYSTEM FORM THE BROAD BACKDROP AGAINST WHICH THE MORE MICRO ISSUES I SHALL TREAT MUST BE ASSESSED. I EXPECT THAT MANY OF THESE CROSS-LINKAGES WOULD ALSO BE TAKEN UP IN OUR GENERAL DISCUSSION.

THE URUGUAY ROUND

THE BEST JUMPING-OFF PLACE FOR EXPLORING THE FUTURE EVOLUTION OF WORLD TRADE IS THE MEETING OF THE GATT

CONTRACTING PARTIES AT PUNTA DEL ESTE THIS PAST SEPTEMBER WHICH LAUNCHED THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS: A ROUND TO ESTABLISH THE MULTILATERAL RULES OF THE ROAD FOR TRADE INTO THE 21ST CENTURY. WHILE CLEARLY NO ONE AT THIS STAGE CAN ANSWER WITH ANY DEGREE OF ASSURANCE THE QUESTION "WHAT ARE THE LIKELY PROSPECTS FOR THE ROUND?", AN ASSESSMENT OF THE PROCESS AND OUTCOME OF PUNTA AT LEAST REVEALS THE KEY DIMENSIONS OF THE QUESTION AND SHOULD PROVIDE SOME GUIDANCE TO APPROPRIATE POLICY.

IT IS IMPORTANT TO UNDERSTAND THAT THE ECONOMIC AND POLITICAL MISE EN SCENE FOR THE PUNTA MEETING COULD NOT HAVE BEEN LESS PROPITIOUS. THE MULTILATERAL TRADING SYSTEM HAS BEEN STEADILY ERODED BY THE NEW PROTECTIONISM OF THE 1970'S. I.E. FORMS OF DOMESTIC OR BORDER NON-TARIFF MEASURES SPAWNED BY A CONTINUING RESISTANCE TO ADAPT TO STRUCTURAL CHANGE. BUT DURING THE 1980'S THE NEW PROTECTIONISM WAS FED AS WELL BY A MORE VIRULENT VIRUS -- THE PRESSURES EMANATING FROM THE GROSS AND GROWING IMBALANCES IN THE WORLD ECONOMY.

SUCH IMBALANCES CAN BE ILLUSTRATED IN A VARIETY OF WAYS BUT THEIR KEY INTERNATIONAL MANIFESTATION IS BEST CAPTURED BY THE PRESENT AND PROSPECTIVE PATTERN OF CURRENT ACCOUNT POSITIONS ALTHOUGH THIS PATTERN IS ITSELF THE

RESULT OF THE CONFIGURATION OF MACROECONOMIC POLICIES AND EXCHANGE RATES AMONG THE LARGEST OECD COUNTRIES. THE FOCUS OF ATTENTION IN TERMS OF THE THREAT OF PROTECTIONISM HAS, UNTIL VERY RECENTLY, BEEN ALMOST ENTIRELY ON THE U.S. DEFICIT AND THE DECLINE IN AMERICAN COMPETITIVENESS CONSEQUENT ON THE ENORMOUS RISE IN THE VALUE OF THE DOLLAR. HOWEVER, SINCE THE VERY SUBSTANTIAL REALIGNMENT OF EXCHANGE RATES WHICH BEGAN EARLY IN 1985 POLICY DEBATE HAS BEGUN TO CENTRE ON THE QUESTIONS OF THE SUSTAINABILITY OF THE PRESENT AND PROSPECTIVE PATTERN I.E. THE RISK OF A MAJOR DISCONTINUITY IN WORLD ECONOMIC DEVELOPMENTS (AN EXCHANGE RATE CRISIS; A MAJOR ASSAULT ON THE TRADING SYSTEM; A SHARP WORLDWIDE RECESSION) AND THUS ON THE APPROPRIATE POLICIES OF THE MAJOR COUNTRIES TO ENSURE AN ORDERLY REDUCTION OF THE IMBALANCES OVER THE MEDIUM TERM WHILE MINIMIZING THE ADVERSE EFFECTS ON WORLD GROWTH.

AS YOU WELL KNOW THIS DEBATE REMAINS UNRESOLVED AND IT IS NOT MY PURPOSE TO ENGAGE IT IN THIS PAPER. WHAT IS, HOWEVER, DIRECTLY RELEVANT TO TODAY'S DISCUSSION IS THAT BECAUSE OF THE PERSISTENCE AND SIZE OF THE IMBALANCES AT SOME DATE IN THE FUTURE THE UNITED STATES WILL BE RUNNING A TRADE SURPLUS. AS MARTIN FELDSTEIN HAS EMPHASIZED "THE INEVITABILITY OF THIS TRADE REVERSAL -- DOES NOT DEPEND ON FUTURE POLICY DECISIONS"⁽¹⁾ BUT, OF

COURSE, THE TIMING, NATURE AND SIZE OF THE SHIFT OBVIOUSLY DO. IN TERMS OF THE FUTURE OF THE WORLD TRADING SYSTEM WHAT MUST BE KEPT IN MIND IN THE APPROACH TO RESTORING A MORE SUSTAINABLE PATTERN OF CURRENCY ACCOUNT POSITIONS IS THAT THE PRIMARY THREAT OF PROTECTIONIST PRESSURE WILL INEVITABLY SHIFT FROM THE UNITED STATES TO THE DEFICIT COUNTRIES OF THE 1990's.

SO MUCH FOR THE ECONOMIC LANDSCAPE. IN POLITICAL TERMS, THE BACKDROP TO PUNTA WAS PERHAPS EVEN LESS AUSPICIOUS. THE PROTECTIONIST FURY OF THE U.S. CONGRESS, DANGEROUS IN ITSELF, HAD EXPOSED A MORE FUNDAMENTAL PROBLEM -- THE RAPIDLY ERODING DOMESTIC SUPPORT FOR MULTILATERALISM IN THE UNITED STATES. IN THE ABSENCE OF U.S. LEADERSHIP, NO ALTERNATIVE GUARDIAN OF THE SYSTEM IS WAITING IN THE WINGS. INDEED, AS I HAVE NOTED, LOOKING TO THE NOT-SO-DISTANT FUTURE WHEN THE PROTECTIONIST PRESSURE EMANATING FROM CURRENT ACCOUNT IMBALANCES SHIFTS FROM THE U.S. TO HER MAJOR TRADING PARTNERS, IS THE REMARKABLE RESISTANCE SHOWN THUS FAR BY THE U.S. ADMINISTRATION TO MORE SWEEPING PROTECTIONIST MOVES LIKELY TO BE DUPLICATED BY COUNTRIES WITH A MORE AMBIVALENT (LESS "IDEOLOGICAL") COMMITMENT TO AN OPEN TRADING SYSTEM?

DESPITE THIS INCREASINGLY CLEAR AND DAUNTING PROSPECT THE U.S. HAD BEEN UNABLE TO LAUNCH A NEW GATT ROUND AFTER FOUR YEARS OF STRENUOUS EFFORT. OVER THIS TIME THE AMERICAN POSITION WAS VISIBLY TRANSFORMED FROM LEADER TO DEMANDEUR WHICH AFFECTED THE OUTCOME OF PUNTA AND MAY WELL INFLUENCE THE RESULTS OF THE ROUND ITSELF.

ONE EFFECT OF THE LONG DELAY IN LAUNCHING THE ROUND WAS, AS I HAVE NOTED, TO ALLOW A DANGEROUS BUILD-UP OF PROTECTIONIST FURY IN THE U.S. ALSO, BECAUSE OF THE LONG DELAY, IT WAS AMPLY EVIDENT TO ALL BY MID-SEPT. 1986, THAT UNLESS THERE WAS SOME SUSTAINED PROGRESS IN IMPROVING INTERNATIONAL COOPERATION IN MACRO ECONOMIC POLICY A ROUND WAS HARDLY LIKELY TO BE COMPLETED. THUS, THERE WAS A REMARKABLE DEGREE OF AGREEMENT AT PUNTA THAT THERE HAD TO BE PARALLEL PROGRESS ON BOTH FRONTS -- A TALL ORDER, BUT A REALISTIC ONE.

THERE ARE TWO WAYS OF EVALUATING THE IMPACT OF THIS GLOOMY BACKDROP ON THE OUTCOME OF PUNTA AND PROSPECTS FOR THE ROUND. ONE COULD ARGUE THAT CETERIS PARIBUS THE LATER THE LAUNCH OF THE ROUND THE GREATER THE RISK OF FAILURE BECAUSE OF THE BUILD UP OF PROTECTIONIST PRESSURES

AND THE GLOBAL IMBALANCES FEEDING THEM. OR, ONE COULD ARGUE THE DR. JOHNSON THESIS OF DECISION-MAKING, I.E., THE FEAR OF BEING HANGED IN THE MORNING CONCENTRATES THE MIND WONDERFULLY. ON THESE GROUNDS, THE DELAY WAS BENEFICIAL IN FORCING AGREEMENT.

I AM INCLINED TO THE FIRST VIEW BUT THAT IS PROBABLY A MATTER MORE OF TASTE THAN JUDGMENT. THE ESSENTIAL FACT TO STRESS IS THAT THE TIMING OF THE LAUNCH WAS NOT A STRATEGIC ELEMENT IN THE TRADE POLICY OF THE U.S. OR, INDEED, ANY OF THE MAJOR TRADING POWERS.

RATHER, AN HISTORICAL ACCOUNT OF THE PERIOD FROM NOV. '82 (THE LAST GATT MINISTERIAL) WOULD SUGGEST THAT THE TIMING OF THE LAUNCH WAS LARGELY DETERMINED BY THE POLICY FORMULATION PROCESS, WITH ALL ITS ATTENDANT POLITICAL AND INSTITUTIONAL COMPLEXITY, OF THE EUROPEAN COMMUNITY. THE OSTENSIBLE REASON FOR DELAY -- THE OPPOSITION OF A SMALL GROUP OF DEVELOPING COUNTRIES LED BY BRAZIL AND INDIA WHO OPPOSED (ON LEGAL GROUNDS) THE INCLUSION OF THE SO-CALLED NEW ISSUES OF SERVICES, INTELLECTUAL PROPERTY AND INVESTMENT -- COULD NOT REALISTICALLY HAVE PREVENTED A NEGOTIATION OF THESE SUBJECTS (FOR EXAMPLE ON A CONDITIONAL MFN CODE BASIS À LA

THE TOKYO ROUND) IF THE E.C. HAD DECIDED ON AN EARLIER LAUNCH. POLICY DIVISIONS AMONG MEMBER STATES ABOUT AGRICULTURE AND SOME ASPECTS OF THE SERVICES QUESTION NECESSITATED A CAREFUL, CAUTIOUS AND INEVITABLY RATHER LENGTHY PROCESS OF POLICY FORMULATION. PERHAPS, IN ADDITION, A MORE FUNDAMENTAL DIFFERENCE UNDERLIES THE TRANSATLANTIC DIVISION OVER STRATEGY -- THE BASICALLY DIFFERENT WELTANSCHAUNG THAT SEPARATES A CHARY, SCEPTICAL, CONSENSUS - SEEKING EUROPE AND AN IMPATIENT, BULLISH, CAN-DO AMERICA.

THESE HISTORICAL AND CULTURAL DIFFERENCES ARE NOT NEW, OF COURSE. THEIR SIGNIFICANCE, IN A WORLD THAT LACKS AN UNDISPUTED HEGEMON, IS VERY DIFFERENT, HOWEVER, THAN IT WAS IN THE PAST. AND THAT DIFFERENCE IS AMPLIFIED BY THE NATURE OF THE THIRD "BLOC" OF THE DEVELOPED WORLD TRIAD -- JAPAN -- WHOSE MAIN STRATEGY VIS-A-VIS THE MTN IN THE PAST SEVERAL YEARS WAS TO SUPPORT THE U.S. POSITION WHILE TRYING TO CONTAIN MOUNTING BILATERAL FRICTION WITH BOTH THE U.S. AND, INCREASINGLY FORCEFULLY, THE E.C. -- IN OTHER WORDS, NOT TO GET TOO FAR OUT FRONT. THE LONG PATH TO PUNTA -- AND, TO SOME EXTENT, ALSO ITS OUTCOME -- REFLECTED THE NATURE OF POWER-SHARING AS WELL AS THE INTERDEPENDENCE OF TODAY'S WORLD.

LET ME NOW MOVE FROM THE BACKGROUND TO THE OUTPUT OF PUNTA -- FROM THE "BAD NEWS" TO THE "GOOD NEWS". THE MINISTERIAL DECLARATION TO LAUNCH THE URUGUAY ROUND EMBRACED AN AGENDA FOR THE MOST COMPREHENSIVE AND AMBITIOUS MULTILATERAL NEGOTIATION IN THE HISTORY OF GATT. FIRST I'D LIKE BRIEFLY TO HIGHLIGHT THE MAIN FEATURES OF THE DECLARATION BEFORE EXPLORING THE OBVIOUS QUESTION WHICH MUST BE IN YOUR MINDS: "HOW --BY WHAT PROCESS-- DID SUCH INFERTILE GROUND BEAR SUCH BOUNTEOUS FRUIT?" THE ANSWER TO THIS QUESTION, I.E., AN ASSESSMENT OF THE PROCESS OF ACHIEVING CONSENSUS AT PUNTA, PERMITS AT LEAST A PRELIMINARY JUDGMENT ABOUT PROSPECTS FOR THE ROUND.

AS I HAVE SAID, THE AGENDA AND MODALITIES OF THE URUGUAY ROUND ARE UNIQUELY COMPREHENSIVE AND AMBITIOUS. AS EXAMPLES, THE DECLARATION:

- GREATLY STRENGTHENS THE NON-TRADITIONAL STANDSTILL AND ROLLBACK COMMITMENT NOT ONLY BY DETAILED SPECIFICATION BUT, MORE IMPORTANTLY, THROUGH IMPLEMENTATION OF A MULTILATERAL SURVEILLANCE MECHANISM TO BE ESTABLISHED BY THE TRADE NEGOTIATIONS COMMITTEE

- INCLUDES, FOR THE FIRST TIME SINCE THE ESTABLISHMENT OF THE GATT, SPECIFIC OBJECTIVES FOR THE NEGOTIATION OF AGRICULTURE WHICH EMBRACE NOT ONLY IMPROVED MARKET ACCESS BUT THE APPLICATION OF MULTILATERAL DISCIPLINES TO THE USE OF ALL DIRECT AND INDIRECT SUBSIDIES AND OTHER MEASURES WHICH DISTORT TRADE

- SPECIFIES THE LINKAGE BETWEEN A RENEGOTIATED SAFEGUARDS (OR EMERGENCY IMPORT) CLAUSE AND STRUCTURAL ADJUSTMENT, INCLUDING A MECHANISM FOR WHAT COULD BECOME REGULARIZED MULTILATERAL SURVEILLANCE OF EACH COUNTRY'S TRADE AND RELATED POLICIES. THE OUTCOME OF NEGOTIATIONS ON THIS ITEM OF THE AGENDA WILL DETERMINE THE FUTURE EXTENT AND NATURE OF MANAGED TRADE OR THE NEW PROTECTIONISM

- INCLUDES ALL THE "NEW ISSUES": INTELLECTUAL PROPERTY; TRADE-RELATED INVESTMENT MEASURES AND
-- BY A NEAT PROCEDURAL SLEIGHT OF HAND SO DEAR TO THE OLD GATT HANDS -- TRADE IN SERVICES (A SUBJECT TO WHICH I WILL RETURN)

-- SPECIFIES. IN ADDITION TO NEW AND ENHANCED SURVEILLANCE CAPACITY, A SERIES OF INSTITUTION-BUILDING AND RULE-MAKING MEASURES TO REINFORCE AND EXTEND THE MANDATE OF THE GATT, AND TO FORMALIZE INSTITUTIONAL LINKS BETWEEN THE GATT, THE IMF AND THE WORLD BANK. IT'S WORTH NOTING THAT THESE PARTICULAR AGENDA ITEMS SHOULD BE VIEWED AS A FORM OF "PUBLIC GOOD" AND, AS SUCH, WILL NOT BE SUBJECT TO THE TRADITIONAL NEGOTIATING PRINCIPLE OF RECIPROCITY. IF THEY ARE TO BE SUCCESSFULLY NEGOTIATED, IT WILL REQUIRE GOVERNMENTAL COMMITMENT DIFFERENT IN BOTH DEGREE AND KIND FROM THAT OF ANY PREVIOUS NEGOTIATION. WITHOUT SUCH STRENGTHENING, HOWEVER, THE GATT WILL BE UNABLE TO PLAY AN EFFECTIVE ROLE IN THE INCREASINGLY INTERDEPENDENT WORLD OF THE FUTURE IN WHICH THE INTERRELATIONSHIP AMONG THE MAIN DYNAMIC FORCES SHAPING THE WORLD ECONOMY WILL REQUIRE MUCH MORE COORDINATED POLICY MAKING AMONG THE MULTILATERAL INSTITUTIONS.

ARE THOSE HIGHLIGHTS SUFFICIENT TO MERIT THE FINANCIAL TIMES LEADER SUMMING UP THE RESULTS OF PUNTA AS "THE KISS OF LIFE FOR THE GATT?" OBVIOUSLY IT'S TOO EARLY

TO RESPOND TO SUCH A QUESTION BUT, AS I'VE SAID, I'D LIKE TO APPROACH AN ANSWER BY A POST-MORTEM OF THE PROCESS OF ACHIEVING CONSENSUS ON THE MINISTERIAL DECLARATION.

ONE KEY TO THE PROCESS AT PUNTA WAS THE FORMATION AND ROLE OF WHAT I WOULD CALL STRATEGIC ALLIANCES I.E. SINGLE INTEREST LOBBIES OF COUNTRIES OUTSIDE THE BIG THREE BLOCS. THE EFFECTIVENESS OF SUCH ALLIANCES DEPENDED, HOWEVER, ON EXPLOITING DIVISIONS AMONG THE BLOCS -- ALTHOUGH IN THE EVENT ONLY THE U.S./E.C. DIVISIONS MATTERED.

THE TWO MAJOR UNRESOLVED ISSUES AT PUNTA WERE AGRICULTURE AND SERVICES (THE TWO OTHER NEW ISSUES TURNED OUT TO BE LESS CONTENTIOUS ON THE GROUND BUT, CERTAINLY IN THE CASE OF INVESTMENT, LIKELY TO PROVE VERY DIFFICULT DURING THE NEGOTIATIONS). THE RESOLUTION OF BOTH ILLUSTRATE THE ROLE OF STRATEGIC ALLIANCES IN MANEUVERING IN THE INTERSTICES OF BLOC DIVISIONS.

IN THE CASE OF AGRICULTURE THE AUSTRALIANS HAD TAKEN THE LEAD BY FORMING A GROUP OF FOURTEEN COUNTRIES, DEVELOPED AND DEVELOPING, BUT EXCLUDING THE BIG THREE. THE GROUP WAS LAUNCHED AT THE END OF AUGUST AT A MEETING AT CAIRNS, AUSTRALIA. THE CAIRNS DECLARATION WAS MUCH

STRONGER THAN THE MAJORITY DRAFT WHICH CAME OUT OF GENEVA AT THE CONCLUSION OF THE PREPARATORY PROCESS -- A MAJORITY WHICH DID NOT INCLUDE THE EC BUT EMBRACED ALL THE MODERATE LDC'S SMALLER EUROPEAN COUNTRIES, CANADA, THE U.S. AND JAPAN.

THE ROLE OF THE CAIRNS GROUP, WHICH OPERATED THROUGHOUT THE WEEK IN PUNTA, WAS TO MEDIATE BETWEEN THE U.S. AND THE E.C. BY BARGAINING AWAY ITS DELIBERATELY EXTREME DEMANDS AND ENABLE THE E.C. TO ACCEPT THE MAJORITY POSITION. THE FINAL DECLARATION (AGREED JUST AFTER MIDNIGHT ON FRIDAY, THE LAST DAY) PROVED EQUAL TO OR EVEN SOMEWHAT STRONGER THAN THE MAJORITY POSITION. ONE IMPORTANT ASPECT OF THE CAIRNS GROUP WAS ITS "NORTH/SOUTH" COMPOSITION -- ESPECIALLY THE INCLUSION OF ARGENTINA, A MEMBER OF THE HARDLINE LDC'S.

ON THE SERVICES ISSUE THE STRATEGIC ALLIANCE WAS THE SO-CALLED G10, THE HARDLINE LDC'S LED BY BRAZIL AND INDIA. HERE, THE ROLE OF THE EC WAS CRUCIAL IN ACHIEVING CONSENSUS THEREBY AT LEAST POTENTIALLY ENHANCING THE POWER OF A RATHER ODDLY ASSORTED GROUP (BRAZIL, INDIA, CUBA, NICARAGUA, EGYPT, PERU, TANZANIA, YUGOSLAVIA, NIGERIA AND ARGENTINA) TOGETHER ACCOUNTING FOR ABOUT 5% OF WORLD TRADE.

THE E.C. PROPOSAL WHICH BROKE THE DEADLOCK OVER SERVICES EARLY ON SATURDAY MORNING WAS A CLEVER GIMMICK WHICH ENABLED SERVICES TO BE NEGOTIATED DURING THE ROUND BUT LEFT OPEN THE QUESTION OF GATT COMPETENCE - A TWO TRACK APPROACH -- INSIDE THE GATT FOR GOODS, OUTSIDE THE GATT FOR SERVICES -- BUT UNDER ONE OVERALL NEGOTIATING COMMITTEE AND WITHIN THE SAME TIME FRAME.

THIS WAS PROPOSED -- AND ACCEPTED -- AS A FACE-SAVER FOR THE U.S., ON THE ONE HAND, AND THE G-10 ON THE OTHER. INDEED, ALL WENT HOME DECLARING VICTORY.

IT'S VERY IMPORTANT IN ASSESSING THE IMPLICATIONS OF THIS COMPROMISE TO BE AWARE OF WHAT WERE THE REAL ISSUES IN THE "NEW ISSUES" DEBATE. THE LEGALISM OF GATT COMPETENCE WAS CERTAINLY NOT A REAL ISSUE. THERE WERE, RATHER, TWO BASIC ECONOMIC CONCERNS. ONE HAD TO DO WITH FEAR OF A NEGOTIATED TRADE-OFF BETWEEN GOODS AND SERVICES I.E. FEAR THAT THE DEVELOPED COUNTRIES WON'T OPEN THEIR MARKETS FOR BRAZILIAN AND INDIAN GOODS WITHOUT A QUID PRO QUO FOR SOME SERVICE PENETRATION INTO THE BRAZILIAN AND INDIAN DOMESTIC MARKETS. THE SECOND IS RELATED TO A FUNDAMENTAL DIFFERENCE IN ATTITUDE ABOUT THE RESPECTIVE ROLE OF GOVERNMENTS AND MARKETS IN THE DEVELOPMENT PROCESS. IN THE VIEW OF BRAZIL AND INDIA SOME OF THE KEY

SERVICE INDUSTRIES -- TELECOMMUNICATIONS AND FINANCIAL SERVICES, FOR EXAMPLE -- ARE VIEWED AS THE "COMMANDING HEIGHTS" (TO USE THE OLD MARXIST PHRASE) OR INFANT INDUSTRIES (IN TRADE PARLANCE) OF FUTURE GROWTH AND DEVELOPMENT AND THEREFORE MUST BE REGULATED AND GUIDED BY GOVERNMENT. MOREOVER, ESTABLISHING A MULTILATERAL DISCIPLINE ON SERVICES WILL INEVITABLY INVOLVE DEALING WITH THE INVESTMENT ISSUE WHICH, IN THE VIEW OF THESE TWO COUNTRIES (AND MANY OTHERS), MUST ALSO BE SUBJECT TO A DEGREE OF GOVERNMENT REGULATION AND CONTROL.

THE REAL QUESTIONS -- AS YET UNANSWERABLE -- ARE WHETHER THE TWO TRACK PROPOSAL WILL INDEED PROVIDE SOME INSURANCE AGAINST TRADE-OFFS AND, PERHAPS MORE IMPORTANTLY, HOW THE ISSUE OF GATT COMPETENCE, TO BE CONFRONTED AT THE END OF THE NEGOTIATIONS, WILL AFFECT THE BASIC ECONOMIC QUESTION CENTERING ON THE SCOPE AND NATURE OF THE ROLE OF GOVERNMENT IN THE DEVELOPMENT PROCESS.

WHETHER THE NEGOTIATIONS ON SERVICES -- WHICH MUST, OF COURSE, INCLUDE TRADE-OFFS IN THE FINAL PACKAGE -- CAN SATISFY THE DOMESTIC SERVICE LOBBIES IN THE U.S. AND ELSEWHERE IN THE OECD REMAINS TO BE SEEN. THIS WILL BE CRUCIAL, AT LEAST IN THE U.S., FOR MAINTAINING SUPPORT BY CONGRESS FOR THE ROUND.

THE DEVELOPMENT ISSUE STRIKES ME AS POTENTIALLY EQUALLY IMPORTANT, NOT SIMPLY IN THE GATT CONTEXT, BUT IN THE FUTURE EVOLUTION OF THE FUND/BANK APPROACH TO DEBT, SINCE IT TOUCHES DIRECTLY ON THE WILLINGNESS OR ABILITY OF DEBTOR GOVERNMENTS TO UNDERTAKE DIFFICULT MEDIUM-TERM STRUCTURAL ADJUSTMENT PROGRAMMES AND OVER TIME TO SHIFT, AS THEY MUST DO, AWAY FROM BANK TO EQUITY FLOWS AS A SOURCE OF CAPITAL. IN THIS CONTEXT AN EXCELLENT EXAMPLE OF THE INTERRELATIONSHIP AMONG THE DEBT-DEVELOPMENT-TRADE ISSUES IS THE PROBLEM OF THE SERIOUS INADEQUACY OF FINANCIAL MARKETS IN THE LATIN AMERICAN DEBTOR COUNTRIES, PERHAPS THE PRIME STRUCTURAL IMPEDIMENT TO RESTORATION OF CREDITWORTHINESS AND GROWTH. THESE SHALLOW AND INEFFICIENT MARKETS ARE "THE LEGACY OF FOUR DECADES OF GOVERNMENT PARTICIPATION IN, AND REGULATION OF, FINANCIAL INTERMEDIATION."⁽²⁾ WHILE THE IMPACT OF THESE DEFICIENCIES WERE, IN EFFECT, MASKED DURING THE 1970'S AS THESE COUNTRIES WERE EASILY ABLE TO BORROW AT LOW OR EVEN NEGATIVE INTEREST RATES FROM COMMERCIAL BANKS SUCH IS OBVIOUSLY NOT THE CASE TODAY OR FOR THE FORESEEABLE FUTURE. IMPROVED FINANCIAL MARKETS ARE A SINE QUA NON FOR MOBILISING DOMESTIC SAVINGS, IMPROVING THE EFFICIENCY OF DOMESTIC INVESTMENT AND SECURING NEW CAPITAL AND THE REPATRIATION OF FLIGHT CAPITAL. YET NO TRACE OF THIS

BASIC ISSUE EMERGED DURING THE PROLONGED DEBATE ON THE ISSUE OF SERVICES IN THE GATT ROUND.

SO BEFORE SUMMING UP THE PROSPECTS FOR THE ROUND IT IS WORTHWHILE TO PAUSE HERE AND ANALYSE THE SERVICES AND INVESTMENT ISSUES IN SOMEWHAT GREATER DEPTH FOR, AS I HAVE ALREADY SUGGESTED, THEY ARE NOT ONLY CENTRAL TO THE SUCCESSFUL CONCLUSION OF THE MTN AND THE FUTURE OF THE GATT BUT ALSO HAVE BROADER RELEVANCE FOR THE TOPIC OF THIS SESSION AND THIS CONFERENCE.

THE CONTENTIOUSNESS OF THE SERVICES TRADE ISSUE IS, AT LEAST ON THE SURFACE, PUZZLING SINCE EVEN AT THE MOST SUPERFICIAL LEVEL THE ECONOMIC REASONS FOR ITS INCLUSION IN THE ROUND ARE OVERWHELMING.

THUS, AT PRESENT, SERVICES AMOUNTS TO PERHAPS 25% OF TOTAL WORLD TRADE.⁽³⁾ THIS IS A SUBSTANTIAL SHARE AND SIMPLY BY EXTRAPOLATING PAST GROWTH RATES WOULD ORDAIN A STEADILY WEAKENING AND INCREASINGLY IRRELEVANT GATT THAT CLAIMED NO EFFECTIVE MANDATE OVER TRADE IN SERVICES. WHAT WOULD REPLACE IT WOULD UNDOUBTEDLY BE BILATERAL AND PLURILATERAL ARRANGEMENTS ALREADY ADVOCATED BY A GROWING NUMBER OF SERIOUS OBSERVERS AS A PREFERABLE STRATEGY GIVEN THE PROLONGED BLOCKAGE IN GATT.

ONE SHOULD NOT, HOWEVER, JUDGE THE SIGNIFICANCE OF THE "SERVICE ISSUE" SIMPLY IN TERMS OF TRADE FLOWS OF THIS OR THAT SERVICE INDUSTRY, AS IMPORTANT AS THESE MAY BE. FOR THE MOST PART THE GROWTH OF SERVICE TRADE TO DATE HAS LARGELY 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, INSTEAD OF THE PAST, THE SO-CALLED "SERVICES ISSUE" SHOULD BE EVALUATED IN QUITE A DIFFERENT CONTEXT. THE WORLD ECONOMY IS BEING TRANSFORMED BY INFORMATION TECHNOLOGY WHICH HAS BEGUN TO AND WILL CONTINUE TO GENERATE PERVASIVE CHANGE IN THE FUNDAMENTAL "STYLE" OF PRODUCTION AND MANAGEMENT, INVOLVING NEW PRODUCTS, NEW PROCESSES AND NEW INDUSTRIES. A THRESHOLD CHANGE IS UNDERWAY, DESERVING OF THE TERM TECHNOLOGICAL REVOLUTION; COMPARABLE TO THE INTRODUCTION OF ELECTRIC OR STEAM POWER. SADLY, AS WAS THE CASE IN THE EXAMPLE OF THE ROLE OF FINANCIAL MARKETS IN GROWTH AND DEVELOPMENT, THE PROLONGED DEBATE IN THE GATT ON SERVICES HAS FOCUSED ON STERILE PROCEDURAL AND LEGAL ISSUES, NEVER CONFRONTING THE IMPLICATIONS OF THESE FUNDAMENTAL CHANGES.

WHEN VIEWED IN THE CONTEXT OF THE INFORMATION TECHNOLOGY REVOLUTION THE FUTURE ROLE OF THE SERVICES SECTOR IN THE WORLD ECONOMY TAKES ON A RADICALLY DIFFERENT DIMENSION. THUS WHILE THE REVOLUTION BEGAN IN THE MANUFACTURING SECTOR IN A CLUSTER OF TECHNOLOGICAL ADVANCES (MICRO ELECTRONICS, FIBRE OPTICS, COMMUNICATIONS AND COMPUTER TECHNOLOGY) THE MAIN ENGINE OR MOTIVE BRANCH OF THE LEADING EDGE TRANSFORMATION IS FAST BECOMING THE SERVICE SECTOR ITSELF AS THE SHIFT FROM "HARD" TO "SOFT" TECHNOLOGIES ACCELERATES. MOREOVER, INHERENT IN A TECHNOLOGY CENTERED ON RAPID TRANSMISSION OF INFORMATION IS A TREND TO GREATER INTERNATIONAL INTEGRATION OF PRODUCTION, SERVICES AND MARKETS (ONE EFFECT OF WHICH, BY THE WAY, WILL MAKE THE DISTINCTION BETWEEN SECONDARY AND TERTIARY SECTORS INCREASINGLY MEANINGLESS.) THIS FACTOR WILL AMPLIFY THE ALREADY CLOSE RELATIONSHIP BETWEEN TRADE IN SERVICES AND INVESTMENT FLOWS. EVEN NOW, BECAUSE OF THE NON-STORABLE NATURE OF MOST SERVICES, FOREIGN DIRECT INVESTMENT HAS BEEN A MORE IMPORTANT MODE OF DELIVERING SERVICES TO FOREIGN MARKETS THAN HAS TRADE.⁽⁴⁾ BUT AN INCREASING TREND TO INTERNATIONAL INTEGRATION IS LIKELY, AT LEAST FOR A TIME, TO ENHANCE THE ROLE OF THE MULTINATIONAL ENTERPRISE AS A PRIME "CARRIER" OF LEADING EDGE TECHNOLOGY. WHAT RAY VERNON TERMS THE "MULTINATIONALISATION" OF THE WORLD ECONOMY CASTS A

DIFFERENT LIGHT ON THE TRADE-INVESTMENT LINKAGE. TO MAXIMISE THE BENEFITS FROM LIBERALIZING TRADE IN SERVICES WILL REQUIRE REDUCING IMPEDIMENTS TO FOREIGN DIRECT INVESTMENT WHICH, INCREASINGLY, WILL BECOME THE MAJOR VEHICLE FOR THE TRANSFER OF LEADING EDGE TECHNOLOGY AND, EQUALLY IMPORTANT, THE MANAGEMENT ORGANISATIONAL CHANGES NECESSARY TO IMPLEMENT IT.⁽⁵⁾ IT'S WORTH NOTING THAT THE SAME COUNTRIES WHO OPPOSED INCLUSION OF TRADE IN SERVICES IN THE GATT ROUND FOUGHT STRENUOUSLY AGAINST THE AGENDA ITEM RELATED TO DEVELOPING MULTILATERAL DISCIPLINES GOVERNING TRADE RELATED INVESTMENT MEASURES (TRIMS) SUCH AS DOMESTIC CONTENT SOURCING OR IMPORT RULES, AND VARIOUS OTHER "PERFORMANCE REQUIREMENTS" REGULATED BY HOST COUNTRY GOVERNMENTS. WHILE THE IMPACT TO DATE OF TRIMS AND RELATED INVESTMENT INCENTIVES OR DISINCENTIVES ON EITHER THE LEVEL OR PATTERN OF FDI FLOWS IS DIFFICULT TO ASSESS⁽⁶⁾ THEY ARE LIKELY TO BECOME INCREASINGLY DISTORTIVE IN THE FUTURE.

FINALLY, AS IS ALWAYS THE CASE IN A TECHNOLOGICAL REVOLUTION -- WHAT SCHUMPETER APTLY CALLED "CREATIVE GALES OF DESTRUCTION" -- INFORMATION TECHNOLOGY CREATES THE POTENTIAL FOR A "QUANTUM LEAP" IN OVERALL PRODUCTIVITY CONTINGENT ON THE PERVASIVE STRUCTURAL CHANGE NECESSARY FOR ITS DIFFUSION THROUGHOUT ALL INDUSTRIES. AGAIN,

LOOKING TO THE FUTURE, ACCESS TO THIS NEW GENERIC TECHNOLOGY AND THE FLOWS OF CAPITAL BY WHICH IT WILL IN THE MAIN BE TRANSFERRED WILL DOUBTLESSLY BECOME A PRIME DETERMINANT OF GROWTH AND DEVELOPMENT AROUND THE WORLD. IN THE CASE OF THE DEVELOPING COUNTRIES THE IMPACT WILL BE ESPECIALLY IMPORTANT SINCE THE NEW TECHNOLOGY IS BOTH LABOUR, ENERGY AND MATERIAL SAVING AND WILL THEREFORE EXACERBATE THEIR ALREADY DETERIORATING TERMS OF TRADE. REDUCED ACCESS TO TECHNOLOGY AND INVESTMENT FLOWS INHERENT IN AN "INFANT INDUSTRY" APPROACH TO STRATEGIC SERVICE INDUSTRIES WILL INEVITABLY EXACERBATE THE ALREADY LARGE DISPARITY IN GROWTH RATES AS BETWEEN THE MARKET-ORIENTED ASIAN NIC'S AND OTHER LDC'S AND, INDEED, AMONG THE INDUSTRIALIZED COUNTRIES AS WELL.

NEGOTIATING TRADE IN SERVICES WITHIN THE GATT WILL INVOLVE GRAPPLING WITH EXTREMELY CONTENTIOUS ISSUES NOT ONLY INVOLVING DEVELOPING COUNTRIES BUT ALSO THE COUNTRIES OF THE INDUSTRIALIZED WORLD. SERVICES ARE EVERYWHERE SUBJECT TO VARYING DEGREES OF GOVERNMENT REGULATION (ALTHOUGH LEAST OF ALL IN THE UNITED STATES) AND THUS IMPINGE DIRECTLY ON SENSITIVE ISSUES OF NATIONAL SOVEREIGNTY AND AU FOND FUNDAMENTALLY DIFFERING VIEWS OF THE ROLE OF GOVERNMENT. BUT IT BEARS REPEATING THAT THE CHOICE CONFRONTING GOVERNMENTS IS NOT BETWEEN GATT

NEGOTIATION AND NO NEGOTIATION BUT BETWEEN ESTABLISHING MULTILATERAL DISCIPLINES GOVERNING THE FLOW OF SERVICES -- AND TRADE-RELATED INVESTMENT -- OR A SERIES OF BILATERAL OR PLURIALATERAL AGREEMENTS WHICH MAY WELL PROVE MORE PRACTICABLE AND EFFICIENT TO THE COUNTRIES CONCERNED BUT WILL INEVITABLY ERODE IN A SERIOUS AND POSSIBLY IRREVERSIBLE FASHION THE RELEVANCE AND EFFECTIVENESS OF THE MULTILATERAL SYSTEM ITSELF.

NOW, TO RETURN AFTER THIS RATHER LENGTHY DIGRESSION, WHAT DOES THE PUNTA POST-MORTEM TELL US ABOUT THE PROSPECTS FOR THE URUGUAY ROUND AND THE CHALLENGING TITLE OF THIS CONFERENCE -- MANAGING ENTRY INTO THE TWENTY-FIRST CENTURY?

YOU WILL NOT BE SURPRISED IF I GIVE YOU A TWO-HANDED ECONOMIST'S ANSWER.

ON THE ONE HAND, THE FAR LARGER NUMBER OF PLAYERS IN THIS ROUND AND THE FAR LARGER NUMBER OF ISSUES ALLOWS -- AS I HAVE NOTED IN DESCRIBING THE PROCESS -- THE CREATION OF A RANGE OF STRATEGIC ALLIANCES DURING THE COURSE OF THE NEGOTIATION. WHILE I'M CERTAINLY NO GAME THEORIST, THIS POSSIBILITY, IN A WORLD WITHOUT AN UNDISPUTED HEGEMON, SEEMS TO ME POTENTIALLY TO ENLARGE THE

POSSIBILITY OF A REASONABLY SATISFACTORY FINAL PACKAGE, I.E. CREATES THE CONDITIONS FOR A POSITIVE SUM GAME. OBVIOUSLY IT CREATES FOR MIDDLE POWERS A RANGE OF OPPORTUNITIES IN SELECTING PARTNERS ON AN ISSUE-SPECIFIC BASIS TO ENHANCE NEGOTIATING LEVERAGE VIS-À-VIS THE BIG POWERS. THERE SHOULD BE MORE ANALYSIS OF THE ROLE FOR MIDDLE POWERS IN A MULTI POLAR WORLD. IT SEEMS TO ME THAT WHILE THE BIG POWERS CAN BLOCK ACTION THEY SEEM UNABLE, ESPECIALLY WHEN DIVIDED BY POLITICAL, CULTURAL AND DEEP-SEATED ECONOMIC DIFFERENCES, TO CATALYSE CHANGE.

THE DANGER OF A PROCESS BASED MAINLY ON STRATEGIC DEPLOYMENT OF ISSUE-SPECIFIC COALITIONS IS, HOWEVER, THE SAME AS THAT ARISING FROM THE ROLE OF INTEREST GROUP LOBBIES IN DOMESTIC POLICY MAKING I.E. FREE RIDING. IN OTHER WORDS, IN SUCH A PROCESS THERE IS NO GUARDIAN OF THE SYSTEM -- THE INTERNATIONAL PUBLIC GOOD. WHAT SINGLE INTEREST COALITION WOULD FOCUS ON SUCH SYSTEMIC ISSUES AS STRENGTHENING THE GATT SECRETARIAT TO ENABLE IT TO CATALYSE POLICY DISCUSSION ON THE LINKS BETWEEN TRADE POLICY AND STRUCTURAL ADJUSTMENT IN BOTH DEVELOPED AND DEVELOPING COUNTRIES; THE IMPACT OF EXCHANGE RATES ON TRADE AND CAPITAL FLOWS; THE ROLE OF SERVICES IN DEVELOPMENT AND THE PROVISION OF STATISTICAL AND ANALYTICAL ASSISTANCE TO DEVELOPING COUNTRIES IN THIS

CRUCIAL FIELD: THE IMPACT OF TRJM'S ON INTERNATIONAL TRADE AND INVESTMENT LEVELS AND PATTERNS, ETC.? WHAT INTEREST-SPECIFIC COALITION WOULD PLACE THEIR HIGHEST PRIORITY ON ESTABLISHING A PERMANENT GATT MINISTERIAL FORUM (COMPARABLE TO THE INTERIM OR DEVELOPMENT COMMITTEES) TO ENSURE REGULAR COMMUNICATION BETWEEN TRADE AND FINANCE MINISTERS ON MULTILATERAL PROBLEMS AND POLICIES TO ENSURE -- JUST TO TAKE ONE EXAMPLE -- THAT A COHERENT EVOLUTION OF THE STRUCTURAL ADJUSTMENT FOCUS OF THE BAKER PLAN REQUIRES NOT ONLY ENHANCED BANK-FUND COOPERATION BUT INSTITUTIONALLY REGULARISED GATT INPUT SO THAT TRADE IN FINANCIAL SERVICES WOULD BE A KEY ELEMENT IN MEDIUM TERM POLICY PLANNING?

THUS, AND THIS IS MY OTHER HAND, THE CONDUCT OF THE NEGOTIATIONS IN GENEVA ESSENTIAL FOR A SUCCESSFUL CONCLUSION TO THE ROUND WILL DEMAND A STRATEGIC AND FORWARD-LOOKING APPROACH TO TRADE POLICY ON THE PART OF ALL PARTICIPATING GOVERNMENTS, AND ESPECIALLY THE LARGE POWERS, WHICH, ALAS, HAS NOT BEEN CHARACTERISTIC OF THEIR TRADE POLICIES OF THE PAST DECADE OR MORE. FURTHER, THE DEMANDS IMPOSED BY GROWING INTERNATIONAL INTERDEPENDENCE WILL REQUIRE A CONTINUING DEGREE OF INTERNATIONAL ECONOMIC COORDINATION OF BOTH MACRO AND MICRO POLICIES SO FAR NOT EVIDENT IN MULTILATERAL POLICY-MAKING. CLEARLY THE

ABSENCE OF AN UNDISPUTED LEADER AMONG THE INDUSTRIALIZED COUNTRIES MAKES THE TASK OF STRENGTHENING INTERNATIONAL COOPERATION MORE DIFFICULT. ALTHOUGH RECENT DEVELOPMENTS IN THE INTERNATIONAL MONETARY SPHERE PROVIDE SOME GROUNDS FOR MODEST OPTIMISM. THE CONDUCT OF THE URUGUAY ROUND WILL PROVIDE A REAL LIFE EXPERIMENT TESTING THE CAPACITY OF THE MAJOR ECONOMIC POWERS TO EFFECTIVELY MANAGE ENTRY INTO THE 21ST CENTURY IN A MULTI POLAR WORLD. THE OUTCOME OF PUNTA WAS CERTAINLY NOT "TOO LITTLE". THE CHALLENGE WILL BE TO ENSURE IT WAS NOT "TOO LATE".

FOOTNOTES

- (1) MARTIN FELDSTEIN. "THE IMPACT OF ECONOMIC POLICIES ON THE OUTLOOK FOR WORLD TRADE". INTERNATIONAL MONETARY CONFERENCE. BOSTON, JUNE 2, 1986. (MIMEO) P.9.
- (2) WORLD FINANCIAL MARKETS. APRIL/MAY 1986. MORGAN GUARANTY TRUST COMPANY OF NEW YORK. P.3.
- (3) R. DALE. "IS THE U.S. ALREADY A DEBTOR NATION?". THE BANKER. DECEMBER 1984. PP. 8-9.
- (4) "FDI AND TNC'S IN SERVICES". THE CTC REPORTER. No. 20 (AUTUMN 1985). U.N. CENTRE ON TRANSNATIONAL CORPORATIONS. NEW YORK.
- (5) CHRISTOPHER FREEMAN. "THE CHALLENGE OF NEW TECHNOLOGIES". OECD 25TH ANNIVERSARY SYMPOSIUM. PARIS. OCTOBER 1986 AND RAYMOND VERNON. "GLOBAL INTERDEPENDENCE IN AN HISTORICAL PERSPECTIVE". SAME SYMPOSIUM. SEE ALSO GEZA FEKETEKUTY AND JONATHAN D. ARONSON. "MEETING THE CHALLENGES OF THE WORLD INFORMATION ECONOMY". THE WORLD ECONOMY. VOL. 7. No. 1. MARCH 1984.

- (6) OECD. INTERNATIONAL INVESTMENT AND MULTINATIONAL ENTERPRISES. PARIS. 1983 AND STRUCTURAL ADJUSTMENT AND MULTINATIONAL ENTERPRISES. PARIS. 1985 AND GROUP OF THIRTY. FOREIGN DIRECT INVESTMENT 1973-87. NEW YORK. 1984.