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OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

AMBASSADOR CLAYTON YEUTTER
UNITED STATES TRADE REPRESENTATIVE

Forty-Third Session of the GATT Contracting Parties

Geneva, Switzerland

December 1, 1987

I would like to speak to you this morning about the future of the world trading system. It seems appropriate, on the GATT's 40th birthday, to recognize its past achievements while also looking forward to its future challenges. We must together develop a vision of the GATT that will serve the needs of the twenty-first century.

Forty years ago, the legacy of a great depression and a world war was high import duties and restrictive quotas. World trade had shriveled. Recognizing this sorry state of affairs, concerned countries came together to establish a mechanism for reducing trade barriers and for carrying out trade policies on the basis of fair and equitable principles.

Subsequent negotiations, conducted under the aegis of the GATT, have reduced the tariff barriers of industrial countries to a fraction of what they were 40 years ago. World trade has expanded accordingly -- indeed, enormously. In fact, the growth of world trade consistently out-paced internally generated domestic growth, truly becoming the engine for global economic development. Expanded trade has provided rising prosperity for developed and developing countries alike.

The world has changed considerably over the past 40 years. So has the GATT. The substantial reduction of tariffs and quotas in the industrial countries has made other, less obvious, trade barriers more important. In partial response to this, the Tokyo Round of multilateral trade negotiations focused to a great extent on non-tariff barriers such as subsidies, restrictive government procurement practices, trade distorting standards, and arbitrary customs valuation and licensing procedures. Negotiations on these topics resulted in a series of codes, each with different signatories and different institutional arrangements.

In the Uruguay Round, as Paul Volcker reminded us yesterday, we have properly set our sights still higher. After years of failure in agriculture, we have decided to tackle the problem at its roots by addressing ourselves to the full range of programs affecting global production and trade in agriculture. We have agreed to tackle trade in services and the issue of protecting intellectual property rights. Phenomenal advances in technology have increased the importance of both these topics. We have also established a negotiating group for trade-distorting investment measures. In each of these crucial areas, greater economic integration has obliterated arbitrary boundaries between international and domestic policies, and their significance in international commerce has made it imperative that they be integrated into the GATT. Should we fail to do so, 21st century trade will pass the GATT by.

Strengthening and Using the GATT

We must do more to cultivate and advance the strength and stature of the GATT as an institution. GATT must be more involved than it is today in relentlessly pursuing the objective of a more free and open trading system for all. One of those challenges is in preventing nations from backsliding.

When a nation takes trade policy actions inconsistent with the spirit of the GATT, that nation should be called to account for those actions. They should be exposed to GATT scrutiny, perhaps through an active, vigorous surveillance or audit program. And they should be exposed to world opinion, through means of insuring their transparency. A nation's trade policy image should reflect what is really occurring within its boundaries, not simply what it is telling the rest of the world.

In addition, we must design GATT rules and codes in ways that motivate nations to join, reward national policies consistent with the objectives of those codes or rules, and penalize national policies inconsistent therewith. Nations ultimately follow what they perceive to be their self interest; we must, therefore, find ways to insure that their self interest calls for following the GATT rather than ignoring or violating it.

Not only should we strengthen the GATT, we should all use the GATT more. If we have a number of dispute settlement mechanisms, we should avail ourselves of them. There should be no opprobrium attached to using them. Dispute settlement is only one of many services and functions the GATT can and should perform. We must, however, make sure that the GATT works, that it is something more than a debating forum, that it actually solves problems. Can it do so when an increasing number of members must agree in order to achieve consensus? That demands some soul searching on our part. I am by no means suggesting that the GATT establish a voting procedure. But we should seriously consider whether one country should be able to block panel reports and other such actions.

The response time built into the GATT in areas such as dispute settlement and safeguards was perhaps adequate when trade negotiators traveled from their capitals to Geneva by boat and train, and international trade and monetary flows responded to economic events in other countries over a period of months and years. Today, information about major economic events is available instantaneously around the world. Billions of dollars can flow from one country to another in minutes. Jumbo jets make it possible to ship a year's supply of products from one country to another in a matter of hours. Modern technology has made it possible to shift production from one country to another in a matter of months, even days.

We must consider carefully the implications of this new environment as we develop additional disciplines in areas such as subsidies, safeguards, and dumping. New procedures are needed, for example, to deal with disruptive, short term events. We can no longer afford the leisurely pace built into the GATT dispute settlement mechanism. Governments cannot and will not sit idly by when actions by other governments disrupt vital commercial interests.

Ministerial Involvement in GATT

The growing linkages between international trade and monetary policies, as well as between international trade and domestic economic policies, call for increased political involvement and leadership by ministers in the work of the GATT. It is no longer possible to leave trade policy discussions or negotiations just to technical experts. Ministers spend an increasing amount of time flying from capital to capital seeking to resolve trade conflicts. The time has come to seriously evaluate whether greater ministerial involvement in the GATT might not reduce the time spent in bilateral meetings and increase the likelihood of resolving differences. Might we not agree to have Ministers meet periodically in Geneva to take care of bilateral business as well as to provide the multilateral political leadership that can come only from Ministers?

Greater involvement by ministers in the work of the GATT might also help us establish a continuing process of negotiation that would not be based on distinct rounds of multilateral trade negotiations. While traditional rounds have been successful in reducing trade barriers and reforming trade rules, they are cumbersome, costly, and not always timely. Wouldn't we be in a better position to keep the GATT relevant if we could put in place an ongoing negotiating process?

Cooperation Among International Economic Institutions

The linkages between international trade and monetary policy also call for increased cooperation between trade and finance officials in capitals, as well as improved communications between the GATT, the IMF, and World Bank. The experience of the last few years should have provided ample evidence that large imbalances in macroeconomic relationships can cause serious disruptions at the microeconomic level. As Chairman Volcker said yesterday, we must remember that the decisions we make in the trade area can have a powerful impact on economic development and growth prospects. Discussions in the Negotiating Group on the Functioning of the GATT System will provide one opportunity for developing closer linkages between trade and monetary disciplines.

Major advances in communication and transportation technology and the reduction of barriers to the international flow of goods, money, information and people have led to an unprecedented degree of integration in the world economy. Under such circumstances, events or policies in one part of the world are quickly transmitted to other parts of the world and just as quickly have an impact there. In an integrated world economy, imbalances in one policy area cause immediate reverberations in other areas of policy. Our domestic and international institutions face great challenges in dealing with the rapidity of change in the world today, the linkages between international trade, monetary and tax policies, and the close relationship between domestic policies and international commerce.

The Trading System of the Future

It may be that just greater ministerial involvement in the GATT won't be enough. Might we not soon need to re-explore the possibility of creating an international organization to encompass, in a more orderly fashion, a broad range of agreements? The examination of such a comprehensive structure is clearly beyond the scope of the Uruguay Round. But as we negotiate solutions in individual areas, and as we discuss proposals for institutional reform in GATT, shouldn't we have in mind a view of the GATT of the future?

Earlier, I focused on a number of characteristics of the current trading environment which have major implications for the institutional structure of the GATT. We will have to take these characteristics into account in the Uruguay Round. Whether we can do so in a coherent manner remains an open question. And even if we can, the question will remain whether we all would be better off if the entire panoply of international trade policies and procedures should be integrated into a more comprehensive GATT. This question cannot -- and should not -- be answered today. But over the longer term, this question should be addressed if we truly do believe, as the motto behind me says, "GATT -- 40 years to help the world grow". The GATT has done much in its first 40 years. There is much still to do. What we will need, beyond the Uruguay Round, is a vision for the next 40 years to take us well into the 21st century. Let us, with careful contemplation and thoughtful debate, dedicate ourselves in the coming years to that cause, to the creation of that vision.

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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

March 1, 1988

Dear John:

I realize that you face an incredibly difficult challenge in trying to stretch insufficient funds to meet U.S. obligations to international organizations. And while I have no desire to change places with you in making those decisions, I would like to share my observations about two organizations, the OECD and the GATT.

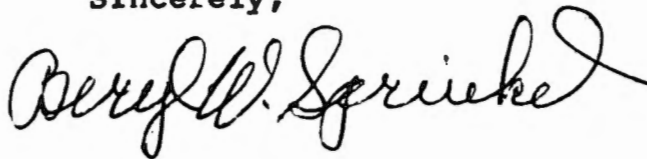
I have participated in OECD meetings since my first days in the Administration, and am currently the chairman of the OECD's principal economic committee, the Economic Policy Committee. It is my experience that the present senior management of the OECD has been highly responsive to U.S. priorities, as exemplified by the similarity in recent years of communiques from the OECD Ministerial and the Economic Summit. In fact, the OECD has been in the forefront in advancing U.S. proposals on structural rigidities, proposals which have now gained credence with all of our major allies. While they previously had not focussed sufficient attention on structural problems and reform, now--largely as a result of encouragement from the U.S. State Department, Treasury Department and CEA--the OECD has an appropriate balance between macro and micro analysis and recommendations, and their influence in this latter important area is strong and growing. Further, the OECD has made these substantive contributions while meeting zero-growth budget constraints.

The GATT has been the single most important vehicle for accomplishing U.S. international trade objectives in the last forty years. History has shown that multilateral negotiations have been the most effective way to reduce world trade barriers. The U.S. has benefitted greatly from its participation in the GATT over the years. The GATT has recently been revitalized, which had been a major U.S. objective in the Uruguay Round. The GATT has been receptive to major U.S. proposals on agriculture, services, investment, and intellectual property, and the U.S. is very optimistic as to what we can accomplish during the new round of negotiations. Especially in agriculture, we have been pleasantly surprised at the support in the GATT for U.S. ideas, and the prospects are good for achieving something truly significant in this important sector.

I hope that you can find a formula for allocating the available funds in a way that rewards those organizations which have been responsive to U.S. priorities, both substantively and administratively. Failure to fund our obligations fully would be a poor way to indicate our enthusiasm for these organizations while they are making significant contributions to U.S. goals. The small amount we could save pales in comparison to what we could lose in these critical fora at this critical period for international trade policy and international economic policy.

I appreciate the opportunity to present my views on this issue. I would be pleased to discuss this further.

Sincerely,

A handwritten signature in cursive script, reading "Beryl W. Sprinkel". The signature is fluid and elegant, with a large, sweeping "S" at the end.

Beryl W. Sprinkel

The Honorable John Whitehead
Deputy Secretary
Department of State
Washington, D.C. 20520