

'Will it be the "NIXON ROUND" next?' from Perspectives économiques (18 November 1972)

Caption: On 18 November 1972, French weekly publication Perspectives économiques is concerned about the outcome of the forthcoming GATT trade negotiations and foresees a tough battle between American and European negotiators.

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The liberalisation of international trade:

Will it be the 'NIXON ROUND' next?

For more than a year, the world has been sitting on a time bomb and has scarcely noticed. At any moment an economic war could break out that would jeopardise the extraordinary growth experienced over the last 25 years and take us back to the dark years that followed the 1929 stock market crash. And it will be several months yet before we know whether it will be possible to avoid the global explosion in protectionism that would trigger a merciless trade war.

Since the dramatic decisions taken by President Nixon on 15 August 1971, attention has been drawn above all to the events surrounding the monetary crisis. It was necessary to attend to the most urgent matters first and to agree on a provisional settlement that took account of the non-convertibility of the dollar and made it possible to await the reform of the monetary system set up by the Bretton Woods Agreements in 1944. The most recent General Assembly of the International Monetary Fund showed that convergences were beginning to appear, even though it will still be some time before a lasting reform is implemented.

However, the game is likely to be played out ultimately in the arena of international trade, where matters are much less advanced. As we know, the dollar crisis can be explained largely by the rapid deterioration in the balance of trade of the United States, which still had a surplus of \$7 000 million in 1964, but is likely to have a deficit of more than \$3 000 million this year.

Growth in trade, linked to growth in investment, is one of the main motors for economic expansion and, as such, the best guarantee of general prosperity. Therefore, it is not surprising that even before the celebrations for his election victory have died down, President Nixon has taken up the issue once again. Did he not declare, recently, that his next term would be dominated by the problem of international economic relations?

First skirmishes in Geneva

The location for these future international trade negotiations is already known. It will be at Geneva, under the auspices of GATT, at the very place where the 'Kennedy Round' was concluded in 1967 after four years of hard bargaining. The likely date for the negotiations to be opened would be September 1973, if the governments accept the proposal recently made by William Eberle, President Nixon's special representative for trade.

The 28th session of the GATT contracting parties, which ended on 14 November, can therefore be seen as some sort of 'phoney war' which allowed an initial exploration of the conditions for the initiation of these new major negotiations.

It is difficult to imagine the complexity of the discussions that will be held this time over many months at the *Palais des Nations* between representatives of the eighty member countries of the General Agreement on Tariffs and Trade. Given the urgency of an overall settlement, it might be thought that an effort will be made to progress more quickly than in the 'Kennedy Round'. At the European Summit in Paris, the Nine hoped that an effort from all the partners would allow these negotiations to be concluded in 1975. President Nixon will also probably be keen to see them completed before he finally leaves the White House in 1976.

However, the GATT session has made it possible to see the distance that exists between the positions of the main partners, even before they finalise their battle plans. Through its ambassador, William Pearce, the United States has taken the initiative, in particular by declaring that it is in favour of a total abolition of customs duties on industrial products in trade between developed countries.

The US representative thus reaffirmed one of the key points of the Trade Liberalisation Programme adopted by the International Chamber of Commerce (ICC) in 1970.

A coherent programme

The business world did not wait for the crisis in summer 1971 before calling for new negotiations to be opened. Their day-to-day experience had shown them for some time the considerable upheavals that international trade was undergoing and had convinced them of the need for a new step forward in the direction of full trade liberalisation.

It was undoubtedly necessary, after 1967, first to 'digest' the outcome of the 'Kennedy Round'. Then, it was evidently necessary to await the end of the discussions on the enlargement of the European Common Market, which becomes the world's leading trading group.

But now that the negotiations are close, the ICC's Liberalisation Programme becomes a key element in so far as it allows the position of international business circles to be known.

This Programme consists of five inseparable points:

- 1) marked gradual reduction in customs tariffs on products manufactured in industrialised countries with a view to their final abolition after a reasonable time;
- 2) elimination of non-tariff barriers and use of safeguard and protection measures to combat operators causing distortions to free competition;
- 3) as regards agricultural products, medium-term action to bring about structural modifications so as to allow a return to competition pending the negotiation of a *modus vivendi* guaranteeing market access for exporters in the temperate zone and protecting them against any weakening of their positions in relation to local producers;
- 4) extension of concessions to developing countries;
- 5) harmonisation of economic and monetary policies in developed countries.

These various points will certainly be a focus for discussions throughout the Conference. To some extent they make up a whole, although the negotiations must, of course, concentrate on the first three.

As far as the developing countries are concerned, the 12th session of the UNCTAD Trade and Development Board, which met in Geneva last October, gave them an opportunity to voice their concerns over the idea of negotiations where, by force of circumstance, they will be powerless spectators rather than active partners. As the ICC Secretary-General, Walter Hill, pointed out on that occasion, exports from developing countries more than doubled from 1960 to 1971, but their growth is still slower than the growth in exports from developed countries. It is therefore essential for new concessions to be granted to them, whilst bearing in mind that trade liberalisation cannot in itself secure their development. For these countries, structural adjustment and diversification of production are essential complements to the opening up of markets.

The duel between the United States and Europe

In reality, the confrontation between the American and European negotiators is likely to dominate the Conference. In truth, it is still difficult to see at present what President Nixon will do. Will he attempt to bring to bear his strengthened political authority to exert pressure on his European partners and try to impose on them his terms, which are best for the US economy? Or will he make what will inevitably seem like a 'Nixon Round' the basis for a new period of global economic prosperity? The renewed growth in the United States, combined with the slowing of inflation, will undoubtedly allow him to resist better the protectionist pressures that are apparent in particular in the American trade unions. However, it is likely that we shall have to wait for the European tour that President Nixon will probably be making next spring before we can be clear on his position.

In any case, it should be noted that the US President's freedom to act is less than that of his partners. Foreign

trade falls within the remit of the US Congress, where protectionism has many supporters.

It is significant at any rate that there is much greater pessimism on the other side of the Atlantic than on this side regarding the prospects for the success of the negotiations.

Speaking to an audience of businessmen in Williamsburg, Virginia last month, Mr Eberle said, in substance: 'We would have everything to lose in a trade war, but it is our duty to be prepared for any eventuality, including that, however gloomy it may be.' President Nixon's special representative evidently fears an explosion in global protectionism, both in the United States and in other countries.

The American Association of Port Authorities, which has a direct interest in the development of trade and therefore in trade liberalisation, has recently expressed concern over the level of protectionist tendencies in the United States. It is to be feared that these tendencies will really become evident (they can indeed already be seen in the much-discussed Hartke–Burke bill) when the President calls on Congress to approve the commitments that he will have to make in the negotiations.

To gain the support of a cautious Congress, President Nixon will therefore have to undertake to win considerable concessions from Europe, in particular with regard to agricultural products.

So we must look to Brussels. At the Paris Summit, the Nine decided to finalise their positions for the negotiations by next July. This will undoubtedly be a difficult task for the governments and above all for the Commission and its new President, Mr Ortolí. The initial reactions from the European Community's representative in Geneva, following the statement made by the American delegate, show just how much Brussels fears that the EEC's individuality and homogeneity will suffer in the event of the complete abolition of customs duties.

Whatever the case, initial negotiations will start at the beginning of next year in Geneva; they will give a better idea of the climate in which the main negotiations will be opened.

Under GATT rules, the enlargement of the Common Market requires negotiations to determine the compensation due from the members of the customs union on account of increases in duties effected by them. Moreover, the special agreements concluded with other countries, in particular the members of the European Free Trade Association, may cause fierce clashes. In his speech in Geneva, Mr Eberle, who a few days ago expressed his concern at the bloc of '55 countries' forming around Brussels, said that such agreements were 'contrary' to the spirit and the letter of GATT. One can imagine how fierce the forthcoming negotiations will be.

The experts are brought in

Although there is almost a year until the opening of a 'Round' that looks to be turbulent, it must not be thought that this is a long time.

The GATT experts already have sizeable dossiers, but in such a fluid area as this an update is especially necessary because the barriers to free trade have continued to increase in number over recent years.

In many countries, with a little imagination, non-tariff barriers have proliferated to a large extent so as to compensate for the lowering of customs barriers. It is therefore necessary to review, industry by industry, or even product by product, all the rules that essentially seek to protect national production under a variety of different pretexts: the fight against pollution, consumer protection, health requirements, etc.

So in each country experts are being brought in, both by government and by employers. In the United States, the very powerful National Association of Manufacturers has recently decided, together with 25 major industrial associations, to create an inter-industry consultative body with a view to the international trade negotiations, so that US businessmen may take stock of the non-tariff barriers. The CNPF, for its part, has sent a preparatory questionnaire to French manufacturers ahead of the holidays.

However, these are only the first initiatives. It is conceivable that progress with the preparations will gradually lead to a greater awareness of the challenges represented by a battle that is shaping up to be tough and whose outcome, if things turn out badly, could be catastrophic for the global economy.