The developing countries are calling for a "New Economic Order" because they feel that the trading system discriminates against them. Whether GATT will emerge from the present negotiations better adapted to the needs of the Third World remains to be seen.

A protectionist tide is rising in the developed market economies as GATT’s members enter a new round of trade negotiations. This round was initiated early in 1972 after the Smithsonian currency realignments by declarations of intent by the governments of the US, the EC and of Japan. Three years later the Ford administration received its negotiating mandate from Congress through the Trade Reform Act. In the interval, the industrial market economies had experienced the deepest recession of the postwar period. Unemployment had risen to levels which evoked comparison with the Great Depression. Inflationary pressures due to excessive US spending towards the end of the 60s had spread to its main trading partners. They were increased by a simultaneous boom in the industrial countries, a series of harvest failures and the quadrupling of oil prices by OPEC.

Record rates of inflation, unemployment and current account deficits in the industrial countries do not create an atmosphere conducive to the pursuit of GATT’s traditional goals of multilateral, non-discriminatory, and mutually beneficial freer trade. Payments problems encourage bilateralism and discriminatory trading arrangements, unemployment presents a formidable political obstacle to freer trade, uncertainty about foreign supplies of strategic raw materials gives a powerful fillip to autarchy. Probably never before has GATT negotiated long-term decisions in such crisis circumstances. A long view is necessary so that the formulation of the commercial policy of the next decade is not obscured by these dramatic but transitory problems.

New Institutional Framework

In the long-run the postwar institutional framework for international economic transactions must be adapted to emerging new political relationships between the market economies and centrally planned economies and between the developed and developing countries. The existing framework was never international in scope. Founded by a few developed market economies and dominated by the victorious Western allies, the IMF and the GATT were poorly tailored to the needs of the developing countries and not designed to include the centrally planned economies.

It is therefore natural that the policy developments during the postwar period have increasingly emphasized the restricted scope and the limitations of these organizations. First decolonization has meant a vast redistribution of political power from the developed industrial countries to the developing countries. The developing countries can now object when they feel that the trading system discriminates against them. They can make political "noise" and throw "sand" into the world’s economic machinery through collective action. Their nuisance potential in international politics is difficult to disregard. They have exerted this political influence in the United Nations by setting up UNCTAD as a poorly disguised competitor of GATT and voting through resolutions calling for a vaguely defined new economic world order. The recent adoption by UNCTAD of a resolution defining a Code of Conduct for Liner Conferences shows the developing countries’ political strength and that they are prepared to inflict heavy efficiency losses on the world transport system in order to transfer income to themselves.

Shifts in Political Power and in Trade Flows

Second, détente between the major market and centrally planned economies means that ideological considerations will influence trade flows between them to a lesser extent in the future than in the past. In Europe and in Asia World War II and the Cold War interrupted trade flows based on comparative advantage between market and planned economies which may now be resumed. Japan’s trade with planned economies in Asia has already increased dramatically during the 70s and Japan and Western Europe together are now more important sources of imports as well as markets for exports for centrally planned Asian economies than are Eastern Europe and the Soviet Union. Similarly, trade flows between Eastern and Western Europe have increased and the extension

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to the planned economies of most-favoured-nation treatment by the market economies is now being negotiated.

Although the détente is inspired by the developed planned economies' desire for technology and capital from the developed market economies, it also provides more trading alternatives for the developing countries in both economic systems. They can "play off" developed market and planned economies against each other to achieve better terms of trade and diversify their import and export markets. They face less risk of sanctions from the dominant economy in their market system than the People's Republic of China or Cuba were once confronted with. This keener competition for markets should increase the trade flows between the market and the planned economies. It may also increase trade flows between the developed and developing countries within the market economy system.

These shifts in political power through decolonization and détente have contributed to the present crises in the international trade and payment systems. Whether GATT and the IMF will emerge better adapted to the needs of the developing countries and to accommodate larger flows of East-West trade remains to be seen.

The collapse of the Bretton Woods system of pegged exchange rates has contributed to decentralizing control over economic policy. Pegged rates were supported by the use of the dollar as international reserve currency and by conditional access to collective credit facilities in the IMF, while changes in the rates had to be approved by international review mechanisms. When the system broke down, the United States ceased to play the role of international central banker and the power to control the world's money supply and rate of inflation was distributed among a large number of national central banks maintaining flexible exchange rates.

**Moderate Success of GATT**

Whether the present crisis in GATT will result in freer or more protected trade depends largely on the outcome of the present negotiations. These will therefore determine whether GATT becomes primarily an instrument of the OECD countries or of the members of the UN. GATT once established a number of rules designed to achieve multilateral, nondiscriminatory and mutually beneficial freer trade after the bilateral, discriminatory and beggar-thy-neighbour protectionist policies of the 1930s. Compared with the Hawley-Smoot American tariff of 60 p.c. in 1930, the average tariff rate of 10 p.c. on industrial goods in the industrial countries after the enactment of the tariff concessions of the Kennedy Round appears a striking achievement. However, GATT's success is modest when measured against its goals. Most striking is the limited degree to which GATT has actually achieved these goals and the gradual erosion of its rules.

Trade liberalization in GATT has been biased in a manner reflecting the composition of its original members, mainly all developed industrial economies. It has resulted in reduction of tariffs on the industrial goods traded between the major industrial countries. Other trade distortions than tariffs and other goods than industrial have been neglected and contraventions of GATT's rules in these cases have been disregarded. One reason for this development has been GATT's system of negotiations between principal suppliers aiming at balanced concessions (reciprocity). Negotiations have thereby focused on those distortions which are subject to quantitative comparisons (tariffs) and on goods of interest to the major trading nations (industrial goods). Trade has not been liberalized for those agricultural and industrial goods in the production of which the industrial countries have a comparative disadvantage relative to the developing countries. Furthermore, in spite of GATT's rules the developed countries have felt themselves free to use other distortions to trade than tariffs when it has suited their purposes.

**Interest of the Developing Countries**

GATT's rules have not prevented the developed market economies from forming discriminatory trading blocs. As these blocs increase in size, they assume an autarchic and protectionist posture blocking further trade liberalization. GATT's acceptance of the increased practice of bilateralism, preferential trading arrangements and other protectionist distortions than tariffs clearly conflicts with its preachings.

What demands will the international trading system place on the developed market economies if it should consider the interests of the developing countries? The primary producing countries have traditionally wished to protect their industrial sectors while demanding access to developed countries' markets for their industrial exports. They have consequently been opposed to GATT's principle of mutual tariff concessions which ceased to apply to them in 1966. Their traditional exports are primary products which face low income and price elasticities in developed markets and therefore invite collusive producer behaviour. There is a direct relation between the failure of the developing countries to obtain access to developed markets for their industrial exports and their attempts at monopolistic pricing of raw materials. Improved market access for exports of manu-