INTERNATIONAL TRADE - THE PRESENT CHALLENGE

Address given by Mr. Olivier Long, Director-General of the General Agreement on Tariffs and Trade to the Fifty-Sixth National Foreign Trade Convention at New York on 19 November 1969

Introduction

In the field of international trade, the outstanding feature of the past two decades has been the progress made toward increasing liberalization on the basis of the rules and principles of the General Agreement on Tariffs and Trade.

The commerce of ninety-one countries accounting for some 85 per cent of world trade is contractually linked through the application of these rules and principles; through the operation of the tens of thousands of tariff and trade-concessions negotiated in successive GATT conferences; and through the normal recourse to the machinery and procedures of GATT for consultation and the settlement of trade differences.

That this process has brought great benefits to world trade and to national economies can hardly be disputed.

The facts are clearly on the record: a spectacular expansion of world trade which, in 1968, was over 11 per cent higher than in 1967 and over 121 per cent higher than in 1958; a higher degree of order and stability in the trade field; and closer co-operation and consultation in international trade relations than ever existed before. All this has contributed to a great increase in national prosperity and economic growth.

But, while we can justifiably take satisfaction from the gains of the past, it is the challenge of the present and prospects for the future that must engage our attention. Here, we certainly do not have as much cause for satisfaction.
The International Trade Scene

It is a far cry from the sense of victory that immediately followed the successful conclusion of the Kennedy Round in 1967. Clouds today overhang the international trade scene.

Governments, preoccupied with their domestic or regional difficulties, and frequently confronted with important problems in the economic and monetary fields, seem little disposed to seek constructive solutions or take any real initiatives in the international trade field.

The result is the risk of a weakening in international co-operation and the creation of an atmosphere detrimental to trade expansion and to an active international commercial policy. It could leave the GATT, and all those concerned with these problems, operating in a political vacuum.

Following the conclusion of the Kennedy Round it was fully expected that governments, industry and traders would need time to digest and evaluate the potential effects of the Kennedy Round. We all knew that there would be a pause before the forward movement could be resumed.

The question that one must now ask, however, is: how long can a pause reasonably last in a field as dynamic as world trade before it becomes damaging and before it undermines what has been built up with such difficulty over the past twenty years?

In many quarters around the world there is developing a real sense of unease on this point.

I think we should be clear as to our objectives. It cannot be denied that further progress in trade liberalization and in the development of closer trading relationships is in the best interests of both national economies and the international economy. It is the expansion, and not the contraction, of world trade that will help alleviate the difficulties troubling the international economic scene and, at the same time, make an important, lasting contribution to a solution of some of the domestic economic and social problems with which governments are often confronted.

There is no valid alternative to this line of thinking in this day and age. It is the inevitable corollary to the increasing economic interdependence between nations. It offers the best chance of satisfying the aspirations of governments, industrialists and traders for the larger markets and spheres of operation that technological advances, scientific research and the integration of productive capacities make increasingly necessary. And it offers a far better means than trade restraint for increasing the real income of the labour force.
I myself have no doubt that what is called for is a revival and a reinforce-
ment of the impetus and effort toward further trade liberalization. This is the best way of countering the danger of stagnation and reaction to which the present situation can give rise. To try simply to hold the line is insufficient and dangerous; unless there is movement forward, there will be movement backward.

The Priority Tasks

Up to now the Kennedy Round reductions have been implemented on the due
dates and a few countries, including your neighbour to the north, have even
carried out their reductions in advance of these dates. So far so good; the
remaining reductions must also be applied on the dot.

But this is only cashing in on past investments. The trading nations
cannot simply live on the capital of tariff concessions accumulated during the
past twenty years. In trade policy, as in business, capital is bound to shrink,
and eventually to disintegrate, if it is not constantly fostered and built upon.

In order to forestall a disintegration of our capital, and to preserve the
multilateral system of trade as we know it, we have to move further along the
path of trade liberalization.

As I see it, there are two conditions that need to be satisfied for this
purpose.

First, the necessary technical base from which to launch the next operation
must be carefully and thoroughly prepared. This is already well under way in
GATT.

Secondly, there is the essential need to contain, and deal satisfactorily
with, certain factors on the current scene that have serious implications for
world trade.

Here I have in mind two areas of concern in particular: the strains on the
international monetary system; and protectionist pressures on governments.

The serious economic and monetary difficulties that have confronted
important countries over the past eighteen months have brought an increased
awareness of the adverse repercussions such difficulties have on the pursuit of
liberal trade policies.

The continuation of the forward movement toward free trade requires as a
sine qua non the assurance of a properly functioning international monetary
system. The recent decision of the Board of Governors of the IMF to activate
the SDR system is a welcome development. But we must not let ourselves believe
that this important step in increasing international liquidity solves the problem
of international adjustment.

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The monetary crises experienced from time to time over the past eighteen months have not been the consequence of trade factors. The danger that must be guarded against is the increasing tendency of governments, in times of monetary stress, to have resort to restrictive measures in the trade field. There is something anomalous and paradoxical in a situation in which the international monetary system, which should essentially facilitate trade expansion, has to be buttressed by measures that are restrictive of trade. We can all be pleased at the recent statements by the Managing Director of the IMF, Mr. Schweitzer, and by the United States' Secretary of the Treasury, Mr. Kennedy, that the collaboration between those institutions that have special responsibilities in the fields of monetary and trade affairs should be reinforced.

The resurgence of protectionist pressures in many countries is another matter of serious concern. These pressures have become progressively more insistent and vociferous since the conclusion of the Kennedy Round. They must be constantly countered. There can be no relaxing on this point. That the reasons for the pressures can be readily explained does not reduce their cost to economic welfare. For protectionism is a retrogressive policy and the call for new restrictive action against imports a most dangerous practice. It discourages the necessary process of adjustment and technical change in the industries concerned. It invites legitimate retaliation by other countries. If not successfully resisted, it might provoke a chain-reaction that could put at risk the multilateral trading system, and any possibility of further progress. Restrictions breed restrictions, to the commercial and economic disadvantage of everyone.

By and large these pressures have up to now been generally resisted by governments. We must constantly look to the world's leaders to continue to take a firm stand on this vital issue and, when I say leaders, I include the leaders of the world's industries, for their influence and responsibility in the field of their nations' trade policies is very great. Any lack of firmness, any backsliding would, above all, cast doubts on the desire, willingness and ability of nations to pursue liberal trade policies.

The Way Ahead

If the difficulties and disturbing elements to which I have just referred are satisfactorily dealt with we can make progress. The possibilities exist. Both the challenge and the opportunity are there.

Over the past two years the technical base from which to launch the next move forward has been under careful but intensive preparation in GATT. This work derives from specific directives by Trade Ministers when they met in Geneva in November 1967. It has now reached the stage where it is possible to sketch out the framework for future action.
I do not intend to dwell here on the mass of detailed work that has so far been done in GATT. I shall limit myself to certain observations on some of the elements that are already emerging from this work.

At the GATT annual session last November I said in a statement to the Member governments: "It would indeed be gratifying if - following six rounds of successful tariff and trade negotiations in GATT - the possibility of dealing with a whole gamut of non-tariff barriers could become a practical proposition". It is my conviction a year later that it is a practical proposition.

Non-tariff barriers have been given a lot of public attention of late. This is understandable, partly because of their inherent importance as obstacles to trade, and partly because of the particular attention that has always been concentrated on tariffs in past GATT negotiations.

In this area our technical preparations have moved forward well. We have not only built up a large and detailed inventory of such barriers, but have gone further and established categories and priorities and have suggested possible methods of moving toward solutions. The material is there. I hope that governments will be prepared to engage in detailed exploratory talks aimed at establishing a basis for negotiation.

There is scope for negotiation. I think that, at least a priori, sufficient indication of this is to be found in the fact that, in the compilation of our original inventory of non-tariff barriers, we received over eight hundred notifications from member governments of such measures affecting their trade and applied by other governments.

One cannot leave this subject without mentioning the question of ASP. The conditional agreement relating to chemicals reached during the Kennedy Round has still not entered into force; this is very much to be regretted. I hope that it will be possible for the agreement to become effective soon, partly because of the important additional degree of trade liberalization that is involved, but also because of the psychological importance its implementation could have on our overall efforts in the non-tariff field. Indeed, failure to abolish ASP would greatly impair if not jeopardize the success of our present efforts to reduce other non-tariff barriers around the world.

In the agricultural sector it is, I am afraid, not an overstatement to say that there is complete disorder at the international level. The sophistication and the complexity of the measures that governments resort to for the protection of their domestic producers, both by import restrictions and export subsidies of one kind or another, are only matched by the increasingly high costs of the measures to Treasuries and to the taxpayer.
The most encouraging element I see here is that, more and more, governments seem to recognize the costly situation in which they find themselves, and may at least be more willing than hitherto to examine the long-term aspects of current policies and seriously to seek more economic and more internationally efficient solutions to their problems.

The nature of the barriers obstructing the rationalization of agricultural trade and production are well-known. The measures that should be taken to establish at least some degree of order and reason in this sector are likewise well-known.

What is needed on the part of governments generally is the courage to take the necessary measures and, through them, to face up to what is admittedly a formidable problem: the progressive reconversion of non-competitive agricultural producers to other economic sectors.

When the governments and peoples of the industrialized countries become tired of seeing monumental amounts of money devoted to the support of their agriculture, it should be possible to make progress on the international plane. A good starting point, in my view, would be acceptance of the principle of national responsibility for agricultural support policies and for the consequences of those policies. If no part of the costs of countries' support policies could be passed on to other countries, I am confident we should soon see drastic changes in some of the domestic policies, now such a potent source of international difficulties.

We shall push ahead with our work in GATT. But I would issue a serious note of warning. If we are to make progress, we must move forward on both the industrial and the agricultural fronts.

The third area on which I would briefly comment is action in favour of the developing countries.

The great importance attached in GATT to the trade problems of the developing world has been explicitly and solemnly affirmed by governments on many occasions. It is reflected in the particular attention given to these problems in our current work programme in both the industrial and the agricultural field, in which the developing countries are closely and actively involved. It is also reflected in the special range of other activities directed solely toward a solution of specific problems, or groups of problems, of those countries.

These two lines of action, the general and the specific, are essentially complementary. They should be considered as such. The common objective is a substantial increase in the export earnings of developing countries through increased access for their goods to world markets and, among other things, through improved techniques of export promotion and marketing.
Here again, I do not intend to go into detail on these activities. Nor do I intend to discuss such more specific action in favour of developing countries as, for example, generalized preferences by developed to developing countries, which is at present being dealt with elsewhere than in GATT but which will eventually have to come to GATT for the attention of Member governments; the proposal for preferences among developing countries under discussion and action in GATT; or the work on behalf of the developing countries in the field of export promotion being done by the International Trade Centre which GATT and the UNCTAD now operate jointly. A full and separate address would be necessary to do justice to these activities.

Economic underdevelopment over much of the earth's surface continues to represent one of the major politico-economic challenges confronting the international community: it demands a constructive response that measures up to the magnitude and urgency of the task. In this context the recent appearance of the important Pearson Report is much to be welcomed. It is sincerely to be hoped that the Report and its recommendations will give impetus to the much greater effort that is needed in this vital field. We in GATT will certainly continue to make the maximum contribution we can in our area of competence.

The Next Step

On the basis of the work that will have been done so far governments will be called upon, at the next GATT assembly in February 1970, to take the appropriate decisions. It is certainly my hope that they will agree to initiate another move toward further trade liberalization and closer trading relationships.

In my judgment, the state of the preparatory work will be such that it would already be feasible, from the technical point of view, to envisage a timetable on the following lines: Member governments, at their annual meeting in February 1970, would decide that exploratory conversations should be organized in GATT between Member countries so as to establish the basis and the elements of a balanced negotiation, and at the same time enable governments to judge what negotiating authority they may need; at the end of 1970, or beginning of 1971, the Member countries might decide to enter into negotiations; in the course of 1972, given the very important preparatory work that will have been realized, negotiations could reasonably be expected to be completed.

This is a timetable that could certainly be given the necessary technical support. But technical preparedness alone will not lead us anywhere. The most carefully laid preparations, the most detailed plans, and the most ingenious ideas will remain dead letters if governments, preoccupied with their internal difficulties, give only scant attention to the possibilities for action.

We all recognize the complex factors - national, regional and international - that influence the process of policy-making by governments. We knew that there would have to be a period of reflection and preparation before the new
United States administration would be ready to participate in decision-making within GATT on the major issues of international commercial policy. We know of the important preoccupations that must necessarily continue to occupy the attention of countries members of major economic groupings.

Any combination of these or similar factors could be daunting at first sight. They might easily counsel delay or undue caution in the minds of some. For my part I am convinced that, despite the imponderables, we must show determination and boldness. We must plan for progress, not for inactivity. The Kennedy Round was a great example of the rewards that can result from policies reflecting realism and audacity in the right proportions.

Governments cannot ignore the fact that the trading nations now face a critical choice in the field of commercial policy. The onus is on governments to show whether they intend to allow international trade and commercial policy progressively to deteriorate - and the first signs of deterioration are already there - or whether they wish to take up the challenge and opportunity that are clearly before them. For they have the chance to build upon the commercial capital amassed in the course of the past twenty years and to draw from an improved and broader multilateral trade system all the benefits that are offered in terms of economic progress and material well-being.

In this matter, leaders of business and industry also have great responsibilities. You are concerned with the realities of international trade. You are aware of what the past achievements of the trading nations under GATT have meant in terms of trade expansion, concrete benefits and prosperity. You can be under no illusions as to what restrictive trade policies could mean in terms of trade contraction and disorder in international trade relations. I am confident, therefore, that you will assist governments in the process of decision-making in this difficult field and that you will continue to support policies aimed at an ever freer movement of goods and services among the nations of the world.