INTERNATIONAL TRADE IN THE 1970's: SOME IMMEDIATE PROBLEMS

Address Given by Mr. Long, Director-General of GATT, to Representatives of German Industry and Commerce at Bonn on 26 January 1970

The trading nations, as they enter a new decade, leave behind them a long period of uninterrupted trade expansion. Between 1950 and 1968, while world commodity output increased by some two thirds, international trade more than doubled from $107 billion to $238 billion.

This was a spectacular and most profitable performance, unprecedented in the history of world trade.

The same trend continued in 1969 when there was a further strong expansion, generated by the continued strength of economic growth in most industrialized countries. Preliminary data indicate that the value of world trade in 1969 increased by some 13-14 per cent over 1968.

This great development of international trade has not been fortuitous. It results essentially from the initiative and energy of the private sector, operating within the framework of government policies designed to maintain high levels of employment, coupled with the substantial reduction of trade barriers in this period and the effective operation of the multilateral system of trade on the basis of the rules and principles of GATT.

If the trading nations could look forward with confidence to a decade in the 1970's as successful as the 1960's, they would have nothing to worry about.

What, in fact, are the prospects?

I. Conditions for Future Development of World Trade

There is no reason to think that the basic principles and methods that have served the international trading community so well over the last two decades have ceased to be valid.

In fact, very much the contrary is true.

Industrial enterprises are now larger, more specialized and in many cases more international.
Progressively broader markets and unimpeded areas of operation are essential if the maximum benefits are to be secured from specialization and if the high technology, large-scale investment and sophisticated equipment of modern industrial production are to achieve their full exploitation and profitability.

Evidence accumulated in recent years indicates that when - as has been the case for typical industrial countries since 1950 - trade increases more rapidly than production, a very significant part of new manufacturing investment is undertaken with a view to export production. It is, I believe, now possible to speak of export-oriented growth patterns as being characteristic of most industrial countries.

Many large manufacturing firms already export more than one third of their output; their essential need to have secure, and increasing outlets, both for their current and potential production, needs no emphasis.

What obviously continue to be called for, therefore, are trade policies that are most likely to promote the further reduction of trade barriers, whatever their form, and order in international trade relations.

Our constant objective should be an ever-greater degree of free trade.

All this sounds self-evident. I am fully aware of it, and would excuse myself for mentioning these basic considerations were it not for the fact that, at the present time, the existing international trade order is being increasingly disturbed and subjected to strain and contestation. Despite the achievements of the past, the present is a difficult period for the international trading community.

To concentrate on essentials, there seem to me to be two flagrant examples that particularly illustrate the present unsatisfactory state of affairs.

1. Discriminatory preferential arrangements

The first of these is the current trend toward a certain kind of discriminatory preferential arrangement.

Let me hasten to say at the outset - and so as to avoid any possible misunderstanding - that the comments I shall be making on this subject are in no way directed toward the proposed generalized scheme of preferences by developed for all developing countries, which has been under discussion for some years and is still under consideration. At their annual session in November 1968, the GATT Member countries affirmed their readiness to take appropriate action when such a scheme had been negotiated.

If this generalized scheme were to reach fruition, the new element in international trading relationships that it would represent is something that the trading nations, in harmony with the political and economic realities of our times, should approach in a positive spirit and be prepared to live with constructively.
Any such scheme, however, would have to fit in an orderly fashion into the multilateral system of trade. This means that it should be applied non-discriminatory to all developing countries and, above all, should in no way impede tariff concessions on a full, most-favoured-nation basis, which remains the ultimate objective.

Also outside the scope of the comments that follow are the proposed preferences between developing countries that are currently under negotiation in GATT, provided these are non-discriminatory as between developing countries. Here, likewise, the GATT Member countries have indicated their intention to examine the results of these negotiations in a constructive, forward-looking spirit.

It could therefore be, for a certain period of time, a kind of "two-stage" system of non-discriminatory treatment may exist in the trading world. As a foundation would remain the generalized most-favoured-nation tariff treatment for all GATT countries which has contributed so much to the growth of international trade and, built upon this as a kind of temporary superstructure, non-discriminatory tariff preferences in favour of developing countries only.

There are, however, preferential arrangements of a quite different character from those I have so far been discussing. These threaten to proliferate and to have most serious consequences for the multilateral trade system generally. They are a potent threat to order and efficient growth in international trade.

I refer to discriminatory, preferential agreements concluded by developed countries with one, or several, developing countries only.

The list of such agreements is already long. Others are currently under active consideration.

It might be argued that, where there had historically been trade links, it might be unreasonable for these suddenly to be interrupted; the situation might well call for some transitional arrangements. Even in these cases, however, it is important to ensure that what is intended to be transitional, progressively disappears and does not become permanent.

But what is most questionable is the creation of preferential trade links between a few developed and one, or a few, developing countries here and there through new discriminatory agreements for which no historical justification can be claimed.

It is true that the notion of the economic or political responsibility of individual, or groups of, developed countries for economically developing regions of the world is advanced in justification of such discriminatory preferential agreements. This notion is evoked in Europe; it has recently been heard on the American continent.
However, before the Europeans move further down this road, and before the Americans - and, who knows, perhaps also one day the countries of Asia - embark upon it, the trading nations would do well to pause and seriously reflect on whether this sort of regionalization of international trade, and fragmentation of the international trade system, is in their best interests.

To create preferential trade zones, linking developed to developing countries on a discriminatory basis, might have its temptations in the short run. But such a step can give rise to serious risks in the longer term.

Apart from the adverse effects on the efficient use of economic resources, a division of the world into regional zones of influence would bring about a clash of trade and economic interests, which in turn could generate political tensions. The experience of the not too distant past on this point is conclusive.

It is my conviction that the trading nations would do well to think twice before further embarking upon undertakings of this sort.

I need hardly add that it is very much in the interests of the developing countries themselves that there be avoided discriminatory treatment that might cause division and even opposition between them. Indeed, there would be a risk that discriminatory preferences of this kind would provoke progressively a return to the law of the jungle in which - as one knows too well - the weakest are the first to fall by the wayside.

In a similar context, if we look for a moment at the European scene, we must bear in mind that individual European countries will be seeking some form of economic arrangement or association with the European Economic Community in the coming months or years. Such arrangements would not be incompatible with the GATT - to which all these European countries are parties - if the conditions laid down in the GATT are met: in other words, provided the arrangements agreed upon were to result within a reasonable period of time in the formation of a customs union or free-trade area as defined in the GATT.

There is no need unduly to anticipate difficulties, but it has already clearly to be said that, if any such arrangements did not conform with the rules subscribed to by Member governments of GATT, but were discriminatory and preferential in character, this could represent a death-knell for the multilateral trade system; it would be difficult for it to withstand the shock of policies that would constitute the negation of the basic GATT principle, on the basis of which world trade has grown and prospered as never before, particularly when such policies were applied by countries among the most economically developed in the world.

B. Agriculture

A second principal element of disorder in international trade is, of course, agriculture. This problem is certainly not new. But the situation now seems to have reached alarming proportions and to be already out of proper control.
You, I am sure, are only too aware of this situation. There is no need for me to expand at length upon it.

Agricultural trade has been almost entirely excluded in the progress toward trade liberalization. It has been removed from the salutary influences of market disciplines and international competition. The resulting distortions, both in patterns of production and trade, have created a near-anarchic situation and threaten increasing disorder in international trade relations.

The basic elements of the situation are clear.

Production support policies often create huge surpluses that have to be disposed of wherever possible through the use of export subsidies. The consequence is a diminution in real commercial agricultural exchanges and their progressive replacement by subsidized exports. The fact is, of course, that the State can only guarantee prices and the level of profitability of agricultural holdings by imposing a certain burden on the economy and certain restrictions on foreign trade.

The direct and indirect costs of these policies are monumental. They fall on the national budget and thus on the taxpayer.

I am not disputing the principle of agricultural support as such in industrialized countries. Account has to be taken, among other things, of the differing characteristics of agricultural and industrial production and of the need to maintain some reasonable relationship between the income of farmers and of those engaged in industry.

This is a political and social problem of the highest order: it is one that confronts all industrialized countries.

No one denies the right of farmers to earn their living, but the question is what can be done in practical terms to avoid a further deterioration in the situation and to permit the adoption of more rational policies.

There is no magic formula; no tailor-made solution.

But it is essential that many of the current policies be adapted if any meaning is to be attached to the concept of a multilateral trading system in which all sectors, including the agricultural sector, participate and in which all GATT countries, including those that are primarily agricultural exporters, receive the benefits to which they are legitimately entitled.

I think that for any beginning of a solution to this increasingly disorderly situation in agricultural trade and production, two fundamental principles must first be recognized.

The first, is that the cost to governments of maintaining a reasonable relationship between farmers' income and that of other categories of the population should not be shifted onto foreign producers.
The second, which naturally follows from the first, is that international co-operation in the broadest sense - extending from consultation to negotiation - is the only way of avoiding any such shifting.

If a government, or a community of countries, thinks fit to devote, from both the financial and the economic aspect, an important part of the national income to supporting a particular category of producers, that is, of course, its own business.

But when this same government, still with the legitimate objective of shoring up agricultural incomes, decides to produce, at whatever price, products that it could obtain cheaply from abroad, clearly it is shifting an important part of its burden on to the foreign producer: either by reducing and then eliminating its own market’s import possibilities; or by securing artificial trading positions in residual third markets, by granting massive subsidies to exports of the surpluses it has helped to create.

The consequences of this situation are serious not only for the countries that are primarily agricultural exporters - and these are the ones most severely affected - but also for the future of multilateral trade negotiations in which agricultural counterpart offers are essential for the conclusion of balanced arrangements between the parties involved.

That is why agricultural trade - the bone of contention in bilateral, regional and international negotiations - must be placed on a normal footing. This can be achieved only if two conditions are fulfilled: on the one hand, if governments take a grip on the problem of production and, on the other hand, if they decide to negotiate among themselves on a virtually permanent basis on methods and techniques designed to avoid their causing injury to each other’s trade.

II. GATT Action

The dangers and difficulties faced by the trading nations, prominent among which are the growing disorder in agriculture and the proliferation of discriminatory preferential arrangements to which I have referred, are certainly not unsurmountable.

Given the political will, they can be overcome.

What is essential is never to relax in our efforts to move forward along the road toward trade specialization and broader markets. There is no reason why many problems on the national or regional plane should not - as in the Kennedy Round - find solution within a multilateral framework. This should be our objective.
After two years of effort in GATT on the basis of the programme laid down by Trade Ministers shortly after the conclusion of the Kennedy Round in 1967, we are technically ready to move forward. In other words, we are technically ready to initiate the search for acceptable solutions provided, of course, that governments really wish this effort to be undertaken.

In the industrial sector, we have made good progress in our consideration of non-tariff barriers. As you are aware, these barriers have tended to come more to the fore and to be given more attention as the process of tariff reduction has proceeded over the years.

As a first step, governments notified to GATT some 800 non-tariff measures of concern to them and applied by other countries. These notifications have been consolidated in an inventory which forms the basis for the work now being done in this area.

This work has currently reached a stage that permits governments to proceed immediately to explore the possibilities for concrete action, both with regard to reducing or removing non-tariff and para-tariff barriers and, for example, to developing possible rules of conduct.

I have made the proposition to GATT Member countries that there should be a "standstill" in the field of non-tariff barriers as from 1 January 1970. This, it seems to me, would have two big advantages. First, it would put a brake on any increase in these undesirable measures while the exploratory discussions were under way, and thus already represent in itself an element of progress. Secondly, it would obviously contribute to the creation of a climate more conducive to success in bringing about the removal of these measures and, at the same time, give greater credibility and impetus to the exercise as a whole.

This important matter of the "standstill" will be on the agenda for the GATT's annual session in February. It is sincerely to be hoped that governments will take a constructive and positive approach to it.

In the agricultural sector, on the basis of the work that has been done in GATT, governments could also decide to move into the phase of seeking mutually acceptable solutions. It would be difficult to over-estimate the importance of such a decision. For, as I have already indicated, agriculture has for too long been one of the dark spots on the international trade scene.

On quantitative restrictions I hope that governments will decide, on the basis of proposals that I have made, to institute a special procedure for consultation and examination with a view to eliminating such restrictions. On this subject one can justifiably have strong views. For it cannot be denied that it is a serious rebuke to the international trading community that, more than twenty years after their signature of the GATT, important developed countries are still maintaining an impressive list of such restrictions. This is an area on which we should focus special effort and attention.
On the basis of the work that has already been done in the industrial and agricultural sectors, governments will be called upon at the GATT annual session in February to take the appropriate decisions. I certainly hope they will agree to action that would represent another move forward in GATT toward the reduction of trade barriers.

It would be technically possible for governments to enter into exploratory discussions in the course of 1970 so as to determine the basis and the elements of a balanced negotiation and to establish what negotiating authority they may need. Following this phase they could be in a position - at the end of 1970 or beginning of 1971 - to take the decision to enter into substantive negotiations.

But as we know too well, it is not technical preparedness, but political will, that effectively releases the brake and permits forward movement. The onus will be on governments, at our February session, to demonstrate the political will that is called for and to take the decisions that are necessary.

It might be recalled in this context that only two of the annual Kennedy Round tariff reductions remain to be applied. On 31 December 1971, the last instalment of this great negotiation is due to be paid. Thereafter, the trading nations will be living on their capital. It seems essential that, at that date, new negotiations to carry forward the impetus should already be engaged.

For the expansion of world trade over the last decade has been greatly stimulated by the reduction of trade barriers in successive GATT negotiating conferences. These reductions, particularly following the Kennedy Round, represent a very substantial enlargement of the freedom of trade. Statistical evidence now available shows a high degree of sensitivity in trade to tariff changes but it also shows that the stimulus given is exhausted relatively soon, in the sense that the large increases in imports following immediately on the trade barrier cuts tend to give way in a few years to a levelling off of the growth. It follows from this that the large trade increases and associated investments, of which I spoke earlier, can be sustained only through a continuing process of reduction of trade barriers.

It is hardly necessary for me to point out that, for Germany, the continued expansion of world trade is of the greatest importance.

May I just recall that, from $2 billion in 1950, the Federal Republic's exports increased twelve and a half times in the subsequent eighteen years to nearly $25 billion in 1968. At a cumulative average annual rate of approximately 15 per cent, their growth in the post-war period has been considerably more rapid than the growth of national income; one may indeed say that the rise in national income has been pulled by exports. Today, Germany is the world's second largest trading nation after the United States.

I do not intend to go into detail on your country's impressive export performance. As those largely instrumental in bringing about this great achievement you, gentlemen, certainly know far more about it than I do.
What I would stress, however, are the responsibilities on the international trade scene that are the corollary of economic strength. For the onus is on the principal trading nations to give the necessary leadership and to continue to support trade policies and the kind of international action in GATT that have brought such rich economic rewards over the past twenty years. Any holding back on their part is bound to put a brake on the progress we can make. It would be detrimental to the movement toward the further liberalization and expansion of trade and closer international co-operation in the trade field generally. It would also, I submit, be detrimental to the best economic interests of the principal trading nations themselves.

In this context Germany - as the world's second trading nation and a member of the powerful European Economic Community - has a prominent role to play. I am confident that it will successfully discharge the important responsibilities to which its great economic strength has called it. I firmly hope that it will continue to support the pursuit of trade policies inspired by the rules and principles of GATT which, as the past has clearly demonstrated, are most likely to promote the progressive expansion of world trade and the greater material prosperity and higher standards of living to which all nations and their populations aspire.