Address by Mr. Olivier Long
Director-General, General Agreement on Tariffs and Trade to International Financial Conference organized by The Conference Board, Geneva, 19 May 1971

I am pleased to have the opportunity of talking briefly to this distinguished audience about the current outlook for world trade.

To start with, I can report that international trade itself is still progressing well.

Last year, the value of world exports rose by nearly 14 per cent. It is true that roughly half of this increase represented price inflation, which is now breaking through into export prices in a manner not seen for nearly twenty years. Even allowing for inflation, however, the overall growth in trade was still satisfactory - particularly when we remember that this was a year in which the growth of the important United States market was under restraint. In spite of the concerns about apparent trends in trade policy, trade itself remained in a healthy state in 1970, except for the regrettable fact that exports of developing countries did not grow as much as the overall average.

Thus far, it seems likely that trade in 1971 will record further substantial growth. There is no room, however, for complacency about the future.

As past experience has clearly demonstrated, trade and trade relations can easily and quickly be upset by ill-considered policies. The years since the late 1940's have been a period of unprecedented growth in trade. The value of world exports is now running at a level more than four times that of 1950. Such growth has been possible only because governments have adopted and followed enlightened trading policies. They have recognized that it is in their own interests to
conduct trade on the basis of certain ground-rules, which have been embodied in
the GATT, to negotiate the multilateral reduction of trade barriers, and to reach
agreed solutions through consultations to any problems which arise. Since the end
of the last world war, it has been generally accepted that the main trust of
international efforts in the field of trade should be toward further liberalization.
At times the movement has been rapid; at others less so. But there has been no
doubt about the intended direction of these efforts.

Certain developments in the last year or so, however, might indicate that
perhaps the trading nations were beginning to take the multilateral trading system
too much for granted. There have been signs, in some quarters, of a faltering in
attachment to the practice of liberal trading policies.

I need scarcely remind you that this faltering - this apparent loss of
purpose - gave rise to some awkward moments in 1970. There were threats of measures
against imports of particular products, or from particular countries. These threats
were matched by counter-threats from other governments. There was a notable
worsening in the public tone of international discussion of trade matters. There
seemed to be little evidence that the governments concerned were ready to act
together to meet the evident danger, in spite of the fact that, in GATT, they
possess long-established machinery for settlement of disputes through conciliation.
In short, the danger signals were flying.

I do not think I am being unrealistic or unduly optimistic in detecting some
improvement in recent months in the climate of international trade relations. I
believe that it is now fairly widely recognized that unacceptable risks were taken
last year - risks that could have eventually jeopardized the further growth of
international trade. If this assessment is correct, one should be able to look
forward to a resumption of a constructive dialogue among governments. It should
be now possible to discuss frankly the present difficulties of world trade, and
thus to avoid a recurrence of the dangerous situations that arose in 1970.

However, while the prospects for rational discussion of trade problems appear
to have improved, there is no sign, as yet, that the problems themselves have
abated.

The first and most immediate problem facing the trading nations is that the
forces of protectionism are more active now than they have been since the end of
the last world war.

Why this resurgence of protectionism? In my view, there are several factors
involved, each tending to reinforce the others.

First, there is inflation. Although inflation is today a world-wide
phenomenon, it is not evenly spread. Where domestic prices are rising most
rapidly, imports are sucked in, exploiting their price advantage. They make
their deepest inroads into the markets of the least competitive domestic industries,
which in time-honoured fashion then call for protection. And when inflation is
sufficiently serious and widespread in an economy, the growth of imports, and the
accompanying loss of competitiveness in export markets, may be so serious that the

MORE
country runs into balance-of-payments difficulties. In recent years, the first reaction of some governments in this situation has been to restrict imports.

Such action can of course bring some immediate relief to the balance of payments. Nevertheless, there is ample evidence that protection, whether given to individual industries or to the economy as a whole, is the worst possible remedy for inflation. Protectionism raises prices. Today governments everywhere are seeking ways of moderating the pressures of inflation. One lies ready at hand. Liberal trade policies, aimed at opening up the domestic market to imports, allow competitive forces to operate and to exert pressure against price increases. Some governments have used this method of containing inflation, together with other internal measures, with a certain amount of success.

A second reason why protectionism is gaining strength is, in my view, that more could be done to help domestic producers adjust to changes in their competitive situation.

A liberal trading system, of course, favours the efficient producer, and penalizes the less efficient. What is necessary is for the factors of production - both men and capital - to be able to shift out of uncompetitive activities into those which are more productive. The considerable domestic political and social difficulties to which this can give rise have to be recognized. But it is essential that these difficulties be overcome. It is essential both in the long-term interests of the national and international economy, and to ensure the most efficient use of resources in a world of growing economic interdependence. In my view, an increasing rôle needs to be played by adjustment assistance to uncompetitive industries or farmers, be it in the form of re-training, re-equipment loans, or other measures.

Another factor feeding protectionism is the lack of momentum, since the end of the Kennedy Round negotiations in 1967, toward further trade liberalization. At the end of this year, the final tariff cuts agreed upon in the Kennedy Round will be put into force. A new impetus will then be needed. There is, however, no firm prospect at present of further action to remove world trade barriers.

It is no longer possible to explain this lack of movement on the ground of any lack of preparedness. Preparations are, indeed, much further advanced than they were when, in 1963, the GATT Member governments took the bold decision to launch the Kennedy Round. An elaborate study has been mounted in GATT of the barriers still facing international commerce. This examination has covered both tariff and non-tariff barriers, and both industrial and agricultural products. It has gone well beyond a simple catalogue of problems: it has included a thorough inquiry, with the full participation of governmental officials, into the possible ways in which these problems might be tackled. All these technical preparations in GATT have been an essential preliminary to further action toward trade liberalization. But they are not a substitute for action itself.

In the case of non-tariff barriers to trade, some action is now being taken. A modest start is being made by working out precise solutions to three specific types of barriers - those which arise from certain customs valuation procedures,
those originating in the manner in which import licensing requirements are
administered, and those which are a by-product of the need for some products to
meet standards imposed for health, safety and other reasons.

However, this action in a limited field, although very welcome, clearly falls
far short of constituting a serious programme for trade liberalization.

Historically, it has always proved necessary that the initiative for wide-
ranging action should come from at least one of the major trading nations. For
a variety of reasons, these nations are preoccupied with other problems which at
this moment appear to them more pressing than a new effort to reduce trade barriers
on a world-wide scale. Where there should be leadership, there is instead a vacuum.
It is a vacuum that protectionist forces are only too eager to fill.

Protectionism is not the only challenge now facing the trading nations.
Problems of another order arise from the important developments and changes that
are taking place on the international trade scene.

Trade relations are never static, but they can seldom have come under such
varying influences as at the present time. New technologies, new industries, new
corporate structures, new economic groupings, new nations are all tending to
re-shape the pattern of trade.

Changes at the industry level are perhaps the most familiar. New tastes and
needs have always required of industry a continuous process of adaptation. But
modern technology is increasingly complicated, calling for research efforts on a
vast scale, for great amounts of capital, and often for very long production
runs to cover these costs. Entirely new products threaten to replace old-established
ones, and the older industries are hard-pressed to survive. Frequently, the
adjustments called for to meet these changing circumstances must be international,
rather than national. The too-small manufacturer of sophisticated electronic
equipment, and the sisal or rubber producer competing against synthetic substitutes,
are both under challenge from technological progress. Moreover, these changes -
the new technologies and the changes in tastes - are spreading far more quickly
than in the past, calling for more rapid adjustments than hitherto.

Change is also taking place all the time among countries themselves. Their
economic successes and difficulties are reflected in their stake in world trade,
and their ability to influence events and to exert leadership.

Perhaps the most profound change of this kind in recent years has been the
trend toward regionalism. The experience of the regional economic groupings that
have sprung up since the mid-1950's has shown what a powerful stimulus integration
can give to economic growth. It has also demonstrated how much stronger is the
collective voice of a group of nations than that of the same countries speaking
individually.

Regionalism, in enhancing the joint effectiveness of a grouping, also enhances
its influence in the world. Membership in the group itself, or attachment to it
through other links, brings economic advantages. But at the same time, the trend
toward regionalism inevitably disturbs long-established patterns of trade, and the economic interests that these represent. Sometimes the disturbances can be acute. In these circumstances, much will depend on the sensitivity of the regional group to the effects which its actions may have on third countries. If it gives a high priority to playing a constructive rôle in the world trading system, and exerts its influence by giving a lead toward liberal policies, the economic grouping can be a powerful force for the common good.

Another change affecting the trade scene is the growing interest of State-trading countries into the multilateral trading system and, therefore, in the GATT.

By its nature, a State-trading country is not easily accommodated within rules that were drawn up to suit the circumstances of market economy countries. In the latter, decisions on what shall be imported or exported are generally left in the hands of individuals. In a State-trading country, foreign trade depends essentially on the prescriptions of the central economic plan.

Trade between these two quite different systems has usually been possible only on the rigid basis of bilateral agreements. To move from this strict pattern of negotiated and balanced agreements to true multilateral trade must be at best a gradual process. It will involve the elimination of quantitative restrictions that are generally of long standing. Their removal may call for difficult readjustments in the importing country, and may well be possible only as mutual confidence is established through experience. As trade moves onto a multilateral footing, so too an element of multilateral settlement must be introduced into payments mechanisms: indeed, until currencies become fully convertible, complete trade liberalization can hardly be achieved.

This is an area of experiment, in which no certain formula for success has yet been discovered. Different formulas are now being worked out and tested: Czechoslovakia and Poland are already GATT Members, and Hungary and Romania are negotiating for accession. The experience so far gained suggests that, provided no attempt is made to force the pace, the East European countries should be able to move by stages from bilateral trade to multilateral trade under the GATT rules.

The developing countries represent another important influence for change.

Although their share in world trade is comparatively small, developing countries now account for two thirds of GATT's membership. Most of the manufactured exports they can offer, as well as many of the primary commodities, must compete in markets where the products of developed countries are already long established. It is now generally recognized that the developing countries need special measures to help them expand their exports in order that these can contribute fully to their economic growth.

These special measures are now taking shape. The developed countries are on the point of introducing a wide-ranging system of preferences in favour of developing countries. In addition, and with the support of all GATT Members, a number of developing countries are now negotiating for an exchange of tariff and
non-tariff concessions, with the aim of stimulating their mutual trade. Thus two separate forms of preference, for and among the developing countries, will have to be accommodated in an orderly way within the multilateral system of trade.

This raises no overwhelming difficulties. In the first place, such preferences should not in fact represent a permanent change in the multilateral system. It is only realistic, of course, to recognize that they are likely to continue in existence for a good many years to come. But by definition, their purpose is to encourage economic development, and when this has been achieved they will no longer be needed. Secondly - and this is the most important point - the aim is that the two preference systems should themselves be non-discriminatory; that is, they should treat all developing countries alike. Provided that this is indeed how they are eventually applied, the result would be a sort of two-tier system of non-discriminatory trade, with general most-favoured-nation treatment covering trade among the developed GATT countries, and special preferential treatment applied to trade involving developing countries.

Among factors of change, finally, the significance of the multinational corporation is only now beginning to be recognized and assessed.

National and international trade law, and the economic theory on which they have been based, largely ignore the fact that many important modern enterprises now operate across national frontiers, engage in transactions that are internal to the enterprises, and have acquired a flexibility that enables them in some cases to avoid some of the constraints imposed by individual governments. So far, these governments have scarcely begun to think multilaterally about the situation. It seems that governments and the multinational corporations will need to work out together the best ways of accommodating the activities of these corporations within the framework of the rules and procedures of international trade.

All these changes which I have reviewed are continuously re-shaping the world economic scene. Each change brings with it the risk of tensions, as established interests, patterns of thought, and traditional policies are being challenged. But each change also opens up new opportunities for investment, for trade, and for faster and more widespread economic growth.

What is required, above all, is that the changes are recognized by everyone concerned, and that one respond to them with realism, with foresight, and with leadership.

The past year or two have not been very happy in this respect. Too ready an ear has been given to the voices of protectionism, and to national or regional interest. There has been too little recognition of change - and as a result, too many risks have been run, endangering the health and safety of the world trading system.

This need not be so. It will not be so, if the proper policies are now initiated. The present problems and opportunities of world trade have been identified. The risks of further inactivity have been recognized. The GATT is
technically ready to act - to launch a new attack against the remaining obstacles to trade, and thus to bring about a further enlargement of world markets. GATT is also ready to cope with the important changes now taking place in trade relations, and to accommodate them in the existing multilateral system of trade.

The time has come to take fresh constructive action. There is ample evidence of the rewards - both in terms of trade expansion and increased harmony in trade relations - that await a new and determined effort to widen the channels of world trade.

The more that governments are realistic and farsighted in facing up, in their policies, to the many changes already affecting world trade relations, the better will be the prospects for further growth of international trade.

END