INTERNATIONAL TRADE RELATIONS: A POSITIVE RESPONSE

Address by Olivier Long, Director-General, General Agreement on Tariffs and Trade, to a meeting of Korean business organizations in Seoul, Korea, 17 May 1974

The value of Korean exports, I am told, has increased by almost 400% in the past four years alone. It is an astonishing performance, one on which you are to be congratulated, and which, I am sure, few countries can match. These exports have played a vital role in your country’s economic growth. But at the same time, they have inevitably bound Korea’s fortunes closely, like those of so many other countries, to the continued expansion of world trade. That expansion must be continued, in spite of the changes in the background to world trade.

The changing background to world trade

The adoption, in September 1973, of the Tokyo Declaration launching the multilateral trade negotiations in the framework of GATT was rightly acclaimed as a political act of considerable importance and a significant demonstration of international cooperation at a difficult period in world affairs.

Since that time, the final intensive preparations for the trade negotiations have been pushed forward and, provided the major participants can equip themselves sufficiently quickly with the necessary legislative or other authority, the substantive negotiations themselves could well be under way within a few months.

As one looks forward to the development of the negotiations, however, it has to be recognized that they will be taking place against an international economic background substantially different from that existing at the time the Tokyo Declaration was adopted. The content and direction of the negotiations must necessarily take account of the realities and implications of these changed circumstances.
Among the important elements in the present situation are the alarming increases in rates of inflation in many countries and the shortage of certain basic agricultural commodities, some of which were previously in surplus.

Nor is there need for me to stress to a Korean audience the far-reaching effects of the energy situation, which is having a profound impact on the economies of most countries of the world and which is particularly damaging to the balance-of-payments situation of many developing countries.

Korea itself is an example. The remarkable capacity of your country to expand exports has depended on the ability to process efficiently raw materials and semi-finished goods imported from other countries. The present steep rise in the prices of energy products and most raw materials are likely sharply to increase Korea's import bill and to result in a marked deterioration in the terms of trade. Korea will thus have to keep up its efforts to restrain inflation and to earn additional resources through exports.

The recent developments have created a serious situation for world trade, trade relations and the economic development of the developing countries. The recent Special Session of the United Nations General Assembly affords sufficient political recognition of this.

The question is posed whether, in the new situation, the continuing relevance and importance of the multilateral trade negotiations is diminished.

In my view, the contrary is true. There is more than ever the pressing need to negotiate about the problems confronting the world trading community. The multilateral trade negotiations and the GATT offer the obvious opportunity and place to do this.

It would be disastrous, both economically and politically, if present balance-of-payments and other difficulties were taken as a signal and excuse for the trading countries to turn their backs on the successful policies of the postwar era and retreat individually into isolationism and protectionism.

I have the conviction that this will not happen. The solemn declarations made at recent international meetings and the attitudes shown by governments toward the Tokyo Round trade negotiations are evidence of this. No representative of any of the eighty-odd governments involved in these negotiations has suggested to me that they are now any less urgent. It is recognized, for instance, that trade liberalization is an effective restraining influence on inflation, by permitting demand to be met by the most competitive producers. There is understanding that the promise, through negotiations, of secure markets can offer

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assurance to producers that they will be justified in undertaking the long-term investments necessary to provide future supplies. Increasing attention is being focused on access to supplies and on the possibility of negotiating commitments on supplies as well as on the removal of barriers to imports. At the same time the older and more familiar reasons for embarking on a new round of trade negotiations, including the benefits that they can bring to developing countries, still hold good.

Developing countries in the multilateral trade negotiations

The trade needs of the developing countries have been exhaustively analyzed for more than fifteen years. The need today is for action, rather than further analysis. What prospects for action are held out by the multilateral trade negotiations?

The unanimously-adopted Tokyo Declaration that launched these extremely wide-ranging negotiations contains many specific commitments concerning developing countries. Among objectives for the negotiations, for example, it calls for a substantial increase in the foreign exchange earnings of these countries, the diversification of their exports and the acceleration of the rate of growth of their trade. As means to these ends, it specifies "a substantial improvement in the conditions of access for products of interest to developing countries and, wherever appropriate, measures designed to attain stable, equitable and remunerative prices for primary products." In listing the subject-matter of the negotiations, the Declaration gives priority to action on tropical products, the mainstay of many developing countries' exports.

The procedural ground-rules for the negotiations also give special attention to developing countries. It is agreed that "the developed countries will not expect reciprocity for commitments made by them in the negotiations to reduce or remove tariff and other barriers to the trade of developing countries." The need is acknowledged for special measures to be taken in the negotiations to assist developing countries. And finally, the importance is recognized both of maintaining and improving the Generalized System of Preferences and of "the application of differential measures to developing countries in ways which will provide special and more favourable treatment for them in areas of the negotiations where this is feasible and appropriate."

These are considerable commitments, and they were not lightly undertaken. I would emphasize that they were subscribed to by all the major developed as well as developing trading nations. Their value has yet to be proved. But it can be proved only in negotiation. What can be affirmed now is that the Tokyo Declaration does promise a determined attack on the trade obstacles identified as most severely impeding the growth of the export earnings of developing countries.
The conclusion to be drawn is surely that all developing countries should now be making intensive and concrete preparations to extract all possible advantages from the negotiations.

Developing countries as a group do, of course, have many trade interests in common. However, each of them also has its own specific interests, its own specific problems and opportunities, its own particular resources and potentialities.

The GATT secretariat is providing technical assistance on an individual basis to a large number of developing countries participating in the negotiations, to help them identify where their national trade interests lie. It is also providing training courses - to which, I am glad to say, there has been an enthusiastic response - on the techniques and issues of multilateral trade negotiations. But there are clear limits to the assistance that can be given. Participating countries have to make their own decisions about the national objectives they will pursue in the negotiations. And, I would suggest, they have to recognize the need to devote continuous attention and priority to the pursuit of these objectives while the negotiations are in progress.

Developing countries have much to gain, I believe, across the whole field of the negotiations. As far as tariffs are concerned, by no means all their exports, potential or otherwise, benefit from generalized preferences, and the benefits themselves are often available only up to prescribed limits. Tariff reductions on a most-favoured-nation basis can still be of great and permanent value. Non-tariff barriers affect the developing countries as much as they do the developed, and every country will have specific interests to pursue in this sector. Most developing countries will have a great interest in possibilities of opening up trade in agricultural products. If there is to be any question of changing or elaborating upon some of the ground-rules of trade, especially the provisions of the GATT itself, it is desirable that every country potentially affected make known its views in the debate. Countries like Korea have an important stake, for example, in such issues as the use by trading nations of safeguards or escape clauses to protect domestic markets against large increases in imports.

Moreover, the recent difficulties in commodity markets arising from the shortages of many essential raw materials and foodstuffs have served to make all countries more aware of the need to establish a more stable relationship between supply and demand for many of the primary products exported by developing countries. This should provide new opportunities within the framework of the negotiations for the working out of mutually advantageous arrangements, in which commitments by producing countries to maintain supplies of primary products are matched by commitments by the importing countries to stabilize and improve conditions of access for such products and to open up markets for the goods processed from them.
More generally, all the participants have a vital stake in the success of the negotiations as a whole. Against the disquieting background of recent developments, the continuing growth of the international economy and the maintenance of an expanding trading system become more important than ever. A world dominated by fears of recession, or in which a concern with payments imbalances leads to increasing interference with the free flow of trade, would be a threat to the prosperity of all countries, and particularly of countries which, like Korea, are heavily dependent on foreign trade.

The Textiles Arrangement

While I remain optimistic about the outlook for the multilateral trade negotiations, one must recognize that the hardest phase still lies ahead. The preparations for the Tokyo Round are far advanced, but the negotiations themselves have yet to be engaged, and, once engaged, they will certainly not be easy.

In one very important sector of world trade, however, encouraging progress has already been made. I refer of course to the textiles sector, where a major negotiation in the GATT has been successfully completed, and where the outlook for better trade relations is now, one may hope, more satisfactory than it has been for some time.

I know that trade in textiles and textile products is of primordial importance for Korea and, more personally, for many of you. That fact alone would prompt me to say something about the new Arrangement on International Trade in Textiles recently negotiated in GATT. But there is also another broader consideration to bear in mind: the great significance of the Arrangement, both in itself and as an example of international cooperation successfully carried through at a very difficult time.

It would be inappropriate - and certainly not necessary - for me to attempt to explain to this audience the problems of international trade in textiles. In this field, you are the experts. But I should, nevertheless, like to stress the extent to which the problems in the textiles sector are in fact world problems.

In essence, the problem to be solved is to allow those countries (usually developing countries) which have a natural competitive advantage in textile manufacture to reap that advantage in growing export earnings, while at the same time ensuring that the rate of growth is not so rapid as to exceed the capacity of the economy and industry of the importing countries to adjust to it without intolerable social, economic - and political - difficulties.
For a dozen years, international trade in cotton textiles was regulated by the so-called Long-Term Arrangement negotiated in GATT. That Arrangement had a number of drawbacks, and within the last few years these came to be increasingly recognized.

Moreover, during the past five years or so, there have been increasing difficulties internationally in the textiles sector. Restrictions have directly affected a large part of this important and sensitive sector of world trade. Perhaps even more importantly, they have been the source of serious frictions and confrontations among the trading nations, damaging to international relations generally and certainly affecting adversely the background climate for the multilateral trade negotiations. It is my own belief that, had nothing been done to halt this trend, international trade in textiles could soon have found itself in a situation similar to that existing in trade in agricultural products: in other words, largely excluded from the normal rules of the multilateral trading system, increasingly insulated from the healthy pressures of competition, and exacerbating international trade and political relations.

It is, therefore, a cause for some satisfaction that more moderate counsels prevailed. The Arrangement on International Trade in Textiles that was negotiated during the second half of last year marks, in my view, a very important step forward in international cooperation in this field, as well as an encouraging augury for the wider multilateral trade negotiations that still lie ahead. It is worth recalling, I think, that final agreement was reached in mid-December, at a time of particular uncertainty about future economic developments, at the very height of the energy crisis. The fact that at such a moment the trading nations were capable of reaching in the GATT a forward-looking and constructive agreement affecting a very sensitive area of world trade is evidence, for me, that they are capable of rising to the challenges of what is clearly going to be a very difficult period ahead for international trade relations. I should like to pay particular tribute to Korea as one of the principal participants in this successful negotiation for a new textile arrangement.

The new Arrangement has been in force since the beginning of this year, and its main operative provisions took effect on 1 April. Its institutions are in place, and at work, and it has been accepted already by some forty countries responsible for the great majority of world trade in textiles.

The Arrangement is essentially an instrument designed to bring about the liberalization of world trade in textiles. It would be quite wrong to regard it as simply a successor to the old Long-Term Arrangement on Cotton Textiles. The Arrangement represents a very considerable advance on the LTA, from which it differs in many quite fundamental respects. For example, it contains a firm requirement in its Article 2 that present restrictive measures be eliminated according to a prescribed time schedule, or else be brought into conformity with the Arrangement. It includes special provisions for developing countries. It
defines market disruption, the main condition for the introduction of restrictive measures, much more precisely and restrictively than the LTA. A list of other differences and improvements could be cited.

Probably the most important innovation in the new Textiles Arrangement is the establishment of the Textiles Surveillance Body, which held its first meeting in April. This independent body consists of a Chairman and of eight members, one of whom, I am happy to note, has been nominated by Korea. It is charged with supervision of the whole working of the Arrangement and it is empowered to make recommendations on the matters and problems before it.

The Textiles Surveillance Body is something quite new in international trade relations. Nothing in any way comparable to it existed in the Long-Term Arrangement on Cotton Textiles. It is certainly my hope and expectation that this body, which will in effect be in continuous session, will play a major role. It should essentially be looked upon, not as a forum for confrontation, but rather as an instrument which, through the use of its good offices and the normal processes of consultation and conciliation, will enable equitable and satisfactory solutions to be found to the problems brought before it. This new piece of international machinery offers great possibilities and we must all make the necessary effort to ensure its maximum effectiveness.

"Management" of the international trading system

The Textiles Surveillance Body, established to consider and resolve problems of international trade in textiles as they arise, has perhaps a significance also beyond the textiles sector. It is a reminder that the world trading situation as a whole continues to change, and that we must be ready to meet these changes with an appropriate multilateral response.

It is, of course, essential that from time to time the trading nations should send teams of negotiators to Geneva to tackle the kinds of issues that now confront them in the multilateral trade negotiations. But it is necessary also to recognize that the task of keeping the multilateral trading system in good order is a continuous one. As the events of the past year have clearly shown, crises large and small may occur at any time; long-term trends may also lead to disquieting consequences if not promptly recognized and faced.

I have become increasingly convinced of the need for continuous "management" of the international economic system.

Too often, situations have been allowed to develop to a point where they engender dangerous crises in international relations. The responsibility for keeping watch on such situations, and responding promptly to them, must surely rest primarily on the two institutions with the major operational responsibilities in economic relations: GATT on the trade side and the International Monetary Fund on the monetary side.
Of course, GATT has certain machinery available already: notably an annual session of the member governments, and a Council, with a current membership of some 60 governments, that meets frequently to discuss and direct work on a wide range of issues. It may well be however that, while in no way impinging on the authority of these two bodies, some less cumbersome, though fully representative, body is also required. This is a question that I hope will be discussed in GATT in the coming months.

While this institutional question is important, it is also essential to induce the trading nations to recognize and exercise their joint responsibility for keeping the multilateral trading system in good repair and constantly to improve and to adapt it. This system has served them well for twenty-five years. In spite of successive recent shocks, it has continued to function. But much now needs to be done to adapt the system to present-day circumstances so that it can respond effectively and rapidly to the demands that are increasingly made upon it. This is an essential task ahead of us and one which, if successfully carried through, will enable the multilateral trading system, based on the GATT, to continue to foster a rapid growth in world trade, with all that that implies for economic progress and higher living standards.