The outlook for the world economy, and particularly the road which international trade appears to be taking, are causing growing disquiet. Such uneasiness seems to me fully justified. I hasten to add that, far from succumbing to the prevailing pessimism, I remain convinced that the situation can be restored, and that we can pass through the present turbulence without serious damage to world trade. But this will require that we form a clear idea of why trade is now threatened and that we find the political will to put it back on the right track.

I should like, first, to set out a number of facts. Then, I shall try to analyze the reasons for the resurgence of protectionism. Finally, I shall suggest the broad lines of the trade policy which I believe should be followed to keep world trade on course - that is, on a course of expansion.

I. Recent trends in world trade

The world has grown accustomed over the past 30 years to a near-continuous and extraordinarily rapid growth in international trade. Year after year, this growth has almost always far outrun that of world production. People have even begun, in some quarters, to question whether the near-universal trend towards greater dependence on foreign trade is capable of being continued much longer. GATT's own research on this point, I may say, strongly suggests that the potential for further international specialization is still very great. In any case, the fact is that trade has grown spectacularly since the end of World War II.
International trade is currently estimated to be running at over $1,000 billion a year, an extraordinary figure even in these inflationary times. Following the dip of some 4% in volume that took place in trade in 1975, the trough of the recession, there was a renewed 11% growth last year, and the present prospect is of a further gain of about 6% in 1977.

One should not, however, be misled by this overall performance. In a number of sectors, international trade has been running into increasing trouble in the last few years. The stresses involved have now become such that they seriously threaten the whole fabric of postwar co-operation in international trade policy.

Let us examine the facts.

The world trading scene is of course evolving all the time. It responds, as always, to shifts in the relative competitive position of producers in different countries. These reflect, among other things, institutional changes such as the establishment of industrial free trade over most of Western Europe, the monetary realignments that have followed the breakdown of the Bretton Woods system, and the widespread introduction of preferences for developing countries. Superimposed on these influences, which have been at work since the beginning of the 'seventies, and even earlier, are the adjustment to much higher energy costs and, of course, the economic recession. All these circumstances are favouring some countries and some producers, and handicapping others, according to whether they are more or less able to adapt to the changes. Trade flows, balances of payments, production and employment: all are affected. And from time to time the resultant difficulties prove severe enough to prompt certain countries in trouble to introduce trade restrictions.

The measures taken in the past two years or so, however, go far beyond the usual range of restrictions imposed for balance of payments reasons. Governments have been coming under stronger and stronger pressures from those who call on them to introduce trade-restrictive measures to protect one or other sector of industry. And in a number of instances they have succumbed to these pressures.

Can it be that governments fear the effects of protectionism less than they did when the recession was at its worst? Certainly then they faced considerable pressures from those who called for restrictions on imports, but on the whole they resisted them very well. The OECD member countries made, and renewed, their pledge not to introduce trade-restrictive measures. The multilateral trade negotiations in GATT, the so-called Tokyo Round, by its aim of greater trade liberalization also helped to neutralize protectionist influences. It is now, when the world economy appears, however falteringly, to be on the road to recovery, that governments seem less able to resist protectionist pressures.
No comprehensive catalogue exists of the trade-restrictive actions that countries have introduced. Many such actions are required to be notified to GATT, but by no means all. Moreover, there is no way of measuring, for instance, a sudden access of administrative zeal in applying existing regulations that have the effect of hampering imports of favouring domestic suppliers. Nor can one measure the paralyzing effect on trade and investment of public indications that a country may introduce restrictions, even if they have not yet been put into effect, and in the event may never be. For these reasons, and many others, one cannot provide a neat list of statistics to document the protectionist offensive.

Within the GATT secretariat, however, we have for some time been keeping close track of protective restrictions as they are introduced, intensified, reduced or abolished by governments.

By studying the trade flows involved, GATT has tried to estimate the proportion of international trade that is being adversely affected by import restrictions introduced, or seriously threatened, by the industrially-advanced countries. Our tentative conclusion is that, since 1974, somewhere between 3 and 5 per cent of trade has been affected in this way. The figures may sound small. They mean, however, that trade flows amounting to some $30 to $50 billion have been affected in the course of barely three years.

Analysis of these trade-restrictive measures is instructive.

First of all, it is clear that their use is spreading. Protectionist pressures have so far been concentrated in a clearly determined but growing number of product sectors. They are extremely varied in nature. And finally, certain countries have been distinctly less successful than others in resisting protectionist pressures.

Worldwide, these pressures are concentrated on a comparatively few product sectors. Leaving aside some special cases, such as the limitations on beef imports into some of the largest industrialized countries, restrictions and harassment have been mainly concentrated on four product areas, in each of which international trade has been growing particularly rapidly. These are textiles and clothing, including shoes, steel, transport equipment (in which ship-building has been the main problem area although trade in cars has also run into difficulties); and finally certain sectors of mechanical and electrical engineering, including particularly household electrical goods, electronics and ballbearings.

The measures applied to restrict trade in these sectors have been very varied. Quotas or licensing procedures have been widely introduced, especially against textile imports. There have been instances of complete embargoes on imports of a particular product. Tariffs have been raised. Existing bilateral limitations have been tightened. There has been increased use of anti-dumping
procedures, which have a disruptive effect from the moment they are begun. Especially noticeable has been the insistence by some importing countries that exporters accept what have come today to be known as "orderly marketing arrangements". On the other side of the coin, there is evidence that at least a part of the exports against which complaints have been made or action taken have sometimes been offered at prices which have not reflected their true cost.

The list of countries imposing protective trade restrictions is fairly long. It includes, certainly, a number of developing countries which judged such action necessary for their economic development plans. Nevertheless, a large number of recent restrictive actions have been imposed by the giants of world trade. And it is of course the actions taken by the biggest trading countries which most affect world trade.

The list of countries whose exports are limited by these measures is longer. The great majority of exporters of steel, for example, have been affected. But a high proportion of restrictions have been directed at developing countries, especially those in the Far East and Latin America, and at Japan.

II. Why is protectionism reviving?

At first sight, the reasons for the present outbreak of protectionism are obvious. They are linked directly to unusually high levels of unemployment and to the disruption of industrial activity, particularly in the sectors that I have just identified. But this is only a superficial explanation. Why have these sectors run into such difficulties? Are these difficulties unique? And why have some governments been less firm than others in resisting protectionist pressures?

The present recession must of course bear a heavy share of responsibility. Its gravest effects have been on employment. Its length has created or worsened structural problems in industry because it has held back investment. And the long duration of this recession in investment has made the employment situation still worse. The recession's unusual severity, the additional complications introduced by adjustment to sharply higher oil prices, and the fact that, for the first time in the postwar period, the economic downturn has affected all the major industrial countries at the same time, have caused exceptional strains, which have naturally been felt also in international trade. I entirely agree with those who argue that the most effective possible medicine for the protectionist fever would be a strong renewal of growth in the world economy.

Unfortunately, matters are less straightforward than they appear. Protectionism is itself only a symptom of more fundamental ailments that hamper economic growth. The roots of the present difficulties lie deep. In all countries, at all levels of development, long-term changes are taking place. Most of the trouble can be traced to the world having adjusted too slowly to these changes, for there can be no growth without adjustment.
Within almost all of the developed countries, there has been a slow and profound shift in the structure of the labour force. The share of agricultural employment has fallen continuously, while the service sector has expanded steadily. Most significantly in this context, the share of labour force employed in manufacturing has in many countries ceased to grow, or is even shrinking.

With these demographic trends at work, it is clear that continued economic growth in the developed countries depends very largely on the ability of their shrinking manufacturing labour force to respond to changing competitive pressures. Will it be able to move steadily out of declining industries and into those where its productivity will be best employed and its competitive advantage at its greatest? This will require, among other things, that young people be steered away from careers with no future in less-competitive industries, and towards expanding sectors with growing needs for highly-skilled labour. The task is complex, since all kinds of problems of education, training and incentives will have to be resolved.

Reinforcing the effects of these long-term trends affecting employment and labour mobility in developed countries is a second major change. This is taking place in developing countries, which in growing numbers, and to an extent not always recognized, are building up significant manufacturing capacity. For familiar reasons, this new industrial capacity tends to be concentrated at present within a comparatively narrow band of output, where these countries can take best advantage of their particular strengths – chief of which is abundant labour. This industrial development is in itself greatly to be welcomed as offering the countries concerned a basis for more rapid economic growth and for raising living standards from their present levels. But when these industries turn to exporting, the force of their competitive advantage tends to be concentrated, above all, on the old-established end labour-intensive industries in importing countries.

It is instructive to identify those flows of international trade which have in recent years been growing most rapidly. If one selects the categories of imports into developed countries which have been growing strikingly faster than their imports as a whole, one finds that the resulting list coincides almost exactly with the list of items – textiles, clothing, steel, transportation equipment and certain mechanical and electrical engineering products – which have most frequently been subjected to import restrictions in recent years. The suppliers, too, are the same – developing countries and, to a certain extent still, Japan. Although many other factors are of course also at work, such as changes in technology and demand, it is a fact that the present protectionist fever is rising most rapidly in the areas of trade where newcomers are entering the world market.
This, I believe, is a principal clue to what is going on. One cannot, thus, regard the problem as being one just of textiles, steel or ships, or of recession, or of the cost of energy, difficult though each of these may be. The real issue is more fundamental. It is whether policies in the industrialized countries will favour or hamper long-term adjustment to changes in structure and in competitive realities. Upon the answer will greatly depend the course of international economic and political relations in the years ahead.

At present, only ten or so developing countries are fully competitive in more than one or two sectors of industry. But in the longer run they will certainly be joined by many others whose hopes of improving the living standards of their peoples are largely pinned on building up processing industries through which they can exploit fully their competitive advantage.

Already, the pattern of competitive strengths of the industrialized countries has changed considerably. Production figures show rapid expansion in the research and skill-intensive sectors of their industry, with correspondingly growing surpluses in their trade in these products with the rest of the world. On the other hand, their more traditional industries have been declining.

It is important to see the picture as a whole. For instance, much attention is focused in the industrialized countries on the slide into deficit of their trade balance in textiles and clothing over the past three years. I am not in any way seeking to minimize the difficulties of these industries. It is a fact, however, that even if there is a deficit in textiles and clothing, the deficit has to a very great extent been offset by higher sales of textile fibres and textile machinery to developing countries.

This is only one, particularly striking, example. Looked at in a wider perspective, and leaving aside the special case of the oil producers, it is clear that the import needs of developing countries are so great that all their available export earnings, apart from those required to service their external debt, are going to be spent on imports. In other words, the industrialized countries can be certain that they are in no danger in the foreseeable future of moving into overall deficit on current account with the non oil-producing Third World.

This argument offers little comfort, however, to an old-established industry struggling to adjust to competitive pressures. Such adjustment is seldom easy, and present circumstances, for a number of reasons, make it exceptionally difficult.
Foremost among these reasons is of course the recession. When the economy is growing, a failing industry can often adjust fairly painlessly. Sometimes it may itself continue to grow, although less rapidly than other sectors of industry; even if it does not, there are plenty of alternative opportunities for employment and investment. In present circumstances of weak economic growth, on the other hand, an uncompetitive industry is bound to be in jeopardy, and it is to be feared that the men and capital it employs will have great difficulty in finding somewhere else to go.

One seems to hear less these days, be it noted in passing, of the formerly fashionable denunciations of economic growth. Has the recession perhaps helped people to understand that growth is essential if necessary economic and social adjustments are to be carried through reasonably painlessly?

A further set of factors discouraging adjustment can be summed up in a single word: "uncertainty". Uncertainty about economic growth prospects; uncertainty about inflation rates (which seriously affect precisely those long-term investments that are essential to most industrial restructuring); uncertainty about the future course of international monetary and trade policy — including, particularly, uncertainty about possible protective measures against competing imports. One could speak even of a real crisis of confidence in the capacity of the economic system to get back on the path of strong and lasting growth.

Governments, of course, know all this. They know that international specialization is a key to economic growth. They know that adjustment should be encouraged, rather than hindered, and that if postponed, it will be all the more painful when it becomes unavoidable. Governments have not forgotten the crisis of the 1930's. Their first reaction to calls for protection is to reject them. But they cannot shrug off the claims of major industries in severe trouble, especially when widespread unemployment is involved or threatened. Least of all can they disregard such claims when their own political position is precarious.

Faced by the very real difficulties of the past three years, governments have been remarkably steadfast in resisting protectionist pressures. But, I would recall, some have done less well than others, particularly in recent months.

No doubt, those countries which possess large domestic markets may be tempted to accept, in sectors in difficulty, a certain degree of economic inefficiency and loss of growth, hoping at this price to maintain social peace by "saving" existing jobs. They risk, however, underestimating the consequences of such a choice. From the point of view of the country as a whole, protection of one industry imposes economic costs not only on final consumers, but also on other industries. It builds into the national economy rigidities and vested interests that are difficult to eliminate later. It favours low-productivity, low-technology industries at the
expense of those which could stimulate rapid growth. And finally, it encourages other industries to seek similar protection. All this would in itself be bad enough if the effects of protection were felt only in the country concerned. But of course they are felt beyond the national frontiers. First, and directly, they affect the countries whose exports are obstructed and whose prospects for employment and output, foreign earnings and economic growth, are thereby reduced. More insidiously, but on a much wider scale, protective measures taken by one country also encourage the industries and governments of other countries to act likewise.

If the smaller industrialized countries have less often given way to protectionist temptations - and I am happy to recognize that this is the case for Switzerland - it is perhaps because they are acutely aware that they depend more greatly on international trade than the larger countries. They understand the risks they run, and above all they know they have no other choice than to adjust to changing circumstances.

III. Towards an enlightened trade policy

How should the international trading community respond to these risks? How can it arrest the present slide towards protectionism, prevent intolerable pressures on particular industries, and continue the trade expansion of the past thirty years while finding room for the new producers of the Third World and elsewhere?

Trade policy alone cannot provide all the answers. It cannot, for example, compensate for distortions introduced when currency parities fail adequately to reflect sharply differing inflation rates. Nor is it effective when these parities reflect capital flows unrelated to the competitive position of the domestic industry. A belief that trade policy measures are a proper response to monetary difficulties has all too often led countries into still worse trouble.

Enlightened trade policies can nevertheless achieve a great deal. A first aim of policy must surely be to stimulate a strong renewal of growth in world trade, today still only hesitant.

One essential step is for the governments of industrialized countries to recognize their joint responsibility to resist calls, however pressing, from their domestic producers for increased protection. In the wake of the oil crisis, these same governments showed extraordinary solidarity in rejecting the use of trade measures to overcome balance-of-payments difficulties. The same kind of solidarity is required now to hold the line against the increasingly numerous calls for protection from particular sectors of industry. There is encouraging evidence that the dangers are more clearly recognized than they were even recently. Some countries, however, still do not seem fully awake to them.
Strong encouragement to renewed growth in trade would be given by an early and successful conclusion of the multilateral trade negotiations in progress among nearly 100 countries in the framework of GATT. These negotiations have so far moved slowly, for various reasons which include the complexity of the issues, the influence of political factors in several of the leading participating countries, and the reluctance of governments to undertake major economic commitments at a time of recession.

Their pace is now quickening. The participating countries are showing themselves determined to push the negotiations forward as rapidly as possible. They have adopted a timetable according to which the negotiations should enter their final stage, that of bargaining, from 15 January 1973 onwards. Governments will thus soon have to weigh the advantages offered to their export industries against the possible disadvantages for domestic import-competing industries. It is exceedingly important that they decide for the opening up of markets. Much is at stake.

If all goes well, the negotiations could yield substantial tariff reductions, but spread over time. Market opportunities for agricultural products should be enlarged and stabilized. A whole arsenal of non-tariff measures hampering or distorting international trade should be removed, or else regulated so that their effects are minimized. The negotiations have already resulted in the removal of some barriers to exports of tropical products. And finally - a point to which I shall return - advantage is expected to be taken of the negotiations to examine carefully some of the most important rules of the General Agreement on Tariffs and Trade, to bring them into line with present and future needs.

Provided governments hold fast to their past commitments, and devote the necessary political will and administrative energy to the task, the Tokyo Round could thus have extremely beneficial effects on world trade, both directly and indirectly. The opening-up of new trade opportunities, as the concessions agreed are put into force over the coming years, should provide a strong and continuing stimulus to trade and to the world economy. And on a wider view, it can fairly be claimed that the success of the negotiations would provide a real fillip to business confidence, and a strengthening of liberal trading forces throughout the world.

The liberalization of world trade, so as to restore it to a path of steady growth is, however, only part of the answer to present problems. What is also required, in my view, is that trade policies encourage industries to adjust continuously to shifts in the international competitive situation. One of the necessary conditions for achieving this is that the existing trade rules be better respected and, where necessary, that they should be improved.
The rules under which most of world trade moves today are those set out in the General Agreement on Tariffs and Trade. Taken together, these rules constitute a framework of mutual rights and obligations within which international trade can flourish, and most specific trade problems or disputes can be effectively handled when they arise. These provisions are in constant use, and in general function well. The trouble is that governments do not always respect them, or tend to pay more attention to their letter than their spirit. Sometimes, too, countries in difficulty have failed to make use of GATT provisions that might have been helpful to them. Thus my first conclusion is that the trading countries should apply the existing rules of GATT more effectively.

Some of the rules, however, need adaptation or re-interpretation to meet present-day needs. This is one of the most important, and most sensitive, tasks of the Tokyo Round.

A key example is the safeguard clause (Article XIX of the GATT) which prescribes the circumstances in which a government may reintroduce protection at the frontier to help an industry in difficulty because of import competition. This safeguard clause, which is of course directly linked to the central question of adjustment to changes in competitive conditions, is little used at present. It is important that recourse to safeguard measures be possible when they are really needed. Few countries will be prepared to liberalize their trade policies unless some form of effective safeguard clause exists for use in emergencies. The recent proliferation of escape actions of one kind or another, outside the GATT framework, seems clear evidence that the safeguard clause of Article XIX is no longer fulfilling the rôle that its drafters intended. The outcome of the negotiations on this subject cannot now be predicted. An aim should, however, surely be to establish conditions in which emergency restraint actions against imports will be subjected to generally-accepted disciplines. By this I mean criteria for the imposition of such measures, as well as appropriate procedures for consultation, notification, and continuous multilateral surveillance, as well as a firm timetable for their phasing-out.

Other GATT rules which require clarification or strengthening are being dealt with in the negotiations on non-tariff measures. A good example is the present negotiation of a code of practice on subsidies and countervailing duties. As we have increasingly seen recently, differing views on what does or does not constitute unfair subsidization of exports, and on what circumstances do or do not justify the imposition of countervailing duties, are a source of serious friction between trading nations. The grant of subsidies is one of the favourite ways for governments to load the competitive dice to the advantage of their own countries' producers. It is very important in time of recession, when the temptation to subsidize or to impose countervailing duties is greatest, that everyone should have a clear
view of what is, and is not, allowed. It is when a country believes, rightly or wrongly, that others are not playing the game fairly that it is itself most tempted to infringe the rules.

There is also a need to look again at certain other important requirements of the General Agreement. Do they take sufficient account of the special difficulties and needs of developing countries, which today account for the great majority of GATT's membership? Are the procedures for dispute settlement working properly? Could they be improved? Do the GATT examinations of countries that introduce trade restrictions for balance-of-payments purposes give adequate attention to the part which other countries' policies may have played in causing their difficulties? I can stop the list at this point and conclude that the Tokyo Round negotiations offer an excellent opportunity to review and overhaul the machinery of international trade relations.

It is not enough, however, to leave the machinery to run without supervision, or even content oneself with routine maintenance alone. It needs to be steered. This immense enterprise of international trade relations needs continuous management, in rather the same way as a large industrial enterprise, so that long-term trends are perceived, and both dangers to be avoided and opportunities to be seized are identified in good time. Such management demands continuous consultation and co-operation between governments, to try to work out jointly strategies that will keep world trade on a smooth path.

There is an ever-present danger, in trade relations as in other human activities, that one thinks too little and acts too late. The present troubles of world trade in textiles and steel, for example, might have been much reduced if governments had consulted earlier about trends in investment costs and trade that were detectable years ago, and had discussed together how best to remedy the situation. With hindsight, the textile problem is basically a problem of adjustment: if it had been met by long-term policies, the present brutal restrictions and disruption in both importing and exporting countries should at least in part have been avoided.

For some months now, calls have been heard for the "organization" of world trade. Some of these demands seem based on the idea that the present system, founded on GATT, is governed by an unthinking devotion to trade liberalization. It is even described, sometimes, as the very embodiment of uncontrolled free trade. The truth is quite different. The General Agreement is in fact a complex instrument which, apart from its major purpose of constantly enlarging world trade, offers regulatory devices and safeguard procedures able to function when needed: in other words to prevent the disorganization of markets. One should use these mechanisms, and use them promptly, accepting the international surveillance inherent in the GATT procedures, rather than giving way to the temptation to unilateral actions.
If on the other hand those who call for organized freedom of trade mean by this that international trade relations between governments are in need of better "management", I am entirely in agreement with them; to such an extent, indeed, that I have been saying so for years. In fact, I have persuaded the member governments of GATT to set up a high-level consultative group, where those responsible for trade policy can at any time consult together about ways of overcoming current difficulties and of avoiding those which have appeared on the horizon. The instrument is there; what is needed is that governments and administrations be ready to use it, and use it in time.

To talk today of a choice between free trade and protectionism is to pose a false dilemma. Although freedom of trade is still far from being achieved, international trade and national incomes have soared unprecedentedly since the war. The explanation of this astonishing success is not to be found in the concept of free trade but rather in that of a continuous liberalization of trade—that is, trade under conditions that conform to the basic principles of GATT and in a context of periodic and progressive reductions of barriers. To keep in check the forces that in present circumstances threaten this liberalization demands resolute and unremitting efforts by the trading nations. I have tried today to suggest the direction and the manner in which these efforts should be made. To conclude, let me recall briefly what is required:

- In the first place, to apply scrupulously the existing trade rules, the rules of GATT, and not to hesitate to adapt them to meet present-day requirements.
- Next, to encourage the restructuring of production in order to improve the process of trade adjustment.
- Further, to bring the Tokyo Round quickly to a successful conclusion so as to stimulate a recovery in the exchange of goods.
- Finally, to develop the "management" of multilateral relations at government level so as to ensure a steady and continuous growth in world trade.

These are the tasks which the trading nations must accomplish in order to put international trade back on the right track, and which they should now attack without further delay.

International trade is poised at this moment at a delicate point. Should the balance tip the wrong way, the world will slide into protectionism, causing profound damage to national economies, to individual living standards, and to the whole structure of international relations. If governments, encouraged by public opinion, can make the balance tip towards a fresh liberalization of trade, that generator of economic growth, the whole of humanity will benefit.