GENERAL AGREEMENT ON TARIFFS AND TRADE
Ninth Session of the Contracting Parties

Speech by the Hon. Eric H. Louw, M.P. (Union of South Africa)
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The General Agreement on Tariffs and Trade has now been in operation for seven years.

The wording of the Agreement and the records of the discussions which preceded its negotiation show that the builders of the organization realized that account would have to be taken particularly of two factors; firstly that the second world war, then just ended, would leave considerable confusion in its trail, and that allowance would have to be made for a period of economic adjustment; secondly, the founders were conscious of the fact that during the post-war period there would be a "scramble" for the recapture or extension of export markets and that individual countries would be tempted to formulate their trade policies exclusively with regard to their own domestic interests and without recognition of the effects which such policies may in the long run have on the economic welfare of the world at large.

The main purpose of the Agreement was to provide permanent rules for fair trade practices and to try to secure the active cooperation of as many countries as possible in taking steps for removing (or, at least diminishing) impediments to the flow of international trade; for abolishing (or limiting) discrimination, and for the promotion of multilateral trade.

These objectives appear clearly from the preamble to the Agreement, where it is stated that twenty-four countries had "agreed" to take certain steps "for expanding ... the exchange of goods", for the substantial reduction of tariffs and other barriers to trade, and "for the elimination of discriminatory treatment in international commerce".

These were the sound principles upon which the Agreement was founded. As already stated, the builders of the organization realized that account would have to be taken of exceptional circumstances prevailing after the Second World War, and that exceptions to, and deviations from the principles of multilateralism and non-discrimination would have to be permitted during "the transition period" from wartime to peacetime conditions.

In this connexion, it should however be noted, that when reference is made in the Agreement to these exceptions, (or "escape-clauses", as they are sometimes, and perhaps more correctly called) it is clear that many of them were intended to operate only in exceptional circumstances. Secondly, it is also clear that most of these exceptions and deviations were intended to operate
only during the postwar and transitional period. This is shown by the references in the Articles of the Agreement, to "postwar adjustment"; "the aftermath of the war"; and "the postwar transitional period". There is even a specific reference to "the next few years".

It will, I think be generally admitted that we have left far behind us the economic conditions that prevailed when the Agreement was being prepared, and also when it was signed - that generally speaking, great progress has since been made towards economic recovery and stability. I, therefore, suggest that the term "postwar readjustment" - has now lost its meaning.

Mr. Chairman, I do not think there can be any doubt as to the fundamental soundness of the objectives which the signatories of the Agreement had in mind. When, however, we look back over the past seven years, I fear we can find little cause for satisfaction at the lack of progress that has been made towards the achievement of a freer world trade, of multilateralism, the elimination of discrimination, and of unfair trade practices.

In saying this, I do not wish to detract from the value of the good work that has been done. The Agreement has undoubtedly had a restraining effect on some countries that were tempted to go too far in the direction of further trade restrictions and discrimination. And the GATT has at least provided a valuable basis on which a more stable and prosperous world economy can be built.

But in spite of satisfactory features, I think there is a fairly general feeling that the results so far achieved have been disappointing.

Mr. Chairman, this review session of the Contracting Parties has been called for the express purpose of revising the Agreement in the light of our experiences during the past seven years, and in the light of changed and more stable economic conditions. As already stated, "the aftermath of war" is now something of the past. It will also provide the opportunity for ascertaining why progress has been so slow and disappointing.

We will have to ask ourselves and each other, to what extent the objectives set out in the preamble to the Agreement have been attained or are likely to be attained, and, what is more important, to what extent, obligations solemnly undertaken by the signatories have been honoured, not only in the letter, but also in the spirit of the Agreement. We will have to enquire whether the exceptional circumstances, for which the "escape-clauses" were provided, still prevail or whether some of them should not now be removed. We will have to devote some attention to the various devices or expedients - whereby contracting parties are able to defeat the purposes and principles set out in the preamble to the Agreement, and gain advantages for themselves - expedients such as the payment of export subsidies and other export incentives; tax reimbursements, multiple exchange rates; foreign exchange retention schemes; the stimulation of over-production of commodities by price support schemes and similar devices; and the "off-loading" of Government controlled
agricultural surpluses on foreign markets. And there are the numerous bilateral quota agreements, which constitute a serious threat to the system of multilateral trade, which the signatories to the Agreement have solemnly agreed to promote.

These are some of the issues which will have to be discussed and to be squarely faced.

Mr. Chairman, I do not think it is possible to over-estimate the importance of this Review Session. The spirit in which the discussions are carried on, and the decisions taken, will, I think, go far towards determining the future of this organization. Will GATT become a really effective instrument for bringing a substantial measure of order into international trade and economic relations - or will it eventually go the way of some other international organizations at whose meetings lofty aims and principles are loudly proclaimed by the representatives of member countries but where the application in practice of those aims and principles are sadly lacking.

Mr. Chairman, in proceeding to deal with particular aspects of the Agreement, I would like to preface my statement by a few remarks of a general nature.

I have already said that progress towards the achievement of a freer world trade, based on the principles of multilateralism and non-discrimination, has been disappointingly slow.

Despite three rounds of tariff negotiations under GATT the general level of import duties of a number of contracting parties still remains excessively high. Such tariff reductions of real potential value to world trade as were negotiated under GATT are still, to a large extent, rendered ineffective through the operation of quantitative restrictions on imports and the undue use which is being made of "escape-clauses". Some contracting parties are also debarred from reaping the full benefits of these tariff reductions owing to the discrimination practised by countries maintaining quantitative import and other restrictions.

Although individual contracting parties have pledged themselves to remove their import control measures as soon as circumstances permit, there is increasing evidence that many of the import restrictions originally imposed for balance-of-payments reasons are gradually assuming a permanent protective character. In my own country we are busy dismantling import control measures which were necessitated by balance-of-payments difficulties. Discrimination between sterling and dollar countries was removed by South Africa more than twelve months ago and if nothing untoward happens, we hope completely to have abolished the remaining vestiges of these measures by the end of next year.

I feel that the lack of progress made in GATT towards the removal of import restrictions, must in part at least, be attributed to the faulty basis upon which tariff negotiations under the Agreement were conducted in the past.
Tariff bargaining on a strictly quid pro quo basis invariably creates difficulties for countries with low tariffs. It means that these countries are required to pay a relatively excessive price in the form of reductions and bindings in their own duties for whatever concessions they are able to extract from high tariff countries.

No wonder that some of these low-tariff countries, having assumed tariff commitments under GATT which create serious economic difficulties for them, and from which they can secure release only by offering alternative concessions, show extreme reluctance to relax their "balance-of-payments" import restrictions as their external financial position improves, and thereby to discard the incidental protection which these measures may give to their domestic producers.

The principle of strict reciprocity, which has thus far governed all tariff negotiations conducted under GATT, has, therefore, had the paradoxical effect of restricting rather than liberating world trade. This principle is based on the general idea that there is a complete equality amongst nations in international relations. But, in regard to certain aspects of our economic relations, it would seem this is not always the case. Countries with high tariffs, can do things which low-tariff countries cannot so easily accomplish,

If high-tariff countries - and I am thinking here particularly of the United States of America - had not so strongly insisted on the maintenance of absolute reciprocity in the tariff concessions negotiated under GATT, some low-tariff countries with balance-of-payments difficulties would not have had to reduce their tariffs to the level where they are now induced to seek recourse to the maintenance of quantitative import restrictions for protective purposes.

It may be argued that the low-tariff countries could always invoke the relevant provisions of the Agreement and, particularly, the procedures of Article XXVIII, in order to secure release from unduly onerous tariff commitments assumed under GATT. I feel, however, Mr. Chairman, that the procedures of Article XXVIII - which is now the only road open to many of these countries - are too cumbersome and will have to be revised if we are to make more rapid progress towards the removal of balance-of-payments import restrictions.

In saying this, I am not suggesting that contracting parties should be given a free hand to withdraw from their tariff commitments under GATT, but I think that the introduction of a greater degree of flexibility in the Article XXVIII procedures would do much to facilitate the relaxation of import control measures.

I would like to mention another field in which GATT has, to my mind, failed in its purpose. I refer to the fact that trade discrimination, which certainly is not conducive to the maintenance of friendly relations between nations, and which frequently results in the uneconomic utilization of productive resources, is still being practised by many of the contracting parties.
I have already briefly referred to the discrimination practised by some contracting parties under bilateral quota agreements, discrimination which appears to us to be entirely in conflict with the spirit and the objectives of the Agreement.

During the past seven years South Africa's export trade has suffered as a result of this type of discrimination. Certain countries, which profess to be strong supporters of the principle of multilateralism, have not hesitated to exclude South African products from their markets solely because of the South African Government's refusal to conclude bilateral quota agreements with them. Not only is South Africa a strong supporter of the multilateral system of trade, but it has been our view that bilateral quota agreements are in conflict with the purpose and spirit of GATT.

Under South Africa's import control measures imposed and maintained solely for balance-of-payments reasons, all countries whether sterling, dollar or otherwise, are now treated on a basis of absolute equality. It stands to reason, however, that South Africa cannot continue to maintain this equality of treatment for all contracting parties, if it finds itself constantly being penalised in certain markets because of its refusal to conclude discriminatory bilateral quota arrangements with them. What these countries are, in fact, trying to do is to force South Africa back on to the road of discriminatory import restrictions, and towards bilateralism.

I am sure it will be generally conceded that there must be something radically wrong with any international organization which professes to pursue the objective of multilateral trade, and at the same time permits some of its members to force others in the diametrically opposite direction of bilateralism. I feel that we are confronted here with a fundamental weakness in the whole GATT structure - a weakness which will have to be removed if South Africa is to succeed in its efforts to promote the objectives of the GATT.

I have already briefly referred to certain practices which we consider to be in conflict with the spirit of the GATT, and which have created new problems affecting commercial relations between contracting parties. I have in mind particularly the increasing tendency to subsidize exports; the manner in which accumulated commodity surpluses are being disposed of in export markets, and the increased use which is being made of special export incentive schemes.

Contracting parties, which give direct financial assistance to their exporters in the form of subsidies, or which provide special inducements to their exporters in the form of exemption from taxation, tax remissions, dollar retention facilities and so-called "export" exchange rates, are all trying to acquire for themselves more than an equitable share of export markets, thereby excluding competitors from markets which the latter have enjoyed in the past. Countries which adopt these practices are not observing the rules of fair conduct in international trade, which the GATT is trying to establish, and they
are certainly interfering with the free flow of international trade. In such a race the advantage is with the financially strong, who will gradually force the products of small countries from the international market.

With the trade in most commodities becoming increasingly competitive, and with new production levels being attained by many countries, the increasing resort to measures of this nature is bound to create serious disturbances in international trade, and if persisted in, will make of GATT merely a high-sounding, well-intentioned document - with little or no practical effect.

Mr. Chairman, I have mentioned some of the more important weaknesses in the existing Agreement which, to my mind, have hampered, and which unless removed, will continue to hamper progress towards multilateralism and non-discrimination. I have also referred to some of the new problems which detrimentally affect international commercial relations and which will have to be dealt with during this special Review Session.

It may perhaps be said that the picture I have painted is an unnecessarily gloomy one. I do not think so. The facts speak for themselves, and they certainly do not give us cause to be optimistic about the future success of the Agreement.

The South African delegation strongly feel that in certain respects the provisions of the Agreement should be considerably strengthened. Proposals to this end will be submitted.

At the same time, we fully appreciate the danger of a too great rigidity and we recognize the necessity for certain exceptions, such as that in exceptional circumstances a contracting party should be permitted to impose or maintain quantitative import restrictions. But then such special circumstances must be clearly stated, defined and circumscribed. There should be no extension of this exception, as has been suggested by some countries.

We have noted with considerable concern that proposals have been submitted to this conference which, if approved, would allow certain countries a greater measure of freedom to use quantitative import restrictions for purely protective purposes. I am, of course, referring to the proposals relating to the revision of Article XVIII of the Agreement.

Although South Africa is by no means yet industrially as highly developed as some other industrial countries, we have nevertheless consistently opposed the use of quantitative import restrictions for protective purposes, since it is my Government's firm belief that such action by contracting parties is not in accordance with the spirit of the Agreement, and must necessarily retard the progress towards multilateralism and non-discrimination.

It seems to me that if Article XVIII is now to be amended so as to provide more liberal opportunities for the use of quantitative import restrictions to stimulate the industrial development of underdeveloped countries, we would, in effect, be seriously weakening, instead of strengthening the Agreement.
I have carefully followed the arguments of the countries advocating the more liberal use of quantitative import restrictions for protective purposes, but firmly believe that, in the long run, the use of these measures will not provide the answer to their problems.

Our experiences in South Africa have led us to the conclusion that the only sound way of simulating the industrial development of a young country is to create economic conditions in that country which will encourage the investment of local and foreign capital, to afford a reasonable measure of tariff protection to deserving industries which may be at a competitive disadvantage compared with similar industries in more highly industrialized countries, and to follow internal financial policies which will enable private enterprise to reap the benefits of courage and initiative.

While I realize that conditions in other countries are different from those in my own, I am nevertheless convinced that in the long term sound economic development can only be achieved by creating economically sound conditions for such development rather than by the use of artificial measures such as quantitative import restrictions, which invariably lead to over-rapid and uneconomic development and perhaps create even greater problems than those which they try to solve.

It stands to reason that once a contracting party invokes the provisions of Article XVIII in order to use quantitative import restrictions for the protection of one of its industries, it would find it practically impossible to resist the requests of other industries that they be similarly protected.

In the end we may well be faced with the permanent entrenchment in the Agreement of the right to use quantitative import restrictions for protective purposes - a development which would be diametrically opposed to the objectives we have in mind.

The question may well be put - whether in view of the limited progress made during the past seven years with the establishment of a multilateral non-discriminatory system of world trade, and in view of the manner in which some countries are acting contrary to the spirit of the Agreement, it would be worth our while to embark on the time-consuming and expensive task of reviewing the Agreement, and of drafting additional rules for dealing more effectively with existing problems and questionable practices, and also with possible new developments in the field of international trade.

Have we reason to believe that any revised trade rules to be decided upon at this conference are likely to be more strictly observed than the existing rules of the Agreement, and are thus likely to bring us nearer to the attainment of our objectives? These are vital questions, Mr. Chairman, which require frank discussion and equally frank replies.

There is a limit to the extent to which the scope of the Agreement can be extended. The more we endeavour to bring every conceivable aspect of foreign economic policy within the orbit of the Agreement, the less likely
it is that the Contracting Parties will succeed in their efforts to create the type of trading conditions which are so essential to world economic stability and prosperity.

As far as the Government of the Union of South Africa is concerned, we fully appreciate the great value inherent in a multilateral non-discriminatory system of world trade.

It is because of its substantial interest in the achievement of this objective that South Africa has up to the present accepted the limitations which GATT-membership has imposed on its freedom of action, has honoured its obligations under the Agreement, and has consistently endeavoured to make its full contribution to its successful implementation.

Mr. Chairman, I repeat - a multilateral non-discriminatory system of world trade can be established only through the collective and honest endeavours of all contracting parties. Unless there is a real willingness and determination on the part of each and every contracting party to promote the effective implementation of the GATT through loyal and strict observance, not only of the rules, but also of the spirit of the Agreement, to which our respective governments have committed themselves - then we cannot hope to achieve our objectives, and these discussions will have little real value.

Revised and stronger rules for GATT are necessary, but even more necessary is the willingness of every contracting party to make its full contribution to the success of the Agreement, by faithful observance of its principles; and it is the great, and economically strong nations that will have to set the example.

In this connexion I must call particular attention to the key position occupied by the United States of America. The United States, as the principal creditor country of the world, is, economically speaking, best able to set an example to other contracting parties by pursuing a more liberal foreign trade policy, which will enhance its contribution to the attainment of our objectives.

Just as the debtor countries have an obligation under the GATT to adopt sound domestic policies which will restore equilibrium in their balance-of-payments and enable them to remove their import restrictions and discrimination, so also the obligation rests upon the United States, as the principal creditor country of the world, to liberalize its foreign economic policies in order to provide greater scope for the sale of foreign goods in its market.

The responsibility which rests on the United States in this respect is indeed a grave one. It flows not only from its membership of GATT but is, in part, the price which it has to pay for its generally acknowledged position of world economic leadership. There is no doubt that American policies and actions with respect to foreign trade exercise a profound influence on other countries and thus on the welfare of the peoples of the world.
Mr. Chairman, I have spoken as the representative of one of the smaller countries, but it must be borne in mind that there are many of these smaller countries, which collectively play an important part in the world's economy. And then there are smaller countries, which individually are large producers of valuable commodities and raw materials. South Africa is one of these. There is the further fact that South Africa, though one of the smaller countries, ranks among the most valuable markets of some of the world's greatest exporting countries. In any case, to us in South Africa, economic welfare and export markets, are as vital as they are to those countries that occupy leading positions in the councils of the nations. We in South Africa have no less an interest than any other country in the building of a stable, prosperous and expanding world-economy; and for that reason we would like to be assured that all contracting parties will be willing to honour obligations undertaken under the GATT - thereby making it an effective instrument for attaining the objectives which the founders set themselves.