"TRENDS IN INTERNATIONAL TRADE";
THE REPORT BY A PANEL OF EXPERTS ESTABLISHED
BY THE CONTRACTING PARTIES TO GATT

*Trends in International Trade* is the report of a Panel of Experts which was appointed by the Contracting Parties to the General Agreement on Tariffs and Trade at their Twelfth Session, in November 1957.

In his Foreword the Executive Secretary of GATT, Eric Wyndham White, recalls that the Twelfth Session of the Contracting Parties was attended by a considerable number of Trade Ministers. The Ministers took the occasion to review the present state and prospects for international trade. In general, the picture confronting them was reassuring, as the experience of recent years has been one of steady expansion. However, to a number of Ministers there appeared to be some disturbing elements which, they felt, merited careful investigation. Amongst these elements was the prevalence of agricultural protectionism, expressed in restrictive measures in international trade in agricultural and food products, and the building up of large stocks of these products which have no outlet through the normal channels of trade; sharp variations in the prices of primary products, accompanied by wide fluctuations in the export earnings of primary producers; and finally the failure of the export trade of the under-developed countries to expand at a rate commensurate with their growing import needs.
They therefore decided to set up a Panel of Experts to examine present trends in international trade, to glance into the future, and submit a report and suggestions for examination by the Contracting Parties at their Thirteenth Session convening in Geneva on 16 October 1958.

The members of the Panel of Experts were as follows:

Roberto de Oliveira Campos, Director of the Brazilian National Bank for Economic Development and Professor of Economics at the University of Brazil;

Gottfried Haberler, Professor of Economics at Harvard University;

James Meade, Professor of Political Economy, University of Cambridge;

Jan Tinbergen, Professor of Development Programming at the Netherlands Institute for Advanced Economic Studies, Rotterdam.

Professor Haberler acted as Chairman of the Panel and their report represents the unanimous views of its members.

HOW THE REPORT IS ORGANIZED

"Trends in International Trade" is prefaced by a Foreword by the Executive Secretary of the GATT, and the Terms of Reference for the Panel of Experts.

Chapter I is a Summary of Main Conclusions.

Chapter II sets out The Facts concerning:

(a) short-term fluctuations in the value of world trade in primary products; and

(b) long-term changes in the structure of world trade, particularly as they affect commodities and the trade of the non-industrial countries.

Chapter III comprises an Interpretation of Past Trends, Future Import Requirements, and Prospects for Exports.

Chapter IV deals with the Effect of Policies upon Future Prospects; in particular, Policies for Stabilization and Commercial Policies. Finally the Report sets out certain Conclusions concerning commercial policies. (See, in particular, the nine main recommendations for improving the prospects in international trade of the primary producing countries: paragraph 341.)

Note: The reference numbers in this press release refer to numbered paragraphs in the Report.
CHAPTER I

SUMMARY OF MAIN CONCLUSIONS

Before giving a detailed analysis of the problems which they were asked to examine the Panel summarizes the main conclusions which it reaches in each chapter.

CHAPTER II

THE FACTS

Short-term Fluctuations

(a) Fluctuations in the value of world trade in primary products, and therefore the export proceeds of the non-industrialized countries, taken as a whole, mainly reflect changes in prices rather than changes in volume. (4)

(b) However, the changes in the export proceeds that individual countries derive from specific commodities do vary as a result of volume as well as price fluctuations. The changes in volume reflect not only the general business cycle but also, inter alia, the particular conditions of supply prevailing in the exporting country and changes in the competitiveness of its production. (5)

(c) Fluctuations in economic activity in the industrial countries clearly affect the general price movement of primary products taken as a whole. However, such general price movements are far from uniform in respect of individual commodities. (6)

(d) Since the end of 1955, (and leaving aside the effects of the Suez crisis), the slowing-down in economic activity in North America and Western Europe has given rise to an average decline in the prices of primary products which in early 1958 reached 5 per cent. The impact of this decline upon the position of non-industrial countries taken as a whole is aggravated by the simultaneous rise—by about 6 per cent—in the prices of manufactured goods. (7)

Long-term Changes

The Trend of World Trade since the late 1920's

(c) In several important respects the general structure of world trade had by the middle 1950's reverted to that of the late 1920's. (8) However, the growth in the volume of world exports between 1928 and 1955-57 fell considerably short of the growth in the world's commodity production. (9)
The Development of Exports from the Non-industrial Countries

(b) The commodity composition of exports from non-industrial countries has changed profoundly. Petroleum exports from these countries rose nearly six-fold in volume between 1928 and 1955; the volume of exports of agricultural raw materials, tropical foodstuffs and minerals was about 40 per cent higher; while non-tropical foodstuffs recorded a 15 per cent decline. (10)

(c) Those general tendencies were partly reinforced by the movement of prices which in 1955 were more than twice as high as in 1928 in respect of petroleum, tropical foodstuffs, and minerals. But, for agricultural raw materials and non-tropical foodstuffs, prices were relatively lower, exceeding the 1928 level by about 75 per cent. (11)

(d) Although with the exception of some petroleum exporters, no country relies exclusively upon the export of commodities belonging to only one of these five categories. An attempt has been made to classify countries according to their main export commodities. The export proceeds of the five country groups thus constituted were, in 1955:

- roughly twice as large as in 1928 for the exporters of non-tropical foods and agricultural raw materials;
- nearly four times as large as in 1928 for the exporters of tropical foodstuffs and minerals;
- about twelve times as large as in 1928 for the countries mainly exporting petroleum. (12)

(e) In addition to the commodity composition of exports, two other factors have had a significant influence upon export proceeds.

On the one hand, the export earnings of a group of "semi-industrialized" countries had between 1928 and 1955 risen only half as fast as those of "other non-industrial countries" taken together (by 96 per cent as compared with 176 per cent).

On the other hand, the export proceeds of those countries of the latter group which trade in "sheltered" channels had developed much more favourably than those which do not enjoy a privileged position in their major export markets. (13)

The Development of Imports into the Non-industrial Countries

(f) Since the late 1920's the volume of imports into the non-industrial countries taken as a whole has risen more sharply than the volume of their exports. (14)

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1 Eight "semi-industrialized" countries: Argentina, Brazil, Mexico, Australia, India, Union of South Africa, Finland, Yugoslavia.

2 The countries belonging to the overseas sterling area and the territories associated with continental countries of Western Europe, as well as Cuba, have been considered as trading in "sheltered" channels.
As the terms of trade of the non-industrial countries, though greatly improved since 1937-38, were in 1957 nevertheless at about the same level as in 1928, this divergent movement has been reflected in an increasingly adverse trade balance - in contrast with their large export surplus before the war.

However, the petroleum exporting countries continued in post-war years to have a large export surplus - amounting in 1957 to one-third of their export proceeds. Among other non-industrial countries the trade deficit exceeded the value of exports by about 10 per cent in recent years, but rose to 20 per cent in 1957. (15)

Financing the Balance between Exports and Imports

(g) The non-industrial countries have also been in deficit on account of their international transactions in services, both in 1928 and in the 1950's. (16)

(h) While the flow of private long-term capital has failed to develop in line with the value of world trade, official grants and loans to the non-industrial countries have provided in total a substitute for private lending surpassing its previous level. (17)

(i) The gold and foreign exchange reserves of the non-industrial areas taken as a whole were just about as important in 1957 as they were in 1928, both in relation to the value of the trade of the non-industrial areas, and in relation to total world reserves. (18)

(j) While the balance-of-payments position of the non-industrial areas taken as a whole is not less sound than before the war, the regional distribution of the balance-of-payments problems may give rise to anxiety.

The oil exporting countries have accumulated gold and foreign exchange reserves at a faster rate than most other countries. Also they have attracted a large share of the private long-term capital flowing to the non-industrial areas.

Among the remaining non-industrial countries the semi-industrialized have had to face the greatest difficulties. Their reserves have been declining both in relative and in absolute terms during the post-war years. Only a small part of the total of official grants and loans has been directed towards these countries. As importers of private long-term capital they maintained their share of the late 1920's, but were affected by the comparatively lower level of private foreign lending.

The position of the other non-industrial countries has undergone similar, although less pronounced changes, but this group of countries has been receiving by far the largest share of international aid. However, within these areas the distribution of aid has been subject to political as well as economic considerations. (19)
CHAPTER III

INTERPRETATION OF PAST TRENDS, FUTURE IMPORT REQUIREMENTS AND PROSPECTS FOR EXPORTS

(a) Both cyclical and specific fluctuations have contributed to recent short-term movements in trade in primary products. (20)

(b) Long-term developments in exports of such products are partly a consequence of the low average income elasticity of demand for these products. Technological and structural factors such as the development of synthetic materials and the relative decline in the textile industries have reinforced this tendency, but there have been some counteracting developments (bauxite, uranium, petroleum). (21)

(c) It is impossible, on the evidence now available, to conclude whether or not there has been an increase in agricultural protection in industrial countries in recent years. (22)

(d) Imports of non-industrial countries have developed faster than world trade, and increasingly consist of capital goods. (23)

(e) The terms of trade in the post-war period were more favourable to non-industrial countries than in 1938, but recently turned against them, while still on a level not far from the 1928 position. (24)

(f) The import requirements of the non-industrial countries are likely to increase more quickly than the rest of world trade, especially if development programmes are carried out on a scale at least sufficient to avoid any further widening of the gap between incomes in the developed and the under-developed countries. (25)

(g) The exports of the non-industrial countries are very sensitive to internal policies of industrial countries and they may well develop less quickly than the rest of world trade. (26)

(h) It would be unwise to count on any improvement in the terms of trade of the non-industrialized countries to raise their ability to purchase imports. (27)
CHAPTER IV

THE EFFECTS OF POLICIES UPON FUTURE PROSPECTS

A. Policies for Stabilization

General Business Cycle Policies in the Highly Developed Countries

(a) The avoidance of business cycles and the maintenance of a steady rate of domestic growth are the most important contributions which the highly industrialized countries can make to the stabilization of the markets for primary products.

Although the present recession in the United States has been somewhat more severe than other post-war recessions, it has been nothing like as severe as fluctuations in the inter-war period. All governments without exception now have the intention and the means of preventing serious depressions. (28)

(b) Nevertheless, the present recession in the United States has had serious effects, and action to prevent recessions can and should be further improved.

A basic problem in the highly industrialized countries is to find ways to prevent inflation (particularly of the cost-push type) so that a high and growing level of production and employment can be maintained without a perpetual inflation of prices. (29)

General Business Cycle Policies in the Less-developed Countries

(c) The less-developed countries may be able to make a modest contribution to the problem of general economic stabilization through their own domestic financial policies. (30)

Increasing International Liquidity

(d) The present monetary reserves of countries outside the United States are now much lower, relatively to the value of their imports, than they were in 1937; but they are about as high as they were in 1928, and are now supplemented by increased liquidity through institutions like the International Monetary Fund and the European Payments Union.

However, since countries are now less willing to deflate domestically as a means of meeting balance-of-payments deficits, they need higher international reserves than in the 1920's in order to meet temporary strains without the use of exchange controls, import restrictions or exchange depreciations. (31)

(e) The last two recessions have not in fact caused a loss of reserves by the rest of the world to the United States. But the distribution of reserves among the other countries has become unbalanced.
We think that an increase in international liquidity is desirable and consider that something like a doubling of the resources and drawing rights under the International Monetary Fund would be the best way to bring this about. (32)

(f) In considering the needs of various countries for increased liquidity through the International Monetary Fund stress should be put upon the variability as well as the size of a country's international transactions. A country which relies on one or two primary products for the greater part of its export earnings may be subject to especially large variations. (33)

Contribution of Commercial Policy to Stabilization

Protectionist policies should, as far as possible, not be used to relieve the domestic and external pressures which arise during a temporary recession. (34)

The Stabilization of Particular Commodity Markets

It is desirable to supplement general stabilization policies with measures for the stabilization of particular commodity markets, where such measures are practicable and are innocuous on other grounds. But there are real practical difficulties in this field. (35)

National Measures for the Stabilization of the Markets for Primary Products

(a) National measures designed to stabilize agricultural markets should, whenever possible, be based upon the "buffer-stock" principle (of buying into an official stock when the price is low and selling when the price is high) or upon the "variable levy-deficiency-payment" principle (of varying the rate of tax or subsidy in respect of the product concerned so as to keep the producer's net return steady) rather than upon the principle of stabilizing domestic prices through controlling imports or exports. (36)

(b) A country which exports a primary product can stabilize the price received by its producers by operating a "buffer-fund" (by taxing exports when the price is high and using the funds so accumulated to subsidize exports when the price is low). The "buffer-stock" principle has the social advantage of carrying the product physically from a time when its value is low to a time when its value is high. There is no technical reason why an exporting country should not operate a combined "buffer-fund - buffer-stock" stabilizing device. (37)

(c) Stabilization devices should not be too ambitious. By supporting for a time a price which is really too high, the authorities may in the end actually de-stabilize the market, especially in the case of a buffer-stock which may be left with an unmanageable surplus stock for disposal. (38)
(d) If practicable, a stabilization scheme should cover a whole group of commodities in those cases in which the commodities are closely related in production or consumption. (39)

International Commodity Agreements

(a) We endorse the principle that international commodity agreements should allow for equal representation of importing and exporting countries, though this may have made it more difficult at times to reach agreement on such schemes. (40)

(b) Provided that the technical problems did not become too great, agreement might be facilitated by simultaneous negotiation on a number of commodities, since a country which has an exporter's interest in one commodity often has an importer's interest in another. (41)

(c) Where costs of storage are not too heavy, a buffer-stock scheme has advantages over schemes based upon long-term contracts or export quotas. A buffer-stock is most likely to work successfully if its operations are not based on any rigid price formula. (42)

(d) Serious attention might be paid to the possibility of getting close co-operative action between a number of otherwise independent national buffer-stocks covering a commodity or group of commodities. It is important that the main importing countries should take part in any such scheme; and these countries might publish the value of any stocks so held side by side with their reserves of gold and foreign exchange. The non-ferrous metals might prove suitable for such treatment. (43)

B. Commercial Policies

Agricultural Protectionism in the Industrial Countries

(a) A number of under-developed countries are now exporting low-priced manufactures, the markets for which depend upon moderation in industrial protectionism in the highly industrialized countries. (44)

(b) Agricultural protectionism in the industrial countries is the outcome of a complicated system of agricultural support schemes, whose object is stabilization as well as protection. The most satisfactory measure of the degree of agricultural protectionism in such schemes would be a comparison between the total return actually received by the domestic farmer for his production and the return which would correspond to the ruling world price. We recommend that the FAO and the GATT should make a joint study of the possibility of measuring degrees of agricultural protectionism on these lines. (45)
(c) Since in North America and Western Europe as a whole net imports of agricultural products represent the relatively narrow margin by which their large domestic consumption exceeds their large, but not quite so large, domestic production, a relatively small restraint on domestic production or stimulus to domestic consumption could lead to a large percentage increase in their net imports. For this reason much could be achieved by some moderate change in the direction of the agricultural policies of the highly industrialized countries. (46)

(d) A moderation of present high levels of agricultural protection should be accompanied by measures to improve the structure of land holdings, to ease the process of elimination of uneconomic forms of production, and to find alternative occupations for redundant agricultural workers. (47)

(e) The countries which would gain most from a moderation of agricultural protectionism in North America and Western Europe would be the outside producers of competing temperate-zone foodstuffs, such as cereals, meat, and dairy produce; and most of these countries are relatively rich. But there are some relatively poor countries which export such products; and there are also some products, such as tobacco, cotton, sugar, and oilseeds, whose production is protected or export is assisted in the highly industrialized countries and which are exported mainly by the poorer, under-developed countries. (48)

(f) Agricultural protectionism in the highly industrialized countries may actually benefit some outside countries at the expense of others. Subsidized exports are unreliable and hurt low-cost producers. Agricultural protectionism should, therefore, be moderated in exporting as well as importing countries, and should be combined with a shift towards giving economic aid to under-developed countries more and more in direct financial grants and less and less in the form of low-priced exports. (49)

(g) In order that agricultural protectionism may have the least adverse effect upon consumption we would recommend, wherever possible, a shift away from "price-support" towards "deficiency-payments" methods of agricultural protectionism. (50)

(h) Buying agricultural products by official stockpiling agencies is often the best form of national stabilization measure. But it is the worst form of national protective measure since it is likely to end in an unmanageable surplus stock. Where such stocks arise, as much care as possible should be taken to dispose of them by means which involve additional consumption and do not hurt the interests of competing low-cost producers. But the only basic cure is a moderation of the degree of protection and a shift to other forms of agricultural policy which do not involve continuous stockpiling. (51)
Revenue Duties

(a) The level of taxation on the main primary products, such as coffee, tea and tobacco, which are subject to revenue duties in the industrial countries of Continental Western Europe appears to be sufficiently high to act as a major restraint on consumption and import demand. (52)

(b) There is little justification, other than the weight of fiscal traditions, to impose the main burden of taxation on non-competing imports in the form of "special internal taxes", less accessible to the bargaining process applicable to ordinary customs duties under GATT's rules. As long as this situation exists, the Havana Charter's rule for negotiation of revenue duties should be made applicable to the GATT negotiations procedures. (53)

(c) Some of the reasons that render difficult a substantial moderation in policies of agricultural protectionism in industrial countries - namely, the political, social and security pressures in favour of protecting important sectors of domestic food production - are not generally applicable to revenue duties, which, moreover, bear particularly on the export potentiality of some of the "poorest" of the under-developed countries. (54)

(d) A substantial contribution could be made by the industrial countries, through the alleviation of revenue duties, to give to non-industrial areas better access to their markets and therefore assist them in securing larger export proceeds to finance the import requirements of their development programmes. (55)

Protectionist Measures affecting Imports of Non-Agricultural Raw Materials

The application of protectionist measures in favour of their mining and oil industries limits access to the domestic market in some highly industrialized countries; and this reduces the earning capacity of primary producers, preventing them from enjoying their natural competitive advantage in that field. (56)

The European Economic Community

(a) In so far as the European Economic Community leads to higher productivity and real incomes in Europe, it will tend to increase the European demand for raw materials and foodstuffs. There will also be some diversion of trade away from outside sources on to European sources. These dangers of trade diversion will be the less,

(i) the greater the number of countries covered by the common market;

(ii) the lower is the common tariff on goods imported from outside, and

(iii) the greater the range of commodities (agricultural as well as industrial) opened to free trade within Europe. (57)
(b) The agricultural arrangements in EEC will be of special importance for the prospects of outside producers of primary products. The Treaty of Rome itself does not lay down in detail how the agricultural marketing arrangements and the long-term contracts of the EEC will be applied; but it is important that they should not be so applied as to reduce the European demand for imported agricultural products. (58)

(c) The association of the Overseas Territories with the EEC gives rise to the danger that the European demand for tropical foodstuffs and beverages from outside sources will be reduced. (55)

(d) Other regional trading arrangements must be judged on the same principles as the EEC; and it is of special importance, therefore, that the EEC should operate in a "trade-creating" and not a "trade-diverting" manner. (60)

C. Conclusion

(a) We have discussed at some length a number of important measures which might be taken to improve the prospects in international trade of the primary producing countries. Our main recommendations are:

- the extension of more economic aid,
- more adequate domestic measures against business recessions,
- the provision of greater international liquidity,
- the provision of funds for buffer stock action,
- a reduction of certain revenue duties in countries consuming tropical foodstuffs and beverages,
- a moderation of agricultural protectionism in Western Europe and North America,
- a shift of methods of agricultural protection in such countries away from price support towards deficiency-payment systems,
- a reduction of protection against the import of minerals,
- the avoidance of trade-diverting measures in regional economic arrangements such as the European Economic Community. (341)

Policies adopted by the Industrial Countries

(b) It will be observed that the implementation of these recommendations requires action primarily (and in some cases solely) by the highly industrialized countries. We would like to stress the fact that, even so, the great majority of these measures would be to the long-term interest of the highly industrialized countries as well as of the primary producing countries.
The highly industrialized countries require a steady and expanding market for their products in the other countries of the world, and measures which will expand and stabilize the markets for primary products in the industrialized countries will encourage the primary producing countries to expand their exports of primary products to, and their exports of manufactures from, the highly industrialized countries, to the general benefit of both groups of countries. (342)

(c) There is at present a special circumstance which reinforces this view. Many of the primary producing countries are of the opinion that the rules and conventions which are at present applied to commercial policy and international trade show a lack of balance unfavourable to their interest. The main development which has brought this feeling to a head is the continued application of quantitative restrictions against imports of agricultural products by a number of highly industrialized countries, who are no longer in balance-of-payments difficulties. The GATT rules permit quantitative import restrictions on balance-of-payments grounds, but not on agricultural grounds, and so long as this situation persists the exporters of competing agricultural products can legitimately claim that they are not getting the treatment for which they bargained when they first became contracting parties to GATT.

This feeling is reinforced by the prospect that in the European Economic Community one set of rules may be applied to industry, but another to agriculture.

Combined with this is the feeling that subsidies to production are in fact much more easily used by rich countries to promote their agriculture and mining than by poor countries to promote their industry, and that the fact that general subsidies to production are permissible thus works unfairly to the advantage of the rich, highly industrialized countries.

Similarly, domestic revenue duties are a more important obstacle to the expansion of the sale of some agricultural products (in particular, tropical beverages) in the industrial countries than they are to the expansion of the market for industrial products in the primary producing countries; and difficulties in the way of bringing revenue duties into tariff negotiations thus act as a special limitation on the expansion of export markets for the primary producing countries.

Moreover, many primary producing countries feel that in tariff negotiations insufficient account is paid to the fact that a reduction of duty on the import into a primary producing country of manufactured products for which the demand is responsive to a fall in the price may have a considerably greater effect upon trade than an equal reduction of a duty on the import into an industrialized country of a primary product for which the demand is not very responsive to a reduction of price.
Without attempting to pass judgement on every detail of these arguments we believe that there is substance behind this feeling of disquiet on the part of exporters of primary products. If it is not met in negotiation by the importers of primary products, the general system of clearing the channels of trade by a general all-round negotiated reduction of trade barriers (a system which is typified by the GATT) may suffer a serious setback; and this would certainly be to the disadvantage of the highly industrialized as well as of the primary producing countries. (343)

Policies adopted by the under-developed Primary Producing Countries

(d) While the under-developed primary producing countries have valid reasons for making a rather freer use of trade controls than the highly industrialized countries, in a number of cases protective policies have been carried too far by these countries; and these countries also have used for the protection of their industries a number of special weapons which are not normally the subject of negotiation with other countries. We have not examined in any detail these problems of protectionism in the non-industrial countries. (63)

(a) We would, however, like to express one general conclusion.

The under-developed primary producing countries have an interest in obtaining from the highly industrialized countries aid and easier access to markets for their exports. The highly industrialized countries have an interest in the effects upon trade of these economic development policies of the under-developed primary producing countries. The only chance of a successful outcome is a negotiated settlement involving a gradual shift away from undesirable policies on both sides. This is without question to the long-term advantage of both; but it requires on both sides a broad-minded approach as to the elements in their total economic and financial policies which they would be willing to make the subject of international discussion and negotiation. (350)