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GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) TO THE CANADIAN COUNCIL,
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I have chosen as the title of my address today, "THE GATT AFTER TEN YEARS". It is therefore not my purpose on this occasion to describe or assess the achievements and the shortcomings of the General Agreement in the light of the past. I have had an opportunity to make such an assessment on another occasion, and I would like to quote at the beginning of my talk today, an extract from my conclusions at that time. I said "There is much, therefore, on the credit side of the ledger. We should, however, be cautious in assessing the degree of progress in fact achieved. The last few years have, in the main, and in many countries, been years of expanding trade and growing prosperity. The climate has therefore been propitious for developing a system of international trade cooperation. The time for testing the solidity of what has been built up will come when the going is less good. What we should be striving for now is to build up a system and habit of consultation which will be able to stand the test of less favourable conditions, and provide a sure safeguard against a return to the destructive nationalistic economic policies which deepened the 1929/31 crisis to such tragic proportions".

It is in this frame of mind that I now address myself to the problems which are confronting the GATT today.

We are confronted with various sets of circumstances which will impose a heavy strain upon the General Agreement. The first arises from the establishment of the Common Market based on the Treaty of Rome. The second from the revival of protectionist pressures accompanying the slackening in economic activity which is observable in North America and, to a lesser degree, elsewhere. The third from the growing discontent in the primary producing countries - and particularly in

*See "The Achievements of the GATT", an address by Mr. Eric Wyndham White, Executive Secretary of the General Agreement on Tariffs and Trade, at the Graduate Institute of International Studies, Geneva, in December 1956.

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the under-developed regions - partly because of the instability of their export earnings, and also because of a feeling that the expansion of world trade is contributing little to the improvement of real income and living standards in their countries, however favourable it may be to the interests of the highly industrialized countries. Moreover, the agricultural exporters are coming to regard international trade as a game played with loaded dice.

I should also, I think, add, for the sake of completeness, the growing disillusionment which is being felt by Japan in a trading world which for this country appears to have an increasing and not a diminishing discriminatory character. There are, I fear, more and more people in Japan who begin to doubt whether the solution to Japan's critical trading problems can be found, as the Japanese Government had firmly hoped and believed, through the mechanism of the GATT, and who therefore are now inclined to seek for solutions in other directions.

Because of the limited time available to me, I propose to confine my remarks to the first two of these complicated problems. The third is currently being examined by a Panel of distinguished economists appointed by the GATT, and there is therefore some advantage in awaiting this expert diagnosis. However, it will, I think, be found that my conclusions are relevant to the whole range of problems to which I have referred, which have this one thing in common, viz. that they depend for their solution upon expansionist policies and that they will be intensified by restrictionist policies.

Before examining what might be the response of the GATT to these challenges, it would be useful to clarify our ideas as to the nature and purpose of the General Agreement. First, what are the objectives which the governments seek to attain through the GATT? These are so to conduct their trade and economic relations as to raise living standards, ensure full employment, the fullest use of the world's resources, to expand production and exchange of goods, and to promote the development of the economies of all contracting parties.

Through the GATT, the member governments desire to contribute to these objectives by entering into reciprocal and mutually advantageous arrangements for the substantial reduction of tariffs and other barriers to trade, and for the elimination of discrimination.
How far, and in what manner has this desire been made effective? Through the GATT, substantial and significant progress has been made in tariff reduction — although in each successive round of negotiations, progress has become more difficult and results more limited. Similarly, good progress has been made in the liberation of trade from quantitative restrictions and in the elimination of their discriminatory application. Here, progress has been on an ascending scale as payments difficulties have lessened. An exception must, however, be noted in the case of agriculture, where controls and governmental intervention in international trade remain the rule, and freedom of trade the exception.

The logical culmination of these years of patient endeavour was to be the restoration of currency convertibility, followed by the removal of remaining quota restrictions based on payments difficulties and, in particular, the final elimination of discrimination between different currency areas.

This goal appeared well within our grasp in 1952/53, and the review and confirmation of the General Agreement were planned in the expectation of its realization.

The opportunity was not grasped and it has appeared ever since to be receding more and more from the realm of probability or expectation.

Instead, governments have been concentrating their efforts more and more in other directions. In particular, attention has been concentrated on the achievement of expansion of trade through regional arrangements. The fruits of these efforts are to be seen in the Rome Treaty, and in the initiation of negotiations for a seventeen-nation Free Trade Area in Europe. Discussion of the Nordic Union of the Scandinavian countries has been reactivated. These developments in Europe have given an impetus to the planning of a regional market in Latin America. Similar ideas are stirring in Asia. There has even been a proposal for establishing a Free Trade Area between Canada and the United Kingdom.

How do these new developments fit in with the GATT? Should we view them as marking an abandonment of the search for a world-wide multilateral system based upon the Most-Favoured-Nation clause and non-discrimination? I suggest that such a conclusion would be an unhealthy one and fraught with dangerous consequence. We would not contemplate, without the gravest misgiving, the
splitting up of the world into discriminatory trading blocs. Nor indeed is this the turn which events need or should take, and it is precisely here that the GATT can continue to play an essential and fruitful role in international relationships. It has always been admitted - and it is admitted in the GATT - that genuine customs unions and free trade areas are an acceptable exception to the Most-Favoured-Nation principle. They are accepted because such arrangements, if inspired by a genuinely liberal motivation, will contribute to the expansion of trade generally, and not merely to the expansion of the trade between the partners of these arrangements. If, in other words, they are trade creating and not merely trade diverting. The freeing of trade within the area should be the objective, not the creation of additional barriers to trade with the rest of the world. There are principles and rules in the GATT, designed to secure that such arrangements shall have this beneficial and expansionist character. There are procedures in the Agreement for consultation and discussion, designed to ensure the application of these principles and rules and thus to afford safeguards for the interests of third countries.

We must recognize, however, that the developments with which we are now confronted are of an unexampled magnitude, and will involve important adjustments in international trade patterns and relationships. In the discussions of the Rome Treaty in the last session of the GATT, we had ample evidence of the apprehensions and anxiety which had been aroused in many parts of the world by the institution of the Common Market. The existence of rules and criteria in the General Agreement will not, in my view, be sufficient to ensure in itself that the necessary adjustments in trading relationships will be arrived at amicably and with the minimum of friction. Opinions may, and do, differ as to the interpretation of the necessarily somewhat general rules contained in the General Agreement. There is even wider scope for differences of view as to the appropriate manner or methods of the application of these rules.

It is clearly in the interests of everybody - and not least of the Six themselves - that the fears and anxieties which have been expressed should be set at rest, and that the Community shall become a fruitful contribution to the general expansion of trade, accepted as such by the international trading community. This is a role for GATT - and a role which it is difficult to see being accomplished elsewhere or by other means. It must also be foreseen that similar problems will also arise in connection with the Free Trade Area if it is brought into being.
It is equally clear that the task of reconciliation will not be an easy one, and much will depend, in my view, on the economic climate in which the necessary adjustments will have to be made. It is precisely in this connexion I think that bold and constructive policies are now required from the major trading powers.

The adjustments which will be made necessary by these important developments in international trade which I have been discussing will be far easier to absorb if they take place in a climate of expanding trade and prosperity. It seems to me, therefore, a logical consequence of these developments in Europe that we should strive in the GATT to resume and accelerate progress towards the dismantling of trade barriers on a world-wide basis.

This leads me naturally to the second set of circumstances which I referred to as a challenge to the GATT.

During the last few years we have witnessed a gratifying and continuous expansion of international trade. This process appears now to have suffered a temporary check, and there has been a decline in economic activity in certain important countries, and notably in the United States. I see no reason to believe that this should be more than a temporary check as a prelude to a further broad advance. Nevertheless, this atmosphere of recession has led to the revival of protectionist sentiment in many countries. It seems that there are still many people who have not learned the grim lesson of the 1930s, and that there are many people who still believe that unemployment and recession can be exported to the foreigner. But those of us who lived through that experience have not forgotten the bitter lesson that restrictive national policies at moments of economic difficulty have a multiplying effect on the recessive process. We cannot afford to repeat the same mistakes again. This, therefore, seems to me to be a moment for courage and initiative, and I would like to see the leading trading countries confronting the present situation with bold and expansionist policies in the field of international trade. Only a few years ago, we felt that we were well on the way towards the restoration of general convertibility of currencies, together with the dismantling of restrictions on trade, which would be the natural prize of the restoration of convertibility. The momentum of this drive for convertibility has been lost. To some extent this has been due to a deterioration in the payments position of some leading trading countries, and to some extent it has been due to a preoccupation
with other and apparently more immediate problems such as the regional developments in Europe to which I have referred earlier. I feel, however, that the prize of convertibility is still within our grasp if we have the boldness to reach out for it. This feeling is reinforced by the considerable measure of de facto convertibility which exists at the present day. This is a desirable thing, but it is precarious. It involves, in my view, greater risks than formal convertibility in appropriate conditions, and it does not yield the advantages which would be derived from formal convertibility. In particular, the achievements of the latter would automatically, and in accordance with basic international agreements, lead to the dismantling of restrictions and discrimination which at present find their justification in the conditions of non-convertibility of currencies.

There are two essential conditions. The first is the assurance of an adequate degree of international liquidity to support the expanding volume of international trade. Since 1938 the value of international trade has increased four-fold, whereas the volume of gold and foreign exchange reserves has barely doubled. Moreover, the major trading currency, sterling, is supported by only some 5 per cent of the total of available reserves. It seems pretty self-evident that a pre-condition of a further advance in the expansion of international trade is that the problems of international liquidity be firmly and imaginatively tackled. This of course is not a matter for the GATT itself. But the solution of the problem is nevertheless fundamental to the realization of the objectives and purposes of the GATT as I have described them.

The second essential element is the readiness of the major trading powers to play an appropriate role in the liberalization of trade. They have, as I have said, expressed their desire and intent to do so by their sponsorship and support for GATT. But the success of their endeavours depends upon strong and continuous leadership in which all the leading trading countries must share. It would bring hope and encouragement to all if in this decennial year of the GATT the United States, the United Kingdom, Canada, other leading members of the British Commonwealth, and the powerful new economic unit known as the European Economic Community, were to join in sponsoring a further major attack on trade barriers which would prepare the way for a resumption of the expansion of international trade and of economic activity generally.
It will be seen, therefore, that the two main groups of problems which I have briefly examined meet in a common solution (which is relevant also to the other matters which, for want of time, I was obliged to pass over with a mere mention). The process of adjustment which will be required to facilitate and smooth the way towards the fruitful realization of the European Economic Community, and of the Free Trade Area in Europe, will be greatly facilitated by a general movement towards the liberalization of trade throughout the world. At the same time, the threat of recessive tendencies in the economies of various countries will be diminished if we can create an optimistic and expansionist climate for international trade in the near future. This is perhaps the greatest challenge to leadership in the economic field with which we have been confronted since the war. If it is not taken up, I must confess that I feel the gravest misgivings as to the consequences that will flow from this failure. I fear that restrictive tendencies and divisive forces will come to the forefront, and that the institutions and habits of consultation and cooperation, which we have so painfully built on the basis of the agreements arrived at at the end of the war, will be swept away on the tide. None of this is inevitable, nor is the challenge to leadership one which need cause alarm or concern. If we believe in our economic system, if we believe in its dynamism and its expansionist character, we must adapt our policies to this positive and optimistic approach. If we fail in this direction, it is doubtful whether the system itself can survive.