LOOKING OUTWARDS

The discussion of customs unions and free trade areas has long been dominated by Jacob Viner's famous juxtaposition of "trade creation" and "trade diversion". In the discussions centring on the European trading groups this phrase has now given way in favour of "outward looking" and "inward looking". Most of the proponents of the European groupings - including those outside Europe who view them with mixed feelings - have insisted on the importance of "outward looking" policies in the implementation of regional arrangements, an idea which finds expression in somewhat guarded language in paragraph 4 of Article XXIV of the GATT. It also finds expression both in the Rome Treaty and the Stockholm Treaty. The former declares in the Preamble that the contracting parties are "desirous of contributing by means of a common commercial policy to the progressive abolition of restrictions on international trade". Moreover, in defining the common commercial policy the Treaty states in Article 110 that "by establishing a customs union between them the Member States intend to contribute, in conformity with the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international exchanges and the lowering of customs barriers". The Stockholm Treaty, also in the Preamble, declares that the contracting parties are resolved "to promote the objectives of the General Agreement on Tariffs and Trade". In the body of the Treaty it is stipulated that the objectives of the association shall be inter alia "to contribute to the harmonious development and expansion of world trade and to the progressive removal of barriers to it" (article 2(d)).

Those therefore who are concerned with the progressive integration of the world market - and first among them the CONTRACTING PARTIES TO GATT - can feel considerable satisfaction that the framers of the European treaties and institutions have put these "outward looking" objectives in the forefront of their endeavours. It would be unrealistic, however, to conceal the danger that exists that the concentration of thinking and of efforts on problems of a regional character may render it difficult for governments to bring to the attainment of these broader objectives the necessary degree of energy and thought. More and more of the time of officials is necessarily devoted to the working out of the new regional groupings and to the study and solution of the internal problems to which they give rise. Similarly public attention tends to be increasingly directed in Europe to these problems, which are of immediate and intimate concern, and there is a danger that insufficient
attention, both official and public will be directed to broader problems which are in fact of no less immediate concern and urgency. Statistics eloquently support this insistence on the relative importance of the external commercial relations of both European groupings. Thus the exports of the EEC to non-OEEC countries represent some 46 per cent of total exports of the Six, and some 53 per cent of total imports. The comparable figures for EFTA are in the neighbourhood of 50 per cent for both exports and imports. By contrast the comparable figures for the intra-trade are roughly - for EEC, for both imports and exports about 30 per cent, for EFTA, about 18 per cent for exports and 15 per cent for imports.

In the General Agreement and its programme of trade expansion the governments have both an institution and a working programme well adapted to focussing attention on these problems. Unhappily, however, it must be recorded that little positive effort appears to have been made by governments towards fostering interest and understanding of the GATT in contrast to the energetic and far-reaching efforts to acquaint public opinion with the EEC and the EFTA and to harness the support and interest of trade associations and other public groups. Since the programme for trade expansion was launched at the thirteenth session of the CONTRACTING PARTIES in November 1958, I cannot recall one reference to it in a governmental or Ministerial statement and I would be surprised if more than a handful of people outside a limited official circle are even aware of its existence. It certainly seems to me a matter of major importance that there should be some more specific manifestation of the "outward-looking" intentions which I have cited from the Rome/Stockholm Treaties, and I can see no better focus for such manifestation than in a more positive and dynamic approach to the GATT programme for trade expansion. I will therefore now pass to a consideration of the problems to which that programme is addressed:

Tariff Reduction

As is widely known the CONTRACTING PARTIES have decided to organize a further general round of tariff negotiations in 1961. This is part - an important one, but still only a part - of the programme for trade expansion. These negotiations have special importance because of the formation of the European Economic Community. For this reason the negotiations for further tariff reductions will be preceded by negotiations regarding compensation with respect to those bound rates of duty which some members of the Six will have to raise in order to reach the level of the common tariff. Moreover, some third countries - and particularly the United States - have shown considerable interest in this early opportunity to negotiate for reductions in the rates provided for in the common tariff, in the hope of thus being able to preserve their stake in the important European markets comprised by the Six.

It would be unwise to expect too much from these negotiations. The over-riding limiting factor is that the United States Government has strictly limited powers of negotiation. Under the Reciprocal Trade Agreements Act, as recently amended and renewed, the President has the power to reduce individual rates of duty over a four-year period by as much as 20 per cent. It is upon
this basis that Mr. Dillon, the United States Under-Secretary of State, proposed negotiations within the framework of the GATT. His proposal has, unfortunately, been widely misinterpreted as expressing willingness and ability to negotiate on the basis of an overall 20 per cent reduction of rates across the board. This very much overstates the proposition. Before entering into negotiations the United States will have to hold public hearings and also submit any proposed reductions to the Tariff Commission for so-called "peril-point" findings. The United States administration will therefore have to make a careful selection of the rates on which it is prepared to negotiate reductions and even within this selected area it may well find its freedom of negotiation limited by "peril-point" findings. In any event as far as the United States is concerned the results of the negotiations will fall very far short of an overall reduction in the level of the United States tariff by 20 per cent.

The EEC has from the very outset expressed its active interest in the Dillon negotiations and the Six have cited their willingness to submit their new tariff so early to international negotiation as an earnest of their desire and intention to pursue a liberal commercial policy. They have, however, shown that they are aware of the relatively limited results to be expected from the negotiations and have therefore broadly hinted that the 1960/61 negotiations should be considered merely as a first stage in a continuing process of negotiation for reduction of tariffs and other trade barriers on a world-wide basis. It is to these negotiations that the Six have pointed as an opportunity for alleviating, through negotiation, some of the practical trading difficulties which the other OEEC countries fear will arise in intra-European trade, as a result of the progressive application of the Rome Treaty.

The approach of the Seven to the Dillon negotiations has, understandably enough, been somewhat more reserved. They have long clung to the hope that at an early date there would be a resumption of discussions within Europe for a broader free-trade area, or at least for what is somewhat vaguely described as a "multilateral association" between the Six and the Seven. Whilst therefore welcoming an opportunity to enter into negotiations with the United States the Seven have been somewhat reluctant to contemplate negotiations with the Six on a most-favoured-nation basis in GATT which would seem to imply an abandonment of all possibility of a European solution to the differences between themselves and the European Economic Community.

The European situation was viewed with growing concern in Washington, which at length found expression in the visit of Mr. Dillon to the principal European capitals in December 1959. Mr. Dillon made it plain that the United States could not contemplate any solution to the European problem which would run counter to the principles of non-discrimination as embodied in the GATT. He, therefore, took the initiative in establishing the special trade committee in Paris, in which, in addition to the EEC countries, the United States, Canada and the Executive Secretary of GATT are participating, and at the same time urged the fullest European participation in the 1960/61 negotiations. Indeed the logic of the situation would appear to point strongly
in this direction. If it be accepted that the negotiation of a free-trade area, as defined in Article XXIV of the GATT, between the Six and the Seven is not feasible, at least not at this time, then there would appear to be three alternatives. First, the negotiation of a more limited arrangement for mutual preferences between the Six and the Seven on products of particular importance in intra-European trade. This course would be unlikely to commend itself to many European governments and would encounter stiff opposition in the GATT, including that of the United States. The second alternative would be that the governments of the EFTA could cling to their attitude that the European problem requires a European solution and meanwhile abstain from attempting to negotiate particular tariff concessions with the Six. This course, however, presents serious disadvantages. In the first place there can be no doubt that such an attitude would substantially limit the scope and importance of the Dillon negotiations and thus provoke serious concern in the United States. Secondly, an uncompromising refusal to seek through negotiation a reduction in the level of European tariffs on the ground that the results had to be generalized through the most-favoured-nation clause would be difficult to reconcile with the liberal and outward-looking declarations of the Stockholm Treaty and of the members of the EFTA. Thirdly, the lower the level of the tariff barrier between the two groups of European countries the easier would appear to be the prospect of an eventual accommodation between the two groups at some future date. The third course is a full and active participation of the Seven in the 1960/61 tariff conference, including comprehensive negotiations with the EEC on a most-favoured-nation basis. The limitation on this latter course has already been suggested. There is very little intra-European trade which can be segregated as such. For most of the products which are traded between European countries, overseas countries are also substantially interested as secondary suppliers. This applies to a considerable degree to the United States. The benefits of concessions exchanged between European countries would have to be generalized in the GATT and thus extended inter alia to the United States. Here again we come up against the limitations on the negotiating power of the United States. It is doubtful whether European countries would be prepared to extend benefits to the United States which were not balanced by reciprocal advantages in the United States markets. After the United States has paid for concessions sought by it directly as principal supplier to the European market there is likely to be very little left over to compensate for indirect benefits accruing from negotiations between European countries. All this being said, however, there would appear to be evident advantage in exploiting the GATT negotiations to the fullest extent for reducing barriers to intra-European trade and for eliminating points of friction arising from the co-existence of EFTA and the EEC.

Whilst it is wise to recognize the limited possibilities of the 1960/61 negotiations it would be unwise to underestimate their intrinsic importance or their possibilities as a take-off point for greater progress in the future. In the course of the negotiations in 1960/61 there will be ample opportunity to assess the possibilities of a more rapid advance in tariff reduction on a GATT-wide basis, particularly if in due course the United States Administration were to obtain from Congress broader powers to participate in such a
forward movement. In earlier GATT negotiating sessions the limitation of the present negotiating techniques have been exposed and acknowledged, particularly the selective product-by-product negotiation between pairs of countries. This recognition led to the formulation of a plan for automatic tariff reduction by 30 per cent spread over three years, the so-called Pflimlin or French plan. This proposal enjoyed considerable support at the time of its formulation but was necessarily laid aside because, at the time, it was not possible to secure its acceptance by all the principal trading countries, which would be an essential condition of its success. Governmental attitudes have evolved considerably since the plan was first worked out and it may well be that by mid-1961 the time would be propitious to revert to this idea, preferably in a somewhat simplified form, as the basis for future action of GATT in the field of tariff reduction.

Trade in Agricultural Products

In 1958 the Group of Experts appointed by the CONTRACTING PARTIES to consider trends in international trade reported that "it seems probable that a major expansion of the trade in primary products between industrialized and unindustrialized countries could be brought about by a moderate change of direction in agricultural protectionism away from the high levels which it has reached in many countries. We strongly recommend that the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade should consider the possibilities of some such moderate change in the direction of their agricultural policies." Acting on this recommendation the CONTRACTING PARTIES have embarked on a series of consultations on national agricultural policies and their effects on international trade. From this starting point the CONTRACTING PARTIES will now have to face up to this awkward problem. Leaving aside all technical and legal arguments it is evident that many influential governments consider that agricultural and food products are not subject to the same rules as those which govern trade in industrial products and that it is unrealistic to pretend otherwise. This extreme position is not reflected in the GATT rules particularly as regards the use of quantitative restrictions on imports. The GATT however, includes amongst its members a number of countries which have a vital interest in the export of agricultural and food products and who would have little interest in participating in any international trading system which excluded agricultural products from its purview. These countries range from the comparatively wealthy countries of the temperate zones, such as Australia and New Zealand, to the poorer and less-developed countries which have an important stake in this sector of international trade. Since these countries also provide substantial markets for industrial exports the industrial countries - if only from the point of view of self-interest - have an interest in trying to seek an accommodation which, whilst leaving room for a reasonable degree of protection responsive to the social and economic pressures of domestic agriculture, would in an expanding economy still leave room for a substantial growth in international trade in agricultural and food products. Whilst I have insisted on the interests of developing countries in this trade it would be unwise to lose sight of the fact that North America is one of the most
important exporting areas for agricultural and food products. It is in this area that, on purely economic grounds, there is the greatest prospect of expansion of North American exports to Europe. The North American countries have been encouraged to expect a substantial growth of import demand as a result of the formation of the European trade groups. The United States and Canada could hardly therefore be expected to view with equanimity the shutting-off of this promised area by highly restrictive protectionist policies, nor can the European countries overlook the risk of jeopardizing access to the rich and rapidly growing North American market.

Those who are familiar with the Haberler Report and the GATT Annual Reports on International Trade will recognize that the GATT approach is not an unrealistic one. It is never stated in terms of a wholesale dismantling of agricultural protectionism or even of a sharp or sudden reduction. The GATT looks rather to moderation and reasonableness, to modifications in direction and technique. That is why there should be no insurmountable obstacle to a reasonable accommodation on a problem which most people regard as intractable.

The European countries have certainly done a lot of "inward-looking" on this problem, as the question of the treatment of agricultural products necessarily arose in framing both the Rome and Stockholm Treaties. In the Rome Treaty the elimination of tariffs and quotas will apply to agricultural as well as to industrial products but there will be established in the Community what amounts to a managed market for the former with a varied range of controls, including minimum price schemes, designed to avoid a serious disruption of domestic agricultural production in the Six countries. These arrangements are to be a part of a common agricultural policy to be worked out through the institutions of the Community. The provisions of the Treaty recognize that due regard will be paid in establishing the policy to traditional channels of trade and in discussions in GATT and elsewhere the Six have reiterated their intention of having regard to the interest of overseas suppliers. It must be remarked however, that the first proposals published by the European Commission contemplate import levies and restrictions as a means of enforcing the common policy of an extent and character which offer little comfort to outside suppliers. They contemplate variable import levies related to minimum prices unilaterally fixed within the Community, a system which implies that all tariff commitments on agricultural products would be abrogated. There would also, apparently, be quantitative import controls with no corresponding limitation on domestic production or offering for sale, which is the condition placed by the GATT on the use of such restrictions on agricultural products. The general tone of the whole discussion of the question seems to relegate imports to the very marginal and probably decreasing role of filling the gap between Community production and Community consumption. As the interval support measures are likely to have the effect of stimulating production inside the Community the outlook is, on the face of it, bleak.
The Seven have adopted a different approach. Most agricultural and some fisheries products have been excluded from the application of the general programme for the progressive elimination of tariffs and quotas within the Association and the conditions for trade in these products are to be the subject of bilateral agreements which without being made an integral part of the Stockholm Treaty are, nevertheless, so closely bound up with it as to form an essential element of the whole transaction. This exclusion of so important an economic sector from the pure free-trade area provisions is bound to raise some question as to how far the Association can qualify as such under Article XXIV of the GATT when the Treaty comes under examination by the CONTRACTING PARTIES of the sixteenth session in May/June of this year. But no doubt greater weight will be laid upon a discussion of the effects of these special arrangements on non-EFTA suppliers and their compatibility with the GATT obligations of the individual EFTA countries. In the case of EFTA no question of a common policy arises since, as is appropriate in a free-trade area, the member countries are not bound to any common tariff or external commercial policy. Each country will therefore adapt its policies towards third countries in its own fashion to the new situation brought about by the formation of the Association.

What is unhappily common to both arrangements is that they both appear to accept the thesis that agriculture is outside the rules of the game and calls for special treatment. If that attitude is carried over equally categorically into the agricultural discussions within the GATT, the prospects of some reasonable accommodation between the industrial countries and the agricultural suppliers would be gloomy indeed. We need not, however, necessarily accept such a gloomy conclusion. The views on the subject within the Seven and within the Six are by no means monolithic and the main value of the GATT is to provide a wider forum for discussions of problems such as this which are of world-wide importance. In the GATT they can be discussed with all the interested parties. It is in such discussions that the "outward-looking" forces in the European group will face both their opportunities and their tests.

Trading Problems of the Less-developed Countries

The GATT, as might be expected from the very broad scope of its membership, has increasingly concerned itself with the problems of the less-developed countries. Hitherto, these problems have been thought of more or less exclusively in terms of financial aid, investment, and technical assistance in respect to which an organization concerned with trade policy has no direct contribution to make. As a result of the analysis of trends in international trade by the GATT secretariat, culminating in the Haberler Report to which earlier references have been made, attention has been focussed on the importance of the export earnings of the developing countries and certain disquieting elements related thereto. It has been found, for example, that the great advance in the growth of the industrial countries since the war, accompanied by substantial expansion of international trade, has not resulted in anything like a commensurate growth in the export earnings of the less-
developed countries, as was the case during the industrial expansion in the
nineteenth century. There are a number of reasons for this, including the
emergence of synthetic substitutes for industrial raw materials, economies
in the use of raw materials, and concentration on highly specialized produc-
tion in the industrial countries. The relative lag in the growth of the
export trade of the less-developed countries is all the more disturbing
because it is accompanied by a sharp rise in their import requirements. The
result of these trends has been to breed a substantial and growing deficit in
the current external accounts of the less-developed countries taken as a
whole. This deficit is at present running at the level of roughly $3 billion.
On the basis of a conservative estimate of the rate of growth of the less-
developed countries, a rate which it is generally accepted falls short of the
minimum required in most of the countries concerned, this deficit could within
fifteen years rise to something like $10 to $15 billion. Now I think it is
out of the question that a deficit of this magnitude could be met by financial
aid alone. Indeed great firmness of purpose will be required to maintain the
present level of aid which is running at some $3½ billion. This is the
situation which has led the CONTRACTING PARTIES to give a high priority in
the programme of trade expansion to improving the export opportunities of the
less-developed countries. The success of this endeavour is vital to a
successful solution to what is not only a key economic problem but also a
crucial political problem. It is useless for the industrial countries to
approach this problem as a question of international philanthropy. It is
their own problem as much as that of the less-developed countries themselves.
Unhappily, as we have already seen, one of the most important areas in which
the trade of the less-developed countries could be expected to benefit most
from the expansion of industrial production viz. that of agricultural and
food products, is rapidly being sealed off by the uncompromising
protectionist policies of the industrialized countries. The appeals which
have been made for a reduction in the incidence of taxation on certain basic
export products of the under-developed countries such as coffee and tea have
so far received short shrift.\(^1\) There is almost unlimited discussion of price
stabilization for primary products, but negligible results. When the less-
developed countries have turned towards manufacture, new problems appear.
First of all, almost all countries though generally adopting a liberal
tariff policy for raw materials, follow a much more restrictionist policy
with regard to semi-processed materials, although the processing of indigenous
raw materials would appear to be one of the most economic forms of develop-
ment of primitive economies. Manufactured products have in many cases met
with an even rougher reception. It is characteristic of many less-developed
countries that they have a relatively plentiful supply of labour employed at
wage rates which are well below those prevalent in the industrialized world.
This labour is often not "cheap" in the economic sense. However, when these countries do succeed in producing goods which enter the world markets in substantial quantities at prices which are highly competitive with similar products produced in the industrialized countries, they meet with strenuous resistance and restriction. This has been most noticeable in the textile industry, but this is by no means the only case. Admittedly the appearance of these low-cost producers on the world market presents problems of adjustment and for these adjustments time and accommodation may be necessary. But the need to make room for the manufactures of the less-developed countries to move in increasing quantities into the world market cannot be denied. It seems to me particularly dangerous to try to evade this necessity by relying too heavily on the argument of relative wage levels. It must always be remembered that the gap between wage levels in Europe on the one hand and the Asian manufacturing countries on the other, is in some cases not substantially greater than that between North American and European wage levels. Yet this discrepancy would hardly be accepted as a valid reason for stifling trade between Europe and North America.

Mr. Paul Hoffman has recently said: "To extend development aid on the one hand while restricting trade is to beat a man with one hand while dressing his wounds with the other." What is involved in avoiding this paradoxical posture is after all not overwhelmingly difficult. It involves some change in fiscal practices which still treat such products as tea and coffee as luxury items to be submitted to luxury taxation, a willingness to show a degree of moderation in agricultural protectionism, and thus to accept a somewhat slower rate of growth of domestic agricultural foodstuffs. Thirdly, that with further growth of industrialization of the under-developed countries there will have to be some shift in the industrialized countries away from some form of light manufactures and consumer goods towards more highly processed goods. The adjustments are not in themselves large but they will certainly require wisdom and political courage.

Trading Relations between Free Enterprise and State-trading Economies

The bulk of international trade is conducted upon the basis of the principles and rules of the General Agreement on Tariffs and Trade. Hitherto the countries with centrally planned economies have not participated in any very substantial degree in international trade and insofar as they have, it has been in the form of bilateral agreements. It is clear that this situation is rapidly changing and accordingly more thought will have to be given to the conditions in which trade between free enterprise economies and centrally planned economies can most profitably take place. It would appear clearly disadvantageous for the free enterprise economies to abandon the system of multilateral non-discriminatory trade rules in favour of bilateralism. On the other hand, whilst it is possible to contemplate the use of

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1 The steps taken by the United Kingdom in relation to its textile industry constitute an encouraging and enlightened approach to this problem.
bilateral techniques for what is at present a marginal volume of trade it would be difficult to ride both horses at the same time when the volume of trade with the centrally planned economies becomes significant in amount. Moreover, some of the countries with centrally planned economies are themselves aware of the dangers and limitations of bilateralism and this awareness has translated itself into a renewed interest in accession to the GATT. Whilst this has been welcomed in principle by the CONTRACTING PARTIES, serious questions have been raised as to whether the GATT rules as they stand could provide the basis for a real balance in trading opportunities and advantages between a contracting party with a centrally planned economy and a contracting party with a free enterprise economy. Under the GATT the latter offers to its trading partners free access to its markets, subject only to the customs tariff. The exceptions to this general rule are carefully defined and hedged around with safeguards. There is protection against dumping and subsidized exports. Subject to certain exceptions in favour of certain historical preferential systems the rule of non-discrimination governs the trading relations of the contracting parties, and the choice of source of supply therefore rests upon price and quality. How can these conditions be assured in an economy where all economic and commercial activity is subordinated to governmental agencies and governmental decisions, and where normal pricing systems, cost accounting etc. are absent? In the centrally planned economy import and export policies are subordinated to the economic plan. Targets for domestic production are established for all sectors and imports are directed only to supplying that part of domestic demand for which domestic production is insufficient. In such circumstances the play of market forces is largely excluded and the possibilities of expanding markets through competition with domestic suppliers appear also to be excluded by the initial hypothesis of the planned economy.

Yet there are signs that the rigidities of economic planning without the benefit of the market-price mechanism are beginning to be recognized in some countries which are somewhat tempering the severity of their attachment to rigidly controlled central planning. To the extent that this is so it may well be time for resuming the attempt that was made during the ITO trade discussions to spell out trading rules to fit the situation. With full knowledge of my temerity in doing so I will venture to suggest some of the conditions which would appear to be necessary if a country with a centrally planned economy were to offer to a contracting party to GATT - itself a free enterprise economy - conditions of trade comparable to those which the GATT rules are designed to establish.

First, it would appear necessary that the country concerned should take steps to ensure that its importing agencies conduct their purchasing operations solely in accordance with commercial considerations, as required by Article XVII of the General Agreement. Secondly, it would have to afford facilities to foreign exporters to promote business through advertising and access to importing and consuming interests for commercial representatives and salesmen. Thirdly, there would have to be some assurance that imported goods were not subjected to such heavy mark-ups on re-sale that they could
not compete price-wise with domestic products. It should therefore, be possible to negotiate the level of such mark-ups in much the same way as tariffs are negotiated under the GATT. Where such negotiations were impracticable or unsatisfactory there should be the possibility of negotiating other mutually satisfactory arrangements, such as minimum import commitments. To match the renunciation of import quotas the importing agencies would also have to be instructed not to impose any quantitative restrictions on the purchase of imported products other than those corresponding to the level of domestic demand, unless there was also in force a system of rationing on similar domestic products. This condition would also not exclude rationing of imports owing to limitation on the availability of foreign exchange, in which respect all contracting parties enjoy freedom of action within the rules laid down in the balance-of-payments provisions of the GATT. In view of the inherent difficulty in proving the existence of dumping and export subsidizing in a State-controlled economy, anti-dumping and countervailing measures would probably have to be allowed for its trading partners without some of the prior safeguards in the GATT. If goods were offered at prices substantially below the general level obtaining for other suppliers the importing country would be free to take anti-dumping or countervailing action where there was a serious threat to its domestic industries or a serious disruption of normal trading conditions. This, moreover, should be subject to consultation which could be expected in many cases to remove the difficulty - and to appeal if necessary, to the CONTRACTING PARTIES when the exporting State trading country would have an opportunity to prove that the alleged condition of dumping or subsidization did not exist.

The enumeration of these possibilities illustrates the complexity and difficulty of the problem. There may be other ways of dealing with it, but it is emerging as a problem which cannot be indefinitely evaded.

In conclusion I would only add this, that as we look outwards from a recovered and prosperous Europe, the prospects for a great leap forward in world trade and prosperity - comparable to that which followed the first industrial revolution - seem fair and promising and the objective well within our grasp if the obstacles and problems which have been the burden of my remarks are faced with imagination and vision commensurate with the opportunities which lie ahead of us in the Sixties.