12 February 1954

THE "UNDER-DEVELOPED" COUNTRIES AND GATT
(revised)\(^1\).

1. The General Agreement on Tariffs and Trade has been in force, under the Protocol of Provisional Application, for more than six years. It was intended as a first step towards the implementation of the Havana Charter which has been indefinitely postponed. This fact and the important developments in world trade which have taken place during the past six years have led to the decision of the CONTRACTING PARTIES to review the operation of the General Agreement with a view to determining what their future course should be. The object of this memorandum is to consider the future of the Agreement from the point of view of the under-developed countries which may be expected to play an important part in these discussions.

2. In the drafting of the ITO Charter in Geneva and Havana the under-developed countries devoted the greater part of their attention and energy to securing exceptions to the commercial policy commitments in order to retain sufficient freedom of action to promote their economic development. By "economic development" in this context was meant, principally, the establishment and expansion of secondary industries. In addition, the under-developed countries fought for, and obtained, the insertion of provisions involving commitments by other members of the Organization to assist them in this development and calling for positive action by the Organization itself towards the same end.

3. The commercial policy exceptions referred to above were also written into the General Agreement. Article XVIII, which is an adaptation of Articles 13 and 14 of the Havana Charter, modifies the severity of the rule outlawing quantitative restrictions. It gives contracting parties freedom, subject to prescribed criteria, to impose restrictions on imports of specified products in order to promote the establishment, development or reconstruction of particular industries or branches of agriculture. Applications for authority to impose such restrictions are treated in

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accordance with established procedures and are judged by certain criteria depending upon whether they would conflict with negotiated commitments or with other provisions of the Agreement. The tests are not unduly onerous. In fact, objectively considered, they do not go much further than the limits which a prudent country would observe in its own interest; for the self-interest of a country employing import restrictions calls for a strict and constant scrutiny of their direct and indirect effects. Thus, the Agreement actually strengthens the hand of a national administration in dealing with pressure for unjustified and therefore harmful protection. Such protective measures would hamper rather than promote economic development.

4. The effectiveness of the safeguards incorporated in Article XVIII have not yet been severely tested. The need for recourse to Article XVIII has rarely arisen because most governments are resorting extensively to the use of quantitative restrictions in order to contend with balance-of-payment difficulties. It would, therefore, be premature to come to any firm conclusion as to the efficacy of the exceptions to the commercial policy commitments. It should be recorded, however, that all the requests which have been made under the provisions of this Article have been dealt with sympathetically and that the applicant governments have obtained the releases they sought.

5. Since the Charter was framed, important advances have been made to give positive assistance for economic development. The United Nations and its specialized agencies have put into operation a substantial programme of technical assistance. The United States Government has afforded assistance under the Point Four Plan, and in addition there are regional programmes such as the Colombo Plan of the Commonwealth Countries. The positive rôle envisaged for the ITO has thus been assumed by other agencies. To this extent, therefore, this part of the Havana project is being implemented and there will presumably be no inclination on the part of under-developed countries to suggest that the GATT should concern itself actively in this field. Clearly, the better course would be to concentrate on the development and expansion of the programmes already in operation. At the same time, one
should recognize that the successful operation of the General Agreement will have an important bearing on the success of these development programmes, and it may well be that the under-developed countries will find it possible and advantageous to concentrate their energies on other aspects of the Agreement which are of special concern to them.

6. In the first place it is important to consider what is the basic interest of under-developed countries in the General Agreement. For this purpose, it is necessary to examine some of the criticisms which have been made of the Agreement in its relation to under-developed countries. For example, the question is often asked: "What advantages do countries with relatively under-developed economies derive from the Agreement to compensate for the obligations they assume in adhering to it?" The interest of most of these countries lies, at least for the time being, pre-eminently in the export of primary commodities. In general, such exports do not encounter serious tariff or other protective barriers in their principal markets, since the importing countries, which are generally not themselves producers of those commodities, wish to purchase their supplies under the most favourable conditions. Consequently it is sometimes argued that the under-developed countries cannot expect to gain very much from the reduction of tariffs and other trade barriers by other countries, and that on the other hand the under-developed countries are being asked not only to reduce and bind their tariffs but also to accept limitations on their use of other protective devices - limitations to which the industrially-developed countries were not subject during their own early period of economic development.

7. That argument presents an over-simplification of the situation which could lead to erroneous conclusions. In the first place, it is

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1. This is not equally true of foodstuffs since most of the developed countries for a variety of reasons maintain a highly protected agriculture and have, in the General Agreement in certain circumstances, safeguards which permit them to protect their agriculture and food-processing industries.
difficult to sustain that the obligations assumed by the under-developed countries are disproportionately onerous or are likely to interfere with their economic development. Under the Agreement, negotiations for tariff reductions proceed upon the basis of reciprocal and mutual advantage. Thus no country is required to give more than it receives. If a country finds it has little to gain from others by way of tariff reductions or bindings, it is not called upon to offer more itself. Moreover, the negotiating rules allow countries to refuse concessions on particular products and recognise that, in determining whether such a refusal is reasonable or not, their special needs in respect of economic development and fiscal structure are specifically to be taken into account. Thus, in practice, an under-developed country can refuse to tie its hands in any section of its tariff to which it attaches special importance in connection with its plans for economic development.

8. Moreover, is there any validity in the argument that the tariff concessions, which under-developed countries enjoy under the General Agreement, are of no great value? The stability and volume of exports of primary products are determined by the stability and volume of demand for these products. Favourable tariff treatment cannot in itself ensure a stable and growing demand, but it can be an important safeguard for primary producers in at least two respects. In the first place, an increasing demand for primary products may stimulate production in the importing countries and thus generate pressure for tariff protection in order to enable the less efficient domestic producers to enter and remain in the market. The history of sugar production provides a clear example of this danger. Free entry or a low duty bound under GATT is a safeguard against it. Secondly, there is a growing threat to many primary producers from the development of synthetic substitutes; cotton, wool and silk textiles have to contend with rayon and other artificial fibres, rubber with synthetic rubber, and jute with paper substitutes. Synthetic products are often expensive to produce and the binding of a low tariff on natural products may make it very difficult for synthetic products to compete. It is of great value to the primary producers that the low rates of duty on
commodities should be bound against increase since there would otherwise be a real risk that tariff protection would be accorded to the producers of the synthetic substitutes.

9. There is a wider sense however in which the under-developed countries have a basic interest in any arrangement governing the conduct of international trade. For some considerable time to come the standard of living of the under-developed countries and their possibilities of development will depend upon their ability to export primary and semi-processed products in increasing volume. It is only in this way that they can earn the foreign exchange they require to purchase their essential imports including their growing import requirements for development. Thus the economic development of these countries necessarily involves a general expansion of world trade. This gives the under-developed countries a fundamental and abiding interest in a large and growing volume of international trade, i.e. in an expanding world economy. And this expanding economy cannot be achieved amid widespread restrictions on trade. The under-developed countries have, therefore, a direct interest in any international project which is designed, by removing barriers to trade, to promote a rising volume of trade and, therefore, of production. Indeed, if the present trend of industrial production can be maintained, a very favourable future may be envisaged for the primary producers since there is some prospect of favourable terms of trade for them over a considerable period. This expectation, however, is based upon the assumption that trading conditions will enable the present rate of industrial production to be maintained. If countries were left free to follow their own policies irrespective of the interests of others and if the industrial countries were to indulge in a destructive policy of restrictionism, the unfavourable effects would be visited very swiftly on the primary producers.

10. The question which should now receive the special consideration of the under-developed countries is this: what should be their approach to any revision of the General Agreement with a view to achieving their basic objectives of promoting economic development and raising their
standards of living? There is no doubt that the under-developed countries would find it advantageous to stress the importance of positive measures being taken by the CONTRACTING PARTIES for moving towards the goals of the Agreement. In the first place, they might insist on steps being taken to ensure a steady and continuous market for their products. In the second place, they might endeavour to reinforce the consultation provisions of the Agreement with a view to the adoption of positive measures for achieving the objectives they have in mind. These points require detailed examination.

11. International trade plays a substantial part in the economies of the under-developed countries. In fact, world trade consists largely of export and import of food products and raw materials in their primary or partially-processed form. The volume of exports and the terms of trade are important to the under-developed countries because many of them depend, even for their budgetary stability, on incomes arising from the export of a few staple commodities. These commodities, especially industrial raw materials, are subject to violent swings in prices, and a fall in price may not be compensated by an increase in the volume of export. In view of the special circumstances associated with primary and related commodities, the normal code governing commercial practices may sometimes be inadequate. The Havana Charter recognised this, and the objectives, procedures, principles and administration contained in Chapter VI were designed to permit the use of special arrangements and controls otherwise debarred. It may be possible to introduce provisions in the Agreement to bring about greater stability in the markets of primary commodities. Efforts are being made to negotiate agreements governing the trade in several commodities, but more lasting results might be achieved if steps were taken to ensure uniform and consistent policies with regard to all commodities in which one or more of the under-developed countries are vitally interested.

12. Closely allied with this question of long-term commodity arrangements is the problem arising out of the liquidation of non-commercial stocks. The interests of under-developed countries might be seriously injured if a government were to dispose of substantial stocks of a primary commodity which it had purchased for military or other purposes. Today, many countries are
stock-piling essential materials. When political conditions improve this stock-piling will stop, and governments may begin disposing of their stocks. This could create a recession in the market with very serious repercussions on the exports of countries which are the main suppliers of such materials. Article 32 of the Havana Charter provides for notification to be given of any intention to liquidate and for consultation with governments whose interests might be substantially affected. Provisions on similar lines might be considered for inclusion in the General Agreement.

13. Reference has been made to the possibility of reinforcing the consultation provisions of the Agreement. According to the present text consultations are required on many matters pertaining to quantitative restrictions applied for balance-of-payment reasons and on measures designed to encourage economic development. Moreover, under Article XXII, each contracting party is required to afford opportunities for consultation on any representations that may be made concerning the operation of the Agreement. Similarly, under Article XXIII, complaints that benefits which should accrue under the Agreement are being nullified or impaired are to be addressed in the first instance to the contracting party concerned. If no satisfactory adjustment is arrived at the CONTRACTING PARTIES may be asked to investigate and to make recommendations or give rulings. These Articles of the Agreement are very wide in their scope enabling governments to bring before the CONTRACTING PARTIES all complaints for which no specific remedy otherwise exists. If the under-developed countries consider that more positive action by others is essential to the attainment of their objectives, they can make more use of these consultation procedures.

14. Hitherto, consultations under the Agreement have tended to be confined to balance-of-payment questions in which the deficit countries have been defending their restrictions against the criticism of those which have been adversely affected by them. In the past two years, however, the scope of these consultations has been broadened to cover the administration and the protective effects of the restrictions. The consultations have thus provided an opportunity for an exchange of views on the difficulties of both importing and exporting countries. Continuous pressure against restrictionism is of
direct concern to the group of countries whose interests we are here consider-
ing for the reason that the restriction of international trade inevitably
affects adversely the primary producers whose export earnings depend upon a
large and growing volume of trade. Accordingly, there would be advantage
for the under-developed countries to use their influence to broaden the
scope of possible consultations so as to direct the attention of the CON-TRACTING PARTIES to the basic causes of the disequilibria in world trade
which are harmful to all, and particularly to countries which are struggling
to develop their economies and thereby to improve the standard of living of
their peoples. Indeed, there might be some advantage in broadening the
scope of the general consultation provision - Article XXII - to enable any
contracting party to call the CONTRACTING PARTIES as a whole into consulta-
tion in the event that a decline in demand and in levels of economic activity
threaten world trade and the economies of countries dependent thereon. This
would give the under-developed countries something they have not at present,
namely a voice in major questions of world economic policy which so directly
affects their own economies.

15. The foregoing review is admittedly incomplete. Perhaps it does
not sufficiently take account of the special circumstances of particular
countries. For example, some which are included in the general expression
'under-developed countries' have a greater interest than others in the export
of manufactured goods as well as of primary products, and there are those
which have an interest in reserving primary products for processing in their
own countries. It is inevitable that any attempt to generalise about a
group of countries with economies of diverse character must necessarily fail
to take account of the special circumstances of each. Nevertheless, the
discussion in this paper would appear to establish that the interest of the
under-developed countries in the General Agreement is basic, and that it aids
rather than hinders them in attaining their objectives of economic develop-
ment and of raising their standards of living. Within the framework of the
Agreement, the under-developed countries, fortified by the recognition
accorded to their special difficulties, can make an effective contribution
toward bringing about conditions which favour their own basic interests; these conditions are an expanding world economy, stability in markets for their staple exports, a collective approach to the solution of economic problems which is embodied in the concept of consultation, frequent amicable contact and discussion among governments adhering to the Agreement on the economic, and especially commercial, issues of the day, and the caution expected of each contracting party in avoiding unnecessary injury to others. Therefore, the under-developed countries should take a more active interest in the operation of the Agreement. That is the most realistic approach to the solution of their problems.