INTERNATIONAL ADJUSTMENT PROCESS

Note by the Secretariat

At the twenty-fifth session of the CONTRACTING PARTIES attention was drawn to the fact that there was a growing tendency toward the use of certain types of trade measures to deal with balance-of-payments difficulties. The secretariat has drawn up the attached note to assist the contracting parties in their further consideration of this matter.
GATT AND THE INTERNATIONAL ADJUSTMENT PROCESS

I. INTRODUCTION

At the twenty-fifth session of the CONTRACTING PARTIES attention was drawn to the fact that there was a growing tendency toward the use of certain types of trade measures to remedy BOP difficulties. The sentiment was also expressed that countries with large BOP surpluses should contribute to the adjustment process by adopting more appropriate trade policies. One delegate proposed that the Director-General be asked to study "the appropriateness of the various provisions of the General Agreement" to these questions and that "he consult informally with the delegations directly concerned."1

The purpose of this note is to analyze briefly how certain measures adopted by contracting parties to combat BOP difficulties relate to the General Agreement, and to propose a procedure whereby the CONTRACTING PARTIES and the secretariat could deal more effectively with the trade problems arising from international balance-of-payments adjustments. It takes into account a line of precedents which might point the way to future GATT action, and suggests a two-fold approach for providing preventive as well as remedial action in the future as the need arises, viz an arrangement for informal discussions with and among contracting parties, coupled with closer GATT/IMF collaboration.

II. THE PROBLEM: COPING WITH THE INTERNATIONAL ADJUSTMENT PROCESS

Countries trying to come to grips with BOP difficulties are faced with a problem which typically has both monetary and trade policy aspects. Reluctance to adopt fundamental adjustment measures has all too frequently led to the use of measures whose primary incidence is on trade, particularly on imports. The order of priorities has thus often been distorted by the subordination of trade to monetary policy. In the past the CONTRACTING PARTIES were able to exercise some measure of control over the use of trade measures for adjustment purposes because those usually adopted were quantitative restrictions, prohibited unless the conditions of Article XII were satisfied. Control over them was exercised through the familiar consultation procedure under Article XII, together with appropriate findings by the IMF as provided for in Article XV.

More recently, however, contracting parties finding themselves in BOP difficulties have increasingly resorted to measures falling into a "grey zone" between tariffs and quantitative restrictions. Often referred to as "sophisticated" measures when taken for BOP purposes, these measures (such as import surcharges, stamp taxes, and import deposit schemes) can be compared with tariffs in that they generally work through the price mechanism, their effect consisting mainly in increasing the cost of imports. The use of these other measures has not always received uniform treatment by the CONTRACTING PARTIES, even though the General Agreement, as well as the precedents that have arisen, indicate that the use of these measures should be made subject to the same criteria as in the case of quantitative restrictions.

1SR.25/10, page 182.
An examination of several of these "sophisticated" measures adopted for BOP reasons, which have been formerly discussed in the GATT, shows that in fact the CONTRACTING PARTIES have increasingly come to treat them as if they fell within Article XII, regardless of whether this Article was directly invoked or referred to in the discussions or consultations. In each case, whether or not a waiver was sought or granted, the CONTRACTING PARTIES took action which called for periodic reports and future consultations, and recommended or urged that the particular measure be discontinued as soon as possible.

III. SUGGESTED GATT ACTION

A study of the problems and an appraisal of GATT's capabilities suggest the following:

A. Formal statement concerning these other measures

It would be in the interest of the CONTRACTING PARTIES to regularize the GATT treatment of these measures to ensure that they are subject to the same GATT control as quantitative restrictions. Moreover, it would be desirable to encourage countries with BOP surpluses to help their GATT trading partners in alleviating the BOP deficits whenever possible.

To this end it is suggested that the CONTRACTING PARTIES should formally recognize at the twenty-sixth session that in the light of the precedents they have created through their treatment of these measures, they fall within Article XII if a contracting party claims that it has BOP problems and this is confirmed by the IMF, and that the procedures of Article XII will apply to them in the future as a matter of course.

B. Informal discussions with the contracting parties

There should be instituted a procedure corresponding to the suggestion by one delegate at the twenty-fifth session that the Director-General "consult informally with the delegations directly concerned" with BOP problems.1 Ideally, he should arrange to meet with very senior representatives of contracting parties, individually or in small groups, while they were in Geneva for the sessions of the CONTRACTING PARTIES. In addition, the Director-General would also discuss current or impending trade problems with them on an as-required basis between sessions. These discussions would draw upon information contained in analyses of world trade prepared by the Trade Intelligence Division, which would have as an objective the examination of soft spots in the world economy with a view toward the implications for future trade policy problems.

The purpose of these discussions would be to encourage deficit countries promptly to take appropriate measures which would be the least disruptive of world trade. The informal discussion procedure would also provide the

1 See page 2/3. It would appear preferable to arrange for informal discussions since "consultations" have come to have a particular meaning in GATT matters.
CONTRACTING PARTIES and the secretariat with a more effective means for encouraging countries with BOP surpluses to co-operate and to adopt trade policies in harmony with those which the Director-General would be encouraging the deficit countries to follow. This would respond to the growing sentiment that surplus countries should carry some of the burden in the international adjustment process, and might lead to a more effective examination of the overall responsibility of surplus countries in this context.¹

Two additional advantages in the informal discussions would reside in their as-required nature. Timely discussions would improve the secretariat's ability to anticipate problems and try to prevent some of the faits accomplis of the sort with which GATT has been faced in the past. In addition, the Director-General might be able to lend moral support to those contracting parties' representatives who themselves wished to argue in their own capitals for the use of less restrictive policies in combating BOP deficits.

C. Closer GATT/IMF collaboration

A more effective participation by GATT in the international adjustment process would require increased collaboration with the IMF. There is ample basis for this in Article XV² of the General Agreement and in the Articles of Agreement of the IMF.³ In addition, there have been recent statements by the Managing

¹See statement of the delegate of the Federal Republic of Germany, 14 March 1969, United Kingdom Import Deposits Working Party.

²Article XV: 1. "The CONTRACTING PARTIES shall seek co-operation with the International Monetary Fund to the end that the CONTRACTING PARTIES and the Fund may pursue a co-ordinated policy with regard to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES." (Emphasis added.)

³Articles of Agreement of the IMF, Article X. "The Fund shall co-operate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such co-operation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article XVII."
Director of the IMF\textsuperscript{1} and by the United States Secretary of the Treasury\textsuperscript{2} indicating that there would be support for closer GATT/IMF collaboration, which would involve continuing and increasing already-existing contact with the IMF as well as inaugurating a new type of informal contact.

Collaboration between the GATT secretariat and the Fund staff has increased since the Fund established an office in Geneva with a permanent representative. The IMF Geneva office would be used as the liaison office for the additional collaboration outlined below.

Two new types of secretariat activity could be initiated. First, there could be informal contacts with the IMF staff which have visited or are to visit selected contracting parties with BOP problems. Through these contacts GATT officials could exchange views with the IMF staff thereby assisting the development of a common approach of both secretariats to the BOP problems of these countries.

The GATT secretariat on its part could help provide the Fund staff with the benefits of its own knowledge, analyses and experience in the field of trade, especially with the secretariat preparing intensified up-to-date world trade analyses and predictions twice yearly. Since at present meaningful collaboration in the field is not possible, staff consultations of this kind in Geneva or Washington should prove fruitful.

These informal contacts would be supplemented by discussions at the Fund headquarters in Washington say twice a year between one or two senior GATT officials and their IMF counterparts. Those visits could be timed to take maximum advantage of the semi-annual GATT trade analyses so that secretariat officials could take with them up-to-date analyses to help in the co-ordination of trade and monetary policies. As GATT comes to play a greater role in the adjustment process it might well be that the Director-General and the Managing Director of the IMF would find it necessary and useful to meet informally to discuss these problems.

\textsuperscript{1}"We will also be prepared to reinforce our collaboration with the international institutions which have special responsibilities in the fields of trade and aid." Address by Pierre-Paul Schweitzer, Joint Annual IBRD-IMF Meeting, 29 September 1969.

\textsuperscript{2}"Finally, I must emphasize that the building and expansion of new economies - as well as of old - must be achieved in a manner consistent with outward-looking trading and financial practices - practices which our predecessors launched when they adopted the Bretton Woods proposals and their trading system counterpart, the General Agreement on Tariffs and Trade.

"In this connexion, I am glad to hear the Managing Director's statement that the Fund will be prepared to reinforce its collaboration with international institutions which have special responsibilities in the field of trade and aid." Statement by David M. Kennedy at the Joint Annual IBRD-IMF Meeting, 30 September 1969.
Through both types of collaboration GATT officials would be able to probe more effectively into the problems of any contracting parties that might be contemplating restrictive trade measures for BOP reasons. A type of simple early-warning mechanism could evolve from these procedures which would give the CONTRACTING PARTIES and the secretariat a greater lead in dealing with these problems. Specifically, information might be gleaned that would persuade the Director-General to initiate informal discussions with one or more contracting parties as outlined earlier.