TRADE OF THE DEVELOPING COUNTRIES: OPPORTUNITY AND RESPONSE

Address by Mr. Olivier Long, Director-General of GATT, to the Indian Institute of Foreign Trade, New Delhi, on 12 November 1970

Introduction

Anyone visiting India for the first time cannot fail to be impressed by the size and complexity of the problems that confront the Indian leaders and by the energy and determination with which these problems are being tackled.

Equally impressive is the fact that, despite its preoccupation with these problems and, in particular, with the overriding task of reducing unemployment, raising living standards and promoting economic development in a vast and populous country, the Indian Government has consistently and actively supported international efforts to promote world trade and closer trade relations.

Although India has a domestic market of continental proportions, it has always recognized the importance of foreign trade to its economy.

It was one of the first twenty-three signatory countries of GATT in 1947 and, since then, has been in the forefront of efforts to make GATT a fully effective instrument for promoting the trade interests of developing countries.

It has over the past decade or so provided much of the vigour and inspiration for the continuing activities of GATT aimed at facilitating the economic development of developing countries through an expansion of their international trade.

Against this background, it is not surprising that some of the most distinguished office-bearers in GATT should have come from this country.

MORE
I. The international trade scene: implications for developing countries

There are many indications that the role of foreign trade in India's economy will become increasingly important.

The development of Indian industry over many years has given the country a diversified and broad-based industrial structure which encourages expectations of a sustained expansion in exports of a wide range of manufactures.

At the same time, the recent productivity increases in agriculture with their promise of a green revolution suggest that India may emerge in the not too distant future as an exporter of many of the food grains and cash crops of which until now it has been a net importer.

As the Indian planners fully recognize, of course, this success in promoting significantly increased agricultural and industrial production in a developing country logically leads to growth in demand for imports. This, in turn, makes necessary a further increase in export earnings. It is not, therefore, surprising that India's fourth five-year plan should envisage an increase of 7 per cent per annum in India's exports for the period covered by the plan.

The efforts of developing countries to achieve a sustained increase in their exports require the determined pursuit of a strategy of export promotion, beginning with the organization of production to achieve the appropriate balance between domestic and external demand and proceeding, through the necessary cost and quality disciplines, to the actual movement of goods into foreign markets. But they will require also, as India itself has repeatedly pointed out, the maintenance and development of an external environment in which international trade generally and the trade of developing countries in particular can continue to expand.

Over the last decade the volume of world trade grew by an average of nearly 8 per cent per annum and many developing countries achieved average export growth rates of over 7 per cent.

In an era of unprecedented trade intensification, exports of manufactures from developing countries experienced an annual average increase of 13.1 per cent between 1959 and 1969, as against 11.1 per cent average annual growth of the same exports from developed countries; while sales of primary commodities also grew by 5.3 per cent per annum. The growth in manufactured exports from developing countries from $3.3 billion in 1959 to an estimated $11.3 billion in 1969, was particularly impressive.

This expansion of international trade reflects the prevalence for most of the last fifteen years of a high level of economic activity in the industrialized countries.
The prolonged economic boom has not only led to a rapid acceleration in the mutual trade exchanges of the industrialized countries. It has also, because of the pressure on existing industrial capacities and the need to provide the most productive employment for scarce labour and investment resources, offered increasing scope for imports, not only of manufactured consumer goods, but also of labour-intensive components and assembly parts from developing countries. The progressive reduction of tariffs and quantitative restrictions on industrial goods, as well as the fact that the monetary disturbances of the last two years were contained before they could cause any serious disruption of the multilateral trading system, have contributed to an even faster growth in the external trade of industrialized countries than in their rapidly expanding production.

Nevertheless, despite the undoubted economic benefit that this process has brought, we see at the present time a situation in which the multilateral system of trade and the principles upon which it rests are being increasingly threatened. There are a number of elements that have brought about this disturbing situation.

There are fears of a turnabout in United States trade policies. There is anxiety about the policies of the EEC in the field of agriculture and in connexion with their association agreements with third countries. There is impatience at the relatively slow progress toward trade liberalization of countries which have built up considerable surpluses in their transactions with the rest of the world. There is a growing trend toward discrimination which is adversely affecting international trade relations. And there is a resurgence of protectionist pressures in a number of countries which is proving difficult to contain.

In recent months the relaxation of the tensions that have been building up and the improvement of the existing climate has been a principal aim of the GATT and of myself as its Director-General.

The maintenance of the momentum towards freer trade and the defence of the multilateral trading system against the disruptive influences that are in play is a matter which concerns all trading countries. It is a matter in which a developing country like India, for whom the expansion of exports is a key factor in its future plans of development, has a vital interest.

II. GATT in the Second Development Decade

The manner in which the international trading community deals with the present situation will be of decisive importance to the success of the United Nations Second Development Decade, upon which we are now embarking.

For it has to be recognized that an essential prerequisite to this success will be the preservation and strengthening of the multilateral system of trade. It is only against the background of an expanding world economy and growth in international trade that the necessary increase in the export earnings of the developing world can be achieved.
Today, a large majority of GATT Members are developing countries. Their full and active participation in GATT reflects their recognition of the important contribution that the continued expansion of world trade can make to their own efforts to promote their economic development.

I would emphasize this close link between the future growth of international trade and the success of initiatives towards the expansion of the exports of developing countries. For more than twenty years GATT has been the instrument by which the world's trading nations have successfully resisted the pressures of protectionism and pursued the dismantling of trade barriers. The General Agreement has thus provided the essential underpinning for the sustained and unprecedented growth of world trade in the post-war years. The maintenance of a fair and open trading system under GATT would appear to be an indispensable condition for the continuation of this growth.

It is, however, not only through a programme for global trade liberalization that the GATT is seeking to broaden opportunities for the expansion of exports from developing countries and thus contribute to the objectives of the Second Development Decade.

The strategy for the Decade envisages a range of specific policy measures extending from generalized preferences for exports of developing countries in the markets of the developed countries, to the removal of non-tariff barriers to trade, the provision of improved access to markets and remunerative prices for primary products and the expansion of trade among developing countries. The GATT will certainly make the maximum contribution within its competence toward successful carry-through of these tasks as well as of those other unfinished tasks in the field of trade and development on which it has been engaged.

The GATT Committee on Trade and Development has provided an institutional framework for the pursuit of a broad range of measures aimed at securing unrestricted and stable access to world markets for goods of developing countries.

Against the background of commitments embodied in Part IV of GATT, a periodic item-by-item examination has been carried out of restrictions maintained by developed countries on products of interest to developing countries. The possibility of reducing and eliminating revenue duties and internal charges on tropical products and other commodities mainly produced in developing countries has been pressed.

Not the least important of the Committee's activities has been the promotion of a better understanding of the role that measures adopted by governments of developed countries to assist structural adjustments in industry could play in bringing about a pattern of trade that is more efficient from the point of view of both developed and developing countries. The shift of resources from lagging, low-productivity sectors of production to those that are more value-intensive or technologically more advanced is, of course, a part of the process of economic
growth. But the willingness of governments actively to help enterprises and labour to adjust to higher import levels in certain sectors of industry can go far towards overcoming fears of competition from labour-intensive manufactures of developing countries.

Also of considerable importance, and greatly valued by developing countries, is the technical assistance in trade promotion being provided by the International Trade Centre - established by the GATT in 1964 and now run jointly with UNCTAD - and the GATT training courses for officials from developing countries aimed at broadening the knowledge and experience of these officials in commercial policy matters.

A major new factor in relationships between developed and developing countries is the important decisions that have been reached in UNCTAD for the early introduction by developed countries of generalized non-reciprocal preferences for developing countries. We in the GATT have already initiated consultations with the aim of ensuring that the necessary GATT legal coverage for the introduction of these schemes is available in the shortest possible time.

In November 1968, the GATT Member countries affirmed their readiness to take appropriate action when the generalized scheme of preferences had been established and, as early as the beginning of this year, the GATT secretariat made suggestions to governments on possible ways of dealing with this matter.

Another operation of considerable potential importance, aimed at increasing the mutual trade of developing countries, is the current negotiations in GATT for the multilateral lowering of trade and tariff barriers between these countries. About thirty-four developing countries are already participating in these negotiations and, at present, eighteen of them are holding detailed consultations in Geneva with a view to reaching agreement on the offers of concessions that might be made.

These are open-ended negotiations and it is to be hoped that more and more developing countries will participate, with a consequential increase in the number of concessions.

Until now the mutual trade of developing countries has lagged behind the growth of their total trade. A country with the market size of India and its growing productive capacities cannot be satisfied with the orientation of its trade towards the industrialized countries alone. As an importer of many raw materials and agricultural products and an exporter of a growing range of manufactures, its potential for expanding trade with other developing countries is considerable.

India has recently taken the lead in promoting a programme of trade and economic co-operation between the countries of Asia. The GATT has always welcomed forms of economic co-operation which help to bring about new trade by making possible the
expansion of productive capacities or the creation of regional or sub-regional markets. That India's interest in forging closer trade links with other developing countries extends also to countries outside the Asian region is exemplified by the Tripartite Trade Arrangement concluded with Yugoslavia and the United Arab Republic. The GATT has accepted the extension by the Tripartite countries of preferential treatment to one another's exports pending the conclusion of the wider GATT negotiations now going on in Geneva between developing countries.

I, therefore, see a situation now developing where, for some time, a kind of two-stage system of non-discriminatory treatment may exist in the trading world. As a foundation would remain the generalized most-favoured-nation tariff treatment for all GATT countries and, built upon this as a kind of temporary superstructure, basically non-discriminatory tariff preferences by developed for developing countries on the one hand, and between developing countries on the other hand.

Measures of this sort represent an important new element in international trading relationships which the multilateral system of trade must accommodate in a positive and realistic way.

They should help the phasing out of discriminatory preferential arrangements between developed and one or a few developing countries. Such arrangements run counter to the purposes of the generalized scheme of preferences. They provide a potent source of friction and disharmony among developing countries. It is an element on the international trade scene to which the GATT is paying particular attention.

III. GATT: programme of work

The development of modern technology is constantly expanding the frontiers of trade. The fact that national markets are becoming too small for many modern industries is one of the important reasons that make increasingly necessary the successful pursuit of GATT's current work programme for the further reduction of trade barriers.

Moreover, the problems that free trade may create for certain economic sectors in particular countries, or for their external balance, cannot be met through measures of domestic adjustment alone. They also require measures of international co-operation aimed at removing some of the limitations and imbalances to which the process of international trade liberalization has been subject.

From the point of view of the developing countries, even the gains recorded in the 1960's have not allowed their trade to grow at the same rate as that of the developed countries. With the heavy burden of debt servicing many developing countries, like India, find themselves under the necessity of achieving a further acceleration of export growth if shortage of foreign exchange is not to become a serious constraint on development.
The Kennedy Round brought about some lowering of tariff barriers on export products of developing countries, but significant problems of access to markets remain. Export restraints and quota restrictions enforced by importing countries have limited sales of cotton and other textiles by developing countries, while exports of agricultural products have been impeded by artificial aids to production and exports extended by many countries.

These factors and considerations are prominent among those that make up the background against which should be seen the preparations going on in GATT for the further reduction of trade barriers. Over the past two and a half years, a great deal of detailed, technical work has been done in both the industrial and agricultural sectors. This technical work is to be completed by the end of this year in accordance with directives given by the GATT Member governments at their session last February. It will, thereafter, be up to governments to decide what action should be taken on the basis of the extensive technical material that will then be at their disposal.

In the course of the preparatory work, the major non-tariff barriers to trade in the shape of government procurement practices or aids to exports, administrative or customs formalities, protective or discriminatory application of sanitary or health regulations or industrial standards, arbitrary valuation systems and, of course, quantitative or licensing restrictions on imports, have been fully identified. Solutions have also been proposed for removing these barriers through, for example, the establishment of new legal codes or the agreed interpretation of certain GATT provisions or measures by industrial countries to correct specially anomalous or burdensome practices that involve specific inconsistencies with the General Agreement.

Possibilities for the reduction of tariffs are also being closely examined and to assist them in this task, the GATT Member governments now have in their possession a comprehensive analysis of the structure of tariff protection in the industrialized countries showing the dispersion of tariff rates between different products, sectors and countries.

Similarly an effort is being made to seek solutions for the deep-rooted problems in the field of agriculture, so that some limits may be placed on the restrictive and distorting effects of measures of agricultural support on international trade.

It has been agreed that, in this programme of work, special attention will be paid to barriers affecting the trade of developing countries. India has already taken the initiative in proposing priority examination of certain problems in the field of non-tariff barriers, notably those relating to valuation of imports for assessment of duties. Developing countries have urged that remaining import quotas and licensing restrictions be removed as a matter of priority from products of particular interest to them.
The progressive escalation of tariffs on products exported by developing countries in semi-finished or finished condition will receive special attention in the tariff study.

Finally, while it is exports of manufactures that will provide the greatest scope for expansion in coming years, over 30 per cent of India's export receipts at the end of the fourth Five-Year Plan period will continue to be derived from agricultural and agricultural-based products. India has, therefore, much to gain in the long run from efforts to limit the growing subsidization of agricultural production and exports in the developed countries.

While recognizing the importance of appropriate measures at the international level, one must not, of course, forget that the efforts made by developing countries themselves to develop their exports are of fundamental importance.

The GATT recognizes that the capacity of developing countries to liberalize their own trade policies is limited by developmental needs and lack of reserves. It does not seek any reciprocity from these countries in the form of measures that are inconsistent with their financial, trade or developmental needs. Yet the absolute protection for import substitution industries, to which the balance-of-payments difficulties of developing countries have contributed, has greatly increased production costs and made entry into foreign markets more difficult. There is, of course, no easy way out of the situation. But as countries like India focus attention towards export oriented production, there will be new needs and new opportunities to review existing import systems, simplify or reduce administrative procedures and implement realistic measures of trade liberalization.

Because of the importance of the question to India, I should say a few words about textiles.

India has been engaged in trade in textiles for many centuries and its fine fabrics were much sought after in Europe, and imported there a very long time before the industry was established on that continent.

Unfortunately, we have to turn our thoughts from the more leisurely atmosphere of the past to the present and to the complicated, intractable problems that are confronting the international trading community in the field of textiles.

The introduction of generalized preferences for developing countries will not eliminate the problems that affect this most important sector of manufactures from developing countries.

In the cotton textiles sector, the participating countries have agreed that the Long-Term Cotton Textiles Agreement should be extended for a further period of three years beginning 1 October 1970. It is, however, clear that we should not
seek to deal with the difficulties which some countries have experienced in the field of cotton textiles by keeping this Arrangement in force indefinitely and that the long-term interests of developing countries require a return to more normal trading conditions in this sector.

At the same time, the pressures that have arisen in relation to trade in synthetic fabrics indicate the importance of following the developments in the whole of the textile sector carefully if the situation is not to become worse, rather than better. For this reason, I have felt for some time that a GATT Working Party should be set up to discuss the future of trade in both cotton and non-cotton textiles and to examine how a less restrictive trade situation can be fostered. I hope that it will be possible for the GATT to establish a Working Party with terms of reference that would enable it to consider the possibility of phasing out existing restrictions in the textile field, and exploring the safeguard measures of a general nature that would be helpful in enabling the development of new restrictions to be avoided.

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India has always been an important trading nation. In terms of its economic development and prosperity it has a big stake in the continued health of world trade and in order in trade relations.

I particularly welcome the full, active and constructive participation of your authorities in the whole range of GATT activities. I welcome this, because I believe it not only to be in the interests of your country, but also of great importance for the world trading community as a whole.