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by

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Reflections on Changes in International Trade

Introduction

The advantages and benefits of international trade, and the need to expand it, are now virtually uncontested.

Without going far back in history, post-war economic developments offer convincing evidence for this statement. Similarly, a contrario proof is given by the ten years preceding the war: that dark period of economic depression, fostered by restrictions on international trade, which bears its share of responsibility for the years of blood which followed.

The need for increasingly free trade and steadily expanding markets - and consequently for national policies and international cooperation directed to this purpose - was clear to those who had to raise the world out of its ruins and prepare a better future for it.

Within the general framework of post-war cooperation in the field of trade and payments, a multilateral system of trade was constructed with patience, tenacity and foresight. Based on reciprocity and non-discrimination, it was written into the General Agreement on Tariffs and Trade, which was freely accepted by the signatory States for the simple reason that they found it suited their interests.

The architects of post-war international trade were proved correct in their calculations. Encouraged by trade policies based on the principles and rules of GATT, world exports have increased more than four-fold since 1950. Between 1959, and 1969 they rose from 115 to 272 billion dollars, representing an annual growth rate of 8.9%.

Ken Teagrow,
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(This text is a ⁴badly
translated version
of the french original;
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In point of fact, some twenty years of progressive and continuous commercial liberalization, far from leading to bankruptcies, unemployment and social unrest, have on the contrary allowed a spectacular increase in trade. They have contributed powerfully to an economic expansion on such a scale that sometimes, here and there, it has exceeded the psychological capacity of absorption of those who benefit most from it.

Commercial policy has been among the most successful fields of international cooperation since the war.

The multilateral trading system established since the war has, then, been a success: it has provided order in international trade relations, replacing the chaos of the 'thirties and the devastation of the war. But will - and can - this success be continued?

This question is not merely academic. It is indeed essentially political, because the multilateral system of trade can be maintained and developed only by the will and determination of the countries that make up the international community.

During the last year or two, there has appeared to be some weakening in this political will. As a result, the orderly conduct of international trade has begun to show signs of wavering. A revival of protectionism, the increasing disorder in production policies and trade in agricultural products, and discriminatory preferential arrangements are conspicuous instances of this state of affairs.

Those who are inclined to sensationalism even go so far as to conjure up the prospect of a trade war.

What is the real situation, and what is happening?

I. Changes in international trade: the forces at work

The basic rules governing international trade, in other words the General Agreement, were drawn up more than twenty years ago. The multilateral trading system that evolved on the basis of those rules is the work of the first post-war generation.

Since international trade is already into its second generation, it is legitimate to ask whether the principles and rules fixed at the end of the war are still valid today.

International order is not something unchanging. The inherent dynamism of trade, and its fundamental importance for the economic health and prosperity of nations and individuals inevitably calls for continuous development to meet the political, social and technological realities of a new era.

GATT's own practice reflects this state of affairs. In 1954/55 the provisions of the General Agreement were reviewed and in part amended. In 1965 a new part concerning trade and development was added. The process of adaptation goes on.

But the trading nations now find themselves faced by problems which impinge upon the fundamental principles on which the multilateral trading system is based.

What are the main influences at work on the world trading scene which might threaten the established order?

Over the last twenty years, the industrialized and market-economy countries have together, inside and through the General Agreement, reached a very high degree of economic development and foreign trade. They are driven, however, to continue along this path by the very impetus of their own expansion and to do so at an ever-increasing pace.

It is a slow and laborious process to liberalize trade on a world scale. Hence the desire of some of the more advanced countries to go faster. In the private sector, large firms are becoming multinational so as to extend their field of activity without waiting for the elimination of obstacles at the frontiers. At the intergovernmental level, regional groups are doing away with national frontier obstacles, freeing their trade within limits which are certainly still restricted, but acting more rapidly than would be possible on a world scale.

When the integration movement creates a group as imposing as that of the EEC, it has repercussions that are felt at many points throughout the globe. The attempt to expand the EEC to ten countries increases the force of these repercussions.

These regional aspirations towards integration, these private and national interests at work throughout the world, are so many factors making for changes in the existing system.

Governments are anxious for political reasons to further these aspirations and satisfy these interests and they are, therefore, tempted to consider that the multilateral trading system, its achievements and the economic and commercial expansion which it has fostered are established gains; and that in consequence deviations from, and tempering with, the rules of the game will enable them to reach special national or regional objectives without affecting or threatening the solidity of the system as a whole.

This second post-war generation is also inclined to forget the past: to forget the fact that the first generation struggled to establish a certain international order in trade so as to prevent the world from falling back into the lawlessness of the '30s.

The challenging of established views is not an exclusive prerogative of the universities. It makes itself felt also in intergovernmental relationships.

This is perhaps the price to be paid for the success of the system of trade built up by the first post-war generation. Prosperity nourishes egoism. Those who feel powerful and rich think themselves invulnerable and are tempted to follow their own road without worrying overmuch about the consequences for others. When countries feel less need for working together to ensure their survival and their progress, the spirit of international cooperation tends to weaken.

At the same time, new countries have appeared on the commercial scene. They need to find their place on it. They come with their specific problems and seek to have them solved while fitting themselves into the existing structure.

I refer to the developing countries. They are assuming growing responsibilities within GATT and now constitute two-thirds of its membership. They are looking for outlets for their exports in markets in which there is already acute competition between the developed countries. They are not satisfied merely with the general application of most-favoured-nation treatment or reciprocity, and non-discrimination is not sufficient for them. They need special facilities: in other words, preferences.

Other newcomers to the game of multilateral trade are the countries with centrally-planned economies and State trading. They wish to enjoy the powerful impulse to economic development that is provided by the liberalization and world-wide extension of international trade.

Finally, international action calls for leaders able to take the initiative. Twenty years of liberalization of trade have to a large extent been due to the impulse given by an undoubted and unchallenged leader. Now, two other trade giants have appeared on the scene; an excellent thing in itself, since the existence of three points of support for the system should make possible to give it greater stability. Nevertheless, the two new giants are not yet quite ready to take major constructive initiatives in the field of world trade policy, while at the same time the leader during the last twenty years is showing signs not of weakness but perhaps of a certain weariness. In short, we have for the past two or so years been living in a period where absence of leadership has contributed to the present wavering in purpose of the international trading community.

All these influences, very diverse in their nature, but powerful and dynamic, tend to modify the existing trading order.

It seems inevitable that changes should be necessary and even desirable. In fact, mutations are already taking place.

The question is whether these changes will occur in the form of adjustments and through the international procedures foreseen for this purpose - that is to say, in a concerted, orderly manner. Or will they, on the contrary, take place as a result of unilateral measures, with all the inherent tensions and the risk of clashes which they provoke - that is, in disorder?

Are the factors making for change so powerful and deeply rooted that they cannot be fitted into the existing system and absorbed into the rules of a General Agreement which has already given ample proof of its flexibility? In short, will the multilateral trading system break down, or will it be adapted?

Let us now seek the elements of an answer to this question by looking in turn at some of the basic problems which confront the international trading community, and at the outlook for overcoming them.

II. Changes in international trade: problems and prospects

(A) Regionalism

Regional integration has probably been the most significant phenomenon of the past ten years. The very success of this endeavour, above all in Europe, allows one to suppose that over the next decade it will have a still greater influence on the organization and evolution of international relations.

The existence of the EEC with a membership of six brought about the Kennedy Round and contributed to its success, and thus to the ensuing expansion of trade at world level.

The mere prospect of enlargement of the EEC, at present being negotiated at Brussels with the United Kingdom, Denmark, Ireland and Norway, is already influencing the behaviour of all the trading nations.

In the first place, to build a cathedral with a team of ten is so absorbing an enterprise that some of the architects might tend to forget that the rest of the world continues to exist and to act, and that it cannot be expected to stand still until such time as the edifice is completed.

Next, an EEC with a membership enlarged to ten would bring considerable weight to bear on international trade and its organization. The problems of readjustment would be so serious that it would be wise to give some thought to them even now.

The danger to be avoided for the future of the world trading community is that the enlargement of the EEC might take place in isolation and that, so long as this operation is in process, the rest of the world might be reduced to mere conjecture regarding the outcome of the undertaking and the

trade behaviour of an enlarged EEC. Considering what is at stake for third countries regarding their future relations with an enlarged EEC, and the probable duration of the enlargement process, they may well have fears which might induce them to take some safeguarding action.

This would mean that when conversations began - for begin they must, one day - between the enlarged EEC and the rest of the world to determine the implications of the new situation for the future of world trade and its organization, the difficulties to be overcome would be considerable.

Even while being careful not to intervene in the very important and delicate negotiations that are taking place in Brussels, it is perfectly feasible to initiate a dialogue on neutral topics, for example certain non-tariff barriers or certain agricultural problems which are not involved in the European negotiations. Apart from the practical benefits to be derived from such an undertaking, it would have major psychological and even political effects. For in this way the trading nations would have the advantage of continuing the excellent work which they have accomplished since the war: of making some new progress while awaiting the completion of the European negotiations, at which juncture a new large-scale effort could be launched in common. To this new effort the enlarged EEC would make a constructive contribution in keeping with the increased responsibilities which its new dimensions will give it.

Nowadays, international trade is indivisible. Even an enlarged EEC could not - any more than could the other commercial giants - get by without the rest of the world market. Its own inherent dynamism will lead it to seek greater trade liberalization.

(B) Bilateralism and multilateralization of trade: East European countries

The bulk of international trade takes place between market economy countries whose exchanges are the outcome of the free initiative of businessmen and are governed by the play of the price mechanism.

The multilateral trading system, based on general most-favoured-nation treatment, was created and developed by these market economy countries.

For some time already, countries with centrally-planned economies and State foreign trading have been showing growing interest in joining or participating more actively in the multilateral network. Czechoslovakia and Poland are members of GATT, Hungary and Romania are endeavouring to become so.

This evolution, desirable both from the economic and political point of view, opens up interesting prospects of expanded markets for all trading countries. The countries with centrally-planned economies would certainly draw concrete advantages from it.

It raises considerable technical problems in the adjustment of two radically different international trading systems.

There is the need to move progressively from a trading system based on bilateral balancing to a multilateral system based on the rules of GATT. There is the problem of eliminating long-standing quantitative restrictions established under bilateral agreements. There is the question of ensuring, in the absence of full convertibility of currencies - without which trade liberalization could not go very far - a sufficient broadening of payments mechanisms to permit settlement of multilateral trade exchanges.

Some devices are already being tried, for example a quantitative import commitment by the East European countries in return for progressive multilateralization of imports by GATT member countries. Efforts are being made to perfect these devices with Eastern trading area countries which are already members and with those that have applied for accession. Any solution implies a progressive relaxation of the State-controlled external trade system, and in consequence certain reforms of the economic structure.

Provided one leaves the necessary evolution to occur without trying to precipitate matters or to impose premature solutions, it is perfectly conceivable that the trade of the East European countries might to an increasing extent move into the free market. And this would be on the basis of the rules of the General Agreement, temporarily supplemented by special provisions designed to ensure that the arrangements necessary for bringing about the transitions do not impair the fundamental rules of the Agreement.

(C) Multinational corporations

The growing importance of multinational corporations is a new element in the evolution of international trade. Although no reliable figures are available, it is not impossible that today 30 per cent of total exports of goods corresponds to sales effected inside these corporations. The accounting value of the assets owned by corporations outside the country in which they are based is believed to be of the order of 100 billion dollars. Furthermore, the production of such "international assets" is at present increasing by about 10 per cent each year - a growth rate double that of the gross national product of the industrialized member countries of the OECD. The reason is that the multinational corporations are concentrated in those industries which are most advanced technologically and which therefore develop most rapidly.

It would be premature to place this phenomenon of multinational corporations in the context of future trade policy. Investigation of the consequences of this new development is barely beginning. A large part of the theory of international trade, and a good many commercial policies, stem from the notion that international trade exchanges take place between independent undertakings. Clearly, some adjustments are necessary when one deals with trade exchanges within a single corporation and when, consequently, the choice of the place where the goods are to be manufactured, of the country from which they are to be imported, and of the country which is to export them is influenced by such factors as internal cash flow, the corporation's balance sheet and characteristics, and tax considerations.

One must also guard against the possibility of cartelization of important sectors of the world economy which might result from the extension of these firms. If this trend materializes, some imagination will be needed in order to formulate suitable policies to control it.

The existence of multinational undertakings sometimes gives rise, between those corporations and governments, to vexing problems which have an impact on external trade. It is often feared that the national economy might be "dominated by foreign interests" and that a multinational firm can evade controls more easily than can purely national companies.

This situation creates new sources of disputes which are hardly conducive to harmonious trade relations.

Nevertheless, there are grounds for hoping that to the extent that the movement towards broadening of markets continues without too much difficulty, these corporations, by virtue of the requirements of their activities, will see their interest in behaving as good citizens of the international trading community. The governments, for their part, will no doubt wish to grant these large corporations treatment that takes account of the substantial benefits that they bring to the countries in which they operate.

Nevertheless, while trade in goods is based on the GATT rules, there is no similar definition of rights and obligations relative to the activities of multinational corporations. In view of their growing importance, this is a deficiency that calls for remedy. To draw up rules for trade and investments is one of the tasks of the decade now opening.

(D) Preferential systems

In line with the political and economic realities of our era, governments now accept that the developing countries should have the benefit of preferences in order more readily to find outlets and to increase their export earnings.

Subject to a few - and one hopes, temporary - exceptions, the granting of tariff preferences by all the developed to all the developing countries should soon commence.

Similarly, developing countries have initiated negotiations within GATT aimed at exchanging tariff and non-tariff concessions, but solely among themselves. For, once these negotiations have been completed, the developed countries will refrain from claiming to benefit from them and will thus show their desire to help their less affluent partners to intensify their trade.

In the historical perspective, a generalized system of preferences for the benefit of developing countries, or of non-discriminatory

preferences among those countries, will by definition be temporary. Such preferences are designed to promote development. Once sufficiently developed, these countries will have no further need of them. They represent, therefore, a deviation from general most-favoured-nation treatment. It is the more essential, if the deviation is not to go to waste, that the preferences apply without discrimination to all or among all the developing countries, and that they are subject to certain rules, conditions and procedures integrating them in the multilateral trade system.

Thus, for a certain period of time - which might even be fairly long - a sort of two-tier system of non-discriminatory treatment could exist in international trade. The base would still be general most-favoured-nation treatment for all the GATT member countries. On that base a sort of temporary superstructure of tariff preferences would be erected, also non-discriminatory, but for the benefit of the developing countries alone.

Quite another matter are the discriminatory preferential arrangements entered into by developed countries with one or a number of developing countries.

Whatever the justification for such arrangements may be - and there are always justifications, sometimes even sound ones - they cause an erosion of the multilateral trading system.

They run counter to the objective of the generalized preference system and are a factor of division between the developing countries themselves.

Special preferences may be temporarily justified when they have a background of historical links with former dependent territories. As for special preferences with no historical justification, these are no longer appropriate now that generalized preferences will soon come into effect.

In both these cases, the arrangements already concluded or promised could be led into true customs unions or free-trade areas where this is possible or, where the respective degree of development of the partner countries differs too greatly, could be merged into the generalized preferences.

The developing countries would not lose thereby. Generalized preferences offer them broader access to the markets of all developed countries and save them from having to fight against each other in a sterile and dangerous struggle for reserved hunting grounds. The developed countries already know that the real way to help the less-developed countries is through technical assistance and financial aid and through opening up their markets to everyone, rather than through discriminatory tariff preferences.

All of them also realize that while the creation of preferential trade areas may be attractive in the short term, it can carry grave risks in the longer term and that the future of trade relations, on the contrary, lies in equality of access to ever-expanding markets.

(E) International adjustment process

One long-standing problem - the manner in which national economies face up to balance-of-payments disequilibria - has become more acute and more complex over the years. This is because national economies have become more interdependent as a result of the lowering of trade barriers, the improvement in mechanisms of capital movement, and the rapid dissemination of technology. Having become more interdependent, the national economies are all the more sensitive to shock waves from external sources, in particular those resulting from different rates of inflation. The consequence is an increase in the frequency and, probably, the acuteness of balance-of-payments difficulties, and as a result in the need for remedies.

The instruments available to governments for this purpose - whether of a monetary, fiscal, trade or other character - are no doubt more numerous than in the past.

Unfortunately, however, States beset by balance-of-payments difficulties too often tend to respond with import restrictions or artificial export incentives. In other words, they try to solve the problem by depriving themselves of the benefits of interdependence with other nations, or by penalizing those nations.

Improving the adjustment process is a continuing task. The most appropriate methods vary with the nature of the disequilibria and the degree of sophistication of the means of intervention. There are nevertheless

three areas in which improvements are necessary.

Firstly, it should be recognized that monetary and trade policies are closely linked and should be coordinated with the constant aim of balancing the benefits and costs of one against the other. In this regard it is hardly necessary to add that the full cooperation needed takes place at the secretariat level between the IMF and the GATT, and that such cooperation is available to governments.

Next, the major trading nations should show their readiness to consult among themselves - confidentially, of course - about any threat of balance-of-payments difficulties so to be able to act jointly and promptly to prevent accidents and to avoid being faced with adjustment problems that have become extremely grave.

Lastly, countries should no longer hesitate to submit, to the rules and procedures which have proved their worth not only restrictive measures - such as import quotas - which were in use at the time when those rules and procedures were adopted, but also the so-called "sophisticated" measures devised since then in order to restrict imports.

(F) Re-birth of protectionism

This is a familiar phenomenon: sometimes contained and driven back, it always re-emerges.

After a twenty-year period of struggle against trade barriers, an effort which, taken as a whole, has been successful and very profitable for the international trading community, we are now going through a phase of re-birth of protectionism.

Once the Kennedy Round had been successfully concluded in June 1967, the governments thought they could allow themselves a pause for reflection.

Hardly had the Kennedy Round agreements been signed and ratified, however, than the old primary reflex of protectionism came back into play.

Ever latent, it undermines international trade to a greater or less extent, depending on whether the governments are more or less capable of

resisting it. There is constant opposition between the action of pressure groups - that is, the "sensitive" sectors which seek protection - on governments and the will of the latter to defend and promote international trade.

In this respect, governments would have a less difficult task if they speeded up the transfer of factors of production from those industrial and agricultural sectors which are uncompetitive - and which in consequence need protection - to more productive activities. This represents an essential element in the struggle against protectionism, implying that governments should devote a smaller part of their resources to preserving uncompetitive production, and should make a greater effort to set in motion internal adjustments.

Clearly, the best way of resisting the re-birth of protectionism is to move forward towards the enlargement of markets.

Instead of continuing, as has been done during the past two years, to try - with greater or lesser success - to fight rear-guard actions in certain areas against the advance of protectionism, it would be more effective to undertake joint action by all the trading countries to achieve a further step forward in trade liberalization.

Conclusion

Certainly there is no shortage of difficulties. But possibilities of overcoming them do exist.

If one considers only the technical, legal and trade aspects, one can conceive of some perfectly feasible schemes for the organization of international trade in the years to come. These schemes could incorporate in a reasonably balanced manner the changes now taking place or foreseen so as to enable the trading nations to carry forward together their task of enlarging markets within the framework of GATT.

For this is the root of the problem. In the last analysis, the way to contain and reverse the protectionist pressures and trends towards discrimination which are becoming evident and expressed, to reduce the frictions which result, is to reduce progressively the barriers to trade: that is, the instruments of protection and discrimination.

This is precisely the objective of the work programme of GATT, decided upon and undertaken just after the end of the Kennedy Round, which is concerned with tariffs, non-tariff barriers and agriculture, and which gives special attention to the problems and concerns of the developing countries. Carried on, now, for nearly three years, it will in a few months from now provide the technical elements for a new negotiation.

In fact, the technical means, the machinery and the procedures are already available for making such adjustments as are necessary in this second post-war generation in order to produce the necessary changes without disrupting the existing structure.

But - and this is a considerable reservation - the technical aspect is not the only one. There are political, social and human factors, and it requires an act of political will on the part of States to use the available means, to put the machinery into operation and to have recourse to the procedures. It is at the government level that decisions are made.

It is true that the international organization can do much. It analyzes and defines problems. It offers possibilities for consultation. It helps to settle disputes. It has even the task, at the risk sometimes of making itself unpopular, of proposing solutions and calling on countries to negotiate.

Once again, however, the ultimate decision is a matter for governments.

Without going into the question of the process by which governments reach decisions, we should bear in mind the evidence that they are sensitive to their public opinion. Consequently, in order to help governments to make their political decisions, it is important to enlighten public opinion without disguising the facts.

The University, which is the repository of objective research and clear thinking, has an essential role in this respect. That is why, Mr. Director, I should like in closing to thank you for having given me the opportunity to put forward to your Institute, at the beginning of its new academic year, these few dispassionate - but also uncomplacent - reflections.
