
THE FUTURE OF THE GATT

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Trade controls emanate from some deep-rooted economic and social factors, and in order to foster liberalization of world trade it is necessary to deal with them. Unless the economic imbalance of various small or large countries is successfully corrected it may not be possible to build up a structure of international cooperation on the basis of the ideals of international exchange of goods and services. On the one hand, there are war-devastated countries which are now emerging from their prostrate and exhausted position. On the other, there is a large part of the world which is under-developed and backward but full of potentialities. For the countries of this part of the world the problem is different in scope as compared to the war-devastated countries in so far as they are required to build even the preliminary framework for their economic progress.

From the point of view of international stability both types of economic difficulties present a challenge to world trade. The question is of the severity of trade controls and the countries facing difficulties cannot be expected to eliminate them and thus expose their economies to greater hardships. In other words, they would require an allowance for the use of trade controls for a transitional period. At the same time measures can be taken with the cooperation of all countries to avoid unilateral or bilateral actions. From this point of view it is desirable to broaden the concept and pattern of international trade agreements through multilateral negotiations. This approach towards the world economic situation demands a proper stress on the possibilities of regularizing the techniques of trade policy.

Since the second world war the climate of expert economic opinion has undergone a gradual change and a new attitude towards trade policy is taking definite shapes. It seems that there is a shift from a discussion of principles to that of techniques of trade policy. This is mainly due to the rapid development of various methods of trade control. Tariffs used to be only exception to the general rule of free trade until the first world war. In the inter-war period there was a mushroom growth of trade and exchange controls encouraged, by the economic instabilities of the times, and the tariff protection began to be regarded as relatively less restrictive in its effects.¹ Ever since, tariffs have been rendered of secondary importance.

The attitude towards restrictions on trade in the twenties and thirties was determined by the ideals of free trade. This attitude continued throughout the second

1. H. J. Heck: Foreign Commerce, McGraw-Hill & Co., 1953, p. 325.

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world war until the beginning of the post-war period. The International Monetary Fund is based on the Articles of Agreement which incorporate this view. The charter of the International Trade Organization, in spite of all its escape clauses, is another example in this regard. The Fund had to postpone temporarily certain Articles because of the serious conditions obtaining in the member countries, and the I.T.O. charter was never finally approved by the contracting parties. For the last ten years the problems of rehabilitation and development have been so acute that the Fund could not operate within the narrow limits approved by its founders. At the present stage, however, the Fund is considering the possibility of asking its members to adopt their policies in future in accordance with the Articles which provide for elimination of restrictions.

The Chairman of the Board of Governors of the International Bank observed during the course of his address to the ninth session of the I.M.F. "that for the International Monetary Fund the period now ahead will be of crucial importance most of its members are still availing themselves of the facilities offered by Article XI of the Agreement; allowing member countries to continue or even to extend exchange restrictions and the implementation of the Fund's purposes make it desirable that many member countries should be found willing to renounce the protection offered by Article VIII".² The British Chancellor of Exchequer and the Temporary Alternate Governor for the United States also made similar pronouncements.³

Perhaps these ideas have developed in recent times due to the progress made by some countries for the first time since the second world war. Nevertheless, it would be difficult to deny that the obligations of Article VIII expose most of the countries to grave risks. This is more so for the under-developed countries whose special circumstances should receive full consideration in any proposal for a change in the policy of the Fund. The best solution would be to concentrate more on the ultimate increase in the production and supply of goods all over the world. In the meantime, the present structure of controls could be adjusted to minimize its restrictiveness. The General Agreement on Tariffs and Trade is paying more attention in this direction and has played a very useful role in bringing various countries towards mutual understanding within the framework of its Articles of Agreement.

The policy is to regard less severe restrictions better than the more severe restrictions, and the intention is to achieve the objectives of international cooperation on the basis of reciprocity. The emphasis in regard to the administration of trade including customs procedures, direct and indirect controls and exchange restrictions is on uniformity and non-discrimination. "Today a free trader is an individual who believes that tariff protection is sufficient and that duties should be fairly stable and should be subject to the most-favoured nation clause, *i.e.*, should be non-

2. International Financial News Survey, Vol. VII. No. 14. pp. 107-8.

3. Summary Proceedings: Annual Meeting, International Monetary Fund, p. 34 & 44.

discriminatory.”⁴

The development of government interference in the domestic economy has changed the circumstances which normally have been exercising influence on the commercial policy. These days almost all countries have their bureaucratic machinery which determines the direction, volume and composition of exports and imports. This phenomenon does not fit in the classical model in which a broad correlation is assumed between individual welfare and international stability. With the growth of new ideas, particularly around the conception of full employment, a common belief has developed that the governments are better custodians of national interests. This has resulted in the revival of mercantilism in international trade. Exports are determined in the light of the surplus of goods produced at home and imports are controlled according to the requirement of domestic economy. Another main feature is the role of political expediencies which have crept in due to the government interference in economic affairs. Under these circumstances, a harmony of interests based on the doctrine of comparative cost cannot be taken for granted, and international trade can grow and expand only through negotiations and compromise.⁵ This is a fundamental retreat from the pricing system of the classical theory for free multilateral trade.

This factor alone will be sufficient to bring forth changes in the basic provisions for international cooperation. The problem can be divided into two periods, transitional and normal. In the transitional period various measures may be adopted to round off the sharp edges of bilateralism. For the normal circumstances a system of ‘modified’ free trade may prove more beneficial than all efforts towards complete elimination of trade controls. In other words, it is a question of adopting a two-fold programme, one for the short period and the other for the long, period. The real foundations for a normal trade relationship will be laid in the short period. The measures adopted in the short period, therefore, will have important implications and they can be described in terms of the following propositions.

First, relaxation of trade controls through unilateral action may not be possible. But it may be possible if proper consideration is given to reciprocal agreements on the basis of non-discrimination and a reduction of trade restrictions, through mutual understanding by countries acting together and simultaneously.

Secondly, ‘restrictiveness’ of trade controls might be reduced considerably through a multilateralization of bilateral character of controls.

Thirdly, special consideration should be given to the problems of the under-developed countries whose main anxiety is to make progress in the shortest possible

4. G. V. Haberier: *Future of World Trade in Readings in the Theory of International Trade*, p. 538.

5. Lloyd A. Motzler in *The Theory of International Trade in the Survey of Contemporary Economics*, edited by H. S. Ellis, p. 252.

period of time. It is this race for time which makes the situation very explosive for these countries.

The third proposition is extremely relevant for the commercial policy of Pakistan, though the other two are no less important. At the present stage of her economic development Pakistan's economy is highly vulnerable to international pressures. On the export side there is a predominance of raw materials and foodstuff and their foreign exchange earnings are constantly on the decline for the last four years. On the import side there are two forces which are operating in the upward direction; on the one hand, there is a pressure for the supply of machinery and other producers' goods and, on the other, the demand for consumers' goods is rising due to the generation of incomes through economic development. Under these circumstances, it may not be possible for the government to leave the balance of payments to take care of itself, without impairing the process of economic growth. Other underdeveloped countries are more or less in a similar predicament.

The General Agreement on Tariffs and Trade in its original form is based on certain Articles of Agreement between the contracting parties. The basic Article requires the exchange of most-favoured nation treatment by the parties. More relevant to the conditions of the under-developed countries are Articles XI, XII and XVIII. The Article XI can be stated as follows:

“A government adhering to the General Agreement undertakes that no prohibition or restriction (other than duties, taxes or other charges) will be applied to trade with any other contracting party.”⁶

This general commitment to eliminate quantitative restrictions is qualified by the Article XII which allows “a contracting party to use import quantitative restrictions to safeguard its external financial position and balance of payments but these restrictions must be progressively relaxed as conditions improve.”⁷ Article XVIII contains provisions from Chapter III of the Havana Charter “whereby an adhering government may obtain authority to impose non-discriminatory protective measures for purposes of economic development or reconstruction”⁸ This provision gives some concession to the under-developed countries which are contracting parties to the Agreement. It also provides for a basis of international cooperation for such countries. But the provision is vague and has been found to have some serious drawbacks in it.

The ninth session of the General Agreement of Tariffs and Trade started in Geneva in the third quarter of 1954 with a view to explore possibilities of making the organization more useful. One of the problems before this session was the adjustment in the GATT provisions to be proposed in the light of the needs of the under-developed countries. After prolonged deliberations new proposals have been recently

6. GATT in Action. Geneva, 1952, p. 37.

7. *Ibid*, p. 47.

8. *Ibid*, p. 41.

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published by the 34 contracting parties including Pakistan. It has been proposed to establish a permanent organization known as the Organization for Trade Promotion. The major objectives have been re-affirmed by the representatives of all the participating countries: the principle of non-discrimination in trade and general prohibition to the use of quantitative restrictions and an undertaking to prolong the firm validity of tariffs bound under the Agreement. Concessions have been offered to the under-developed countries, which have been defined in the new document as “countries which can only, support low standard of living and are in the early stages of development.” The additional facilities which have been incorporated in the new proposals are as follows:

- (a) The under-developed countries will be allowed to maintain a sufficiently flexible tariff structure for the development of new industries.
- (b) They will be allowed to use quantitative restrictions on imports to protect their balance of payments in a manner ‘which takes full account of the continued high level of demand for imports likely to be generated by their programmes of economic development.’

These proposals have been worked out in the light of the past experiences gained by the General Agreement. The GATT, since its formation after the Geneva talks in 1948 followed by a session in Annecy in 1949 and in Torquay in 1951 has been concentrating on the general reduction of tariffs. All provisions in regard to the elimination of quantitative restrictions had to be postponed because most of the countries were suffering from balance of payments difficulties. Main hurdle standing in its way has been the disparities in the level of tariffs. Countries with low level of tariffs consider that they enter the negotiations at a disadvantage. In spite of this and other difficulties the GATT has been a tremendous success. It is an organization without any precedent in economic history. It has achieved two broad objectives: the stability of tariffs and multilateral pattern of negotiations. In the new proposals a provision has been made for a periodic review of the quantitative and other restrictions imposed by the participating countries. This will start new era in the regulation of the techniques of trade policy. There is another fundamental improvement in the procedure in regard to the under-developed countries. It has been suggested that these countries may enter into direct, negotiations with the interested parties for the development of an industry and in case no agreement can be reached then to refer the matter to the Organization for further consideration.

These are some of the more, important improvements and additions suggested in the structure of the Organization. And if the new proposals are implemented then ‘the next decade is more than likely to see net progress in the direction of the more liberal standards and the more accommodating attitudes which the majority of the important trading countries of the free world have set up as their common guide and goal.’⁹

9. Henry Chalmers: World Trade Policies, University of California Press, p. 544.