

these circumstances industrial economies are having to cope with slow productivity growth, fundamental demographic shifts, significant changes in demand and supply trends, technological changes, the effects of aging capital stock and the emergence of competition in some sectors from a number of developing countries. These structural phenomena (which have been exacerbated by cyclical overcapacity in some sectors) have been reflected in lagging domestic investment, unsatisfactory rates of unemployment and, externally, in large international-payments disequilibria and attendant periods of disorderly exchange market conditions. Domestically, these developments have led to pressures for increased government intervention, aimed particularly at stimulating investment and export earnings and protecting threatened industries from import competition.

While there has been a moderate economic recovery since the 1974-75 recession, current prospects are for little appreciable rate of increase in world trade or production for 1979 over 1978, and in particular little change is projected for real GNP growth in the industrial countries as a group (which averaged about 3.5 per cent in 1978). Looking further ahead, whether one accepts the "slow-growth" scenario or a more optimistic estimate, it seems generally agreed that the world will not soon return to the sustained growth rates characteristic of the pre-1973 quarter century. Among the many factors cited for this, is that tariffs have now been reduced in the West to the point where further reductions beyond those agreed in the MTN would be unlikely to lead to a significant expansion in international trade.

Thus, while constituting a signal success in present economic circumstances — a world-wide reduction in tariffs of about one-third, agreement on a series of significant non-tariff codes, and strengthened procedures for surveillance, consultation and dispute settlement — the MTN achievement is unfinished. It will be important to carry out the implementation of the MTN results through a) bringing domestic legislation and regulatory practices into conformity with the newly negotiated codes where necessary, and b) giving force to the codes through their effective administration in GATT. This will entail an enhanced management and administrative capacity for GATT. It will also likely require the development of a trade-policy role for the organization, possibly evolving from the existing Consultative Group of 18, which might be given a mandate to ensure that the spirit and intent of the MTN codes are fulfilled and trade-policy issues are addressed in a timely and coherent manner. Without determined follow-through, the MTN results might not be rigorously applied, increasing the risk of escalating trade-restrictive measures which the last six years of MTN negotiations have helped to avoid.

While the MTN result that has emerged is better than could reasonably have been expected under the circumstances, it can neither substitute nor lessen the need for fundamental adjustments in the world economy to the underlying structural changes which are now taking place. Moreover, given the degree of structural problems perceived and the lack of public support for freer trade, pressure to maintain protective mechanisms may rise in proportion as the pace of adjustment threatens to exceed domestic tolerance. Protectionism and adjustment thus confront trade policy makers with a basic two-edged issue which must be faced squarely if the MTN results are not to be endangered by the implementation of more sophisticated beggar-thy-neighbour policies. To reinforce their endorsement of the MTN results and any impetus given to their implementation, leaders at the Tokyo Summit made public their concern to manage the medium-term issues of adjustment and protectionism.

#### Protectionism

Protective measures, both ongoing and temporary, are provided for in GATT and are not regarded *per se* as necessarily unwise or undesirable. Judicious application of temporary and reasonable protective instruments can be a legitimate response to the injurious effects of imports whose disruptive impact overwhelms the absorptive capacity of the receiving economy at the time. Legitimate protective measures can be used to buy time for a domestic industry to adjust to foreign competition by becoming more competitive, or to "adjust out" of an industry in a manner which minimizes hardship on the workforce. As sanctioned by GATT, they also protect producers from unfair injurious import competition arising from such measures as dumping, government subsidization or predatory pricing practices. However, especially in periods of slow growth, the danger is that protective measures will be used only as means of deferring adjustment and safeguarding employment — as palliatives treating immediate symptoms rather than as remedial actions aimed at underlying causes.

While often politically more attractive in the short term, protective action which does little more than prop up weak industries usually creates vested interests in continued protection, often attracts new investment to the least dynamic sectors of the economy, and thus contributes to inflexibilities in the economy which lock in labour and capital to their least dynamic uses. In the long run, this will involve loss of higher-income, higher-productivity jobs in those sectors with the most growth potential. Moreover, the real danger that protectionism would spread through example and retaliation cannot be underestimated in a sustained period of slow growth.

It is against this background that the OECD Trade Pledge (to avoid trade-restrictive measures for