

STATEMENTS AND SPEECHES



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An address by the Under-Secretary of State for External Affairs, Mr. L.D. Wilgress, to a meeting of the Canadian Council of the International Chamber of Commerce, Toronto, February 17, 1953.

The subject of my address to-day is "International Economic Co-operation". In a sense it is rather presumptuous of me to be speaking on such a subject to a gathering of this kind. The very existence of your Chamber is predicated on international economic co-operation. In your Chamber the businessmen of the world are showing how representatives of various countries can get together from time to time and put forward constructive proposals designed to bring about better co-operation between nations.

It is fitting, therefore, that you should consider in the Canadian Council the means by which the International Chamber of Commerce can propose to the different governments how they can bring about more effective international co-operation in the economic sphere.

I have had first-hand experience of the steps which have been taken to make the co-operation of governments in this sphere more effective. This has not always been very encouraging. I have attended a number of inter-governmental conferences on this subject, commencing with the World Financial and Economic Conference held in London under the auspices of the League of Nations in 1933 and ending with the Torquay Tariff Conference in the winter of 1950-51. In between there were the whole series of conferences and tariff negotiations designed to bring about international co-operation in the sphere of trade. These meetings led to the conclusion of the Havana Charter for an International Trade Organization, which proved to be still-born, and also to the conclusion of the General Agreement of Tariffs and Trade or the GATT, which is still very much alive. It is with this effort at international economic co-operation that I wish particularly to deal to-day.

The London Financial and Economic Conference took place at the depth of the depression and failed completely to bring about a joint effort by governments to solve the problems with which they were confronted. The result was that each country went more or less its own way in endeavouring to deal with the pressing problems of mass unemployment, under-production and fluctuating exchange rates. Instead of international economic co-operation we had international chaos brought about by the worst manifestations of economic nationalism.

When the war broke out, it became apparent that this state of affairs had had a lot to do with bringing about the situation which gave rise to war. Peace and prosperity were recognized as indivisible. It was, therefore, natural that during the course of the war attention was directed to the various types of organization which would promote better international understanding in the future and alleviate those international frictions which gave rise to war.

To assure peace an international security organization had to be recreated and this led to the discussions which resulted in the San Francisco Conference and the signing of the United Nations Charter. To assure prosperity it was proposed that there should be a whole series of Specialized Agencies dealing with the various phases of financial and economic relations between countries. The most important of these organizations were to be the International Monetary Fund, the International Bank for Reconstruction and Development and the International Trade Organization.

Just as we are all inclined to prepare for the next war on the basis of our experience in the last, so we began to prepare for the peace in the light of our experience between the wars, which meant in the light of what had happened during the great depression of the 30's. At that time one of the chief disabilities to trade had been fluctuating exchange rates; so, as early as 1952, attention was directed to organizations which would assure the stability of currencies and also correct some of the other known deficiencies in the international monetary arrangements of the inter-war period. This gave rise to the discussions which eventually led to the founding of the International Monetary Fund and the International Bank for Reconstruction and Development.

At about the same time the countries concerned were considering the setting up of an organization which would deal with questions pertaining to the exchange of goods between nations. It was out of these discussions that there grew the proposals for the International Trade Organization or ITO. As early as 1943, consultations on this subject took place between representatives of the United Kingdom, the United States and Canada. Since discrimination in trade had been a source of international friction in the past, and since the Atlantic Charter of August 12, 1941, and other instruments accorded official recognition to the principle of non-discrimination in trade, it was early recognized that the new organization should be founded on the basis of the unconditional most-favoured-nation clause. This made it necessary, however, to consider what should be done with recognized derogations from this clause, such as the preferences exchanged between the countries of the British Commonwealth of Nations.

Another very important factor was fear of a recurrence of the mass unemployment which had played such social havoc during the depression of the 30's. This factor prevented the full application of liberal principles to the proposals for the International Trade Organization. It was understood that countries might well become involved in balance-of-payment difficulties through measures taken to assure full employment at home. The right, therefore, would have to be accorded to countries both to resort to quantitative restrictions and to discriminate in the use of these restrictions whenever they became involved in balance-of-payment difficulties.

In order to give substance to the proposals for the International Trade Organization, and in particular to deal with the vexed question of preferences, it was decided that, at the time a draft charter for the organization was being drawn up, there should take place a series of tariff negotiations between a group of important trading nations. These negotiations would secure as wide a reduction as possible in tariffs in order that the new organization might start off with a practical demonstration of an attack on trade barriers. It was also agreed that margins of preference should be negotiable on the same basis as rates of duty, so that during the course of the negotiations not only could rates of duty be reduced but also the extent of the preferences accorded by one Commonwealth country to another.

In keeping with the prevailing sentiment at the time, it was decided to adopt the universal rather than the nuclear approach to the drawing up of a charter for the International Trade Organization. The nuclear or "key country" approach would have been inconsistent with the conception of "One World" that was being fostered at the end of the war. This decision undoubtedly was right politically, but it made the task of agreeing upon a practical and liberally-inspired charter impossible of realization.

In December 1945, the United States Government issued its "Proposals for Expansion of World Trade and Employment." This document was referred to a Preparatory Committee for the United Nations Conference on Trade and Employment. This Preparatory Committee was composed of representatives of eighteen countries. On account of the importance of preferences, all of the Commonwealth countries were included in the committee. Cuba was also included on account of the preferences which that country exchanges with the United States.

It was provided that the Preparatory Committee, in addition to drawing up a draft charter for the International Trade Organization, should arrange for a series of tariff negotiations between the countries who were members of the committee. A preliminary session of the Preparatory Committee was held in London in the autumn of 1946 and a more definitive session was held in Geneva during the following summer. At the Geneva session arrangements were set in hand for a series of bilateral negotiations between pairs of countries represented at the session. It was agreed that the results of these negotiations should be embodied in the schedules to an agreement. It was also agreed that all of the concessions granted by one country to other countries should be embodied in one schedule, thereby giving a multilateral character to the concessions negotiated on a bilateral basis.

It was in this manner that there took place in Geneva the first of what has become to be a well-established procedure for the conduct of a whole series of tariff negotiations between different countries in one place and at one time. As such it was a unique experiment in trade agreement negotiating technique. It was peculiarly adapted to the requirements of the United States Reciprocal Trade Agreements Act. This act required the United States to give public notice of intention to hold negotiations for a trade agreement and to give interested parties in the United States an opportunity of making their views known at public hearings. Obviously this elaborate machinery could be simplified if a whole series of negotiations with different countries could be held in one place, at one time, and the results embodied in one trade agreement.

Although slow in getting under way, the trade negotiations proved to be very successful and led to substantial reductions in duties over a wide front and covering a large proportion of world trade. The results of the negotiations were embodied in an instrument known as the General Agreement on Tariffs and Trade.

At the same time as the tariff negotiations were taking place, a draft charter for an International Trade Organization was being drawn up. I have already indicated that the United States proposals on which the discussions were based had led to a departure from strict liberal principles of trade in order to accommodate the misgivings of those who feared a recurrence of the mass unemployment of the 30's. During the deliberations on the draft charter in the Preparatory Committee, it also became evident that the strict application of liberal principles would have to be modified in order to take account of the desires of underdeveloped countries. They wished to resort to special measures to enable them to force the pace of their economic development. In particular, these countries wished to use quantitative restrictions to accomplish this end.

The United Nations Conference on Trade and Employment took place in Havana during the winter of 1947-48 and was attended by the representatives of fifty-four countries. The draft charter prepared by the Preparatory Committee was taken as the basis of the deliberations at the conference. At once a clash of views developed between those who wished to limit the use of quantitative restrictions and those who wished to justify their use, either to assure the maintenance of full employment or to force the pace of economic development. Concessions had to be made to both points of view with the result of an inevitable compromise that really satisfied no one. In particular the Havana Charter met with a very cool reception in the United States because it fell so far short of what was desired. It was some years, however, before it became clear that the charter would never be ratified.

In the meantime, meetings had been taking place of the Contracting Parties to the General Agreement on Tariffs and Trade. That agreement, besides giving effect to the tariff concessions negotiated at Geneva, embodied certain provisions of the Havana Charter. The General Agreement consisted of three parts and Part II consisted of articles taken from the charter of the International Trade Organization. It was intended that Part II should be suspended once the Havana Charter came into effect. The ITO would then have taken over supervision of the operation of the General Agreement. The principle underlying the selection of articles from the charter for the purpose of the agreement had been the inclusion chiefly of those provisions which were necessary to safeguard the tariff concessions. Consequently the articles had been taken mostly from the Commercial Policy Chapter of the Havana Charter. It had been necessary, however, to include one article from the Chapter on Economic Development.

It is important to bear in mind that the General Agreement has not yet been ratified by any country. It is, however, being provisionally applied in accordance with a Protocol of Provisional Application. This protocol provided that the governments would apply provisionally Parts I and III of the General Agreement and Part II "to the fullest extent not inconsistent with existing legislation".

One of the articles of the General Agreement had provided that from time to time representatives of the contracting parties should meet for the purpose of giving effect to those provisions of the agreement which involved joint action and, generally, with a view to facilitating the operations and furthering the objectives of the agreement. It is in accordance with this provision that meetings have been taking place from time to time of what has come to be known as the GATT. This is the only universal forum in which inter-governmental discussions on commercial policy questions can take place. Seven sessions have already been held and have demonstrated the usefulness of having an organization of this kind.

An advantage of GATT over other organizations which have been set up since the war is that its basic instrument is flexible. One of the articles of the General Agreement provided that if the Havana Charter had not entered into force by a certain date, which date has already passed, the Contracting Parties would meet to agree whether the agreement should be amended, supplemented or maintained. At the appropriate time, therefore, a meeting can be held which should lead to a thorough review and no doubt revision of certain of the provisions of the General Agreement.

In the meantime, two other sets of tariff negotiations have taken place under the auspices of GATT. One of these was held at Annecy, France, in 1949, for the purpose of admitting certain important trading countries to the General Agreement. The other was held at Torquay, England, in the winter of 1950-51. This was not only for the purpose of admitting other trading nations but also was for the purpose of permitting all of the contracting parties to negotiate once more with each other, particularly having in view the fact that the concessions negotiated at Geneva had been bound for a three-year period only, that is to the end of 1950.

Another respect in which GATT has been different from other organizations established since the war is that it is conducted on a very modest basis. It is served by the secretariat originally set up to attend to the needs of the Interim Commission for the International Trade Organization. This secretariat, although most efficient, numbers only 35 persons and has an annual budget of around \$350,000. This compares favourably with other Specialized Agencies of the United Nations, most of which have staffs of several hundreds and annual budgets running into several millions.

GATT, therefore, is showing the advantage of building up an organization slowly from small beginnings. It is also showing the advantage of flexibility. Most of the Specialized Agencies have charters of a rigid character which can be amended only with difficulty. Now as I have already pointed out during and immediately after the war certain factors were dominating the minds of those who were considering the economic problems. Such factors were the fear of unemployment, fear of retarded economic development and fear of unstable exchange rates. The charters of the economic agencies reflected these fears. That is why the Havana Charter did not prove acceptable to public opinion in the United States. That is why the Articles of Agreement of the International Monetary Fund had not been applied too literally in the case of certain countries.

In essence, however, the failure to realize the hopes for international economic co-operation has been due to our neglect to make a frontal attack on economic nationalism. At the time of the Havana Conference, nations were not yet ready to give up that form of economic nationalism which had become such a marked feature of international relations during the depression of the 30's. Economic nationalism was bound up with the desire of countries to indulge in planning on a national basis for the purpose of assuring either full employment or their economic development. To give effect to these national plans, it was felt necessary to maintain strict controls, particularly over external trade.

There are signs that nations are beginning to realize that the basic laws of economics must be allowed to operate. For instance, we have seen recently the importance that is attached not only to how to avoid unemployment but also to how, at the same time, to avoid inflation. Again, at the last GATT session, held in Geneva last autumn, the representatives of underdeveloped countries showed a clearer recognition of how their prosperity is bound up with the prosperity of the industrial countries.

In other words, the experience of the post-war period is leading to a general recognition of the need for flexibility and the unfavourable economic consequences of import restrictions. There has been a reaction against the policy of national economic planning. Countries such as Belgium, Canada and Germany have been demonstrating the beneficial results of permitting freer play to economic forces.

While it is recognized that we have been blessed with much good fortune in the shape of new discoveries of oil and other resources, our example in particular is attracting universal attention. It is making people everywhere begin to think that there may be virtue after all in allowing enterprise really to be free. No country in recent years has developed economically as rapidly as Canada. Yet Canada has not been resorting to the measures other countries have been claiming as essential to rapid economic development. We are showing that an economy can be managed by fiscal policy without the need of the crippling effects of direct controls. General recognition of this can pave the way for genuine international economic co-operation.

The way, therefore, is being prepared for another attack on trade barriers. This time the conditions are more propitious for a frontal attack on economic nationalism. Nothing could contribute more to winning the battle for men's minds now being waged between the rival doctrines of free enterprise and communism than a practical demonstration of the virtues of the free enterprise system when applied consistently throughout the whole of the free world.

What is needed is leadership. This can come only from one country simply because that country represents such a large slice of the world economy. Taking any of the indices commonly used to measure economic strength, we find that the United States represents about one half of the economy of the whole world even including that part of the world which lies behind the Iron Curtain. It is, therefore, only the United States that can provide the leadership necessary to bring about effectively that international economic co-operation which is the subject of this address. As one American writer has so well put it, - "The United States is the only power in the world today that could promote a movement toward economic internationalism. It is the only nation that can play St. George to the deadly dragon of nationalism".

The United States has already made an important contribution to the reduction of trade barriers. Although the percentages I am about to quote do not take account of duties which are so high that they exclude imports more or less completely, it is significant that since the Reciprocal Trade Agreements Act came into force in 1934 the average ad valorem incidence of United States duties on dutiable goods has been reduced from 46.7 per cent to 12.5 per cent. A large proportion of this reduction has been effected through the concessions granted at Geneva, Annecy and Torquay and embodied in the appropriate schedule to the GATT. Besides many United States duties are not ad valorem but specific and the considerable post-war rise in the price level means that the ad valorem incidence of these specific duties has been greatly reduced. This particularly affects the main products exported from Canada to the United States. We, therefore, have benefitted in two ways, firstly, from the reductions in duties as a result of the concessions in trade agreements and secondly, from the reductions in the ad valorem incidence of specific duties.

Our position is a fortunate one. The United States has ceased to be self-contained in respect of many raw materials. They are looking for convenient sources of supply outside of their own borders. To what country could they more conveniently turn than to Canada? What other nation would not envy our position as a country possessed of great resources alongside of the most highly developed industrial nation?

However, this change in the complexity of the world economy is having one unfortunate result for Canada. A much larger proportion of our exports is now composed of raw materials and foodstuffs. This does not mean, however, that we have become hewers of wood and drawers of water, because in a period of dynamic growth the terms of trade favour those in possession of the raw materials which are growing relatively scarcer. Nevertheless, we would all feel happier if manufactured goods were contributing a larger proportion to our export trade. Now it is exactly in respect of manufactured goods that there has been little reduction in the United States barriers to imports. The duties on this class of goods are mostly ad valorem and the rates usually are very high. Moreover, the complexities of the United States customs laws and regulations are restrictive chiefly in respect of manufactured products. The United States negotiators also have been more timid about granting concessions on finished goods than on semi-manufactured products and raw materials.

While this situation has been disadvantageous for Canada, it has been disastrous for the Western European countries who chiefly have finished goods to sell to the United States. This explains why they have been less impressed by the results of the Reciprocal Trade Agreements Programme than we have been. Yet it is the Western European countries that we need to help if the economy of the free world is to be viable. The present situation calls for bold measures if the United States is to give the leadership necessary to assure the free world of peace and prosperity on a sound basis.

The most effective manner in which the United States can provide bold leadership is to reduce its tariffs further and to simplify its customs laws and regulations. In doing so it can require in turn other countries to give up those forms of quantitative restrictions which have been doing so much to throttle trade since the war. It is encouraging to note that in

his recent State-of-the-Union message to Congress President Eisenhower has endorsed these objectives, even though in doing so he put forward the customary reservations about safeguards for domestic interests.

In this setting you will see that GATT assumes an importance out of all proportion to what it was in the beginning, when it was a mere off-shoot of the proposed International Trade Organization. I have already pointed out that GATT is flexible and contains among its provisions one which requires a meeting to be held to adapt its provisions to the changed circumstances. Moreover, at the end of this year the tariff concessions negotiated at Torquay are no longer bound since the three-year term will then have expired. Another round of tariff negotiations, similar to that which took place at Torquay, must be held soon.

Even if the bold leadership that is required is not forthcoming in the immediate future, I am still confident that GATT will continue to grow in strength. As the only organization dealing with the problems of trade and commercial policy on a world-wide basis, it fulfills a real need which is coming to be appreciated more and more by the participating countries. Thirty-four of the leading trading nations are contracting parties to the General Agreement. Moreover, each country values highly at least some of the concessions it secured at the three rounds of tariff negotiations held at Geneva, Annecy and Torquay. Hence, no one country would lightly abandon the inroads that already have been made on the tariff barriers to trade.

If, on the other hand, GATT is invigorated through leadership of the kind I have described, then there is no telling what may be the importance of the role which this organization will play in the realm of international economic co-operation. It can become the principal forum for discussion on the formulation of new rules to govern the conduct of international commerce with the least possible interference by tariffs and other barriers to trade. In this way GATT could come to represent the beginning of a new era holding out the promise of peace and prosperity for the free world.

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