

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

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AVOIDANCE OF MARKET DISRUPTION

Statement by Mr. S.T. Swaminathan (India)
at the Meeting of the CONTRACTING PARTIES
on 31 May 1960.

1. It would be useful to recall that we have all met here as contracting parties to the GATT because we subscribe to a common belief that relations in the field of trade and economic endeavour should be conducted with a view to developing the full use of the resources of the world and expanding the production and exchange of goods. We look to the reduction of barriers to trade and to the elimination of discriminatory treatment in international commerce for the realization of the objectives of the General Agreement which are described in the Preamble.
2. We all recognize that the GATT does not prevent countries from protecting their domestic industries and following policies aimed at promoting employment and higher national standards of living and personal incomes. At the same time, we also recognize that these objectives of national policies cannot be achieved in the long-run at the cost of distortion of international trade patterns or by neglecting the efficient utilization of resources of material and labour which is made possible by international trade.
3. It is necessary to keep these rather elementary facts firmly in view in order that, in dealing with certain limited problems, one does not run the risk of wrecking the larger objectives to which we all subscribe.
4. In our view, the CONTRACTING PARTIES have made an important beginning in the attainment of these larger objectives during the last two or three years. I refer to the programme adopted at the thirteenth session for the expansion of international trade, the work done in Committees I, II and III and, in particular, to the attention directed to the problem of expanding the export earnings of less-developed countries so that international trade can make its contribution to the raising of living standards and to the growth of incomes in the less-developed parts of the world also.
5. We feel that the CONTRACTING PARTIES have, in the past, not been able to sufficiently come to grips with the problems of expanding the trade of less-developed countries. On the other hand, because of national or regional attitudes

towards the liberalization of trade, various discriminatory measures have continued to be applied to exports from the less-developed countries which have resulted in such countries being denied even an equal opportunity with their more advanced trading partners in sharing in world markets and meeting the international demand for goods. Committee III has, in the last few months, pinpointed some of the specific obstacles to the development of the export earnings of less-developed countries. There are signs that there is growing recognition of the fact that there is no justification for discriminatory treatment of goods from less-developed countries. Although there is still much ground to be covered, the less-developed countries have begun to entertain hopes that the obstacles to the trade of less-developed countries will be progressively reduced and that the more industrially advanced trading countries may be persuaded to remove and not impose or re-impose impediments to the entry of the goods from the less-developed countries into their markets even if thereby domestic industry might face competition - even severe competition.

6. A very important point to remember is that industrialized countries are currently passing through a phase of unparalleled prosperity in which conditions of full employment and even over-full employment are the rule. No more appropriate or opportune time could be conceived of for encouraging or deliberately accomplishing shifts in patterns of production involving a transfer of resources from less to more economical sectors of production. Such measures have already been taken, for instance in Lancashire. Much good can accrue in the long-run to both industrialized countries and the less-developed countries by this diversion and channelization of investment into the most economically efficient directions.

7. It would, in our view, be a thousand pities if the concentration of pressures from imports on certain limited sectors of production in particular countries leads to a general reversal of the efforts to expand international trade and, in particular, exports from the less-developed countries. We are aware that this is not what most of our colleagues round this table who are most directly concerned with this problem of "market disruption" contemplate at all, and that indeed many of them believe that it would be possible to make more rapid progress with the removal of obstacles to the trade of less-developed countries if importing countries could be insured against abnormal pressures arising from sharp increases of imports. Nevertheless, Mr. Chairman, we fear that the adoption of ill-considered remedies without a full examination of the actual character and dimensions of the problem may easily produce results which encourage a continuation of barriers and the erection of new obstacles to such exports.

8. We have examined the report brought out by the GATT secretariat in an effort to assess the character and dimensions of this problem. It appears from this report that, in some countries, there has been a fairly sharp increase in imports of (a) textile fabrics, and (b) a small range of other relatively minor items extending from boots and shoes to overcoat buttons. It seems to be evident that it is only in a few markets that the increase has been of such a character and concentrated within such a short period of time as to carry with it a threat of disruption or sudden hardship to domestic production. It also appears that some of these imports come from countries which have already attained a high level of industrial productivity and not

from countries which are still in a process of development. This underlines the point which we have made repeatedly that a problem of disruption such as is causing worry to some of our colleagues is not intrinsically a problem restricted to exports from the less-developed countries. The second important fact which emerges from the GATT document is that in many countries there has been no increase in imports nor even any proximate threat of disruption. Nevertheless, import restrictions are being maintained in a manner which is not contemplated in the philosophy and objectives of the General Agreement. In several cases, the level of these restrictions and the manner in which they have been operated have been seriously detrimental to some of the less-developed countries. It is obvious that, in several cases, whatever the reasons and the object, the result has not been giving protection to domestic industry from sudden disturbing influxes of imports where such protection was genuinely needed, but the continuance of protection against normal and legitimate competition. It would be relevant to recall that such protection was originally incidental protection in circumstances under which restrictions were permissible under the General Agreement.

9. On a careful analysis of the secretariat report, it appears to us that, insofar as the problem of so-called "market disruption" is an actual problem and not merely a problem which certain countries apprehend may arise, it is confined to the pressures felt in certain sectors of textile production in some countries - the United States and Canada may be mentioned as examples - and in a few other minor directions. We ourselves firmly believe that this concentration of pressures arises because, while some countries have kept their markets open to imports from more competitive producers in accordance with the objectives and obligations to which we subscribe in the GATT, some other countries, under internal pressures, have continued to restrict the entry of such goods and confer an unjustifiable measure of protection on their domestic industries through the use of quota and other restrictions. The difficulties have arisen not because the present GATT machinery is inadequate for protecting markets for textile and other goods from disruption, but because it has not been possible for the machinery to work in the sense of persuading all countries, who have no longer any balance-of-payments justification for their restrictions, to remove such restrictions. The first step should, in our view, clearly be to see that certain countries which still maintain discriminatory restrictions on imports of certain types of goods remove such restrictions so that their markets too absorb some part of the supply of such goods. We are glad to know that there is some recognition of the importance of this being done. Unfortunately, Mr. Chairman, this has not prevented efforts to justify the continuance of restrictions which are clearly contrary to the obligations of the countries concerned on the ground that, if such restrictions are removed, disruption of domestic markets may result.

10. We cannot emphasize the point too strongly that in dealing with this problem of so-called "market disruption", there must be no blurring of the obligation which contracting parties have assumed under the GATT not to maintain restrictions which are not justified under the Agreement. Indeed, the removal of discriminatory restrictions is the first essential step to the solution of the difficulties arising from an increase in imports of a narrow range of products in certain countries. Equally, we wish to emphasize that we cannot seek solutions for difficulties which have not in fact arisen,

or provide safeguards for dangers that are apprehended but in the event may never materialize. We find it very odd that while the Member States of the European Economic Community have resolutely refused to entertain any claims for safeguards which are based on apprehensions of the damage that, for example, the association of the Overseas Territories with the Community may cause to the trade of third countries, they should seek to make the withdrawal of the restrictions which they maintain on various manufactured goods conditional on the provision of safeguards against the possibility of future damage to their domestic industries from the opening of markets. Now that we are proposing to embark on the study of possible market disruption, it is our demand that the European Economic Community should take another look at its attitude towards possible damage in the other context, from the point of view of compensating us.

11. Insofar as anything needs to be done to deal with this problem of disruption beyond ensuring that exports of the goods causing difficulty are more widely distributed over all the international markets, we have to distinguish between the short-term and the long-term aspect of the problem. In the short-term it is possible that due to various factors of special kind there may be sudden or sharp increase in imports in particular markets which tend to disrupt domestic production and cause avoidable injury to the domestic industry. We ourselves have believed that the provisions of Articles VI and XXIV of the GATT are adequate to deal with this problem. Beyond this, there is the use of Article XXIV. We realize that Article XXIV can only have limited application. There is, however, the possibility of reciprocity under Article XXIV. We have already withdrawn our application of Article XXIV to Japan. We wish for a wider - in fact the universal - removal of the application of this Article to Japan. Moreover, voluntary agreements are possible. Japan has - in some cases Pakistan, India and Hong Kong have - some such arrangements too. The attitude and approach of the CONTRACTING PARTIES to the difficulties of individual members has always been sympathetic, practical and pragmatic. We have before us the instances of adjustments devised by the CONTRACTING PARTIES in the case of the United States Agricultural Adjustments Act, the Belgian Agricultural Waiver, special provisions in regard to Swiss accession and the arrangements in regard to German import restrictions, to mention only a few examples of this co-operation and pragmatic approach. If it is felt that in some specific cases where difficulties have arisen through "market disruption", the procedures spelt out in the provisions of the GATT are not adequate or that satisfactory bilateral arrangements are not possible, we have no objection to the proposed further study within the GATT framework being undertaken. On the other hand, Mr. Chairman, we have to look at the long-term trend. There may be increase in imports of particular types of goods into certain countries because exporters of these goods are more efficient producers or because the domestic industry in the importing country is no longer, for one reason or the other, fully competitive. In such a case, the use of restrictive measures can only interfere with the efficient utilization of resources and the maximization of benefits flowing from international trade. The real long-term solution can only be that the domestic industry turns at least partially to other lines of production. There should be a shift of resources to the more competitive sectors of the economy. There are examples of old-established regionally concentrated industries changing their structure and benefiting thereby. For instance, cotton textile industries

have sometimes turned to the man-made fibres with great benefit to themselves. Arrangements for easing difficulties of transition can certainly be discussed, but we have to be careful to avoid engaging ourselves in devising measures or arrangements which can only have the effect of frustrating the gains which we all expect from international trade and rational international division of labour. It is for this reason, Mr. Chairman, that we have some serious misgivings about the proposed larger study of various items in the cost of production of goods and, more specifically, wage costs as factors entering into the competitive position of goods in international trade. We consider it a self-evident proposition that the competitive position of a particular industry is determined by the total efficiency of the factors of production and a study of this nature inevitably involves the danger of isolating one element or another in the cost of production and relating relative efficiency of production to such single element. In the present approach to the problem, we are greatly concerned at the disproportionate emphasis given to labour costs under, what appears to us, internal political or social pressures of a special kind and the danger of this leading to ill-considered judgments regarding possible disruption of the markets of countries with higher wage levels from exports of countries where wage levels are in an absolute sense low. Wages in individual industries have to be judged against the total background of the general wage level, stage of economic development, internal prices, etc., and wages of different classes and kinds of labour e.g. professional classes, white-collar workers, etc.

12. To sum up, Mr. Chairman, we have no objection to a study being made by a working party with a view to examining the character and dimensions of the problem of disruption which has been raised and with a view to advising whether any safeguards not already available under existing GATT procedures are called for. Such a study should not, however, in our view be allowed to be the excuse or argument for retarding the removal of restrictions by countries which have no justification in the GATT for maintaining them. Such a study should also keep closely and firstly to an analysis of actual causes of disruption. Questions of possible damage involve some forecasts of trend which, as likely as not, may not be realized. In the field of economics as indeed even in the field of more exact sciences like meteorology, it is within our range of experience that forecasts are liable to be very far off the mark. Above all, in seeking some protection for domestic markets from dislocations caused by sudden and sharp increases in imports, we must not do anything which frustrates our general objective of expanding trade and the specific efforts to promote the trade of less-developed countries which we have engaged in during the recent months. We would urge that the work, for instance of Committee III should not, in any circumstances, be slowed down. Increasing trade is of the utmost urgency to the less-developed countries.

13. We agree to co-operate in the work of any working party or working group that may be established.