

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## REMARKS MADE BY AMBASSADOR FRANZ BLANKART AT THE END OF HIS TERM OF OFFICE AS CHAIRMAN OF THE WORKING PARTY ON STRUCTURAL ADJUSTMENT

Glancing back over the work done by this Working Party in the past two years during which it entrusted the office of chairman to me, one has to recognize that it has had to pursue a fairly narrow path determined by dialectics whose conflicting features could only be synthesized by concentration on trade policies, on the disciplines imposed by existing standards, and by injecting a retrospective or forward-looking time element. This way of proceeding was necessary because some participants did not want to create new obligations concerning structural adjustment in the strict sense, while others were in favour of formulating disciplines at multilateral level. The narrowness of this approach has not necessarily been a disadvantage, to the extent that it has allowed more in-depth analysis of the substance.

While as regards the objectives of GATT's own work, better understanding of the adjustment process has been considered to be a means of facilitating trade policy measures directed towards expression of international trade, this reflects quite encouraging optimism as to the dynamic impact that knowledge can have on policy. What is perhaps most significant is recognition, as an objective, of the "interaction" existing between structural adjustment and trade liberalization; at least for me, it implies a contrario recognition that interaction exists between maintenance of outdated structures and protectionism. As the two studies prepared by the secretariat have shown, there can no longer be any doubt as to the relationship existing between the provisions of the General Agreement and the structural adjustment process. Those studies have also clarified considerably the degree of interrelationship in the past between developments in international trade and changes in production structures, as well as factors relevant to those changes.

Whether trade liberalization is the factor that encourages structural adjustment, or vice versa, may seem a relatively unimportant differentiation given the interaction between them. On the other hand, explicit and priority choice of one of these alternatives can become a choice of society to the extent that structural adjustment does or does not become an essential task of the State or an inescapable condition for opening frontiers. Now, whatever the weighting and the choice assigned to these alternatives, it would in my opinion be wrong, because in no way essential and moreover unrealistic - for market-economy countries - to

alter relationships between the State and the economy in the direction of increased interventionism with a view to facilitating imports from countries which enjoy comparative advantages.

In other words - and I am speaking in my personal capacity - I would like to warn the developing countries against expecting unduly the public authorities of developed countries to be willing and able to implement innovation in abstracto, directing it towards allowing increased admission of cheaper manufactures into those countries. The principal factor of innovation is competition, hence reciprocal opening of markets in fair conditions of competition. It would be fatal, therefore, to give priority to structural adjustment in relation to trade liberalization, for this could aggravate structural rigidities by arousing mistrust as to the regulating capacity of the international market. While it is true that structural adjustment is an ongoing process - contrary to the very essence of any safeguard measure - the increasingly permanent character of active or passive aids or safeguard measures is at least an indication that the latter are less and less considered to be appropriate means for adjusting outdated structures to international competition. Moreover, this problem is not confined to North/South relations, but can just as well be shown to exist in relations among industrialized countries and among developing countries. The Working Party rightly decided therefore, after some hesitation, to approach the problem on a global and general basis. The General Agreement offers only scant resources for regulating active or passive State interventionism in regard to structural adjustment. Neither Article XVI nor Article XXXVII:3(b) would afford the appropriate means, particularly if it were a matter of increasing the State's operational impact on structural adjustment. What, then, will be GATT's future function in this area? The reply will depend essentially on how the contracting parties define the relationship between State and economy, and this clearly concerns each State's own sovereignty. That is why the Working Party limited its approach to the trade policy aspect, no doubt thereby evidencing its collective wisdom.

The importance of that approach must not be underestimated, if one takes account of indebtedness which is beginning to become an increasingly worrisome problem, and not only in the Third World.

Any solution as such to that problem is conceivable only through increased productivity in the debtor countries. On the one hand, one must therefore encourage adaptation of their products to market demand - in terms of both quality and quantity - and in certain cases support the market by reducing excessive price fluctuations and, in those same cases, assuring producers of a fair return on exports. Next, it would be desirable to allow foreign investment on terms as stable and liberal as possible, provided it is productive, can be integrated, and is not detrimental to the environment; this would require, inter alia, an investment guarantee scheme and safeguarding of intellectual property. Last, and most important, this implies continuing improvement in import

conditions for the products thus manufactured, including those from developing countries, together with contractual and progressive liberalization of trade among developing countries and with industrialized countries, while ensuring overall balance of trade at multilateral level. This leads me to say, taking into account the foregoing, that we must all move forward in innovative restructuring, whatever stage we have reached in our industrialization or development, for three reasons: in the first place, because such restructuring is the key to access to foreign markets, liberalized on a reciprocal basis. Secondly, restructuring is inescapable because we cannot settle the oil problem (it is going to stay with us) by indexing and fleeing into inflation. We cannot offer ourselves the luxury of energy unless we use it more and more productively. The energy challenge can only be overcome through productive restructuring, and this requirement must be borne in mind in the maintenance and creation of every job. And thirdly, innovative restructuring is inevitable because it is the only means for achieving international division of labour which is in our well-understood economic and political interest, regarding which we have no choice, and which in the last resort is the only factor that can generate employment and a favourable conjunctual context.

Notwithstanding the fact that inflation precludes any artificial incentives to demand, that unemployment, to the extent that it is real, seems to be an immediate obstacle to restructuring, and that balance-of-payments deficits are holding back the necessary financing, organized protectionism cannot be an alternative to the need for structural adjustment.

Now, if an industrial producer is to try to adjust successfully, his efforts must not be discouraged by new and artificial obstacles to trade in the resulting products. In other words, security in the conditions of international trade is one of the pledges of progressive and continuing structural adjustment. This shows the importance of carefully regulating the problem of safeguards, that is to say the possibility of reintroducing protectionist measures in the event of a crisis; and indeed, a number of States are at present resorting to that possibility covertly. While GATT cannot make any authoritative pronouncement as to whether a structural adjustment policy is well-founded, on the other hand it could clearly encourage adjustment by creating a safeguard system characterized by foreseeability, transparency and discipline. One element of discipline in this regard would be for safeguard measures to be exceptional and limited in time; industries in the countries concerned as well as in third countries would thus have clear indications as to the investment needed in order to carry through the adjustment process with all necessary confidence for the future.

It is with these remarks reflecting my own personal views that I hand on this chairmanship while expressing to all delegations and to the secretariat my warm appreciation for the work done and my thanks for the confidence you have shown by entrusting to me for two years this very stimulating task as Chairman of your Working Party.