CHAPTER VII

EEC's role at the GATT, IMF and UNCTAD

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Mankind has turned increasingly to international institutions as interdependence among nations has grown, is an observation, which in the post-war era can be accepted perhaps more as an axiom than a finding. True, the minimum goal of international organisation is to help avoid national actions which hurt mankind as a whole— in the extreme cases, war or economic disruption. The basic operative principle is that countries should not seek to solve their international problems by exporting those problems to others. The maximal goal, however, is to promote national steps which enhance global welfare, such as economic development through the promotion of international trade and commerce which is understandably facilitated by lowering down from or removing the tariff and non-tariff barriers.

International Monetary (Trade) System: Functioning of IMF & GATT

Economics nationalism—competitive exchange rate devaluations, formation of competing monetary blocs and the absence of international cooperation— in the

pre-war years had contributed greatly to economic breakdown, domestic political instability, and international war. The goal of those present at Bretton Woods was to establish an international economic system which would prevent another economic and political collapse and another military conflict. It was the international consensus that previous monetary systems which had relied primarily on market forces had proved inadequate. Henceforth governments acting together would have to assume the responsibility of managing the international monetary system.

To speak of an 'international monetary system' is illusory. It implies a mechanism of interrelated parts, functioning for some clearly defined end, according to known laws. It implies knowledge, certainty and predictability. All these attributes the international monetary system possesses but in a varying degree. To describe it as a system is an over-simplification, permissible only in the interests of economic analysis. When moving from the precise formulations and general prescriptions of economic theory to the real world of policy it is necessary to remember that we leave the realm of system and precision for a world of approximation which operates not by law but by tendency.
The IMF (International Monetary System) which emerged from Bretton Woods had several major features. First of all, there was a distinction drawn between short-term payments disequilibria and long-term ones associated with development. Short-term imbalances were thought to be reversible cyclically or by following appropriate economic management. The international action in their regard was to provide financing to tide a country over its temporary difficulties. As concerns the long-term deficits, financing was made available, through the IMF for project-type investments and there was a major commitment by the IMF to provide reconstruction financing also with a clearly envisaged and stable supplementary rate for private market sources. Hence, multilateral official financing was envisaged to offset programmed deficits on the current accounts.

As in the case of monetary relations, the important forces of change in international trade and domestic policies were increased interdependence, pluralism, and inflation with recession. In addition, because of the close connection of monetary and trade relations, the collapse of the monetary system worked as a force for change in international trade. Economic growth, trade liberalization, decreasing transportation costs, and the broadening horizons of business led to a vast increase in trade among developed market economies after World War II.
In the 1960s and the 1970s there occurred important structural changes which eventually led to the breakdown of management. One change was the development of a high level of monetary interdependence by the return to convertibility of the Western European currencies at the end of 1958 and the Japanese yen in 1964. Convertibility facilitated the vast expansion of international financial transactions which created monetary interdependence.

The new interdependence was created, first, by the internationalisation of banking. In the 1960s, the number of multinational banks expanded rapidly. In 1965 only thirteen American banks had branches abroad; by the end of 1974 there were 125 U.S. banks with foreign branches. The assets of foreign branches of U.S. banks rose from about $9.1 billion in 1965 to over $125 billion in 1974. Concomitantly, there was an expansion of foreign banks in the United States. The number of foreign branches and agencies in New York City rose from forty-nine in 1965 to ninety-two in 1974. Total assets of these branches and agencies in the same period rose from $4.8 billion to $29 billion. By the end of 1974 foreign banks operating in the United States had total assets of $56 billion.

Another aspect of the internationalisation of banking has been the emergence of international banking consortia. Since 1964 various banks have formed international syndicates, and by 1971 over three-fourths of the world's largest banks had become share-holders in such syndicates.
Multinational banks can and do make huge international transfers of capital not only for investment purposes but also for hedging and speculating against exchange rate changes.

Monetary interdependence was also a result of the internationalisation of production. Large multinationals corporations now control vast liquid assets. It has been estimated that approximately 200 American multinational firms control about $25 billion in cash or cash-equivalent assets. They also control perhaps another $100 billion of inventory and accounts receivable which can be used as collateral to raise funds. It has been argued that similar liquid assets are controlled by non-American international business. The financial officers of these large corporations are able to move these vast sums from country to country, taking advantage of interest rate spreads or expected exchange rate adjustments. In the 1960s and 1970s, as crises multiplied, the financial officers of these corporations developed the experience and skill at such transfers. For many multinationals the movement of such capital has become a part of good management.

A final source of monetary interdependence is the market for Eurocurrencies. Eurodollars are dollars in the form of bank deposits held and traded abroad, primarily in Europe. Branches of American banks or foreign banks outside the United States accept dollars deposits and lend those deposits in the form of dollars. Other Eurocurrencies are primarily German deutsche marks and Swiss francs held abroad. The Eurodollar and Eurocurrency markets originated in the late 1950s and grew to huge proportions in the 1960s and 1970s. The market has flourished largely because it is controlled neither by state regulation nor by constraints of domestic money markets. Thus it has been able to establish highly competitive interest rate levels which have attracted vast sums.

5. There are many theories regarding the origins of the Eurodollars market. One has traced it to the placing of dollars by Soviet Union and Eastern European central banks in London and Paris instead of in the United States for political reasons. Another impulse for the market came in 1957 during a crisis and run on the pound, when the British government prohibited British banks from using sterling the finance trade between third countries. To maintain their markets, the British began to make offerings in dollars. Yet another factor has been the availability of dollars, encouraged by Federal Reserve Board Regulation Q (no longer in operation), which set ceilings on interest rates that were not controlled by regulations C, they could offer higher rates and thus attract dollars. See, for example, Paul Binsig, The Euro-Dollar System: Practice and Theory of International Interest Rates, 4th ed. (New York: St. Martin's 1970); Geoffrey Ball, The Eurodollar Market and the International Financial System (New York: Macmillan, 1972)
International Monetary Fund (IMF) is the Central institution in the international monetary system. The concern that was exercising the minds of the representatives of the Allied Nations who met at Bretton Woods towards the end of the Second World War, was to construct a framework which would help to prevent a repetition of the 1930s. The main problem perceived in the realm of international economic policy then was 'lack of cooperation in matters of trade and payments'. Not surprisingly therefore the first purpose of the IMF, set out in Article I of the Articles of Agreement is 'to promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration in international monetary problems'.

Before we take up the monetary angle any further, it is essential to recall that the IMF was conceived at Bretton Woods only as one of a pair of twin institutions which together would act as guarantors of a code of behaviour governing international transactions as whole. The other twin was the ITO (International Trade Organisation) which could not be born fully and has only led a kind of a separate life as an executive agreement, the General Agreement on Tariffs and Trade (GATT), headquartered at Geneva.

The IMF is often perceived as the custodian of Monetary Order? But what exactly could be implied by the term monetary order? Answer could be a straightforward one?
the international monetary order is the framework of rules, regulations conventions, and norms governing the foreign financial conduct of nations. Control is exercised through policies implemented at the national level and interacting at the international level. Formally or informally, the monetary order specifies which instruments of national policy may be used under which circumstances and which targets of policy may be regarded as legitimate. It thereby establishes the setting for the conduct of monetary relations between private economic institutions and individuals in different countries. The argument for a well organised international monetary order is essentially the same as that for a well organised global economy. Without relations of trade and investment, nations would be unable to sustain a very high level of prosperity. And without a well organised international order, nations would be unable to sustain a very high level of trade and investment. Thus IMF has been referred as the guardian of Code of good conduct in the payments sphere, but that code is becoming increasingly difficult to define precisely.

Certain mandatory provisions were set out in the Bretton Woods Articles of Agreement and remain widely accepted to the present time. It is the Fund's duty to

monitor the observance of these provisions by member countries. Other provisions of the original Articles (those relating to exchange rates, for example) have become outmoded by events, and for a while the Fund devised working arrangements to take their place. Under the newly amended Articles of Agreement, most obligations of a looser character, establishing principles of conduct rather than precise rules of behaviour.

Exchange rate policies and practices are, however, only way in which the economic actions of a country can impinge on the welfare of its trading partners. Monetary policies, exchange controls, tariff policies, indeed the whole range of economic policy instruments, have an effect on other countries. For this reason, the Fund has a legitimate interest in the means which countries use to achieve and maintain balance of payments equilibrium.

Basically, since it is accepted that monetary arrangements should be able to adapt flexibly to changes in world economic conditions, the Fund must provide the mechanism by which such institutional changes can be discussed, planned and implemented. It must also have a coherent long-term framework so that the ad hoc changes that emerge from an evolutionary process are mutually consistent, and serve to move the system towards a planned ultimate objective.
Under the Bretton Woods statutes, the regulatory functions of the Fund could be grouped into two main categories according as they deal with, respectively, (i) exchange rate practices or (ii) restrictions on international payments. The code of behaviour of which the Fund and the GATT are guardians is essentially a liberal one. It seeks to reduce tariffs and other barriers to trade if imposed on the transactions themselves, and to eliminate them altogether if imposed on payments. It also seeks to eliminate discrimination and restrictions on multilateral settlement, however imposed. In order that this objective might be achieved, it was envisaged that all members, after a transitional period of varying duration, would accept certain obligations set out in Article VIII of the Fund's charter. This Article provided that no member might, without the approval of the Fund, impose restrictions on the making of payments or transfers for current international transactions or engage in discriminatory currency arrangements or multiple currency practices. These provisions retain their acceptability to the present day, and although not all countries have yet managed to live up to them, they are generally acknowledged as a desirable objective.

Besides its regulatory and consultative function, the Fund is an important financial institution with subscriptions, in 1975, of some SDR 30 billion (or $36 billion). These resources are available to member countries to assist them in meeting balance of payments deficits without resorting to
measure that would be unduly wasteful of economic resources or unnecessarily harmful to international interests. These resources are made available under different facilities to cover balance of payments needs arising from a variety of different causes.

A common characteristic of all fund lending is that it is to meet general balance of payments requirements (and not to provide specific development or reconstruction projects). This feature has received considerable emphasis over the years, and is regarded as one of the main characteristics distinguishing the Fund from its sister institution, the World Bank.

An important feature of the lending facilities is the compensatory financing facility, originally adopted in February 1963 and liberalized in 1975. It is provided that members can draw to meet payments difficulties arising out of temporary export shortfalls, providing that the shortfall is largely attributable to circumstances beyond the control of the member (e.g., a change in world market prices) and provided that the member is willing to cooperate with the Fund in seeking appropriate solutions. This second provision is less strict than the policy conditions generally required for drawings beyond the first credit tranche. Thus IMF's activities through compensatory financing scheme and later on that for financing buffer stocks, enable it to
expand its assistance to poor countries often suffering the gravest BOP (balance of payments) problems.

**EEC's interface with GATT/IMF - EMS (Snake†)**

In seeking the economic and political advantages of regional cooperation, the EC had serious repercussions on affairs in other parts of the world, and accommodation to the new situation after 1958 required a major adaptation of the GATT system. Although the EEC was established under the provisions of Article 24 of the GATT, the repercussions it produced were hardly envisaged when this general permission excluding the creation of free trade areas and customs unions from the general rule of non-discrimination had been inserted. The consequences for third countries were mixed: positive in that further trade liberalisation in Western Europe, beyond that achieved in the 1950s; stimulated further worldwide liberalisation, implemented in the Kennedy Round; negative in that the inevitable trade diversion efforts of discriminatory regional tariff removal harmed third country interests and tended to provoke protectionist reactions. The consequences of the initial provisions of the Rome Treaty in this direction were slight, in view of the strongly trade-creating, and minimally trade-diverting, character of the Six, and the coincidence of its early years with a period of rapid and sustained growth in the members' economies, which increased total imports from third countries by more than enough to outweigh such trade diversions as did occur. Nevertheless, third countries were concerned; this
concern was acknowledged and two early concessions included the extension of two early stages of tariff cuts to third countries on a most-favoured-nation basis, and the initiation of the Kennedy Round negotiations.

Foreign economic policy is increasingly elevated from the level of 'low policy' to the forefront of 'high policy'. But the Community is in no position to deal with a situation where GATT, UNCTAD, IMF and NATO are mixed up at the same time, since a delicate balancing act is involved between Community action and the national diplomacy of member countries.

A further complication for a Community foreign economic policy arises from the profoundly different views held on important issues by the different member states. The situation is further complicated by the different styles of policy-making in different areas of activity. Not only do the influence and the power and pressure groups vary substantially between countries; the situation may be different even within the same country - between, say, monetary and commercial policy.

On the interdependence of trade and monetary matters, the official view of the Community is that 'the trade negotiations presuppose that prospects exist for the establishment of a fair and durable monetary system'. It duly stated in the Tokyo declarations.

The policy of liberalising world trade cannot be carried out successfully in the absence of parallel efforts to set up a monetary system which shields the world economy from the shocks and imbalances which have previously occurred. The Ministers will not lose sight of the fact that the efforts which are to be made in the trade field imply continuing efforts to maintain orderly conditions and to establish a durable and equitable monetary system.

Rome Treaty (Article 116) stipulates that the member countries must defend a common position in international organisations, either through a common delegation or through a Community representative. Whenever the subject discussed touches on the particular interests of the Common Market.

The object and the nature of this common position can vary according to the importance of the subject matter, considerations of political opportunity, and the particular degree of each member's participation in the operations of international organisations. There is thus no uniform pattern for Community participation in these organisations.

In general, the community attends the international economic organisations alongside the member countries as an observer with the right to speak but not to vote. This is the case, for example, in the United Nations and its specialised agencies, in the GATT, IMF and OECD. But whenever matters under the competence of the Community are discussed, the Community takes a more active role. This is particularly true for commercial negotiations within the GATT framework, where the Commission acts as negotiator vis-à-vis third countries and the Council concludes the commercial agreements. Within GATT the Community therefore
usually occupies an ad hoc position that goes beyond the position of a simple observer. Despite its considerable activities within this organisation however, it is not an autonomous contracting party. Only the member countries are contracting parties and recognised as such.

Whereas in the commercial policy field the Treaty of Rome at least imposes a Community approach vis-à-vis the rest of the world, the power of Community institutions in the external aspects of other economic policy problems are at best restricted to coordinating the national actions of the member countries.

Ambivalence and a lack of coherence in the Community's external economic relations should hardly come as a surprise. There exists a serious gap between the apparent importance of the Community as an actor on foreign economic policy and its actual capacity to act. In the words of Dahrendorf, "there is an almost absurd disproportion between the expectations of the European Community's partners in the world, and the instruments which the Community has at its disposal in order to respond to these expectations".6

Several thinkers have often held an optimistic supposition that Governments are willing and able to sacrifice or compromise national aims - to accept international rules or to establish international institutions that would limit severely and permanently national autonomy in monetary matters. This optimistic consensus, which has only recently broken down, was the intellectual by-product of international economic trends in the 1950s and 1960s. Those trends led one to accept the desirability, even the inevitability, of closer international economic integration.

It was the consensus that Richard Cooper celebrated intellectually in his well quoted book on international economic interdependence. It was the consensus that Europeans celebrated politically in their ambitious plans for full-fledged economic integration. And those went together with this optimistic consensus an agreement, more or less explicit, on the virtues of stable exchange rates - an agreement enshrined in the commitment to par values that one identifies with the Bretton Woods System.7 Now we know that a reformed world monetary order "that will encourage the growth of world trade and employment, promote economic development, and help to avoid both inflation and deflation" will include:

(Committee of Twenty)

(a) An effective and symmetrical adjustment process, including better functioning of the exchange rate mechanism, with the exchange rate regime based on stable but adjustable parity values and with fluctuating rates recognised as providing a useful technique in particular situations.

(b) Cooperation in dealing with disequilibrating capital flows;

(c) The introduction of an appropriate form of convertibility for settlement of imbalances, with symmetrical obligations on all countries;

(d) Larger international component of global liquidity, with the IMF becoming the principal reserve asset and the role of gold and of reserve currencies being reduced;

(e) Consistency between arrangements for adjustment, convertibility, and global liquidity; and

(f) The promotion of the net flow of real resources to developing countries. 6

The community is apparently convinced that international trade is an essential factor and one of growing importance for its own development. It hopes that the policy of

trade liberalization will be continued, observes Davignon, and intends to shoulder the responsibilities proper to it on the international plane vis-a-vis both the industrialised and developing countries. Stability and prosperity cannot be established at the expense of the legitimate interests of third countries. It will be necessary to see to the observance of this basic concept even though the specific weight of the community in world affairs increases. The first trading power in the world cannot endeavour to dodge its responsibilities and obligations.

It was therefore interesting to note that, in the eve of the new major trade negotiations, the Community had affirmed:

"The Community is prepared to participate within the shortest time and with an open mind, as this has already been shown and, according to the procedure envisaged by LCE and CEE, in negotiations based on the principle of reciprocity and making it possible in the monetary and trade fields to achieve the establishment of stable and balanced economic relationships in which the interests of developing countries will have to be taken fully into considerations."

Development of the EEC (European Monetary System)

Complete economic and monetary union of the member states of the European Economic Community is one of the ultimate objectives envisaged in the Treaty of Rome which established the European Economic Community. Many attempts were made in the past to move the individual member states of the Community towards this goal, but with little success. This is not surprising because achievement of such a European Monetary Union meant giving up of sovereign rights of individual member countries for the common good of the Community as a whole in the matters of currency, exchange regulation, money supply and the related economic, trade and fiscal policies. The issues involved were clearly more fundamental in nature calling for complete and irrevocable convertibility of currencies, abolition of fluctuation in exchange rates, fixation of definitive parities and liberalisation of capital movement among the member countries. Logically, it also meant pooling of the foreign exchange reserves and centralisation of monetary policies, thus finally leading to creation of a common monetary union managed by single central banking authority. This would have also meant doing away with the existing national currencies, pooling of the foreign exchange reserves of the member states and maintaining a single common balance of payment policy vis-a-vis the outside world.

The first serious thinking in this direction emerged at the EEC Summit Conference meeting at the
In 1969 when the E.E. Heads of State and Government accepted in principle their intention to form a European Monetary Union (EMU) in various stages by 1980. Among the various expert level proposals in this regard mention may be made of the important Werner Plan prepared by the then Luxembourg Prime Minister, Mr. P. Werner. This Plan proposed the creation of a European Monetary Cooperation Fund to assist the member countries for gradual narrowing down of the fluctuation margins between different currencies and limiting it to a range of 1.5% to 1.5%. This Proposal which was accepted by the Council of Ministers in 1971 was not destined to have a smooth sailing in view of the unsettling international developments in the monetary field which followed.

While it is too much to expect that the sovereign countries forming the European Economic Community would so readily give up their individual prerogatives, even be it for the common good, the events that followed in the early 1970s in the field of monetary relations, like suspension of gold convertibility of dollar in August 1971 and Smithsonian Agreement of December 1971 led to abandonment of the fixed exchange rate parities in favour of general floating of currencies added elements of further uncertainty. At the same time, however, one could look at it from another point of view, namely that those unsettled conditions in the monetary field prompted the EEC member countries to move towards European monetary integration.
The next important development in the field came about in April 1972 when by mutual agreement, the members of the European Community agreed to establish of a system of fixed exchange rate among their currencies, called the 'snake'. Under the 'snake' system of exchange rate regulation, the member countries agreed to narrow down the mutual fluctuation margins of their currencies in such a way that the difference between the highest and the lowest valued currencies of the Community would not exceed 2.25%. Under this arrangement, the mutual ECU parities were fixed by taking into account the then existing dollar central rates of different European Community currencies. Intervention points were then fixed approximately 0.25% above and below the mutual parities.

Originally in addition to all the then member countries of the EEC, United Kingdom and Denmark had also joined the 'snake'. However, gradually U.K., Italy and France withdrew from the system and presently among the EEC member countries only Federal Republic of Germany, Belgium, Netherlands, Luxembourg.

10. For instance, the theoretical dollar central rate of the FD was FD/$=40.3344 and that of the DM is DM/$=2.6690; the mutual parity of the FD in terms of the DM was then DM/$=40.3344/2.6690=15.1120 and so on for other currencies also.
and Denmark are still participating in the 'Snake' agreement. The factors responsible for weakening of the 'Snake' agreement may be grouped broadly under two heads; the external factors and internal problems. The collapse of the Bretton Woods system of fixed exchange parities and the persistent balance of payment deficit of the United States leading to disturbing wide international movement of speculative capital compelled the European 'Snake' countries to float their currencies against dollar and virtual abandonment of fixed dollar parity against 'Snake' emerged. Instead of jointly floating their currencies within the 'Snake' system against dollar, the member countries proceeded to introduce individual floating exchange rates. Their balance of payment situation was further aggravated by the oil crisis and particularly Italy, UK and France suffered the most. Among the internal factors responsible for the weakening of the 'Snake', mention may be made of lack of coordinated common economic policies to fight inflation, promote growth and check balance of payment deficits among member countries which led to distortions and wide differences in the economic management of different member countries. In fact the present EEC appears to consist of weaker currency countries like France, Italy, UK, Ireland on the one hand and strong currency countries like Federal Republic of Germany.
and Benelux countries on the other. The divergences between the values of the currencies which went out of the 'snake' system and those within the system became markedly wide. This can be seen from the fact that between December 1971 and the London Summit in July, 1970, i.e. in the course of 9 years, the weaker currencies of the sterling, lira and French franc depreciated against the strong Deutsche mark by over 91%, 36% and 37% respectively.

By mid seventies, the regime of floating exchange rates became disappointing and the merits of moving towards a stability in exchange rates appeared to gather increased recognition. Separate rates of economic growth, high levels of inflation and increasing balance of payment deficits of the weaker countries of the EEC could not be permanently solved by devaluation or floating of the currencies alone. Exchange rate stability, on the other hand, which implied enforcement of monetary discipline and control of inflation was increasingly recognised as an important element in the effort to boost overall economic growth and combat unemployment.

The move towards Community's economic and monetary union could also be seen in the report of 'Henderson (1975) which, among other things, suggested fixed exchange rates system between

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the currencies of the Community. No concrete action, however, followed the submission of the report. The President of the European Commission, Mr. Jenkins almost from the time of his taking over the office of Presidentship in 1977 started advocating the necessity for moving towards economic and monetary union so as to establish a "zone of monetary stability" in Europe which, in his view, was essential to overcome economic difficulties faced by the Community member countries.

A definite action-oriented approach to the subject emerged only after West Germany, supported by France, the two major Community member countries, evinced real interest in the subject and the move towards establishing a European Monetary System received its due attention at the European Council meeting in Copenhagen on the 7th and 8th April, 1978. The steep and continuous decline in the exchange value of US dollar against almost all community currencies and particularly against the strong currency like German Mark led to speculative movements of funds from dollar towards European Community countries. This was posing a permanent threat to the snake mechanism and may be taken as another contributing factor in the move towards establishing an European zone of monetary stability.
Between the Copenhagen and Bremen meetings, the Economic and Social Committee of the EEC in its report of June, 1978 emphasised that like the rest of the world, EEC countries were also subjected to harmful effects of the prevailing international monetary disorder. They recommended that concerted policies should be undertaken for reducing wide fluctuations between member countries' currencies as a necessary step in restoring international monetary system to normalcy. They underlined that the Community objective to move towards complete economic and monetary union should be pursued so as to provide an area of stability in Europe. They also suggested that the existing European Monetary Cooperation Fund (EMCF) should be made to play an active role somewhat like a kind of IMF at the Community level.

The European Council meeting at Bremen between 6th and 7th July, 1978 took a historic and concrete step towards establishing the European Monetary System from January 1979. The basic elements of the EMS agreed to at the meeting were that the proposed system should be open to all the members of the Community and should be enforced as strictly as the present 'Snake' agreement. Non-member countries of Europe having economic and financial ties with the Community could become associate members. The backbone of the European Monetary System would be the European Unit of Account (EUA), a currency unit which is calculated every day on the basis of a basket composed
of a fixed amount of each European Community Currency. Presently, the unit is being used as a monetary according unit for the Community transactions including Community budget, IEF and EID operations, etc. In the proposed Monetary System, the unit will be named as European Currency Unit (ECU) which will replace the dollar for the settlement of accounts among the central banks in respect of exchange rate intervention. The ECU will act as a common denominator against which the central parity rates of different ECU currencies would be fixed. Thus, in the new system the exchange rates of member countries will not be determined in relation to each other (as in the present (make) arrangement), but in relation to the ECU. Thus the ECU being taken as the central rate, appreciation of the strongest currency (say, D.) would not necessarily involve a proportional appreciation of the other currencies of the system. However, changes in the central rates of different currencies in the ECU could only be made subject to mutual consent among all members of the EMU.

GATT / IMF and the bias?

On the vexed question whether the environment of GATT, IMF etc are in short, the Brattlewood System (the term supposed to include all major aspects of the international economic system established between 1949 and 1947) is to be treated essentially as a Richman's club or the alleged charge by the developing countries be simply ignored as a parascopic exhibited by the poor
countries there could perhaps be a lot of debate, both 'for' and 'against', but what is necessary however, for our purpose is to grasp the background under which the Bretton Woods System was influenced and the salient features of Bretton Woods years, during which EEC, apart of course from the U.S.A. was a major beneficiary.

At the time Bretton Woods institutions emerged, the international political system was in a state of flux, the cold war too was in its earlier stages, and the South, the so called Third World had not emerged as a force worth any reckoning, politically or economically. The Southern states that did partake as observers and actors during the construction of the new international economic order for the most part acted as allied for their Northern counterparts that had led the fight against the Axis powers. And since the North itself was dependent to a large extent on its own hegemonial power, the United States, international political power-defined as the capacity to influence the actions of others - was highly centralised in the late 1940s and for most of the 1950s.

No wonder, the emerging international economic system was in essence a U.S. design, although it was altered to a certain degree to achieve a general acceptability within the non-communist developed countries of the world. Many of the small compromises that the U.S. did make were forced on it by Great Britain, whose
limited bargaining strength resided in the role of sterling in the international monetary system and in the existence of the British Imperial Preference system of tariff protection. The role of sterling lent the British a greater weight in the Bretton Woods discussions than would otherwise have been the case; the Imperial Preference System was an element that the United States was willing to pay a price for to exercise it from the world's trading system. 12

Thus with the role of the developing countries being minimal the ground rules for international economic relations in the Bretton Woods years naturally got hammered out in the western slant. Even though the United Nations preamble speaks of 'economic advancement' and the egalitarian promise, as analysed by Susan Strange13 was soon revealed 'in practice to be unfounded'. So the thought naturally arises as to the factors that have been responsible for the success of Bretton Woods system for two decades.


The answer has been found to be largely four fold:
(i) The latitude that the system granted to Western Europe and Japan to recover quickly from wartime destruction and sustain rapid rates of growth; (ii) The willingness and ability to deviate from it and improvise new processes of international economic relations when and where necessary (iii) The lack of power on the part of the world's developing nations to challenge effectively the system whose justice they questioned; and (iv) the close fit between the system's norms and flexibility and the domestic and foreign policies of the hegemonial powers of the Bretton Woods system.

A system and 'the game', evolved for and played by essentially the industrialised nations was bound to give the semblence of a 'Richman's Club' and hence the metaphor may not appear any kind of an over statement. During the sixties a series of structural changes in the past war international political economy gradually came to the surface. These entailed a shift from a sharply divided bipolar world into one described by Stanley Hoffmann14, i.e. 'multipolarity muted bipolarity and (polycentrism'.

It was natural for the developing countries South, (whose relative unimportance during the Bretton Woods years has been so apparent historically) to look for resource transfers from abroad to speed up the neglected process of their development, given the generally limited level of domestic savings and meagre foreign exchange. In this search the South came to perceive certain tangible biases in the system, which are more real than apparent.

And in this background, therefore, to dub this reality as "poor's paranoia" would (apart from smacking of a persisting sense of overlordship) be far from truth, by any standards. These biases can be summarised as:

1) Efforts at international trade liberalisation through instrumentality of the GATT have been biased in favour of products of interest to developed country exporters.

2) The North has systematically rejected or stalled for lengthy periods before accepting Southern proposals to increase resource transfers to the developing countries.

3) The volume and value of foreign aid flowing from north to South were unjustifiably low whether measured by 'absorptive capacity' of aid funds in Southern development efforts.

4) The terms of trade have moved consistently against the typical developing country export basket, and they have done so for reasons integral to the operation of the Bretton Woods system.
5) Northern multinational corporations\(^5\) have in general restricted their potential contribution to the development process in one or all of the following ways: by limiting tax contributions through certain patterns of transfer pricing; by limiting job creation through capital-intensive production methods and artificial limitations on exports; by limiting capital inflows through borrowing in host country money markets; by exacting monopoly rents on their technology, and so forth\(^6, 7\)

15. Resurgence of multinationals was treated as the death knell for the nation-state. (Raymond Vernon, *Sovereignty at Bay* (New York: Basic Books, 1971)). It was argued that the economic interdependence fostered by the multinationals was growing much more rapidly than political interdependence, and that political integration would inevitably follow in the wake of increased economic integration. This scenario looks less likely today, in part because opponents of the multinationals have proven to be more politically potent in both the less-developed and 'interdependence' school theorists envisioned— vide Robert D. Tollison and Thomas D. Willet, *Foreign Investment and the Multinational Corporation* in *tariffs, quotas & trade: the politics of protectionism* (Institute for Contemporary Studies, California, 1979) pp. 109-121,

16. Also relevant here is *Commonwealth Economic Papers: No. 5, Developing Countries and Multinational Corporations, analysing effects on host countries' welfare and the role of Government Policy*, by Sanjaya Lall (*Commonwealth Secretariat, London 1976*).

17. Lately however some new thinking is emerging at the GATT/IMF interface, namely the relationship between the international trade and international financial problems, particularly as it affects the developing countries.

What is being contemplated presently (GATT, Geneva, 1983) is an attempt to consider the parameters of a cooperation between the GATT and the IMF, which at an institutional level is presently confined to some background support by the IMF for the Balance of Payments Committee in the GATT in which contracting Parties having BOP problems regularly consult under the provisions of the GATT Agreement. The provisions of the GATT do provide for the possibility of pursuing a "coordinated policy".
Rather than leaving the above enunciated bias in the GATT/IMF environment as a mere listing, it would perhaps be relevant to share, in this context, some of the case studies esp. in EEC's context. Extracted below therefore are excerpts from the authors contribution of a working research paper prepared at the Commonwealth secretariat, London, during the field study for empirical research in West Europe, captioned: PROTECTIONISM - some thoughts for Plain Speaking 18.

PROTECTIONISM - Some thoughts for Plain Speaking (Case Studies)

Commonwealth Secretary-General has urged the expert group, at a time of real crisis in the world economy, to speak plainly, since an excess of courtesy is perhaps as bad as a conspiracy of silence.

One way to be able to generate thoughts for plain-speaking, in this context, could perhaps be through an academic exercise of pooling in all the arguments (real & optical) - pros and the cons, witnessed in the case studies be it in the implementation of the G.S.P., or the working of the M.F.A., the question of safeguard action and structural adjustment measure, GATT machinery for dispute settlement or the framework improvement of the GATT itself.

18. Such research inputs were later coordinated, after debate in the group of Experts by the Economic Affairs Division of the Commonwealth Secretariat, into its well known report: PROTECTIONISM, Threat to International Orders - the impact on developing countries (Commonwealth Secretariat, 1982).
No one would deny that protectionism is an area of concern in which domestically-oriented beggar-my-neighbour policies, taken to an extreme could be so very damaging, reminiscent of the years of the Great Depression. And yet, with all the pleasant talk of virtues of international co-operation, and the professed interdependence (not only among the industrialized countries but also between North and South and for that matter even between West and East), the scenario that is largely obtaining is in the direction of seeking solutions through basically national endeavours — doing violence to the very spirit of internationalism.

The sophisticated game of Commercial diplomacy is understandable — with all the quibbling about words and phrases, hedging on the real versus the optical concessions and the negotiators worrying about the briefs on negotiating and the fall back positions etc. — but what is not understandable, at times, is the stage of total denial of facts and practices or, may be, an attempt to confuse the East-West problem on the North-South discussions with an intention to procrastinate matters. Would not there be a cause for plain speaking when principles and values are attempted to be changed overnight. Today, there is little doubt that the ability of developing countries to sustain satisfactory levels of growth... while adjusting to higher debt-service and oil-import costs, is extremely critically dependent on their export capabilities. And not long ago
the sermon to the third world countries was to try and boost their export-oriented manufacturing and just as that is being done, one has to battle through the restrictions against the third world exports (often unilateral restraints), throwing to the winds not only the sacred theory of the free-enterprise and market forces, but also a negation of the very rules of the GATT itself. No wonder, therefore, that the optimal solution is sought sometimes in trying to reform the framework of the GATT in the direction of the I.T.O. (Havana Charter) and rightly so, since most of the third world countries (of today) were not independent round the time the GATT was born.

Instead of indulging in a normative approach and taking up various Articles of the GATT for scrutiny and comment, perhaps a better way of a realistic appreciation would be to talk straight about the usefulness or otherwise of the various instrumentalities and provisions in the actual international trade policy and a few case studies thereof.

Case study (i) Is the GSP useful?

Case Study (ii) Safeguard Action and Structural Adjustment Measures — avenues for a solution?

Is the GSP useful?

GSP, a unilateral, non-reciprocal, non-discriminatory tariff concession has been intended to create the conditions in which developing countries can establish a sound manufacturing base, would help them increase their export earnings and enable them to accelerate their economic growth. The principles of trade creation and trade diversion are easily found applicable in the Generalized System of Preferences (GSP). By means of preferences, new industries in the developing countries are placed on an equal footing with the domestic industries of the industrialized markets they expect to sell to and are given an advantage over the industries of other developed
countries. Thus the trade creation is through the improved market access and the trade diversion results from the preferential tariff access switching the trade from the developed country to less developed country exports, to the extent that goods from both group of countries compete on price in the donor's market.

The trade creating potential of the GSP has been, in a way, undergone improvements in the tariff status of non-preferred, MFN, suppliers on account of the Tokyo round (MTN) negotiations. Theoretically, it is true that the multilateral tariff cuts would assist developing country exporters to the extent that it would improve access, but then, it erodes preferential margins accorded to GSP as opposed to MFN suppliers. In spite of the academic exercises (Baldwin & Murray, Brookings Institution etc.) on somewhat hypothetical assumptions, it cannot be inferred that GSP is of no use and should be done away with. A little deeper analysis would unfold the inherent contradictions in what is being practiced and preached and possibly a subtle attempt to take back with the other hand, what has been somehow given by the first one. Has not the GSP been claimed as one of the key instruments, for instance, of European Community's commercial policy towards the third world?

In its latest publication, Commission of the European Communities:

"..... although an instrument of commercial policy, it is the necessary complement of EEC's policies in the fields of financial and technical aid. Through the GSP the Community can give developing countries better access to its market for their manufactured products, thus helping them industrialize. It can also use the GSP to contribute to a more balanced trade between industrialized and developing countries."

In fact looking to the vicissitudes of the international trading environments of the sixties and the early seventies (before the recession), there are only two events which have been hailed
as progressive and meaningful, by the informed public opinion around the world, namely the addition of Part IV to the GATT (1965) and the launching of the GSP - schemes, by various developed countries. That there have been a number of in-house problems in rules/regulations - in the implementation of these schemes (or the expressed drawbacks like the insecurity, uncertainty etc.) cannot go to belittle the objectives and the merits of this innovation, in spite of Article I of the GATT. For sure there are countries which have benefited, to a certain extent, in terms of securing a foothold/market access; why not question here, instead, the several reasons for the non-attainment of the optimal benefits. Whether it be the rules of origin criterion and the complicated form-structure, (the revenue foregone mostly accruing to the developed country importer), or may be the lack of knowledge/infrastructural facilities of quick transport and local warehousing, or most importantly, the involved manner of setting the ceilings and quotas (plafond and butoir in the EEC's GSP) or the arbitrary CNC (Competitive Need Criterion) in the US - GSP (50% by volume or say $37 million dollar limit) these are all problems which can always be looked into. For instance, the CNC would tend to generate a sort of recocheting effect that in important products where there are two major suppliers for e.g. India and Brazil for Sugar or India and Sri Lanka in Coir, it would be one country eliminated by the arbitrary volume/dollar Criterion one year and another next year. One should remember though, that the US was a very late joiner to the GSP donor's club (only in 1976 as against EEC's scheme launched in 1971) and talking of US - GSP versus the MFN cuts, there are instances where to save a singly, small isolated plant in some corner of N.Y. State, manufacturing tinker brass-bells, the pressures are that the item cannot be considered for tariff concession for a developing country export. Further, the basic point is that when
erosion of GSP margins was considered and battled as a major worry to non-oil exporting developing countries and not belonging to any preferential groups of countries (like ACP), how can they suddenly be made to believe that GSP is utterly useless and could be abandoned. Granted, the bath water is somewhat dirty, but can one afford to throw the baby with it?

One can take for illustration the case of EEC's GSP as applicable to a South Asian country, say India or Sri Lanka. India, inter alia, is one of the significant beneficiaries of the Community's scheme, which is currently open to 123 countries and 24 dependent territories. In 1974, at the time of first enlargement, the 9-nation EEC visualised in the GSP an instrument which could offset the loss of Commonwealth preferences to India and other Asian countries, even while helping them build up their exports to other EEC countries. The Joint Declaration of Intent (JDI) annexed to the Treaty of Accession to the EEC of the United Kingdom, Denmark and Ireland specifically notes that in seeking appropriate solutions to such trade problems as may arise, the effects of the GSP scheme will be taken into account. EEC has used the GSP as the only policy instrument available to India (South Asia) - in contrast to associate/preferential arrangements, ACP etc. and has tried to help Indian exporters secure access to the Common-Market for a growing list of products which now includes packaged tea, castor oil, prawns and shrimps, saffran, shellac, a variety of seeds (cumin, coriander, badian) jute goods, sports goods etc. A significant event for India was the decision to include flue-cured Virginia (FCV) tobacco, which became the first un-processed agricultural product to be brought into the Community's GSP. The item is significant since tobacco is a CAP (Common Agricultural Policy) product, it is one of the largest GSP imports and, EEC-imports, come from more preferred sources (ACP and Mediterranean) and less preferred (US) as well as from GSP beneficiaries.
Further, in this product of sensitive category the duty is a combination of both an *ad valorem* and a specific duty.

The following tables are relevant here; though the data is somewhat old, but the trend is obvious:

**Table I**

<table>
<thead>
<tr>
<th>EEC imports of Virginia-type tobaccos from GSP beneficiaries ('000 tons)</th>
<th>1975</th>
<th>1976</th>
<th>1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benelux</td>
<td>6.9</td>
<td>14.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.0</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>France</td>
<td>1.9</td>
<td>1.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Germany</td>
<td>15.5</td>
<td>20.0</td>
<td>25.5</td>
</tr>
<tr>
<td>Ireland</td>
<td>5.0</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Italy</td>
<td>10.8</td>
<td>10.0</td>
<td>13.0</td>
</tr>
<tr>
<td>UK</td>
<td>48.9</td>
<td>62.0</td>
<td>52.0</td>
</tr>
<tr>
<td>EEC</td>
<td>90.0</td>
<td>112.0</td>
<td>121.0</td>
</tr>
</tbody>
</table>

*Source: Commonwealth Secretariat, Tobacco Quarterly, January 1979, page 61.*

**Table II**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>34.7</td>
<td>34.7</td>
<td>46.7</td>
<td>49.9</td>
<td>56.9</td>
</tr>
<tr>
<td>India</td>
<td>29.8</td>
<td>36.8</td>
<td>48.3</td>
<td>30.2</td>
<td>34.2</td>
</tr>
<tr>
<td>Italy</td>
<td>22.7</td>
<td>20.8</td>
<td>23.3</td>
<td>29.4</td>
<td>42.2</td>
</tr>
<tr>
<td>Korea</td>
<td>7.9</td>
<td>15.6</td>
<td>21.9</td>
<td>25.3</td>
<td>17.4</td>
</tr>
<tr>
<td>Malawi</td>
<td>14.8</td>
<td>14.1</td>
<td>23.3</td>
<td>21.0</td>
<td>21.8</td>
</tr>
<tr>
<td>US</td>
<td>155.5</td>
<td>108.6</td>
<td>125.4</td>
<td>123.7</td>
<td>83.8</td>
</tr>
<tr>
<td>Subtotal</td>
<td>265.4</td>
<td>250.6</td>
<td>288.9</td>
<td>279.5</td>
<td>256.3</td>
</tr>
<tr>
<td>Total imports</td>
<td>540.2</td>
<td>498.7</td>
<td>533.9</td>
<td>537.8</td>
<td>530.4</td>
</tr>
</tbody>
</table>

*Source: As Table 1.*
The GSP has meant a positive effect to the EEC importers, though there is variation between members states. Imports of Virginia-type tobaccos from GSP beneficiaries rose for the EEC as a whole, by 35% from the period 1975 to 1977 and in the case of Denmark and Benelux, it almost trebled.

EEC accounts for an estimated 26% of India's total exports, as compared to some 13% to the USA and 10% each to Japan, USSR and the OPEC countries. About 43% of the EEC's imports from India of manufactured goods enter the Community duty free already, while 95% of the remainder are covered by the GSP. Though the major objective of GSP, as stipulated in UNCTAD Resolution 21(II), to help developing countries increase their exports of manufactured products may not have been fully achieved by GSP alone, yet the rise in India's exports to the Common-market of a fairly wide range of such products, including electrical and other machinery, components and sub-assemblies; of chemical products such as dyestuffs pharmaceuticals and resins; of leather manufactures and travel goods etc., is significant.

In short, the question of GSP has to be evaluated perhaps, in totality when non-tariff instrumentalities also add up to create problems in actual implementation.
The familiar complaint of the developing countries is in respect of double protection for instance, tariffs as well as quotas, excluding the products of interest to the developing countries like textiles, severe protectionism under the MFA etc. It would be relevant here however, to concede the problems and latent gains at the side of developing countries themselves. The supply side preparedness is not always forthcoming and infrastructural facilities not exactly streamlined in a manner as to be able to take maximum advantage of preferential tariff concessions offered. Then, the other side of the coin of protectionism is, at least an ensured size of the market (be it GSP or MFA) lest a South Asian country, for instance, in textiles and garments, would really not be that successful and in a way would be swept over by countries like Taiwan, Hongkong and South Korea (NICs). This kind of attempted plain-speaking goes to highlight the fact that the motivations behind launching the GSP are still very relevant and valid and therefore ought not to be undermined by any veiled attempts to draw some sort of a wedge between the LDCs, LLDCs and NICs. It is pertinent to recall that when the Lome' Convention came up for a heated discussion at the GATT (as it's derogation), several countries like India, welcomed it as blazing a new trail of relationships towards globalization of tariff preferences (in spite of the obviously discriminatory nature of the agreement).
The cardinal thrust, therefore, has been from the beginning, towards according a much overdue—special and differential treatment to developing countries as a whole, which was the high watermark (para 5) of the Tokoyo declaration of September, 1973. No wonder, in this context, GSP was defended during the Tokoyo Round and it is seen that the gains from lower MFN duties on non-GSP products are more than offset by the loss of margins of preference under the GSP. Among the agreed conclusions of the UNCTAD Special Committee on Preferences at its Fourth Session in October 1970, giving birth to the GSP, was Section I Clause 8:

"Considers that efforts for further improvements should be pursued in a dynamic context in the light of the objectives of conferences resolution 21(II)."

It is not a pity that the dynamic context has been put in a retrograde gear and the 'improvements' suggested are in the nature of a 'graduation' clause, phasing out the special treatment. For a certain group of countries this is very material, for example, EEC's only so-called doctrine on South Asia (in contract to Lomé/Association status etc.) so far, is through the professed instrumentality of GSP, enshrined in the JDI (Joint Declaration of Intent) already referred above. The JDI countries include India, Pakistan, Sri Lanka, Bangladesh, Malaysia, Singapore and they perhaps, (in spite of their demand for streamlining and improving certain aspects of GSP not only
EEC's but of other donor countries too, like USA, Japan, Australia etc.) would not outright decry the utility of the facility of GSP. May be, until such time that the welfare and economic development aspects—originally enshrined in the Havana Charter (ITO, 1946) get fully taken care of, in the reformed GAiT, it might not be prudent to throw the contents of the old plate, possibly this old 'paper plate', every time it gets soiled, can be asked to be changed periodically.

And this change, in the direction of an improved GSP, would interalia, highlight:

(i) The need for a provision banding—negotiated rates under GSP.
(ii) Withdrawal of concessions should not be unilateral, but subject to prior consultations with developing beneficiary countries on the basis of mutually agreed objective critaria and procedures.
(iii) The safeguard mechanism should not be used to prevent GSP exports from the developing countries. The escape clause type safeguard provided under the GSP should be invoked only after prior consultations with the interested countries and only when it is established that preferential imports are the direct cause of serious injury to domestic industry. Even then, such an action should be temporary in nature, subject
to multilateral surveillance and review and linked to adjustment measures.

(iv) Donor countries should liberalize and simplify the regulations relating to origin of goods from developed countries and harmonize them with other GSP rules.

(v) The consultation and participation mechanism within UNCTAD should be improved for implementation and renegotiation of GSP schemes to ensure the best use of the system.

(vi) GSP schemes should be geared towards attainment of a share of 25 per cent for developing countries in world production of manufactures by the year 2000 A.D. and for a corresponding increase to 30 per cent of the share of developing countries in world trade in manufactures.

(vii) Principles of non-discrimination and non-reciprocity should be reaffirmed and developing countries recognized as beneficiaries without any conditions or discrimination. Devices like the competitive "need criteria" should be eliminated.

(viii) While determining the quantum of tariff reductions, account should be taken of erosion suffered by GSP in multilateral trade negotiations.

(ix) Efforts to be there to eliminate non-tariff measures, for example, quotas, maximum limits,
exclusions because of competition requirements which restrict the full use of the different schemes for products of special interest to the developing countries.

Keeping the interests of the least developed countries in view, financial and technical assistance should be extended for establishment and development of industries in the area of products covered by the GSP.

SAFEGUARD ACTION AND STRUCTURAL ADJUSTMENT MEASURES - avenues for a solution?

Whenever a stage comes up, where the issues and negotiations seem deadlocked, (if not exactly a situation of impasse), it has almost become fashionable to remark that unless there is political will the solution may not be in sight. No one would dispute such a harmless statement - which in fact, is more in the nature of a truism, that 'political will' is a must before one can conceive solutions. Rather than begging the question, let us pause to reflect, briefly, as to why the political will is lacking; an incisive appreciation of this aspect is potentially pregnant with thoughts not only for plain speaking, but perhaps for suggesting new solutions too, on a ticklish issue such as the safeguards and adjustment measures.

The industrialized countries have already lost their main arguments, believed till recently, that they have to practice protectionism primarily because problems of unemployment and all, are created as a result of increasing third
world exports (the relevant UNCTAD and the recent ILO studies, need not be reproduced here, since they are fairly well known by now and widely quoted on this subject). Does it not straightaway then, allude to malaise, perhaps lying somewhere else; since, surely, the originators and believers of the free-trade practices/market forces, would expect the theory of comparative advantage to operate and then not admitting that certain sectors ought to be vacated by offering adjustment assistance etc. It is neither naivette nor affront to imagine that the industrialized countries are unaware of this line of thinking - since indeed they are very much aware and yet, despite the strength of the economic arguments against it, protectionism is in vogue and has some appeal for governments for two principal sets of reasons (elaborated in World Development Report, 1979) which are worth recalling here.

First, growth in imports from developing countries, like all other economic changes, imposes adjustment costs on certain groups in industrialized countries. Second, political factors influence the response to the challenge of adjustment. The pressures of import competition are concentrated on a small set of labour-intensive industries, some of which, such as clothing and footwear, are already depressed by slow market growth. As a consequence of historical and economic forces, these industries are often located in relatively depressed regions, where they offer low wages to their laggely unskilled workers. Many
of the employees are women who cannot readily move in search of better jobs because of family obligations. Faced with competition from developing countries, some firms have little choice but to seek protection if they are to survive and if they do not, individual lives are disrupted and earnings lost.

It is, inter-alia, however relevant here to underscore the inherent relationship of trade liberalisation and industrial policy, since if the industrial policies are industry-specific they can generate two types of related trade policy problems. As Isaiah Frank has observed, the first problem arises in the case of a 'pick the winners' strategy of industrial development. A common example is the policy of a number of industrial countries to promote particular high-technology sectors through various forms of government support and subsidy including such measures as priority in government procurement, concessionary credit or even outright grants. Clearly, policies of this kind can distort international trade by artificially restricting imports and promoting exports.

The second type of problem arising from sectoral industrial policies concerns the other end of the spectrum - that is, the other industries whose future may be in doubt as a consequence of shifts in international competitiveness. In these cases government assistance may take the form of import restrictions or so-called 'trade adjustment assistance'. Adjustment assistance may consist of temporary compensation to workers who lose their jobs as a result of import competition, various forms of financial and other assistance to improve the efficiency of existing firms and render them more capable of competing with imports and, too, assistance - such as retraining and relocation allowances - to facilitate the shift of resources to other industries with brighter economic prospects.

And the reality is, (which is exactly where lie hidden, the seeds of political lack of will) that in the context of relatively strong pressures tendency is to adopt short term palliatives. Even though imports displace relatively few workers, their visibility invites protection. Producers favour protection because it is the form of government assistance that entails the least direct government intervention; for governments, protection imposes no immediate fiscal burden. Those who lose from protection, such as consumer and export industries, are weakly organized in comparison with the interests seeking
protection. Imports from developing countries are particularly vulnerable to political pressures for protection, as these nations offer little threat of retaliation.

So the crux of matter seems to devolve round this aspect that since the developing economies can hardly pose a threat of retaliation there is absolutely no cause for concern and let the political lack of will rule the roost. The germane question arises here, for how long can this continue; wisdom will have to dawn and the industrialized economies have got to get out, fast, of this plagued economic-morass created by the vicious circle. Nothing could be more revealing in this context than the recent GATT report itself (1980/81):

"It can be plausibly argued that the present extent of protection is already a major cause of the poor performance of the core economies, inhibiting the expansion of their potentially dynamic industries both by reducing the foreign demand for their products and by locking up resources in the protected activities. On this view, contemporary protectionism, particularly through its conjunction with agreements restricting industrial competition, is itself an important link in a vicious circle, or rather, a downward spiral."
Therefore, it is imperative to perceive the international trade policy issues in their proper perspective. What is generally being dubbed as 'market disruption' by the industrialized economies can legitimately be regarded by developing countries in view of the logic of comparative advantage/difference to vacate areas according to the principle of international division of labour as 'export market disruption' (as brilliantly argued by Professor Jagdish Bhagwati,20 - when the importing, developed countries invoke protective devices, such as 'voluntary' export restraints (VER), to assist domestic industries seeking relief from foreign competition. Trying to rank the different groups and institutions, seeking to define market disruption and to obtain relief from imports therewith, according to the degree of restrictiveness that they would apply to the concept, it is seen that the domestic industry in the importing country seeking relief from the imports, would apply the least restrictive criteria to define market disruption, (followed by National executive in importing country, then the National legislative in importing country) and the highest, in restrictiveness, would be the GATT, which seeks generally to minimise interference with expanding trade. It is not surprising therefore that the loose, industry-based view of market disruption would seek to extend to all competition with imports in the domestic market

and indeed to evidence of any serious injury would need to be

established. If a national government tolerates and allows such clamour as justified, (as many of the industrialized states often do), perhaps an apt observation, which can hardly be over emphasised, would be that a politically costless and an easy palliative may not always be the best remedy, if it does violence to the rules of international trade discipline, and sequentially then, borderlines to the stage of 'economic hypocrisy'.

By contrast, the GATT (Article XIX) based on the principle of non-discrimination, restricts the emergency action on imports of particular products to situations which satisfy three conditions:

(i) that the alleged disruption should have been the result of 'the obligations incurred by a contracting party under this Agreement, including tariff concessions',

(ii) that the product must be imported in 'increased quantities', and

(iii) that conditions must exist which 'cause or threaten serious injury to domestic producers'.

Responding to the protectionist pressures from their industries, the national governments in the industrialized countries have essentially interacted in two ways: firstly by trying to weaken the restrictive nature of GATT rules on market disruption and secondly by by-passing the GATT framework altogether.
There are umpteen instances, experienced by third world exports, particularly in the seventies when the rules have been undermined and VERs, OMAS, MVP, (minimum Viable Production) perpetrated. The unilateral restraints imposed by the EEC, in the textiles - garments sector against India (during 1977) or by the Scandinavians (to 'artificially' allow their small market to prosper on MVP, rather than principles of international economics!) are all events discussed threadbare at the time of MFA II - that 'injury' has invariably been presumed by them and they are unable (unwilling!) to supply specific factual information to the exporting country to establish market disruption.

In this background, the safeguard measures, expectedly for MFA III had to be in the following manner: mandatory requirement for the importing country complaining of market disruption or the risk of it, to provide specific factual information to the exporting country, for any restraints agreed to be subject to periodic review and consultations and also subject to greater multilateral scrutiny and discipline through the TSB (Textile Surveillance Body).

Further, the protocol appeals to participants to refrain from taking measures on the textiles covered, outside the provisions of the MFA before exhausting all the relief measures offered.

The Third World exporters (textiles in the above mentioned instance) might get a temporary feeling of some consolation, inching towards the desirable kind of
agreements (which an impartial observer could testify perhaps as optimal — based on the accepted cannons of international trade discipline), but the net balance turns out that whatever the 'subjective' and voluntary' NTB's were there earlier (reasonable departures clause, exchange of confidential letters in the bilaterals etc. apart from MFA), the same have been some how, included in the MFA III, with the result that the Protocol with its antisurge mechanism and provisions for the pruning of imports from dominant suppliers, has now some new features, back on protectionism. Here thus, one seems to be coming back to square one, namely, why the political will is lacking—is it that the national governments of industrialized countries are so much under the thumb of trade unions or lobbying by the transnationals? Without possessing the time and space here to react to such basic posers, probably it would suffice to say that the latent dangers of 'economic hypocrisy', alluded earlier can hardly afford to be neglected by anyone.

Taking a little closer look now, as to where the apparent deadlock lies, it is seen that the main unresolved issue still is whether safeguards (Article XIX of GATT) should continue to be non-discriminatory, and thereby difficult to invoke, or should be permitted on a selective basis, thus perhaps being used most often to restrai
"successful" exporting countries. The other important issue is the extent to which actions of a safeguard nature outside the scope of Article XIX, such as (orderly marketing arrangements) OMAs and (Voluntary export restraint) VERs, should be covered by negotiations on safeguards. In spite of the setting up of the GATT Committee of all MTN participants to continue negotiations beyond the conclusion of the Tokyo Round, no early solution seems to appear on the horizon. Perhaps some bold initiative - more in the domain of containing the 'political pressures' for protectionism in the industrialized countries would tend to provide the breakthrough. May be the third world countries can come out with a fresh proposal - away from the stalemated technical issues of 'selectivity' and 'outside GATT' measures - essentially to help the industrialized countries 'politically' rather than 'economically' - and in the process solve ('thaw') the twin issues of selectivity and OMAs, VERs too.

Undoubtedly, the need for a multilateral safeguard system has been further heightened by the present crisis in the world economy with its deeprooted structural imbalances, which led to pressures on governments for short-term measures. This in turn, has created an adverse situation, particularly for the developing countries who suffered not only from safeguard measures but also from uncertainties and at times,
from inequity in this area. Perhaps an effective, objective and transparent safeguard mechanism with multilateral disciplines and surveillance would seem to be an optimal solution; some thoughts therefore could be pitched in for making it **effective** and workable. The World Development Report, 1979, makes a balanced remark on 'curbing protection and adjusting to imports', when it observes that in designing a better system of adjustment, it can be argued that the market mechanism itself is best equipped to bring about the efficient re-allocation of resources, if only it is allowed to work. What is needed, therefore is a policy that reduces the political resistance to change, which ultimately manifest itself as protection. One possible means of so doing, observes the Report, is to compensate those directly affected. It is at this concept of 'compensation' that a fresh thought and reconsideration is called for that is not implied in the World Bank Report. The basic question arises - Compensation to whom? Of course to those directly affected. Extending Professor Jagdish Bhagwati's analysis of 'Export Market disruption' suffered by the developing country exporter (mentioned earlier), the latter ought also need to be compensated merely on the above logic of compensating those directly affected, (apart from the detailed analysis, made in Professor Bhagwati's paper showing welfare loss on the exporting country, from both potential and actual exercise of import restrictions - suggesting a set of rules, including penalty/compensation, proposing modification of the most tough Article (XIX) of the GATT).
Several negotiators, academics and analysts seem to think alike, that the main reason why article XIX of the GATT has not been used much by governments is on account of fear of retaliation and to avoid compensation claims and partly because the spirit of GATT does not permit discrimination. Therefore the key difficulties with Article XIX are the principles of MFN treatment and of reciprocity, the latter including the right to retaliate as its own enforcement mechanism. Jan Tunlir\(^\text{21}\), very pragmatically comments:

"One of the reasons for which governments shun invoking article XIX, however, is the domestic political difficulty to which the procedure exposes them. The government taking such action must find it very difficult indeed to explain to the legislative and to the public at large why compensation should be given for what cannot but appear to them a rightful action".

In the same strain therefore if by conscious and deliberate set of rule making (on the logic of compensating those directly affected) when the affected developing country exporter (who is really not at fault, since

initially the third world did not choose, *ab initio*, to remain backward by option, and now when the strides to develop export earnings are being made, they are in a way being throttled) is also officially made entitled to receive a part of compensation, it would appear all the more unconvincing to the legislature and public at large, including the trade unions; in other words this deterrent action might help ease the political pressure leading to protectionism as the easiest, costless, harmless political remedy. Like the utility of any major deterrent, this proposed provision of compensating the developing country exporter may never actually have to be used, but the odds are that this would certainly go to underscore some home truths of economics (away from sheer politics and the consequent lack of political will) namely that it would be perhaps better for the temporarily unemployed bands of people to be utilised elsewhere (in a rationally evolved industrial/labour policy by vacating those areas where the comparative advantage has been lost by the forces of market mechanism) rather than simply be paid unemployment benefits(without alternative work) to the tune as high or even more sometimes than the cost of total adjustments and compensation put together! The trend of the World Development Report 1979 is in the right direction, when in a way it tends to admonish the expectancy of being pampered by way of
compensation, it reads:

Inevitably, there will be problems of fairness in setting limits on who will be compensated, not least in regard to industries supplying inputs to the affected industry, and in compensating people who would have left the industry anyway, while not compensating those who stay. Finally, whatever the political justification for compensating owners of capital, it may be felt that it is their function to anticipate economic developments.

This is where precisely the crux seems to lie, that it was indeed in a way the function of the "haves" to anticipate that the "have nots" (developing countries) would one day be making strides to come up, therefore rather than opposing this natural growth evolution, the time has come when certain adjustments have got to be made. The foregoing suggestion of a compensation clause for the exporter too, acting as a deterrent to diffuse the building political pressure in industrialised countries for mounting protectionism, need not be branded, on the face of it, as patently unacceptable - in all modesty. All new suggestions, in the first flush, are scarcely convincing, but certainly this is a practical step in the direction of developing countries trying to help the industrialised democracies tide over their local problems (for have not the informal requests, often been made by the negotiators of developed countries to their counterparts in developing countries, not to press for a particular tariff concession or a particular GSP item as the elections are round the corner, and further the fear that the national legislature would be repugnant to the idea anyway - in short developed countries have sought the kind of political assistance from the LDCs).
Viewed also from the point of view of the third world or the Group of 77, it could on balance, be an idea worth exploring and floating - may be the 'selectivity' aberrance and its sharp knife-edge would stand 'blunted' then, in practical terms. It would be worth recalling historically that all the lobbying, hardwork and persuasiveness had to be commissioned by the diplomats and negotiators alike, through the sixties, when CSP (unilateral, non-reciprocal tariff concession) was conceded in 1970-71. In fact, starting from the period 1965 (when Part IV of the GATT was added), coincidentally enough, at almost every five year's interval, some dynamism seem to have been added in the realm of international trade policy - one can reckon that way, - 1970 (the CSP), then 1975 (witnessed the peak of demand on S & D - special and differential treatment vide para 5 of the Tokyo Declaration of 1973), then 1980 ('Enabling Clause', legalising the derogation from the GATT - rules, necessitating 'waivers' in the past) and hopefully in this chain, 1985 (at the latest) might herald the final solution of the ticklish issue of Article XIX of the GATT and adjustment assistance measures, long overdue. Progress on structural adjustment (apart from safeguards problem) is particularly important now since for a number of years it has been observed that trend are manifest in the world trading system which often all need long-term rather than short-term ad hoc solutions. Some rigidities are being observed in the international trading system, as mentioned earlier and therefore care would have to be taken, in the modern era of global interdependence, that the short-term measures arising out of this rigidities do not assume permanence or
semi-permanence, polluting the global trading environment. This aspect is germane to the GATT system, in particular to Part IV since these rigidities go to constrict the expansion of world trade and especially opportunities for the expansion of the trade of the developing countries—
for, ultimately, in the strides and growth process of the developing countries lie the welfare and opportunities of the developed world and vice-versa. Perhaps the moral would be, instead of beggar-my-neighbour policies, 'help to each other' ought to be the motto, and perhaps charity could well begin at home, if 'political pressure' by itself is the chief cause of practicing protectionism and not any lack of political will, per se.

Is UNCTAD the answer for stuffiness at the GATT/IMF?

One might perhaps construe that if the Bretton Woods environment has generated certain rigidities and a kind of 'stuffiness', as it were, the answers possibly could be found at, a club of a different sort, may be the 'Peorman's forum' such as UNCTAD. One would have to briefly sketch below, the trend of the proceedings of UNCTAD I to VI, but only to find that such a step also does not seem to be alleviating the ailing international economy in general and the lot of the third world, in particular. And the reasons are not far to seek an important element being the adequate understanding of
the dynamics of interdependence, which is the main thrust in this research dissertation.

UNCTAD basically has been concerned with the trade problems of developing countries, yet it also discusses other problems affecting the international economy which have repercussions on the LDCs. It is seen that the nature of international problems has varied over the years. The focus of the first conference held at Geneva in 1964 was on the foreign exchange requirements of the LDCs. The sixties had just been declared a development decade by the UN. But the imports needed to meet the target of a 5% per annum growth rate could not be financed by the export earnings of the LDCs. The conference, therefore, considered ways to increase the foreign exchange resources of the LDCs. It sought to reverse the trend of LDCs having a decreasing share of world trade by removing the constraints to higher export earnings. It recommended that revenues from primary exports be made more certain by instituting price stabilisation schemes for commodities of interest to LDCs, discriminatory practices against exports of LDCs be removed both in the case of primary and manufacturing commodities, CRs be removed wherever possible, or at least not be intensified.

The New Delhi conference (1968) concerned itself with basically the same problems as dealt earlier at the Geneva conference, and the situation at the third conference held at Santiago (1973) in Chile was not very different. The New Delhi conference strongly stressed the need for tariff preferences for manufactured exports of LDCs. By 1970-71 the Generalised

System of Preferences (GSP) had been negotiated to give effect to this proposal. However, the positive achievement was somewhat nullified by the long time taken to bring the schemes of the various countries to the implementation stage. In addition, a number of restrictions were placed on commodities which would qualify for preferential entry or the countries who could benefit from the schemes. These restrictions reduced the benefits that the LDCs would derive from the GSP. Meanwhile, the restrictions on exports of manufactures by LDCs were being intensified. The significant cotton textile agreement had become a permanent feature and textiles accounted for a large percentage of the manufactures exported by LDCs. As on other labour-intensive products exported by LDCs were also being instituted.

The thrust of problems shifted in the mid-seventies to reflect the changing international scene. Monetary problems had become much more acute. The developed countries were beset by a stubborn inflationary situation and the governments now gave a higher priority to tackling inflation. The international monetary system which had been established at Bretton Woods collapsed as countries were unable to maintain fixed exchange rates and yet achieve full-employment and price stability. The imbalances in the external accounts of the different industrialised countries persisted. The balance of payments problems were aggregated by the oil price rise in 1973-74. The oil price increase also raised the deficits of the LDCs beyond what could be financed from aid, so the question of financing these deficits became critical to maintain rates of growth in the LDCs, as also to enable them to repay the loans already contracted by them. The issues
of main importance at the fourth and fifth UNCTAD held at Nairobi and Manila respectively reflected these changing concerns. More time was devoted to international monetary issues. But apart from the question of larger quotas at the Fund or a link between SDR allocations and aid so that LDCs would get a larger share of new SDR allocations it was difficult to derive precise policy measures that would help the LDCs.

At the most recent meeting of UNCTAD (June 1983) at Belgrade, the focus of attention had shifted again. One of the major reasons given by DCs for their inability to respond to the demands of the LDCs has been the very bad economic situation in the DCs with high rates of unemployment and inflation and a large deficits in the government budgets. These governments have been giving priority to tackling these problems. A number of analysts, including partly the Brandt Commission, have argued that reforming the international economy along the lines suggested by the LDCs would help the DCs to recover from the stagflation afflicting their economies. In particular, it has been argued that economic activity in the DCs and LDCs is linked. Greater foreign exchange earnings by LDCs, through aid or larger export revenue, would be spent on imports from DCs encouraging recovery in the DCs and this would also expand the market for exports of LDCs, and so the interaction would benefit both the LDCs and the DCs. Also all countries have an interest in preventing the collapse of the international monetary system, which is threatened by the increasing debt of the LDCs. Debt relief to the LDCs would directly assist them and the result of an healthier monetary system would be beneficial to all countries.
And these issues about the monetary (trade) system really bring us back to where we started from, the very first sentence of Chapter I, viz. Trade and Money, are unquestionably perceivable as the opposite side of the same coin and hence the need for a systematic analysis and evaluation of the concept of interdependence.

Latest on the global community aid and development policy

A recent report provides an enlightening view on the emergence of a global community aid and development policy and the UK's continuing objective to encourage the same. It is observed, inter-alia, that the acceptance in 1975 of the first Lome Convention by all those Commonwealth countries eligible under Protocol 22 of the Treaty of Accession


and the subsequent extension of these arrangements to other similar countries, was a considerable achievement.

But the Lome pattern is not the only one for the Community. The U.K. has consistently supported the development of relations between the Community and other countries (for instance, through the EC/ASEAN agreement) and the establishment of a substantial programme of aid to other poorer countries together with the improvement of food aid distribution and administration. But the attainment of a development aid programme with better geographical balance is bound to be a matter of compromise and negotiation, a process of evolution rather than revolution.

The programme for non-associates began in 1976 under stimulus from the European Parliament and the British Government. However, according to the Parliamentary Report by the Lords Select Committee on the European Communities, the ACP countries in 1979 received concessional aid worth £ 273.2 million. This compares with £ 25 million disbursed to the non-associates in 1980. Just one of these non-associates, India, has twice the combined population of all the ACP countries.

The main recommendations on development aid policy are to the following effect:

1) The overall shape of the Community's aid programme should be substantially modified over time. Its regionally selective nature, moulded by past historical circumstances, should be converted into a worldwide programme responding to the development needs of the Third World in the 1980s and matching the Community's status in the world. The United Kingdom Government should press for such changes more assertively than in the past.

2) In comparison with other Community policies, the present proportion of aid channelled through the EEC is reasonable. Nevertheless, the need for more development aid, efficiently applied, is manifest. As more resources are made available, the first priority should be to restore or increase Member States' bilateral programmes and their contributions to other multilateral agencies.

3) The present practice of imputing all EEC aid expenditure to the Overseas Development Administration's vote is not justified, greater flexibility should be permitted, especially in connection with food aid.

4) EDF aid to the ACP countries will be unchanged until 1985, when the present Lome Convention expires. Its record would justify its continuation. If more resources became available for Community aid, the Committee would expect some increase in the size of the EDF. But there are no strong grounds for increasing aid to this relatively
favored group of recipients if increments would be at
the expense of EEC aid programmes in Asia and Latin America,
or at the expense of Member States' bilateral aid or their
contributions to other multilateral aid agencies such as
the World Bank's IDA.

5) Initial allocations of aid to individual ACP countries
appear to be made with some flexibility and inconsistency.
Although EDF disbursements do not appear to be generally
slower than those of other multilateral aid agencies,
delays in disbursements erode the value of aid pledged to
ACP countries under the Lome Conventions. To improve
the rate of disbursement, greater responsibility should
be given to EEC Delegates in recipient countries to approve
projects, after shorter consultation with Brussels.

6) The Mediterranean developing countries do not rank among
the poorer developing countries. When the Maghreb and
Mashreq financial protocols are renewed later this year,
Community aid will have to be maintained, but it should
not be increased. More emphasis should be placed on using
lean finance, including European Investment Bank loans, to
assist development in the Mediterranean developing countries.

7) The Community's food aid programme suffers from inefficiencies in planning, administration and delivery.
The suitability for developing countries of some of the
programmes (notably diary foods) is questionable.
A management regulation is necessary to encourage multi-
annual planning and less haphazard execution and delivery.
The United Kingdom Government should press the Council of
Ministers to adopt the Commission's draft management regulation.

8) In the interest of administrative efficiency, the Community should concentrate its food aid on fewer countries, increase its collaboration with other aid agencies and increase the number of staff in Directorate General VIII of the Commission devoted to the food aid programme.

9) The size of the food aid programme in dairy products should be reduced. Budgetary savings should be transferred into programmes of financial aid, particularly for non-associated countries. Dairy food aid should no longer be valued at world market prices or imputed to the British aid budget at this price.

10) Contracts for transporting food aid should cease to be tried to contracts for supplying the food.

11) Financial aid to non-associated developing countries in Asia and Latin America should be expanded. Savings on reduced dairy food aid should be transferred to the non-associated programme. The administration of the programme should be improved by strengthening the staff devoted to it in the Commission and by greater collaboration with Member States' posts and aid divisions in non-associated countries.

12) Co-financing with other donors should continue; to increase the rate of disbursement, the Community should relax its procedures for appraising and approving individual projects itself.
13) Non-associated countries should be enabled to use EEC aid to raise and service loans from other sources for development projects, thus increasing the total amount of resources available to them. The Community should establish the necessary machinery to put together agreed financial packages in conjunction with the recipient country and the potential lender. Contracts for projects financed with such loans should be open to international competitive bidding. If this new scheme for increasing the value of Community aid was successful in non-associated countries, it could be extended to a larger part of the Community's aid programme.

14) The Community should increase efforts within its existing aid programme to work with OPEC countries to recycle surpluses to developing countries through co-financing and by attracting extra loan finance or developing countries.

15) The positions of Member States in international gatherings on development issues during 1981, and in the UN Global Negotiations, must be coordinated. Member States should act together to accelerate acceptance of a more urgent approach to the problem of Global Development and the expansion of world trade.

16) If no significant progress is made in international meetings and negotiations in which Member States are involved during 1981, the Community itself should take an initiative to negotiate agreements which would stimulate the large scale recycling of OPEC surpluses to the poorer developing countries.

27. EEC's development strategy, since enunciated (Oct. 1982) has already been taken up (Chap. III - ibid) and would be further reflected upon in the next Chapter now, the final one: 'Concluding Thoughts'.