

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

W.13/53
18 November 1958

Limited Distribution

CONTRACTING PARTIES
Thirteenth Session

REVIEW OF IMPORT RESTRICTIONS, 1958

Preliminary Draft Prepared by the Secretariat

PART I

	<u>page</u>
1. Introduction	2
2. Changes in the International Payments Situation	4
3. Changes and Present State in the Use of Import Restrictions	10
4. New Tendencies in Methods and Procedures of Restriction	22
<u>5. Conclusions</u>	<u>25</u>

PART II

Restrictions in force in the twenty-six contracting parties acting under Articles XII or XVIII:B.

(A draft of Part II has been circulated in document W.13/1).

THE USE OF IMPORT RESTRICTIONS FOR BALANCE-OF-PAYMENTS PURPOSES

Review of Restrictions under Articles XII:4(b) and XVIII:12(b)

PART I

1. Introduction

One of the basic rules of the General Agreement is that imports from the territories of contracting parties shall not be subjected to any governmental control apart from duties, taxes and other charges. This rule, embodied in Article XI of the Agreement, relates to all controls whether made effective through quotas, import licences or other measures. The Agreement, however, provides for the use of restrictions in certain specified circumstances and under definite conditions. The most important of these exceptions is provided for in Article XII and Article XVIII:B, which allow a contracting party to restrict imports either by quantity or by value in order to safeguard its external financial position and balance of payments. Imports may be restricted to the extent necessary to meet a threat to a country's monetary reserves or to increase reserves which are considered to be at a very low or inadequate level. A number of contracting parties resort to these provisions and are applying import restrictions for balance-of-payments reasons.

In 1954-55 the CONTRACTING PARTIES undertook a review of the Agreement in the light of the operation of its provisions in the preceding six years and amendments were introduced in the text of Article XII and special provisions were made in Article XVIII:B to meet the need of developing countries. While the provisions concerning the use of import restrictions, for balance-of-payments reasons were thus retained, the general belief was that there would soon be fewer countries applying such restrictions especially among the industrialized countries, and the invocation of those provisions would become more exceptional. A number of governments were then contemplating action to redress the international financial disequilibrium, and to restore most currencies to a status of convertibility. It appeared therefore appropriate to provide for periodic consultations to be held with the remaining countries applying restrictions. Before starting these consultations, the parties to

the Agreement decided to give the CONTRACTING PARTIES an opportunity to take stock of all the restrictions maintained for balance-of-payments reasons. For this purpose paragraph 4(b) of Article XII and paragraph 12(b) of Article XVIII provide that, at a date to be determined by the CONTRACTING PARTIES, there should be a review of all balance-of-payments import restrictions applied under those two Articles. The CONTRACTING PARTIES decided that this review should be effected in 1958 and completed at their Thirteenth Session. This report has been drawn up at the conclusion of the review in November 1958.

This report also reviews the discriminatory application of these restrictions. Article XIII of the Agreement requires contracting parties, in their administration of restrictions, to aim at a distribution of trade which approaches as closely as possible the shares which the various contracting parties could expect to obtain if imports were not restricted. This rule of non-discrimination is, however, subject to an exception, contained in Article XIV, permitting a contracting party to retain discrimination in the application of its import restrictions under specified conditions and within defined limits. Article XIV provides that a report should be drawn up each year by the CONTRACTING PARTIES on the state of such discrimination. Eight such reports have been drawn up since 1950, and this report should be regarded as also constituting the Ninth Annual Report of the CONTRACTING PARTIES on the Discriminatory Application of Restrictions.

There are at present thirty-seven governments parties to the General Agreement. Among them, [twenty-six] have stated that they are resorting to the provisions of Article XII or Article XVIII:B, and are employing quantitative import restrictions for the purposes referred to above. The countries resorting to Article XII are: [Australia, Austria, Denmark, Finland, France, Italy, Japan, the Netherlands, New Zealand, Norway, Federation of Rhodesia and Nyasaland, Sweden, the Union of South Africa and the United Kingdom]. The countries which resort to Article XVIII:B - which contains a set of provisions applicable to contracting parties whose economies can support only low standards of living and are in the

early stages of development - are: BBrazil, Burma, Ceylon, Chile, Ghana, Greece, India, Indonesia¹, Malaya, Pakistan, Turkey and Uruguay².

The present review is intended to be a factual survey of the use of balance-of-payments import restrictions and discrimination. Part I discusses the use of the restrictions, their present level, the methods of administration applied, etc., in general terms. The opportunity is also taken to review the changes in the level and methods of restrictions in the past few years. Part II contains separate notes briefly describing the restrictions in force in the twenty-six contracting parties resorting to Article XII or Article XVIII:B. These notes, prepared by the secretariat on the basis of information supplied by the governments concerned or obtained from other sources have been verified by the delegations of the countries applying the restrictions.

2. Changes in the International Payments Situation

Before the past changes and the present state in the use of import restrictions are discussed, it may be useful briefly to review the changes in the international payments position during the period under review. The changes in the last year 1957-58 are discussed in greater detail both because they are more relevant to the present background of restrictions and because the earlier changes have been successively dealt with in previous reports on discrimination.

The General Agreement came into force at the beginning of 1948, soon after the first post-war financial crisis which was associated with the short-lived attempt at sterling convertibility in 1947. The world had hardly

¹ The Government of Indonesia has indicated that in its view the measures affecting imports now in force in Indonesia do not necessarily constitute quantitative restrictions but represent rather exchange restrictions applied in accordance with the Articles of the Agreement of the International Monetary Fund.

² This list will be established when the CONTRACTING PARTIES have taken a decision concerning the eligibility of those contracting parties to the provisions of paragraph 4 of Article XVIII.

recovered from the dislocations caused by the war and a large proportion of the contracting parties were applying severe and rigid import restrictions to safeguard their external reserves. Thanks to the United States interim aid programme and the Marshall Plan, Western European economies began to recover at a higher rate than hitherto had been the case, and there were signs that international payments equilibrium would soon be restored. In 1948 and 1949, however, the levelling off of the post-war high levels of consumer and producer demands was followed by a tendency for some European exporters to find themselves priced out of dollar markets. In addition to the discrepancies between the existing exchange rates and costs and price structures, inflationary pressures were found in many countries to enlarge the gap between the demand for dollar imports and supplies to the dollar market. Exports to the dollar market were also adversely affected by a moderate decline in economic activity in the United States in 1949. In the autumn of 1949 almost all of the sterling area countries and a number of other countries devalued their currencies. This was followed by a substantial improvement in the external reserves of many countries.

It was against this background in 1950 that the CONTRACTING PARTIES conducted the first review of the balance-of-payments import restrictions in force, and found that a beginning had been made in the liberalization of trade.¹

When the effects of the devaluation of September 1949 were yet to be fully felt, the beginning of the Korean war created new situations requiring readjustments to be made; the world economy entered a new phase. The increased demand arising from rearmament and stockpiling raised prices, internal incomes and world trade to high levels. The reserve positions of many countries were strengthened. This trend, however, ceased shortly after a decline in commodity prices which partly nullified the earlier improvements in the terms of trade of primary commodity producers. Widespread balance-of-payments difficulties were encountered and reserves declined in many countries. It was generally felt at that time that the reappearance of these difficulties strongly indicated that early efforts to restore a new world equilibrium had failed to take due account of some fundamental factors.

¹ See the report entitled "The Use of Quantitative Import Restrictions to safeguard Balances of Payments", November 1951.

Widespread payment crises at the beginning of 1952 affected particularly the raw material exporting countries, most of which had benefited greatly from the raw material boom that followed the beginning of the Korean war. Their difficulties arose principally from the high levels of consumer and producer demands which had been generated by the high level of income and large export proceeds, and were accentuated by the fact that it was not always easy to adjust imports promptly to levels more compatible with declining exports earnings. In the latter part of 1952, however, there was a significant recovery and by the beginning of 1953 many countries had again achieved a balance or had at least substantially reduced their deficits.

In the second half of 1953 a slight recession in the United States economy caused serious anxieties abroad, but the world economy at that time had attained a degree of resilient strength; despite the moderate reduction of imports into the United States in 1954, international commodity prices remained fairly stable. This stability was partly due to the rising demand in Europe for raw materials to meet its expanding industrial requirements and, by maintaining income in primary producing countries at a high level, also made possible an expansion of the exports of industrial countries, especially in capital equipment. The expansion of production and the sustained demand in both industrial and primary producing countries were probably the basic reasons why the United States recession affected but slightly the economies of other countries. Production and income continued to expand in the three subsequent years and improvements in the international balance of payments also continued, except for the interruption arising from the Suez crisis in late 1956.

Towards the end of 1957 the expansion of production and income in most industrial countries showed signs of levelling off, and a recession developed in the United States economy. This recession continued into 1958 and reflected a general fall in commodity prices.

Through the period under review the general tendency has been a gradual improvement in internal payments relations. After the fall in reserves during the Korean war there has been a steady and almost continual increase in the reserves of countries outside the United States. The increases amounted to \$2.5 billion in 1953 but fell to about \$1.5 billion in 1954 and 1955. In the last two years the increase averaged at an annual rate of

\$2 billion. In discussing the level of reserves account has to be taken of their distribution among the various groups of countries or regions. In recent years there has been a tendency for the countries relying on export of primary products to reap less benefit from the expansion of world trade and the reserves, as compared with the industrial countries. This tendency has become even more marked in the last two years.

Late in 1956 the balance of payments of the rest of the world with the United States was changed from a surplus to a deficit. This change was partly associated with a number of temporary factors, such as United States exports of petroleum to Western Europe during the closure of the Suez Canal, cereal shortages in Western Europe as a result of heavy frost, re-stocking of cotton abroad, and large speculative capital movements. It occurred at a time when the supply of dollars through United States expenditures abroad was rising and partly reflected a higher rate of expansion abroad than in the United States.

The deficit of the rest of the world with the United States continued through the first three quarters of 1957. The total transfer of gold and dollars to the United States by foreign official holders during the twelve-month period ending September 1957 amounted to \$1.7 billion. However, after the middle of 1957, both United States expenditures abroad and foreign expenditures in the United States were reduced. The adjustment was larger for foreign expenditures, and beginning with the fourth quarter of 1957, the rest of the world was once again in surplus with the United States. The foreign surplus rose during the first half of 1958 at an accelerated rate. By the middle of the year the inflow of gold and dollars from foreign official holders that occurred during the twelve-month period ending September 1957 had been almost exactly reversed. The outflow of gold and dollars from the United States continued at a substantial rate through the third quarter of 1958. By the end of that quarter, non-United States reserves of gold and dollars stood at a record level, having been increased by about \$1.4 billion from new gold production and other non-United States sources during the preceding twenty-four months in addition to a net amount of almost \$1 billion from transactions with the United States.

In spite of the recession in the United States economy, United States expenditures abroad continued to be at a high level. Comparing the second quarter of 1958 and that of 1957 the value of United States imports of goods and services fell only slightly. The outflow of private capital from the United States first fell sharply from the record high level that had been reached but rose subsequently. Foreign expenditures on United States goods and services fell by 16 per cent, and the inflow of foreign private and bank capital to the United States became negligible in the first half of 1958. Net non-military grants and loans extended by the United States Government, including the accumulation of foreign currencies acquired under Public Law 480, continued at an average annual rate of \$2.5 billion with some fluctuations from quarter to quarter.

For recent years, the balance of payments between the United States and the rest of the world must be given a less predominant position than for earlier years in the appraisal of the degree of equilibrium in international payments, because some other countries have developed strong surplus positions. Thus, the disequilibrium in international payments during the twelve months between October 1957 and September 1958 was larger than suggested by the figures quoted above because the surplus of the United States coincided with a large surplus in the balance of payments of the Federal Republic of Germany (\$1.8 billion), as measured by the increase in official reserves, and with unusually large payments to the Government of Venezuela for new concessions which enabled that country to increase its reserves by \$700 million. After the third quarter of 1957 the improvement in the rest of the world's balance of payments with the United States, however, coincided with a sharp reduction in the German surplus and a change from an accumulation to a net use of reserves by Venezuela. For that reason, the data from the United States balance of payments tend to understate the recent progress toward international equilibrium.

A spectacular improvement in the balance of payments of the United Kingdom took place after the third quarter of 1957, mainly as a result of the Government's economic and financial policy of eliminating inflation at home and obtaining a more favourable balance of payments. During that quarter, sterling was subject to strong pressures, in part as a result of speculative

capital movements that arose from rumours of impending changes in the relative value of the German mark vis-à-vis other currencies. In addition, while the United Kingdom had a large surplus on current account it was not sufficient to cover both the outflow of capital and the large-scale withdrawal of sterling balances by countries in the rest of the sterling area. The loss of gold and dollars during the third quarter exceeded \$500 million. The speculative capital movements were stopped or reversed after the third quarter of 1957 as the position of the United Kingdom improved, in part as a result of foreign borrowing and by the end of the year all except \$100 million of the losses of gold and dollars had been recovered. During the first half of 1958, the position of the United Kingdom further improved as the surplus on current account increased and the withdrawal of sterling balances was sharply curtailed. The increase in gold and dollar reserves during the first half of 1958 was close to \$800 million and the United Kingdom position continued to be strong during the third quarter of 1958. At the end of September 1958, United Kingdom reserves of gold and dollars of \$3,120 million surpassed the previous peak in recent years reached in June 1954. The major factor behind the rise in the current account was a reduction in the value of imports, which fell by 11 per cent from the first half of 1957 to the first half of 1958, while exports remained stable. Most of the change in the trade balance was accounted for by a favourable change in the terms of trade. The fall in the volume of imports was only a few per cent.

Most other countries in continental Europe also benefited from the fall in the prices of primary products in relation to industrial goods and in addition their industrial expansion has generally slowed down. The value of imports of this area fell on the average by 9 per cent from the first half of 1957 to the first half of 1958, with the value of exports remaining fairly stable. Most of the countries improved their balance-of-payments position from 1957 to 1958. Thus the deficit of France as measured by the change in reserves and borrowing to supplement reserves was reduced from \$1 billion in 1957 to about \$200 million in the first half of 1958, and several countries such as Belgium, Denmark and the Netherlands which had been running deficits during the first half of 1957 accumulated reserves during the second half of the year and the first half of 1958. The increase in

German reserves during the twelve months ending September 1958 was \$300 million as compared with a gain of \$1,800 million in the preceding twelve months, the change being partly attributable to a reflow of capital that entered Germany in anticipation of an appreciation of the German mark.

Outside Europe the positions of Japan and India improved. Japan's reserves had decreased by \$500 million during the first half of 1957. Subsequently its trade balance improved sharply and imports in the first half of 1958 were 33 per cent lower and exports 5 per cent higher, than in the first half of 1957. While India continued to be in deficit during the first half of 1958 as it had been throughout 1957; its reserve losses were reduced, mainly as a result of a fall in imports.

In general, the recent improvement in international payments that has taken place has benefited the industrialized countries. The position of the primary producing countries as a whole has deteriorated as a result of falling prices which has reduced the volume of imports they are able to buy. The majority of those countries do not hold large reserves, and the unfavourable change in their position is reflected more in the reduction in the value of their trade than in their reserve positions. By the middle of 1958, while the major disturbances to the international payments of the preceding year had been in large part eliminated, the balance-of-payments problem of the world had changed from being primarily one of maintaining equilibrium between the United States and the rest of the world to being one of restoring equilibrium between the primary producing countries as a group as against the industrialized countries.

3. Changes and Present State in the Use of Restrictions

Broadly speaking there has been a general tendency in the industrial countries to relax restrictions, but much less progress has been made by the primary producing countries. For convenience these two groups of countries may be reviewed separately:

The industrial regions

In Western Europe the adoption by the member countries of the OEEC in 1950 of a set of rules concerning the maintenance of quantitative restrictions and the establishment in that year of the European Payments Union opened the

way for rapid progress in the freeing of intra-European trade. In the autumn of 1951, however, a critical situation occurred and was associated with the readjustment and corrective phase which followed the immediate, partly speculative, reactions to the Korean crisis. In February 1951 the Federal Republic of Germany suspended its liberalization measures completely and in the following months the United Kingdom and France found themselves in balance-of-payments difficulties. The withdrawal by the United Kingdom in November 1951 and March 1952 of most of its liberalization measures vis-à-vis Western European countries and the suspension of all liberalization measures by France in February 1952 represented a partial reversal of the movement toward freer trade.

Despite these adverse developments, several countries, including Denmark, the Netherlands, Norway and Sweden, raised their levels of liberalization¹ and early in 1952 the Federal Republic of Germany restored liberalization of imports from OEEC countries. As a result, the overall level of intra-OEEC liberalization, which had been falling during 1951, began to increase in 1952. During the winter 1952-53, the limitations placed by several of the countries experiencing difficulties upon external expenditure abroad combined with measures to redress their economies, served to bring about a substantial improvement so that the restrictions previously re-introduced were gradually relaxed. A notable exception was France, which reduced imports even further in the first months of 1953.

A persistent favourable situation throughout 1953 enabled many industrial countries to make further progress in the dismantling of their restrictions and, with the resumption of its former liberalization by the United Kingdom and the relaxation of certain restrictions by France in October 1953, the overall OEEC liberalization percentage reached 75 per cent. Nearly all the OEEC countries contributed to this achievement. Concurrently with these developments in the freeing of intra-European trade, changes were made in the dollar import policies of several countries. In addition to the formal measures of relaxation taken by Greece, the Netherlands and

¹For purposes of the OEEC liberalization the degree of liberalization of a country's imports is expressed in terms of the percentage of its private imports that are freed from restriction, calculated on the basis of its trade in 1948 (in some cases a later year).

the United Kingdom, several governments showed themselves more ready to issue licences for imports from the dollar area when equivalent goods from other sources were not available at competitive prices.

Until the end of 1953 the marked improvement in the balance-of-payments position of nearly all OEEC countries had reflected itself principally in the liberalization of intra-European trade. Changes in trade controls in 1954, however, benefited to a much more substantial extent than hitherto exports of other countries, including those in hard-currency areas. While the process of removing import restrictions on intra-European trade continued important further relaxation measures were taken by Austria, the Federal Republic of Germany and the United Kingdom and by France, several countries extended the application of their OEEC free lists, in whole or in part, to countries other than OEEC members which settle their accounts through the EPU. As for imports from the dollar area a beginning was made in formal liberalization; the principal moves in this direction were taken by Belgium-Luxemburg, Denmark, the Federal Republic of Germany, Italy, the Netherlands, Sweden and the United Kingdom.

In 1955 most member countries of OEEC including Belgium-Luxemburg, the Federal Republic of Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Sweden and Switzerland were able to raise the levels of liberalization of intra-European trade in accordance with certain decisions taken by the OEEC. At the end of 1955, the overall OEEC liberalization percentage reached 86 per cent. The progress in the dollar liberalization programme of the OEEC countries, although less pronounced than in the previous year, was still substantial. Austria and Denmark put into force their first dollar liberalization lists and new measures were taken by certain other countries; in addition to formal liberalization, arrangements were made to admit a proportion of imports in the non-liberalized sector on a more liberal basis.

In 1956 and 1957 the industrial countries continued to relax import controls and to reduce the discriminatory elements in the application of their restrictions, but progress was more gradual than in 1954 and 1955. Inflationary pressures and, in 1957, speculative capital movements and recessionary tendencies in North America provided circumstances which were hardly propitious for momentous progress in the removal of the remaining restrictions. The scope of the restrictions in many industrial countries had

been reduced to an extent where further liberalization was becoming difficult, mostly for social and other reasons. Some countries indicated that their ability to make further contributions to the liberalization of intra-European trade would depend on a further simultaneous reduction of other impediments to trade, such as tariffs and other devices affecting trade.

Since 1956 there has also been a greater variety in the methods used and procedures adopted in experimenting with the liberalization of imports. In addition to the formal extension of free lists, especially in regard to dollar imports, the stringency of restriction and the degree of discrimination have in many cases been relaxed with regard to the products remaining under control, through the free issue of licences or increases in quotas. Most of these measures are not of a spectacular nature if considered in isolation, but their results in the aggregate have contributed to a substantial freeing of international trade and, what is more important, they provided an unmistakable indication of a general desire to consolidate the gains made in previous years. Countries in the industrial regions, when faced with pressures on external reserves, have generally avoided re-introducing or intensifying direct restrictions of imports and have been more prone to rely on corrective measures of a general nature to restore equilibrium and preserve stability in their economies.

The one country in Western Europe which has not been able to participate consistently in this general move towards freer trade is France, where expansionist policies in the private sector and increases in Government expenditures for a number of years placed a burden on the balance of payments.

In June 1957 France found it necessary to reimpose quantitative restrictions on practically all its imports. Some of these restrictions on imports from Western European countries have since been relaxed. During 1957 only the Federal Republic of Germany and Norway made further progress in removing restrictions on non-dollar imports, and the overall OEEC liberalization percentage fell slightly.

Among the industrial nations applying import controls, Japan has also made repeated attempts at liberating imports; its efforts, however, have been hindered on several occasions by untoward developments in its balance of payments. After relaxing controls on sterling imports early in 1952, Japan took steps to remove restrictions on imports from other areas, especially from countries with which it had entered into trade and payments agreements. In the second half of 1953, mainly due to a sharp decline in foreign exchange reserves caused by dwindling exports, the import of a large range of consumer goods and important raw materials were again placed under more severe restriction. To cope with the continued unfavourable payments situation, the Government evolved certain monetary policies which were mainly aimed at restricting credit facilities for imports and reducing excess inventories of imported primary commodities. At the beginning of 1955, the drain on the foreign reserves was arrested by a remarkable increase of exports and with the restoration of stability in the economy the reserve position began to improve. Against this background of improved financial resources and a better balanced trade, restrictions were relaxed, first on imports from the sterling area and other non-dollar countries, later also on dollar imports. In the early months of 1957, however, soaring imports of raw materials and durable equipment and a slight decline in exports caused the balance of payments of Japan again to deteriorate. In the spring, restrictive internal monetary and fiscal policies were again intensified with a view to restraining domestic demand and various measures were taken again to tighten the financing of imports. Foreign exchange allocations for imports were reduced. Since then, however, with the gradual improvement in the balance of trade and payments, import controls have again been relaxed.

The primary producing countries

The reversal of world price trends in 1951, which coincided with the setback in the drive to liberalization of imports in the industrial countries, had particularly serious financial repercussions for the countries which depend mainly on the export of primary commodities, many of which are in the early stages of economic development. Having benefited greatly from the raw materials boom in 1950-1951, these countries met with considerable difficulties with the subsequent contraction of their export earnings. Hardship was particularly severe for the countries which found it difficult to make rapid adjustments in their demand for imports because of the more or less rigid requirements of their important development programmes. During 1952, in response to the rapid depletion of their foreign exchange reserves, many of these countries introduced or intensified restrictions. Measures taken by the Union of South Africa in January 1952 to reduce imports were followed in March by similar action in Australia and New Zealand. The tightening of the restrictions generally aimed at keeping imports within limits comparable to expenditure in 1950 and 1951. In the second half of 1952, Ceylon and India intensified their import controls. In Latin America, Brazil, Chile and Uruguay attempted to limit or reduce import expenditure through various measures including the manipulation of exchange rates applied to different categories of products.

The improvement in the international payments situation in 1953 was shared by a large number of primary producing countries. Australia, New Zealand and Southern Rhodesia found it possible to undertake substantial liberalization. In most other primary producing countries, especially in the poorer countries where, owing to internal factors or a further downward movement in the price of their exports, balance-of-payments difficulties persisted, restrictions were intensified or additional complexities introduced into the exchange system. During the year, Brazil, Chile, Indonesia and Pakistan, for example, continued to tighten their import controls.

In 1954, increased capital inflows, added to the reserves accumulated in the previous year, enabled most independent countries in the overseas sterling area to reduce their reliance on quantitative restrictions. Ceylon, India,

New Zealand, the Federation of Rhodesia and Nyasaland and the Union of South Africa relaxed licensing controls or withdrew them altogether on some of their imports. Concurrently, liberalization was extended to imports of essential commodities from hard currency areas. In contrast, Australia had to reverse the process of freeing imports and intensified its restrictions during that year. Gold and dollar holdings of the non-sterling primary producing countries generally showed no increase and the reserves of some of them experienced a decline. Brazil, Chile, Indonesia and Uruguay took measures to curtail imports drastically. The deterioration which took place during that year in the payments situation of these countries was not generally attributable to any reduction in their export earnings. It was caused rather by inflationary pressures and by an expansion of their imports which was mainly a reaction to the abnormally low level to which they had been restricted in the previous year.

In the following years, 1955 and 1956, no sign could be discerned of any durable improvement in the balance of payments of most primary producing countries, which continued to rely on import restrictions and to ration their limited external resources in order to meet essential requirements. A number of these countries, particularly those which were not facing inflationary strains, however, found it possible to relax some of their import controls and particularly to reduce the disparities in the treatment of imports from different sources or payable in different currencies. Most countries of the overseas sterling area, for example, began to make a more general use of internal monetary and fiscal measures which were expected to curtail excessive demand. Where such measures were found not immediately or adequately effective in redressing a country's external balance, import restrictions were still resorted to as an emergency measure; thus Australia, for example, on several occasions in 1955 and 1956, tightened its import restrictions in the face of falling export prices of wool and of rapidly declining monetary reserves. Indonesia, after a temporary recovery in 1955, was again confronted with heavy pressures on its monetary reserves in 1956 and imposed more stringent restrictions and introduced a new import control system.

As an exporter of timber and woodpulp, Finland had benefited greatly from the raw material boom of the Korean War and despite a reversal in 1952-1953 was able substantially to liberalize its imports in 1954. In 1956 rising foreign exchange disbursements caused a serious drop in reserves and in December, in anticipation of a further decline, import restrictions were tightened. Substantial relaxation has, however, been introduced in 1957 and 1958.

Pressures on the balance of payments of certain countries in Latin America remained and in some cases were aggravated in 1955-56. With a view to redressing the situation, Chile and Uruguay readjusted their exchange rates and introduced advance deposit requirements; with these changes a large range of essential products were freed from licensing restrictions. (Similar measures were taken later by Paraguay and Bolivia.) In Brazil, though inflation continued unabated, there was a remarkable improvement in the balance of payments. Apart from the introduction of multilateral trade and payments arrangements with a number of countries in Western Europe, an important change was made in the import control system through reducing the categories of imports from five to two.

In the last two years, 1957-1958, in contrast with the gradual strengthening of the payments situation of most industrial countries, primary producing countries continued to experience pressures on their external reserves. These arose mainly as a result of excess internal demand as compared with available resources, but an important rôle was played by a deterioration in the terms of trade which called for adjustments which could not be easily made. In general, the countries with insufficient foreign exchange resources enabling them to sustain the temporary pressures until internal monetary and fiscal measures had had time to take effect, had to tighten their import restrictions.

In the overseas sterling area a number of countries, including the Federation of Rhodesia and Nyasaland and South Africa, were able to relax import restrictions as a result of improvements in the balance of payments. In Australia, with a better export demand and a slackening of internal demand pressures restrictions were gradually relaxed, though recently the volume and

prices of exports have again been falling. On the other hand, higher import prices and an increase in the volume of imports in New Zealand resulted in 1957 in a considerable fall in the foreign exchange reserves. In January 1958, with very low reserves and declining export prices, all imports were again made subject to licence and import quotas set up with a view to bringing imports down to a level comparable with that of 1956. India's monetary reserves declined as its development programme was pursued faster than the growth of export receipts and foreign loans would permit, and controls were tightened on several occasions in 1957. In spite of falling export prices and declining reserves, Burma, Ceylon and Pakistan pursued their liberal import control policies. In Latin America the more flexible régimes of import and exchange controls that had been evolved in the preceding years were maintained through most of 1957. Since then, however, in view of the continued effect of falling export earnings and domestic inflation on foreign exchange reserves, measures were taken by Chile, Peru and Uruguay to curtail imports and reduce foreign expenditure.

The present level of restrictions

The various measures described above, taken as a whole, have resulted in a lower general level of import restrictions applied for balance-of-payments reasons and a substantial reduction in discrimination. The restrictions against imports from the dollar area, in particular, have perhaps reached a level lower than at any time since the war. It is difficult to assess the incidence of the restrictions in absolute terms, or to express it in quantitative terms. A variety of methods are used in controlling imports, and a substantial proportion of imports under control is still subject to discretionary administrative action. The diversity of circumstance and the lack of information concerning discretionary licensing policy would defy any attempt at comparing or making a global measurement of the restrictions applied by different countries. It is therefore more appropriate to discuss the level of import restrictions in general terms.

In industrial countries, especially in Western Europe, liberalization has reached a high degree in regard to imports from Western Europe and many other non-dollar countries. There has also been substantial progress in the

liberalization of imports from dollar countries. So far as the exports from Japan and Eastern European countries are concerned the restrictions which have been maintained are not primarily due to balance-of-payments considerations. The distinction that is generally drawn between import controls on dollar and non-dollar imports has been retained even though the need for that distinction has become blurred, and now appears less essential than during the war and post-war years when import restriction systems were evolved and when an inordinate demand for imports from the dollar area dictated the application of strict controls on dollar expenditure. In some countries free-list treatment has been established for dollar imports, similar to those applicable to non-dollar imports - in a few cases, the dollar and non-dollar lists have become co-extensive - but in many cases the de facto liberalization of certain dollar imports has not been formalized through elimination of licensing formalities. Both the need for caution and for keeping watch on developments has caused many countries to rely on the method generally referred to as liberal licensing: that is, for a determined list of goods, while importation remains subject to licensing, licences are issued without limitation upon application. It has been felt that where outright liberalization is not considered possible, such a practice would serve the useful purpose of testing the pressure of demand and the limits to which liberalization could be pursued. Nevertheless, it must be recognized that the requirement of a licence, even though a mere formality, constitutes a hindrance to trade; trade subject to such requirement will remain at a disadvantage as compared with that which can be effected without any formality. In addition to being an inconvenience it cannot but give rise to a degree of uncertainty and may thus often have the effect of impeding the establishment or restoration of channels of trade.

Furthermore, in spite of the progress made in the relaxation of restrictions, restrictions are still maintained on a large section of imports which, in the case of industrial countries such as those of Western Europe, consist principally of agricultural products. Moreover, liberalization has usually not been applied to manufactured consumer goods to the same extent as to raw materials and to certain other essential commodities.

The elimination of all restrictions in effect has been prevented by various social considerations which have compelled the governments to retain protective measures irrespective of the balance-of-payments situation. An outstanding example may be seen in the Federal Republic of Germany whose monetary reserves had been so augmented in recent years that it does not claim to have the right to apply import restrictions for balance-of-payments reasons, but which has nevertheless found it difficult to eliminate the remaining restrictions on certain agricultural and a few manufactured goods. A similar situation may be seen in certain other industrial countries where further progress towards the liberalization of trade has become increasingly difficult, especially in the agricultural sector, in spite of a substantial improvement in their balance-of-payments situation.

In countries dependent on the export of primary commodities, the frequent fluctuation in their external earnings have generally necessitated maintenance of formal controls if not effective restrictions on a large proportion of their imports. Those whose economies can support only low standards of living and are in the early states of development have to keep constant watch on the composition of their imports in the interest of their development and industrial requirements. Their difficulties have also in many cases been aggravated by the tendency to chronic inflation. Apart from a few countries in Latin America and elsewhere which have adopted courageous monetary and financial measures to redress the situation and relied on tariffs to the exclusion of quantitative measures or exchange controls or whose balance-of-payments situation remains favourable, primary producing countries are still relying on trade or exchange restrictions to ration their external resources. In these countries, capital goods and raw materials are generally given priority on their import lists while consumer goods are often drastically restricted, often going to the point of a complete prohibition of imports of goods considered as "luxuries". In many cases, the controls are substantially more severe on imports which compete with domestic production, especially where the domestic industry in question is newly established or has been enjoying the incidental protection of balance-of-payments restrictions for some years.

At a meeting held among the Commonwealth countries in Montreal in September 1958, the United Kingdom announced further measures of liberalizing dollar imports and the participating countries generally reaffirmed the objective of achieving freer and multilateral trade by freeing imports from restrictions and particularly discrimination.

The reduced level of discrimination against the dollar imports area reflect an international payments situation which is in direct contrast with that of the early post-war years. Although formal convertibility has not been attained by most currencies, the pound sterling, the German mark, as well as many other currencies have gained a status of de facto convertibility. The currency control policy of the United Kingdom, for example, enables the conversion of the transferable currencies into dollars at only an insignificant disadvantage. Furthermore, whereas in the earlier post-war years even most of the non-dollar currencies were not mutually convertible, nowadays most of such currencies have been linked together through the mechanisms of the EPU and the sterling area and are inter-transferable.

The latter fact, together with the recent experiments in making multi-lateral currency arrangements among a limited number of countries (e.g. the Hague and Paris Clubs and the Finnish currency arrangements with certain European countries) have greatly reduced, if not totally limited, the need for countries to achieve bilateral balance with their trading partners. As a result there has been much less reliance on bilateral arrangements. Though the number of bilateral agreements has not been greatly reduced in the last few years, their scope and nature have undergone a fundamental change. With the gradual increase in the area of liberalization, the number of goods on which bilateral quotas could be given and were worth obtaining had been reduced. Consequently, a large proportion of the present-day bilateral trade agreements no longer contain bilateral quotas on any extensive scale, if at all. The desire of many primary producing countries to gain access to new export markets has led them sometimes to conclude bilateral agreements, but these often contain only indicative lists of imports and exports and do not provide for quota commitments. Bilateral commitments to purchase defined quantities or values

of the partner's exports have become the exception; in cases where commitments are made to issue licences for imports from the partner country, such commitments often do not affect the country's freedom to import from third sources.

On the other hand, the total elimination of bilateral agreements remains a matter for the future, especially as such a device is still found to be an indispensable means of conducting trade with certain countries, notably those in Eastern Europe.

4. New Tendencies in the Methods and Procedures of Restriction

It has been noted above that compared with the situation in the earlier post-war years there has been a substantial relaxation of restrictions and a significant improvement in the use of discrimination. Parallel to the reduction in the level of restrictions there has been seen a tendency towards the simplification of procedures and the adoption of methods of control which are less cumbersome and which cause less disruption to the working of the market mechanism. During the war and in the early post-war years, the need for strict, direct and detailed controls which placed broad powers of discretion in the hands of the controlling authorities was generally understood and accepted. But with the general improvement in the world balance-of-payments situation and with the gradual revival of the normal pattern and channels of trade, it was natural for simpler methods which are less burdensome to the economy and less inimical to the ordinary systems of trade to be given broader application.

Thus, a number of countries, which for long years applied the most complicated and strict type of import restrictions, have recently turned to measures of a less direct nature. In some Latin American countries, for example, steps have been taken recently to liberalize a wide sector of trade while maintaining restrictions, sometimes with increased severity, on remaining items of imports. Some have resorted to more flexible methods of control, such as advance deposits, or a reduction in the number of categories to which different exchange rates or levies are applied. In the case of Brazil, where

the auction system has enabled the Government practically to dispense with import licensing, the simplification introduced at the time of adoption of a new customs tariff works towards a unification of exchange rates and might approximate to a system of flexible exchange rate.

In early post-war years the general practice was to place all imports under licence and to issue licences purely on the basis of discretionary and administrative decision, and the relaxation of restrictions would take the form of placing certain imports on Open General Licence or on free lists; imports were therefore either free of control or subject to individual licensing. In so far as quotas were provided for certain imports, these were often granted for imports from specified individual countries as a consequence of bilateral negotiations. In recent years, however, global quotas have come into general use. It should be noted, however, that in most cases such global quotas do not yet apply to imports from all sources; the word "global" simply serves to distinguish them from quotas which are allocated among individual exporting countries and does not reflect the normal connotation of the word in the sense of covering the whole world. The extension of such quotas to imports from the dollar area and other countries which do not enjoy the more liberal nature accorded to some countries has been regarded as one of the methods which may be more widely used for the purpose of reducing discrimination.

In the early post-war years when all or most imports of a country were often subject to discretionary licensing, it was a common practice for the licensing authorities to keep a list of goods, which may or may not be published, for which licences were not issued. In some cases import prohibitions might be specifically required by law or governmental decree. In recent years an improvement has also been seen in this field in that a number of countries have eliminated such prohibitions, thus giving the licensing authorities the power to admit even those imports which are normally regarded as non-essential or "luxury", when justified on other grounds. Such freedom, alongside the formal token import schemes which are in force in a few countries, have helped to lessen the damage that import restrictions have caused to established trading channels.

State trading, conducted either through governmental agencies, or through private entities endowed with exclusive privileges, may be maintained for various purposes, e.g. those connected with public health, shortages and price stabilization, but it may also be resorted to for commercial reasons, and may be operated so as to restrict imports. During the period under review significant progress has been made in the reduction of the use of State trading. Several important trading countries have greatly reduced, or totally eliminated, their State-trading activities. In the United Kingdom, for instance, all imports formerly handled by State-trading agencies, with the exception of certain jute manufactures, have been reverted to the private sector; in the Benelux countries where State trading previously covered an important proportion of total imports, such trade has been returned to private hands. On the other hand, there are some instances in which the list of goods subject to State trading has been extended, e.g. in Burma, France, India and Norway. Taking the contracting parties as a whole, while considerable progress has been made in this field, the amount of trade that remains under State trading is still substantial. The products at present under State trading include not only those which are the subject of governmental monopoly, for non-commercial reasons such as tobacco, alcoholic beverages, salt and matches, but also a wide range of agricultural commodities, including grain, sugar, certain dairy products, etc.

It has been the practice in some countries to require the payment of deposit, either to the central bank or to a designated bank, a proportion of the import value in the local currency, as a prerequisite for the issue of an import licence. With the general tendency towards reduced use in quantitative controls, this practice has recently suddenly gained popularity with governments which meet with renewed pressures on their countries' balance-of-payments difficulties, especially if excess internal liquidity was considered to be conducive to speculation imports. Such advance deposits are refunded when the goods are imported or when payment is made for the foreign exchange value of the imports, or after the lapse of a specified period of time. If the licence is not granted the deposit is usually refunded, but not necessarily

in full. Whereas this device had been in previous years mainly for discouraging frivolous or speculative applications for licences, its use in recent years has become more manifestly closely related to the desire to restrain imports; in a number of cases the requirement clearly creates a not inconsiderable addition to import cost. When used for the purpose of restraining imports, the proportion of deposits to the value of imports is often raised markedly and is often made to vary according to the essentiality of the goods to be imported. In Chile, for example, the present percentages of deposits range from 5 per cent for essential commodities to 5,000 per cent for certain luxuries, and the deposits are not refundable until the expiry of a considerable period of time. The other contracting parties which at present maintain advance deposit requirements include Greece, Indonesia, Japan, Nicaragua, Turkey and Uruguay. In 1957 and 1958 several of these countries introduced extensive changes in the percentages of deposits in order to curtail import demand. Finland abolished its advance deposit regulations in May 1957; those introduced by France in March 1957 were discontinued a few months later.

The preference shown by some countries for the deposit system as against other monetary and fiscal measures may be due to the fact that the system is more effective in specifically restricting import demand than measures affecting the general level of expenditures in the country. By operating on the liquidity of importers and adding to the costs of imports, advance deposit requirements may be particularly effective in this regard, especially if linked with a tightening of credit. In general, the effectiveness of the system varies according to availability of credit, the proportion of the deposit required and the length of the period of retention. In actual practice, credit expansion by the banking system has frequently offset the results which could be expected from the application of this measure. That it may be an effective device for restricting imports is, however, not to be disputed.

5. Conclusions

[To be drawn up, if considered necessary.]