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REVIEW OF IMPORT RESTRICTIONS  
UNDER ARTICLES XII:4(b) AND XVIII:12(b)

Draft Report prepared by the secretariat

In accordance with the instructions of the CONTRACTING PARTIES as set out in BISD, Seventh Supplement, pp. 96-97, the secretariat has prepared a new draft of the report on the Review of balance-of-payments restrictions under Articles XII:4(b) and XVIII:12(b). This draft takes account of comments made by certain contracting parties on the previous draft (W.13/53) and of new developments in the fields of international payments and quantitative restrictions. The draft will be examined by the Committee on Balance-of-Payments Restrictions at its meetings to be held from 11 to 22 May 1959.

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PART II

(Circulated separately in W.14/2)

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THE USE OF IMPORT RESTRICTIONS FOR BALANCE-OF-PAYMENTS PURPOSESReview of Restrictions under Articles XII:4(b) and XVIII:12(b)PART I1. INTRODUCTION

One of the basic rules of the General Agreement on Tariffs and Trade is that imports from the territories of contracting parties shall not be subjected to any governmental control or restriction apart from duties, taxes and other charges. This rule, embodied in Article XI of the Agreement, relates to all restrictions whether made effective through quotas, import licences or other measures. As exceptions to this general rule, however, the agreement provides for the use of restrictions in certain circumstances and under defined 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 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 the country's monetary reserves or to secure an increase in reserves which are considered to be at a very low or inadequate level.

A number of contracting parties have been resorting to these provisions and applying import restrictions for balance-of-payments reasons. Pursuant to the provisions of the Agreement then in force the CONTRACTING PARTIES undertook in 1951 a "review" of the restrictions.<sup>1</sup> It was found that a beginning had been made in the dismantling of such restrictions.

In 1954-55 the CONTRACTING PARTIES re-examined the General Agreement in the light of the operation of its provisions in the preceding six years. As a result they amended the text of Article XII and added certain special provisions - in Article XVIII:B - to meet the need of developing countries. These amendments were made in the light of the general belief that consequent upon the return of currency convertibility, which was considered to be imminent, there would be fewer countries applying restrictions on balance-of-payments grounds. It was the general view that the restrictions that remained should be subject to closer scrutiny by the CONTRACTING PARTIES as a whole. While the rules and criteria governing the use of import restrictions for balance-of-payments reasons were not substantially changed it was considered appropriate to provide for periodic consultations to be held with the countries applying restrictions. It was also decided that before such consultations were started, there should be an opportunity for the CONTRACTING PARTIES to take stock of all the restrictions maintained for balance-of-payments reasons. For this purpose paragraph 4(b)

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<sup>1</sup> See the report entitled "The Use of Quantitative Import Restrictions to Safeguard Balances of Payments", November 1951.

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. When the revised provisions of these Articles came into force in October 1957, the CONTRACTING PARTIES decided that this review should be effected in 1958. The results of this review are embodied in the present report.

There are at present thirty-seven contracting parties to the General Agreement. Among them, twenty-five 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, 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: Brazil, Burma, Ceylon, Chile, Ghana, Greece, India, Indonesia<sup>1</sup>, the Federation of Malaya, Pakistan, Turkey and Uruguay.

This report also reviews the discriminatory application of these restrictions. Article XIII of the Agreement requires contracting parties to administer restrictions in a non-discriminatory manner, that is to aim at a distribution of their import trade which approaches as closely as possible the pattern which could be expected to be obtained if imports were not restricted. This rule of non-discrimination is, however, subject to an exception - set out 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 published since 1950, and it was agreed at the thirteenth session that the present report on the review of restrictions should be regarded as also constituting their Ninth Annual Report on the Discriminatory Application of Restrictions<sup>2</sup>.

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<sup>1</sup> 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.

<sup>2</sup> This annual reporting is required only under the old text of Article XIV which is still in force, and will be discontinued once the revised provisions of the Article become effective.

The present review is intended to be a factual survey of the use of balance-of-payments import restrictions and discrimination by the CONTRACTING PARTIES. Part I discusses the financial background of the restrictions and discrimination, changes in the use of restrictions in recent years and the present level of restrictions and discrimination, in general terms. The opportunity is also taken to review the changes in the methods of restrictions in the past few years. Part II contains separate notes briefly describing the restrictions in force in the twenty-five 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 contracting parties concerned.

In concluding this introduction it may be useful to note that this report is intended to deal with balance-of-payments restrictions and therefore does not cover the area, decreasing but nevertheless substantial, of import restrictions applied by contracting parties which are not in balance-of-payments difficulties or for reasons which are not associated with their payments situation. For example, certain countries which have ceased to claim the right to use restrictions for financial reasons have nevertheless retained restrictions on a certain range of imports, usually in the agricultural sector. Restrictions are also applied in certain cases in connexion with internal price income support measures or for protective reasons or against imports from certain so-called "low-cost" countries. A discussion of the merits of these restrictions and discriminatory practices and the policy considerations behind them would be beyond the scope of the present report. May it suffice to say that their use is not provided for in the General Agreement, although sometimes they are countenanced by the CONTRACTING PARTIES through special dispensatory procedures.

## 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 survey the salient developments in the field of international payments since the GATT came into being.<sup>1</sup>

The General Agreement came into force at the beginning of 1948. At that time the world had hardly recovered from the dislocations caused by the war, and particularly in Europe the greatly reduced overseas earnings fell far short of the resources needed to maintain minimum levels of imports, investment and consumption. A large part of the deficit was met by United States and Canadian loans and grants and by various forms of international assistance. In 1947 despite such aid, which amounted to \$6.3 billion, European countries lost about \$2.5 billion of their gold and dollar reserves, and this at a time when

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<sup>1</sup> For a full account of developments in this field, reference may be made to the Annual Reports and other publications of the International Monetary Fund.

the European imports and external payments were subject to strict controls and restrictions. It became apparent that the United States' aid, which had been planned for what was expected to be a relatively short period of economic adjustment, was insufficient to prevent a relapse to a prevalent use of even more severe restrictions on international trade and payments, and that a long-range programme of economic aid was needed. From 1948 the United States foreign aid was stepped up and Western European economies began to recover at a higher rate.

In 1949, however, the levelling off of the post-war high levels of consumer and producer demands in many parts of the world brought out the fact that many European exports were not competitive enough in dollar markets. In addition to the discrepancies between the existing exchange rates and cost and price structures, inflationary pressures were found in many countries to enlarge the gap between their demand for dollar imports and their dollar earnings. While imports into many European countries from the dollar area increased, their earnings and receipts in dollars were curtailed by a decline in United States imports from overseas countries and territories in their respective currency areas and by the increased difficulty of earning dollars in third markets due to the reduction of reserves built up during the war, as in Latin America. The decline in United States imports in 1949 was partly due to a moderate decline in economic activity in that country. In September 1949 almost all of the sterling area countries and a number of other countries devalued their currencies. This was soon followed by a substantial improvement in the external reserves of many countries.

The beginning of the Korean war in 1950 created new situations requiring adjustments to be made. The increased demand arising from rearmament and stockpiling raised prices, internal income and world trade to high levels. The reserve position in many primary export and certain other countries was strengthened. This tendency, however, ceased early in 1952 shortly after a decline in commodity prices which partly nullified the earlier improvements in the terms of trade of primary commodity producers. The less favourable financial situation of many countries also partly reflected the tapering off of United States economic aid.

Widespread payment crises at the beginning of 1952 affected particularly the raw material exporting countries, most of which had seen their reserves greatly increased as a result of 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 large export earnings, and from the difficulty of adjusting imports promptly to levels more compatible with declining export earnings. In the latter part of 1952, however, there was a significant recovery and by the beginning of 1953 many countries had again achieved 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. The world economy, however, had by then attained a degree of resilient strength such as had not existed in 1949.

International commodity prices remained fairly stable mainly on account of the rising demand in Europe for raw materials to meet its expanding industrial requirements. This stability in commodity prices, by maintaining income in primary producing countries, 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, together with the fact that the rest of the world was accumulating gold and dollars at a substantial rate, were probably the basic reason 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 for many countries the international payments situation also continued to improve.

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. There was a general fall in commodity prices. By April 1958 the United States economy began to recover on a broad basis, although pick-up in employment lagged behind that of gross national product. The recovery was almost complete by the end of the year.

Taking the period under review as a whole, there has been a general tendency of gradual improvement in the international payments situation. A steadily expanding volume of United States imports and payments for overseas services, foreign investment, loans and grants, have maintained a growing supply of dollars.

For the countries other than the United States as a group<sup>1</sup> there has been a steady and almost continual increase in their total reserves. The increase amounted to \$2.5 billion in 1953, \$1.8 billion in 1954, about \$1.2 billion in both 1955 and 1956. From late 1956 the balance of payments of the rest of the world with the United States was temporarily changed from a surplus to a deficit. While the United States expenditure abroad was still rising, payments to the dollar area rose sharply on account of such temporary factors as heavy imports of dollar oil during the closure of the Suez Canal, cereal shortages resulted from heavy frost, re-stocking of cotton and large speculative capital movements. In spite of these the total reserves of the countries other than the United States stood at about the same level at the end of 1957 as at its beginning. In 1958 there was again a large flow of gold from the United States to the rest of the world, which more than offset the flow to the United States in 1957. Over the ten years 1949-1958 gross reserves and foreign exchange holdings of countries other than the United States increased from \$22 billion to over \$30 billion.

This increase in international liquidity has been further supplemented by various developments and arrangements which reduce direct reliance on gold or dollars for the settlement of international transactions. For example, up to the end of 1958 the credit and clearing facilities provided by the European

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<sup>1</sup> Excluding Eastern European countries and mainland China.

Payments Union enabled intra-European payments to be settled partly in credit. As time passed the private credit system that had been almost completely disrupted during the war has also played an increasingly important part in financing international trade. In the last few years the International Monetary Fund has made substantial amounts of its resources available to its members, thereby contributing significantly to the stabilization of national economies and helping to avert serious crises such as when sterling and the French franc were put under severe strains in 1957.

The increase in total reserves, however, was not shared by all countries outside the United States. In general it is the international payments position of the industrialized countries that has improved. The reserves of the ECU countries as a group rose substantially from the very low levels of the early post-war years and some of the ECU countries, notably the Federal Republic of Germany, secured a considerably larger share of the total increase than others. A number of primary producing and under-developed countries, such as India and a number of Latin American countries, which had accumulated large holdings of dollars or sterling during the war spent heavily thereafter on capital equipment and materials needed for development purposes, and other supplies which had previously been unobtainable. These countries lost a large part of their holdings. While the raw materials boom at the time of the Korean war temporarily arrested or reversed this trend, the position of the primary producing countries and under-developed countries as a whole has since again deteriorated. The majority of these countries do not hold large reserves and an unfavourable change in their position has often necessitated the use of import restrictions. By 1958, while the major disturbances to the international payments of the preceding years had been in large part eliminated, attention in the balance-of-payments problem has been concentrated less on the maintenance of equilibrium between the dollar area and other countries than on restoring equilibrium between the primary producing and under-developed countries on the one hand and the industrial countries on the other.

If an analysis is made of the causes of the individual improvements and deteriorations, it may be seen that throughout the post-war years increases in reserves have as a rule been achieved through savings from external earnings and other receipts and that losses are largely attributable to increased import payments. In as much as export capacity and import demand are linked with general movements of internal income and demand, the differences in the fortunes of various countries often reflect the internal fiscal and monetary policies they have adopted. In many cases inflationary pressures associated with excessive credit expansion were responsible for a country's balance-of-payments difficulties and loss of reserves. The general tendency during the period under review has been one of more effective and widespread use of internal policies to curb inflation and to maintain stability. On the other hand it may be noted that disinflationary policies are relevant only where disequilibrium is given rise by inflationary pressures and high levels of demand and spending which are undesirable and in excess of available resources, and that problems of unemployment in industrial countries and of raising standards of living above acceptable minimum levels in under-developed countries place limitations on the

extent to which such policies can be pursued. In the last analysis, success of such policies in dealing with balance-of-payments problems is also contingent upon the maintenance and growth of international liquidity. If the total supply of international reserves should decline suddenly it is unlikely that even rigorous policies to combat excess demand would be effective in preventing disequilibrium.

The prospects for the maintenance of international financial equilibrium on a lasting basis depend, among other things, on the availability of adequate reserves for financing international transactions. According to a recent Report by the staff of the International Monetary Fund<sup>1</sup> the ratio of aggregate reserves to annual imports for all countries other than the United States was 36 per cent in 1951, 34 per cent at the end of 1957, and somewhat higher than the latter at the end of 1958. This stability has been maintained during a period when total imports had increased by nearly 33 per cent; in other words liquidity has remained fairly constant, reserves having grown almost as rapidly as trade. Whether this level of reserves could be considered adequate is a question which cannot be answered without reference to certain other factors. On the one hand it may be noted that recent developments in credit and money volume in most countries have largely been healthy; an important factor in this process has been the more general application of monetary measures, including the return to a flexible credit policy. Secondly, in the absence of an excessive amount of short-term credit subject to sudden recall and problems of reparations and war debts such as existed in the inter-war period, the international credit system is comparatively firmly based and international trade is increasingly being financed through normal commercial channels. Thirdly, owing to the strengthened economic and financial structure in the more important countries and a better understanding of the problems involved together with a greater readiness to take corrective measures the recessions that have occurred in recent years have been mild. On the other hand, the exchange holdings, as compared with gold holdings, of the monetary authorities are now larger than ever before. Although the large gold reserves and the strong economic position of the United States provide a protection against a run on the dollar and although the central reserves of the sterling area have been growing while sterling balances have been declining, there is always the possibility - however slight - that there may be a run to convert exchange holdings in these currencies into gold and, in the case of sterling balances, into dollars. Secondly, ambitious development plans and in general the increase in the public sector have made economies less flexible. Low or fluctuating prices of primary commodities are liable to create extremely difficult situations for many countries. Thirdly, with the faster growth of foreign trade as compared to gross national product, monetary or other fears are liable to create pressures on a country's balance of payments through shifts in leads and lags. Finally, in a period of international tension, disruption of the payments situation can arise from events of a non-monetary nature.

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<sup>1</sup> International Reserves and Liquidity, August 1958.

These considerations have led to the view that while there is no need for pessimism one should be cautioned against drawing over-optimistic conclusions. It has also been suggested that whatever balance is struck, individual countries cannot be expected to rely entirely on themselves to meet all adverse circumstances. In this connexion it may be noted that the IMF has agreed that a substantial increase in its resources would be highly desirable and has made definite proposals for increasing the quotas for its members.

Recently, the economic and financial resurgence of western Europe, coupled with increased confidence, has made possible a significant further progress in the exchange field. At the end of 1958, most countries of that area restored their currencies to a status of external convertibility. Holdings of these currencies by non-residents may henceforth be converted at the official rates of exchange into dollars or any other currency. The convertible and transferable accounts were either unified or were made inter-transferable among non-resident account holders. Similiar steps were taken by certain other countries, e.g. Finland and Morocco. Subsequently, the Federal Republic of Germany made its currency fully convertible - i.e., for residents as well as for non-residents - thus abolishing all exchange restrictions. In the last few years some of the European currencies had already been freely convertible in exchange markets on a de facto basis, sometimes at a slight discount, and a number of countries had taken steps to increase the transferability, and in some cases the effective convertibility, of their currencies. Nevertheless, the recent moves in introducing legal and formal convertibility represent a substantial advance towards the restoration of a sound international monetary system.

As a corollary to the restoration of convertibility, the European Payments Union has been terminated and replaced by the European Monetary Agreement. The system of intra-European payments which had been in force for more than eight years and which provided for periodic clearing of bilateral balances and for the provision of credit on an automatic basis, has served its purpose and has thus been discontinued. The restoration of convertibility of European currencies has also reduced if not totally eliminated the usefulness of the arrangements previously entered into by Brazil and Argentina with certain European countries, usually referred to as the Hague and Paris Clubs. Substantial changes in the direction of liberalization and simplification have been made in these arrangements to meet the new situation.

### 3. CHANGES IN THE USE OF IMPORT RESTRICTIONS

Broadly speaking there has been since 1952-53 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 are reviewed separately.

#### The Industrial Regions

In western Europe the adoption by the member countries of the OEEC in 1949 and 1950 of a set of rules concerning the maintenance of quantitative restrictions and the establishment in 1950 of the European Payments Union opened the way

for rapid progress in the freeing of intra-European trade.<sup>1</sup> In the second half 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 serious 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. On the other hand, several countries, including Denmark, the Netherlands, Norway and Sweden, raised their levels of liberalization and early in 1952 the Federal Republic of Germany restored liberalization of imports. As a result, the overall level of intra-OEEC liberalization, which had been falling during 1951, began to rise in 1952. By the end of 1952, the limitations placed by several of the countries experiencing difficulties upon external expenditure, combined with internal measures to redress the disequilibrium in their economies, had 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 persistently favourable situation throughout 1953-54 enabled many industrial countries to make further progress in the dismantling of their restrictions. Nearly all the OEEC countries made some progress, 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. Consistently with the indication in the Code of Liberalization that the regional expansion of trade to be promoted through the OEEC programme should be a stage towards the world-wide liberalization, advantage was taken by a number of the European countries of their strong financial position in 1953-54 also to relax restrictions on imports from non-European countries. While the process of removing import restrictions on intra-European trade continued, several countries extended the application of their OEEC free lists, in whole or in part, to countries other than OEEC members which settled their accounts through the EPU. As for imports from the dollar area, a beginning was also made in 1953 and 1954 in formal liberalization. Previously European governments intending to permit increased imports from the dollar area had been prepared only to issue licences for dollar imports in a more liberal

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<sup>1</sup> Under the OEEC rules for the "liberalization" of trade, countries are required to remove quantitative restrictions on at least a certain percentage of their private imports from the other member countries, calculated on the basis of their trade in a previous year, which in most cases is 1948.

manner, particularly in cases where like products from other sources were not available at comparable prices. In 1954, a number of OEEC countries, including Belgium and Luxemburg, the Federal Republic of Germany, Greece, Italy, Sweden and the United Kingdom, introduced lists of liberalization for dollar goods.

In 1955 most member countries of OEEC, including Belgium, Luxemburg, the Federal Republic of Germany, Greece, Italy, the Netherlands and Sweden were able to raise the levels of liberalization of intra-European trade in accordance with new 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 also 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 dollar 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. Some countries indicated that their ability to make further contributions to the liberalization of intra-European trade would depend on a further reduction of tariffs and other devices affecting trade. Inflationary pressures and, in 1957, speculative capital movements and recessional tendencies in North America provided circumstances which were not propitious for rapid progress in the removal of the remaining restrictions. The scope of the restrictions in some industrial countries had been reduced to an extent where further liberalization involved other than balance-of-payments considerations. Nevertheless, Germany and Norway made further progress in liberalizing non-dollar imports; Austria, Germany, Italy, Norway, Sweden and the United Kingdom in varying degrees increased the liberalization of their trade with the dollar area during 1956 and 1957. It is noteworthy that in spite of the uncertainties and adverse developments European countries, with the only exception of France, did not intensify their restrictions.

In fact, France has been the only country in western Europe which has not been able to participate consistently in this general move towards freer trade mainly as a result of the expansionist policies in the private sector and increases in Government expenditures which for a number of years placed a burden on the balance-of-payments. By successive steps the levels of its liberalization of dollar and non-dollar imports were raised in 1954 and 1955, but remained considerably lower than those reached by other European countries. Early in 1957 the Government took a number of corrective measures, including the general extension of a special tax on import payment and the introduction of a prior deposit system for imports. In June, with a further deterioration in the balance-of-payments all trade liberalization was suspended; most permitted imports were to be admitted under quota. Extensive internal measures were taken with a view to promoting rehabilitation of the economy. In October 1957 and June 1958 changes were made in the exchange tax and exchange rate structures, thus consolidating a devaluation of the franc. At the end of 1958, with a further reduction in the official rate of exchange import restrictions were withdrawn for a considerable number of products.

Since the signing of the Rome Treaty in March 1957 the Benelux countries, France, the Federal Republic of Germany and Italy have been preoccupied with the setting up of the European Economic Community. Connected therewith there have been earnest negotiations among western European countries for the creation of a European free trade area. These preparations and negotiations have caused a degree of uncertainty which partly explains why very few important forward steps have been taken by European countries in the past year in the quantitative restrictions field. Like the French liberalization measures mentioned above such steps as were taken all came in the latter part of the year or early in 1959. At a meeting held among the Commonwealth countries in Montreal in September 1958, the United Kingdom announced measures of liberalization for a substantial proportion of dollar imports and the participating countries generally reaffirmed the objective of achieving freer and multilateral trade by freeing imports from restrictions and particularly discrimination. During the year Norway extended its dollar liberalization. Early in 1959 Denmark and Norway completely eliminated their discriminatory restrictions against dollar imports, and the Netherlands formally announced that it no longer applied import restrictions for balance-of-payments reasons.

Among industrial nations, Japan has also made repeated attempts at relaxing its import restrictions. Its efforts, however, have been hindered on several occasions by untoward developments in its balance of payments. Restrictions were first relaxed in 1952, but re-intensified in the second half of 1953. The new restrictions were introduced in the face of falling exports and declining reserves and were accompanied by measures to restrict credit facilities and to reduce excess inventories of important primary commodities. In 1955 the drain on reserves was arrested by a remarkable increase in exports and as a consequence of the restoration of stability in the internal economy, restrictions were again relaxed. In the early months of 1957, however, increases in internal demands, soaring imports of raw materials and durable equipment and a slight decline in exports caused the balance of payments of Japan again to deteriorate. Restrictive internal monetary and fiscal policies were again intensified and foreign exchange allocations for imports were reduced. Since then, as its economy responded to the internal measures there has been a gradual improvement in the balance of trade and payments, and import restrictions 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 free imports from restrictions in the industrial countries, had particularly serious financial repercussions for primary producing and under-developed countries. The raw materials boom in 1950-51 had benefited greatly their external payments situation, and when the boom conditions ceased many of these countries met with considerable difficulties with the contraction of their export earnings. Hardship was particularly severe for the countries which found it difficult to make rapid adjustments in their 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 substantially to reduce their restrictions. In most other primary producing countries, and in the under-developed countries generally, 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 in their exchange systems. During the year, Brazil, Chile, Indonesia and Pakistan, for example, continued to tighten their controls and restrictions.

In 1954, increased capital inflows, added to the reserves accumulated in the previous year, enabled most sterling area countries to reduce their reliance on quantitative restrictions. Ceylon, India, New Zealand, the Federation of Rhodesia and Nyasaland and the Union of South Africa relaxed their restrictions, including those applied on certain essential commodities from hard currency areas. In contrast, Australia had to reverse the process of freeing imports and towards the end of the year began to intensify its restrictions. Gold and dollar holdings of the non-sterling area primary producing countries generally showed no increase and the reserves of some of them showed a decline. Brazil, Chile, Indonesia and Uruguay curtailed their imports drastically. The deterioration in the payments situation of these countries was generally not attributable to any reduction in their export earnings, but was rather caused by inflationary pressures and by an expansion of imports which was mainly a reaction to the abnormally low level to which they had been restricted in the previous year.

In the following two years, 1955 and 1956, no signs could be discerned of any durable improvement in the balance of payments of most primary producing and under-developed countries, although there seems to have been a tendency among these countries to rely more on measures other than quantitative restrictions. A number of these countries, particularly those which were not faced with inflationary strains, found it possible to relax some of their import controls and particularly to reduce the disparity in their treatment of imports from different sources or payable in different currencies. For example, Chile and Uruguay readjusted their exchange rates, introduced advance deposit requirements and freed a large range of essential products from licensing restriction. In Brazil, though inflation continued unabated, there was some 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 exchange system through reducing the number of categories of imports for which exchange was auctioned.

On the other hand there were instances of intensification of restrictions. Australia, for example, on several occasions in 1955 and in July 1956, tightened its import restrictions in the face of falling wool prices and rapidly declining monetary reserves. The changes made in the import control system on these occasions, however, sometimes provided for a reduction in the amount of discrimination against dollar imports. Indonesia, after a temporary recovery in 1955, was confronted in 1956 again with heavy pressures on its monetary reserves and imposed more stringent restrictions and revised its import exchange system.

In the last two years, 1957-58, many primary producing and under-developed countries continued to experience pressures on their external reserves. The lack of progress was partly due to excess internal demand as compared with available resources, but partly also reflected the effects of the recession in the United States and the slackening of the expansion in Western Europe, in consequence of which prices of primary products fell considerably; an important rôle was played by the deterioration in their terms of trade. In general, the countries with insufficient foreign exchange resources to enable them to sustain the temporary pressures until internal monetary and fiscal measures had had time to take effect, tightened their import restrictions or devalued their currencies usually by allowing exchange rates to depreciate.

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, in the face of declining export prices, the Government placed all imports under licence and in some cases quota restriction, with a view to bringing imports down to a level comparable with that of 1956. India's export earnings and the foreign loans secured by her did not keep pace with her considerable developmental needs, and restrictions were intensified on several occasions in 1957. In Latin America the more flexible regimes 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 fall in export earnings and domestic inflation, measures have been taken by Brazil, Chile, Peru and Uruguay to curtail imports and reduce foreign expenditure. In certain cases, e.g., Chile and Uruguay, the measures taken involved additional discrimination in favour of imports from particular countries.

Some of the overseas sterling area countries, notably Australia, the Federation of Rhodesia and Nyasaland and the Union of South Africa, have been able to relax import restrictions in the past two years. In the case of Australia this has been made possible by the improved demand for its export goods and a slackening of internal demand pressures, although recently the volume and prices of its exports have again been falling. In spite of falling export prices and declining reserves, Burma and Ceylon have maintained their liberal import control policies.

#### New Tendencies in the Methods and Procedures of Restriction

Compared with the earlier post-war years there has been, on the whole, a substantial relaxation of restrictions and a significant reduction in the use of discrimination. Parallel to the reduction in the level of restrictions

there has also been seen a tendency towards the simplification of procedures and methods of control. 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 is natural that simpler methods of control which are less burdensome to the economy and less inimical to the ordinary systems of trade should have become more widely adopted.

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 cases steps taken in the exchange and trade control field have been conceived as part of, and made possible by, overall programmes aimed at stabilizing their economies. In some Latin American countries, for example, adjustments in their exchange arrangements have enabled them to liberalize a wide sector of imports. Some countries have resorted to now or less direct methods of restriction such as advance deposits, or reduced the number of categories into which goods are classified for exchange rate or levy purposes. There has also been a tendency to place greater reliance on free exchange markets and fluctuating rates. In the case of Brazil, for instance, where the auction system has enabled the Government to dispense with import licensing over a considerable proportion of its imports, the simplification introduced at the time of adoption of a new customs tariff has worked towards a unification of exchange rates.

In the 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 goods, these were often granted for imports from specified individual countries as a consequence of bilateral negotiations. In recent years "global" quotas, which are often valid for imports from a group of countries or particular areas, have gradually come into general use. The extension of such quotas to imports from other countries has been regarded as one of the methods which may be more widely used for the purpose of reducing discrimination.

State trading, conducted either through governmental agencies, or through private entities endowed with exclusive privileges, may be maintained for various purposes, e.g. public health, alleviation of 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 subject to quantitative control through State-trading agencies, with the exception of certain jute manufactures, have been reverted to the private sector. 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, India and Norway, and taking the contracting parties as a whole, the amount of trade that remains under State trading is still substantial. The products at present under State trading, apart from those traditional subjects of governmental monopoly such as tobacco, alcoholic beverages, salt and matches, include a wide range of agricultural commodities, such as grain, sugar, certain dairy products etc.

It has been the practice in some countries to require the payment of an advance deposit, either to the central bank or to a designated bank, calculated as 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 of quantitative restrictions, this practice has recently gained popularity with governments which meet with renewed pressures on the balance of payments, especially if excess internal liquidity was considered to be responsible for speculative imports. The proportion of deposits to the value of imports is often made to vary according to the essentiality of the goods to be imported and in certain cases is exceedingly high. 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. On the other hand Finland abolished its advance deposit regulations in May 1957; those introduced by France in March 1957 were discontinued a few months later.

#### 4. THE PRESENT LEVEL OF RESTRICTIONS AND DISCRIMINATION

In the nature of things it is not a simple matter to compare the relative incidences of import restrictions applied by different countries or to assess the general level of restrictions applied by a group of countries. A variety of methods are used in restricting imports, and a substantial proportion of imports under restriction is subject to discretionary administrative action. The diversity of circumstances and the very nature of the discretionary licensing procedure would defy any attempt at such comparison or assessment. It is therefore more appropriate to discuss the level of import restrictions in general terms.

Compared with the unfortunate experiences of the interwar years, the degree of international co-operation that has been achieved in the western world in the post war years - though it may fall short of earlier expectations - must be regarded as remarkable, and undoubtedly international trade could not have reached its present high level and access to national markets by foreign exporters could not have attained the present degree of freedom, had it not been for the obligations freely undertaken by governments under such instruments for co-operation as the Articles of Agreement of the International Monetary Fund and the GATT. The regular consultation procedures of these two institutions

have been effectively used for creating impetus and maintaining momentum in promoting freer multilateral trade. On a regional level and for trade with particular countries organizations like the OEEC, have also made substantial contributions which are often not of interest to their participants only. The effects of these efforts are generally reflected in the measures of relaxation, liberalization and reduction of discrimination mentioned in the previous Section of this report.

The battle, however, is far from won. In spite of the progress that has been made, import restrictions are still being applied on a large proportion of international trade. In the case of industrial countries restricted imports consist principally of agricultural products, and in some cases imports of manufactured consumer goods are restricted much more severely than raw materials and certain other essential commodities. Some countries have found it increasingly difficult, where the balance-of-payments situation has substantially improved, to make further progress towards the freeing of trade in commodities, notably in the agricultural sector, which have enjoyed the incidental protection of balance-of-payments restrictions over a period of years. The maintenance of such restrictions, whatever their economic, social or political justification, cannot but affect the foreign exchange earnings of the exporting countries which as a rule possess limited external resources and reserves. The curtailment of their purchasing power naturally exerts a limiting effect on international trade, and not the least on the industrial countries' own exports.

Countries which depend on the export of primary commodities and experience frequent fluctuation in their external earnings have usually found it desirable or expedient to maintain formal or not effective restrictions on a large proportion of their imports. Under-developed countries often consider it necessary to keep close watch on the composition of their imports and to give priority to their development and industrial requirements. Their difficulties have also in many cases been aggravated by the tendency to chronic inflation. A number of countries in Latin America and elsewhere with balance-of-payments difficulties have adopted courageous monetary and financial measures to redress the situation, but many primary producing and under-developed 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, sometimes 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.

As a result of the successive measures taken by governments in the last few years there has been a considerable reduction in the discriminatory application of restrictions. Generally speaking, the discrimination that remains has reached a level lower than at any time since the war. Among the twenty-five contracting parties applying balance-of-payments restrictions, which are mentioned on page 3 above, Ceylon, Indonesia, Pakistan and the

Union of South Africa have ceased to apply the provisions of Article XIV. Among the Latin American countries which are parties to GATT the use of quantitative restriction itself has been brought to a minimum and such impediments to trade as remain are generally applied with little regard as to the sources of supply (although as a temporary development Chile and Uruguay have taken measures which involve additional discrimination in favour of particular countries). Other contracting parties which apply import restrictions substantially in a non-discriminatory manner are Denmark, Ceylon, Greece and Norway.

Apart from Ceylon, Pakistan and the Union of South Africa, whose restrictions involve no discrimination against any sources, most outer sterling area countries such as Australia, India and New Zealand have adopted the practice of giving generally similar treatment to imports from all EPU countries irrespective of whether or not they are in the sterling area. The OEEC countries, for their part, have mostly extended OEEC treatment to the outer sterling area countries. On the other hand, some European countries, notably France and Austria, have not extended OEEC liberalization and global quota treatment to imports from outer sterling area countries. In the case of Germany, such treatment has been extended to non-European countries within EPU only in regard to a part of its OEEC liberalization list, certain imports of particular interest to certain outer sterling area countries being excluded.

Some European countries also discriminate against imports from certain countries on grounds of "unfair competition" or "disparity in cost structures", that is, for reasons which are not entirely in line with the basic principles of GATT.

As regards discrimination against the dollar area, the measures of liberalization of dollar imports and the increasing use of liberal licensing regimes by European countries have been mentioned in the preceding section. Since the European move to convertibility at the end of 1958, Denmark and Norway have eliminated all distinction between their dollar and EPU liberalization lists. Outside Europe, Brazil has combined the ACL (i.e. Hague Club) currencies and dollars in its auction system. In the last two years, changes in the control systems of Australia, New Zealand and India have also often provided for an extension of the non-discriminatory sector. These improvements notwithstanding, the fact remains that many countries still apply dollar discrimination to a significant proportion of their import trade, and in any case a clear distinction is still drawn between dollar and non-dollar imports in the administration of their restrictions.

The need for distinguishing between controls on dollar and non-dollar imports has become blurred, and now appears much less essential than during the war and early post-war years when an inordinate demand for imports from the dollar area dictated the application of strict controls on dollar expenditure. It might be noted that even before the recent restoration of convertibility of European currencies, the pound sterling, the German mark, as well as some other currencies had for some years enjoyed a status of de facto convertibility. The currency control policy of the United Kingdom, for example, had enabled the

conversion of the transferable currencies into dollars at only an insignificant disadvantage. Most other currencies had been linked with these de facto convertible currencies through the EPU mechanism. The move to convertibility at the end of 1958 has served to heighten the expectation among exporters in the dollar area and other countries that the residual discrimination by European countries against dollar as well as other imports, might soon disappear. The true significance of this move will, indeed, not be realized until discriminatory restrictions, in so far as they are now no longer justifiable on currency grounds, are eliminated.