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REPORT ON IMPORT RESTRICTIONS APPLIED UNDER ARTICLE XII

REVISION OF CHAPTER 4. TRENDS OF POLICY AND EFFECTS

In examining the trade policy applied under Articles XII and XIV it will be useful to review the changes in the external financial position of the countries concerned and the progress made towards the restoration of multilateral trade.

The contracting parties whose import restrictions have been under review have not made uniform progress in economic recovery, but there are distinguishable trends which have affected all of them in some degree. Most of these countries have achieved a remarkable recovery in production and trade. In Western Europe, for example, the output of goods and services has greatly increased and is now higher per capita than in 1938. In addition to the recovery of production for domestic consumption, there has been a gratifying reconstruction of the export trades, and the drive to direct an increasing volume of exports to dollar markets has met with a fair degree of success. On the demand side, dollar goods have met increased competition from other sources through the improved supply position in Europe and elsewhere. The devaluation of most of the sterling area and European currencies in September 1949 assisted both in the development of export trade to North America and in restraining demand for dollar goods. The countries employing restrictions have, in general, rebuilt the volume of their exports to the prewar level; their dependence upon imports from hard currency areas has been reduced. The United States surplus on goods and services account with the Latin American republics fell from some $2035 million in 1947 to $271 million in 1950 and with Europe and its dependencies from $6040 million to $1365 million in the same years.

The substantial increase in production in these years, especially in the industrial field, greatly strengthened the world market for raw materials and primary products, and a change had been discernible for some time in the terms of trade between the industrial and primary producing countries. Since the middle of 1950 the war in Korea and the purchase of raw materials for strategic, commercial

and industrial stockpiles have further advanced this trend, affecting the trade and financial situation of many countries. Rising prices inflated the value of exports of countries producing certain primary commodities which had the effect of improving the current account position of these countries. The value of United States imports in several months in 1950 and early 1951 actually exceeded the value of exports.

An important consequence of these developments was a shift of gold reserves. Whereas in the two years 1947 and 1948 the gold holdings of the United States increased by $3692 million, in 1949 there was little change and in 1950 they fell by $1744 million, this fall continued during the first months of 1951, and then tended to level off. The gold sold by the United States, as well as newly-mined gold, was widely distributed among European, Western Hemisphere and other countries.

Another aspect of the repercussions of defence programmes on trade policy is the limitation of exports of raw materials. The prohibition and licensing of exports for strategic reasons and to conserve supplies of scarce commodities is becoming more prevalent; this, combined with the increased expenditure on imports, reflects the greater importance attached to securing commodity supplies.

(i) <u>The United States Balance of Payments</u>

At the end of hostilities in 1945, the productive capacity of the United States was unimpaired, and its reconversion to civilian production proceeded rapidly. Physical destruction in some countries and economic disruption in others operated to magnify considerably the world demand for goods from the United States. United States exports were at record levels, reaching their peak in 1947. For many countries, the availability of means of payment for United States goods overshadowed all other payments problems. At the very time of the peak demand for goods, which were then principally available from the United States, dollar earnings were at a low level because of a variety of factors, including diminished investment income, impaired capacity to produce and increased domestic demand for exportable goods, and impaired facilities for services which customarily yielded invisible income. In addition, a number of important countries emerged from the war with reduced reserves. The United States export surplus of goods and services amounting to $37.6 billion from July 1945 to the end of 1950, was financed

in part by transfers of reserves, but principally by United States Government loans and grants.

However, the year-by-year record of the United States balance of payments shows the progress which has been made during recent years in its payments relationships with the rest of the world. Imports have risen steadily since 1946 (except for a brief minor recession in 1949); exports have dropped steadily since 1947; a steady outward capital flow has been maintained, extraordinary governmental assistance has tapered off since 1947; the gold movement was largely arrested in 1949, and sharply reversed in 1950. This improved relationship has continued in 1951, although statistics of actual exports tend to underestimate the magnitude of the underlying demand for United States goods while their importation is still being restricted by many countries.

(ii) <u>The Sterling Area</u>

Although production and export trade of the sterling area countries advanced encouragingly, the gold and dollar reserves held in the United Kingdom fell in the three years, 1947-49, from $2696 million to $1688 million. In July of 1949 the Commonwealth countries of the sterling area, other than South Africa, agreed to endeavour to reduce their demands on the central reserves in respect of dollar imports by 25% below the level of 1948 in order to halt the severe drain on those reserves.

This intensification of restrictions required consultations with the CONTRACTING PARTIES under the provisions of Article XII. In accordance with Article XV, the CONTRACTING PARTIES also consulted with the International Monetary Fund. These consultations were concluded in November 1950. The results of the intensification were examined in the light of subsequent developments. By the end of September 1950 the gold and dollar reserves had recovered from $1425 million a year earlier to $2756 million. In the course of the consultations, several contracting parties expressed the view that the time had come for Australia, Ceylon, New Zealand, Southern Rhodesia and the United Kingdom to begin the progressive relaxation of their respective restrictions on imports from the dollar area, and the Fund expressed the opinion that such relaxation would be feasible but should be undertaken with due caution having regard to prevailing uncertainties. The five governments, however, were of the opinion that, although the gold and dollar reserves of

the sterling area had improved, several adverse factors, of which the full effects would not be felt until 1951, rendered it unwise for them to undertake at that time any commitments for a relaxation of their restrictions. As for India and Pakistan, it was generally agreed that no further relaxation of the general level of their restrictions was appropriate at that time.

The Union of South Africa also experienced payment difficulties. From 1947 to 1949 the gold held by the South African Reserve Bank declined from $939 million to $128 million. Since the war-time control of imports had been abolished, new restrictions were introduced. Under Article XII;4(a) a contracting party instituting restrictions is required to consult with the CONTRACTING PARTIES as to the nature of its balance-of-payment difficulties, alternative corrective measures, and the effect of such measures on the economies of other contracting parties. The consultations with South Africa were held in 1949 when the measures and the methods of restriction were fully discussed with the CONTRACTING PARTIES. The South African Government later informed the CONTRACTING PARTIES that the suggestions made in the course of these consultations had been taken into account in the development of its import policy.

Since the middle of 1950 there has been a substantial relaxation of the restrictions by a number of the sterling group; some products have been added to the free lists, while elsewhere the relaxation has been introduced by means of a more lenient administration of the licensing requirements. In the light of the events of 1950, which resulted in increased earnings in dollars, it was possible to modify the reduction of imports introduced the previous year. A few examples will illustrate the relaxations which took place. The United Kingdom substantially increased its expenditure on dollar imports and made further additions to the list of products imported under open licences from soft-currency sources. Australia increased its imports from all sources and extended the list of "easy-currency" countries from which goods might be purchased without licence; New Zealand and India provided for a higher level of imports and extended their list of soft-currency countries; 75% of the permits issued by South Africa are valid for importation from any country; Southern Rhodesia removed all restrictions on imports from a number of countries; and Ceylon announced that from July 1951 there would be no

restriction of imports except for a very few articles when imported from hard-currency countries.

The tendency to be more lenient in the application of restrictions on purchases from the dollar area continued in the early part of 1951, although as the year progressed the balance-of-payment situation grew less favourable. The gold and dollar reserves continued to increase in the first half of 1951, and by the end of June had reached $3867 million. In the third quarter, however, the sterling area had a gold and dollar deficit of $638 million and the reserves declined by $598 million to $3269 million.

(iii) Western Europe

The trade of the countries of Western Europe, both among themselves and with countries outside Europe, has improved fairly steadily in the six years since the war, and steps have been taken to ease the restrictions on imports, particularly from soft-currency countries. Many of the import quotas allocated in bilateral trade agreements provide for an increased volume of trade, but import programmes for 1951 have not generally envisaged an increase in hard-currency purchases. Relaxation has been introduced administratively in the treatment of applications for licences and in the allocation of foreign exchange for overseas purchases but its extent is difficult to measure.

The most important development in trade policy is the liberalisation programme of the Organization for European Economic Cooperation, which was mentioned earlier as one of the group arrangements involving discrimination in the application of restrictions. In November 1949, quantitative restrictions were removed from 50% of intra-European trade on private account, on the basis of 1948 trade statistics, for each of the three commodity groups - food and feeding stuffs, raw materials and manufactured goods. This was extended to 60% in July 1950, and the target was raised to 75% in February 1951. In May, 1951, agreement was reached upon the consolidation of a list of liberalized products accounting for 60% of intra-European private trade. At the present time four of the contracting parties applying restrictions under Article XII - France, Italy, Sweden and the United Kingdom - have liberalized at least 75% of their private trade with other members of the Organization and have consolidated 60%. Other members have progressed in varying degrees to the achievement of these goals.

The most recent development in the Organization for European Economic Cooperation programme was the acceptance in August 1951 of a short "common list" of products, principally textiles and textile machinery, from which quantitative restrictions were to be removed by all countries except those which have been exempted from applying the liberalization measures; if the restrictions are not removed their retention is to be justified to the Organization.

The liberalization programme has turned upon the development of arrangements for the clearing of accounts and for the transferability of the currencies of the participating countries within the group through the mechanism of the European Payments Union.

In the first stage of liberalization most members of the Organization excluded the members, which they regarded as hard-currency countries, from the benefits of the removal of restrictions, but the establishment of the European Payments Union in July 1950 permitted the extension of liberalization to these countries. Further, they have extended the liberalization to imports from the dependent territories of other members; and some have extended it to certain non-member countries, as follows:

		Countries and currency areas, other than the territories of OEEC members, to which the liberalization has been extended
Austria	-	
Denmark	-	
France	-	
Greece	-	
Italy	-	
Netherlands	-	Indonesia
Norway	-	Finland, Israel, Spain (including Dependencies) and Sterling Area.
Sweden	-	Finland, Indonesia and Sterling Area.
Turkey	-	
United Kingdom	-	

(iv) Latin America

During the war most of the countries of Latin America had a favourable trade balance. Earnings of foreign exchange from the export of primary products were higher than usual, and the trade surplus was further enlarged by the involuntary reduction of imports caused by the world-wide scarcity of consumer goods. By 1946 this trend was reversed. With the opening up of

sources of supply the pent-up demand for consumer goods brought a substantial increase of imports which led to a decline in the monetary reserves, which reached a low point in 1949, and to the increased use of restrictions. Some of the Latin American countries attempted, however, to maintain their export trade with European countries applying restrictions by means of bilateral agreements. Another aspect of the discriminatory application of restrictions was related to the efforts of some of these countries to avoid the accumulation of inconvertible currencies. In 1949 Chile experienced new difficulties through the fall in the price of copper and the Government decided to intensify its restrictions on dollar imports. The consultations with the CONTRACTING PARTIES, under the provisions of Article XII:4(b), were concluded in November 1950, when it was generally agreed that it would not be appropriate for Chile to undertake at that time any further relaxation of the general level of its restrictions on imports from the dollar area.

The more recent improvement in the balance of current payments and the strengthened monetary reserves have enabled some of the contracting parties in Latin America which maintain import restrictions to relax them. In the case of Peru all remaining balance-of-payment import restrictions were removed in January 1951.