

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Ninth Session

SUMMARY RECORD OF THE FIFTEENTH MEETING

Held at the Palais des Nations, Geneva,
on Monday, 15 November 1954, at 3 p.m.

Chairman: H.E. Mr. L. Dana WILGRESS (Canada)

Subject discussed: Review of the Agreement: Quantitative Restrictions (continued)

Mr. KOHT (Norway) referred to the statement by the Norwegian Minister of Commerce to the effect that his Government had not found it opportune to make concrete proposals for a revision of Articles XI - XV until they knew more clearly how the question of binding tariff levels and future multilateral tariff negotiations would be dealt with. The Norwegian Minister had also emphasized the importance of guarantees that each member should pursue an economic policy aimed at full employment and a high level of activity, and the need to find a satisfactory solution to payment problems connected with the transition to convertibility.

The Norwegian Government had frequently stressed the need for taking into account all the factors influencing the balance-of-payment situation when dealing with questions of quantitative restrictions and discrimination. Norway, with extensive foreign trade, supported appropriate and reasonable measures designed to achieve a relaxation of quantitative restrictions and a worldwide system of multilateral trade and payments. Quantitative restrictions had been abolished over the past years to a large extent, and in the OEEC this development had reached an advanced stage, largely due to the system of automatic credit facilities granted by the European Payments Union. Steps toward liberalization had been accompanied by cooperative measures, aimed at promoting expanded productivity, and by permanent consultations between member countries, partly aimed at preventing inflationary and deflationary tendencies. The experiences gained in the OEEC should be kept in mind by the CONTRACTING PARTIES.

Discrimination had been reduced over the past two years by the extensive abolition of restrictions on dollar imports, made possible for many countries as a result of the improved dollar situation. Many countries had, however, reached the stage when it might be difficult to continue further in this direction until some action had been taken by other countries enabling a freer access to their

markets. It was for this reason that his Government found it natural to look at trade policy as a whole, rather than to separate quantitative restrictions from tariff policies and other barriers to trade.

Mr. Koht said it seemed now generally agreed that a worldwide system of multilateral trade and payments, or the introduction of convertibility, should not be considered as an end in itself. The main objectives, a better division of labour among countries, increased productivity and efficiency in industry and agriculture as a basis for raising the standards of living and improved social conditions, could not be attained merely by doing away with quantitative restrictions and discrimination. Excessive tariff levels and other barriers to trade must also be reduced. Under a multilateral system, the economies of various countries would be more closely linked, and it became more important than before to ensure that countries did not pursue internal and external economic policies which were contrary to these objectives. It was particularly necessary that countries should act to safeguard their economies against inflationary and deflationary tendencies, which might prevent other members from attaining the objectives of the Agreement. Within a multilateral system, all countries had an interest in avoiding inflation and balance-of-payments difficulties, but the risk of spreading deflation was more serious. In such a system, special responsibility rested with the creditor countries. Unless these pursued policies designed to increase production and imports, and to secure or maintain full employment, they would create liquidity problems for other countries, thus endangering the liberalization of trade. The Norwegian Government considered it important that adequate arrangement should be established whereby it would be possible to discriminate against a country whose currency was found to be scarce, and supported proposals such as those suggested by the United Kingdom delegate.

Moreover, if creditor countries followed a "good creditor" policy, but still had surpluses in their balance-of-payments, such surpluses should take the form of capital exports rather than be allowed to accumulate. The Norwegian Government attached great importance to the question of how to encourage and promote capital movements between countries, both long and short-term. Freer capital movements were an essential element in the operation of a multilateral system, together with payments arrangements providing access to credit facilities for those countries requiring such facilities, either to finance temporary or seasonal deficits, or to develop their natural resources. Freer access to credit was one of the most important prerequisites for obtaining a better international division of labour. These questions had a close bearing, in the opinion of his delegation, on the question of the review of the Articles dealing with quantitative restrictions. For example, if a satisfactory solution were found to the problem of long-term capital movements, countries carrying out large investments for the development of their resources might more easily be able to avoid having recourse to quantitative restrictions.

Mr. Koht reiterated that his Government found it difficult to deal with the question of what trade rules should be in force when approaching a more advanced stage on the way to convertibility, until it knew more clearly how

to deal with the financial questions, and that it was hardly possible to adopt stricter rules unless all these problems, together with the problem of tariffs and the question of how to secure an expansive economic policy in all countries, were satisfactorily dealt with.

Mr. PHILIP (France) referred to the statements of certain delegates favouring a strengthening of the provisions relating to quantitative restrictions. It was true that, at the present time, both the general situation and the situations of most contracting parties were more satisfactory than at any time since the war. Dollar payment difficulties had been diminished by the programmes of finance conducted by the United States whereby a part of the excess in their balance-of-payments was distributed to the rest of the world. It must, however, be remembered that the excess in the dollar balance-of-payments persisted; that, to consider only the European situation, the structural commercial deficit of Western Europe as a whole vis-à-vis the dollar area had not disappeared. This group of countries imported more from the dollar area than they exported, and the difficulties of access to the dollar market impeded an improvement of this situation. For as long as this situation continued, it seemed dangerous to undertake commitments that might be impossible to fulfil. In the North American market, where quantitative restrictions did not exist, the strengthening of the provisions of the Agreement could not result in an increase of European exports to the dollar area. In Europe, on the other hand, the precipitous abolition of import restrictions might increase imports from the dollar area and jeopardize the still precarious equilibrium of the European balance of payments.

The French delegation considered that a general revision of the provisions of the Agreement for the purpose of strengthening them was hardly logical, since each country recognized that the provisions were essentially good, and that it was their application that was paralyzed. The progressive amelioration in the balance of payments had already resulted in a relaxing of restrictions. Further relaxation was possible, and it was easier to try to obtain a better application of the Agreement than to reinforce the obligations which it imposed on most countries. In this respect, the United States delegate had suggested extending the arbitral rôle of the Fund. Mr. Philip suggested that neither the composition, nor the purposes, nor the voting system of that Organization made it the ideal arbiter in questions of commercial policy. In these conditions, it seemed to him wiser not to reopen the question of a system, which had evolved in an empirical manner, and with difficulty, and which associated the Fund and the CONTRACTING PARTIES in the closest manner on points of common interest, while still taking account of the difference in their responsibilities and their rules.

Mr. Philip wished to clarify and emphasize certain points made by the French Minister of Finance. On the question of regionalism, it was necessary to preserve the progress already made in Europe in liberalizing trade by adopting the necessary safeguards so that this progress should not be imperilled by the revision of the Agreement. His delegation considered that the provisions proposed by the Belgian delegation in its memorandum furnished a

useful basis. Secondly, he emphasized the need to maintain and expand the universality of the Agreement which had been conceived as a world agreement to which countries with different degrees of economic development might adhere. It would be a mistake to try to include within the Agreement new provisions which would not have the support of all member countries, and might prevent other countries from adhering. The extension of escape clauses and special systems could not fail to result, as the German Minister had clearly shown, in a confused situation which would threaten the progress of the international economy. The French delegation supported economic development and the legitimate desires of countries in the course of development, and it could not associate itself with the strengthening of the provisions of the Agreement which might isolate these countries from the community of contracting parties and make them, in a sense, secondary members. A too great rigidity in the Agreement might close the door to new members.

Mr. KASTOFF (Denmark) said that the position of his country had been made clear in the Minister's statement. He agreed with the Swedish delegate on the relation between quantitative restrictions and tariffs and subsidies. A similar relationship existed between quantitative restrictions and restrictive state trading.

Mr. MATSUMOTO (Japan) said that his delegation supported the progressive relaxation of quantitative restrictions, undertaken in a manner enabling various governments to partake in the process. Japan had experimentally removed discriminatory treatment in certain commodities. He associated himself with the remarks of the Swedish delegate to the effect that the relaxation of quantitative restrictions should be undertaken parallel to a relaxation of other barriers to trade. The problem of quantitative restrictions was one of the cardinal issues of the Review, and it was hoped that the solution would be such that all contracting parties were able to carry out. His delegation felt some apprehension at an attempt to set a definite time limit for the removal of the restrictions.

Dr. PRIESTER (Dominican Republic) referred to the remarks by the Scandinavian delegates. As representative of a country so dependent on multilateral trade, he felt some apprehension at the intention to join the two issues of quantitative restrictions and the lowering of tariffs. The present discussion related to the rules for quantitative restrictions for balance-of-payments reasons. The Agreement denounced the principle of quantitative restrictions. This was not the case in respect of tariffs. The effort to minimize the effect of quantitative restrictions caused him concern and he wished to emphasize the basic differences between the two instruments. Quantitative restrictions imposed an artificial ceiling on imports and rigidly froze the pattern of trade. High tariff rates might be compensated by other means but, under a system of quantitative restrictions, there was no possibility of adjusting to an increased demand. His delegation was concerned that rules should be evolved during the Review to limit the possibility of employing such restrictions and particularly to make it impossible for them to be used as a screen for protection. The Dominican Republic disagreed with the view of the

United Kingdom delegate. Dr. Priester said that, although not wishing to change the rules fundamentally, his Government hoped to see their application strengthened, and the end of some practices that had occurred in the past. He favoured a division of labour between the Fund and the Agreement. Questions as to whether the balance-of-payments situation justified the imposition of restrictions should pertain to the Fund, and questions relating to the application and details of such restrictions should pertain to the CONTRACTING PARTIES. He supported the suggestion by the United States delegate that the CONTRACTING PARTIES should scrutinize the application of restrictions.

Mr. SUTENS (Belgium) referred to the comments of various delegates on the Benelux proposals (L/271). Support had been expressed for some of the ideas contained therein, particularly those relating to prior approval and the limitation of the duration of restrictions. Mr. Suetens thought that the principles of the Agreement were both radical and clear. The rules of application required strengthening but not the principles. The Benelux amendments were put forward in an effort to make the rules more effective, and if a reinforcement of the rules as proposed in these amendments were agreed to, Mr. Suetens thought the new rules should come into effect immediately.

Mr. Suetens referred to the proposed paragraph 5 of Article XII of the Benelux amendments. He emphasized that it was certainly not the intention of those delegations either to open the way to or to recognize a preferential system. Belgium applied to all countries the OEEC rules, even to the dollar area. But it would be detrimental and contrary to the spirit of the Agreement if a too strict application of the rules on non-discrimination should prevent the achievement of liberalization in Western Europe. He proposed that it might be helpful to postpone consideration until after the meeting of the OEEC Ministers in January on the whole question of convertibility.

The CHAIRMAN thought that the issues before the Working Parties had been considerably clarified by this discussion. The fundamental question had been raised of the soundness of the basic philosophy underlying the Agreement, viz., that protection for domestic industry should be afforded by tariffs or subsidies rather than by quantitative restrictions or other arbitrary methods. With regard to the relationship between tariffs and quantitative restrictions, the Chairman hoped that both the working parties concerned would be able to consider these matters independently and that progress could be made concurrently on both matters. The question of rules for use of quantitative restrictions in the long run and in the short run had been raised, and proposals on the rules for the long term had been submitted. It had been emphasized that convertibility should be enforced by stricter rules relating to such restrictions, and some delegates had envisaged a more thorough scrutiny of all restrictions by the Organization. On the other hand, the view had also been expressed that the existing rules were adequate and required only minor amendments to bring them up to date.

Most delegations agreed that more effective cooperation with the Fund should be provided for, although differences were expressed as to the relative authority of the two organizations. In examining the provisions of Article XV on the relations with the Fund the working party should coordinate its work with the working party on organizational matters.

Views had been expressed on other matters and should be taken into account by the working party: namely, the question of making additional provisions for discrimination against scarce currencies; ways to improve the machinery so as to make consultations regarding the trade aspects of restrictions more effective; the question of a time limit for eliminating quantitative restrictions; the use of quantitative restrictions for protection, especially in the so-called hard core cases; and the desirability of doing away with bilateral trade agreements. Two attitudes had been expressed on regional arrangements. Countries which were concerned with progress on a regional basis did not want the new Agreement to prejudice such arrangements. Others considered the removal of discrimination one of the essential prerequisites for convertibility. The Belgian delegate had suggested that examination of this aspect wait until it had been examined in the OEEC, but the CONTRACTING PARTIES might perhaps consider that their work should not be unduly prolonged therefor.

2. Use of Quantitative Restrictions for Protective Purposes

The CHAIRMAN referred to the debate in the plenaries where the points of view of various countries had been clearly expressed on the question of the use of quantitative restrictions both for the protection of agriculture and the protection of industry. Sufficient guidance was contained in those discussions for the Working Party.

3. Use of Quantitative Restrictions for Economic Development

Mr. JHA (India) said that the use of quantitative restrictions by underdeveloped countries fell into a different category than their use by industrialized countries. The former used quantitative restrictions partly for exchange reasons and partly as a protective device. Special features of an underdeveloped economy made it necessary to be particularly cautious about the use to which foreign exchange was put. The nature of the economy itself, dependent as it was mainly on exports of primary products and thus affected by natural phenomena, made it liable to sudden changes from relative affluence to distress. Furthermore, the process of development entailed a heavy outlay on capital expenditure. Such reserves as the underdeveloped country possessed must be conserved, and not frittered on luxury goods. The small group of very wealthy people in such countries would spend a large part of their wealth abroad if they were free to do so. More important than this, however, was the fact that underdeveloped economies were chronically in the condition which had faced the more advanced economies after the war. The need to establish new

industries and expand the existing industrial potential led to a heavy outlay on capital investment which, in turn, produced inflationary pressures and a demand for imports. If imports were totally unrestricted, balance-of-payments difficulties resulted. If, under the Agreement, only when countries were actually in such difficulties and the threat to their reserves was imminent and actual, could they take action, there would be violent fluctuations in their trade policy. This had been the case in the past, and was detrimental to international trade. If the stability achieved by the General Agreement over the relatively narrow range of tariff items bound in the schedules were beneficial, surely stability over the whole field of a country's trade would be of even greater importance.

Mr. Jha referred to the other methods of curtailing consumption, but pointed out that underdeveloped economies were not so sensitive as more advanced ones to the orthodox methods of deflation. Furthermore, deflation to remedy balance-of-payments difficulties might jeopardize full employment. In the case of his own country, the immediate objective was simply to reduce the volume of unemployment. It was easier for a country like India to curtail consumption by quantitative limits than to experiment with the more refined techniques of advanced countries. During the process of development, a small improvement in the standard of living led to a very much greater increase in the demand for imports. In those circumstances, it was important that a country should be able to select the imports it considered essential, and to ensure that the restrictions could continue to be applied over a long period so as not to subject its trade to violent fluctuations.

Concerning relations with the Fund, Mr. Jha associated himself with the remarks of the French delegate. The type of measures required to conserve foreign exchange were not capable of statistical analysis and it was preferable that any analysis be done by the CONTRACTING PARTIES, although the outside expert organization should certainly be consulted in its own field.

Reference had been made by some delegations to the detrimental effect of quantitative restrictions on foreign capital investment. If this were true, it would be a serious matter for underdeveloped countries. Mr. Jha hoped to dispel any misunderstanding there might be about this. Together with quantitative restrictions, his country maintained incentives for foreign capital. The application of quantitative restrictions to imported commodities did not affect the payment of dividends or the repatriation of capital. In all the exchange difficulties which India had experienced over the past years, the payment of dividends had never been stopped, and they had guaranteed the repatriation of all capital invested in India since 1950. They were able to do this because they ensured that foreign exchange reserves were not subject to unexpected strains. To the extent that quantitative restrictions served their purpose and raised the returns on investment, the effect would surely be to attract rather than repel investment. As an example he referred to one of the reasons given by Ceylon in the Working Party on Article XVIII Applications, for requesting a release.

Quantitative restrictions were only one of many methods of protection, and he was unable to understand why they were considered so undesirable. An underdeveloped country needed to use quantitative restrictions rather than other methods, because frequently their consumers were unused to the idea of certain goods being produced in the country at all, and no difference of price between the domestic and imported product could persuade them to use the former. The same product might sell favourably on outside markets. Furthermore, the industry in the underdeveloped country often wished to meet only part of the market, or used imported products in its manufacturing. If imports were restricted by tariffs, the cost would be raised both of the domestic and the imported product.

It was time to face the fact that when domestic production started in any country there must inevitably be a shrinkage of world trade, except in the unlikely event that demand should increase at the same time. To say that quantitative restrictions were bad merely because trade had decreased was not a sufficient criticism. A more valid criticism of quantitative restrictions would be that they sustained production where there was no need for it to exist at all. Again, however, this argument was better applied to developed economies where the choice existed between more and less economic undertakings. For a country such as India, the choice was frequently between a possibly uneconomic use and no use at all, and the question of employment and the social aspects had to be considered before the economic aspect. Certainly his country also wished for a situation in which trade would be stable and free; but it would afford no satisfaction either to his people or to other contracting parties if underdeveloped countries were still subject to starvation and extreme poverty. The CONTRACTING PARTIES must decide whether or not there were circumstances that justified more lenient rules for the underdeveloped countries in order to pursue their policies of development.

Mr. HADJI VASSILIOU (Greece) said that two clear currents of opinion, one of industrialized and the other of underdeveloped countries, had developed in the course of the debate. Greece, as a European country and a member of OEEC, was a part of the most developed economic area of the world. On the other hand, the national revenue, the standard of living, the level of productivity and industrialization were low and Greece suffered from an endemic rural underemployment. Generally, Greece must be classed among insufficiently developed countries. In common with all underdeveloped countries, it was dependent upon exports, and its exports, especially its agricultural exports, were frequently blocked by restrictions elsewhere. On the item under review Greece differed from other underdeveloped countries by having almost completely liberalized her foreign trade.

In connexion with convertibility, Greece took the same attitude as other members of the OEEC and favoured the new paragraph 5 of Article XII, proposed by the Benelux delegations. His country considered the relation between quantitative restrictions and tariffs of prime importance, and thought useful progress would be difficult until this were clearly defined. The rule of reciprocal concessions, insisted upon in the tariff negotiations, had had the

paradoxical effect of impeding the process of reducing tariff barriers. For countries with low tariffs this was a particularly difficult rule, and it was not surprising that they were reluctant to remove all, as Greece had done, of their quantitative restrictions. Mr. Hadji Vassiliou supported a revision of the complicated procedure of Article XXVIII so as to enable low tariff countries to invoke it with greater facility.

In view of the special position of Greece on the question of quantitative restrictions, Mr. Hadji Vassiliou thought it necessary to make the following statement which is reproduced in full.

"The almost complete liberalization of its imports by Greece could only serve as an experiment, at least in so far as Greece did not benefit from the reciprocity that would result from a general liberalization, particularly in the agricultural sector. Until that time the Greek Government would continue to consider this measure, undertaken, it must be emphasized, of its own volition as an experiment. Until there was general liberalization, Greece could only maintain its own liberal régime if it were permitted to readapt a part of its tariff, bound at Annecy and Torquay (bound, furthermore, without having received effectively equivalent concessions for the most part) to the requirements of permitting its young industries, in the stage of development or reconstruction. If this is not permitted to the extent desired, Greece would necessarily have to reconsider its own position with regard to import restrictions.

In these circumstances the Greek delegation must reserve its position on the principle itself of restrictions, which means that it might support not only the maintenance of the present provisions of the Agreement in the field of restrictions but even the introduction into the Agreement of wider facilities for recourse to restrictions such as have already been requested by a certain number of underdeveloped countries. Greece would do this not for the purpose of taking immediate advantage of such provisions, but as a safeguard in case she were obliged to have recourse to them of necessity as a result of the attitude of other contracting parties to Greece.

The case of Greece illustrates particularly well the present need to make the Agreement more flexible in this respect. It would be useful, furthermore, for the CONTRACTING PARTIES to remember what those who are members of the OEEC decided when on 3 August last the Council of the OEEC recommended that they encourage the development of Greek exports, taking into account that since Greece had almost entirely liberalized its trade, the maintenance of this liberalization was important to the aims of the OEEC, and furthermore the liberalization measures applied by Greece had already deprived it of the bargaining power that she formerly possessed for the development of her exports.

In these circumstances the Greek delegation considers that the case of Greece as a typical case of a small country insufficiently developed and which has instituted by itself a complete liberalization of its trade as an experiment, should be the object of special consideration by the Working Party which will consider the questions included under Topics 1 and 2."

Mr. MAKATITA (Indonesia) remarked that it had been proposed that the postwar period should be considered ended. In the case of Indonesia, however, it was only in 1950 that it had been able to begin planning its economy and development. He concurred with the remarks made by the Chilean delegate on quantitative restrictions. In underdeveloped countries balance-of-payment difficulties always lay behind the imposition of such restrictions, and there was thus no difference between developed and underdeveloped countries in the basis of application of such restrictions. With regard to the question of foreign investment, quantitative restrictions only helped to ensure that the results of such investment should be safeguarded. As well as questions of the transfer of profits and repatriation of capital, it was in the interest of investment, as well as production and employment, that reserves of foreign currency be conserved in order to safeguard the imports of the raw materials necessary to the new industries. The size of transfer and service payments (which, in a very favourable year, 1952, comprised 16 per cent and 40 per cent respectively of Indonesia's external payments) had to be taken into account when planning an orderly development without neglecting existing obligations.

Bilateralism was regarded by Indonesia as a useful additional means to expand foreign trade relations. His Government used bilateral agreements to dispose of surplus stocks, and these, which could not otherwise be disposed of, added to the inflow of goods into Indonesia.

Indonesia's import system until the present time had been basically non-discriminatory, but as his country approached a completion of its plans, it appeared necessary to make the system more restrictive than hitherto. It had, in the past few years, not been feasible to acquire much capital equipment, and the liberal policy that his country had found necessary during that time had added to its present difficulties. Now that Indonesia was ready to start a more ordered economic development they might need to have recourse to the provisions regarding quantitative restrictions. Discrimination might be necessary for underdeveloped countries because of difficulties of servicing and maintenance.

Mr. OSMAN ALI (Pakistan) referred to the question of-bilateralism. Pakistan was the exporter of two primary commodities on which 90 per cent of its foreign exchange depended. It was essential that both these commodities sell and at world prices, as the internal development programme of the country depended to such an extent on foreign exchange resources. Under a system of free trade, the sale of these products should present no difficulties, but in actuality certain factors worked to Pakistan's disadvantage. It found it necessary to resort to bilateral agreements, and reserved the right to use such agreements in order to aid exports. In fact, Pakistan was applying bilateral agreements to only one of its two major commodities, and to a steadily smaller extent.

Mr. CRAWFORD (Australia) thought that the underdeveloped countries had established the existence of a genuine problem. The General Agreement must provide for the real needs of all its members. Australia did not accept quantitative restrictions for protection as appropriate for itself, but was

prepared to examine proposals for quantitative restrictions to meet the real needs of other countries. Article XVIII, which was clearly not giving satisfaction, did have the merit that it was open to use by all countries who wished to avail themselves of it. A proposal had been made to define the categories of developed and underdeveloped countries. Australia was a country undergoing rapid development and, if general provisions were to be provided in the Agreement for development, would not wish to be denied access to them by a rigid differentiation of categories, although his Government now found tariff protection a more appropriate method. The generality of application of Article XVIII should be retained.

Mr. JOHNSEN (New Zealand) also referred to the generality of application of Article XVIII. It was the declared policy of the New Zealand Government to use the tariff for protective purposes, but he could visualize countries which found import control more effective to foster particular industries. There were many difficulties in the use of the tariff, and it was often as hard to eliminate an unduly high tariff as to eliminate quantitative restrictions. Action of this type was already limited in that applications under Article XVIII were subject to scrutiny by the CONTRACTING PARTIES. No country should be denied the right to foster suitable industries. Access to the facilities of Article XVIII, now open to all countries, should not be limited to a certain class of countries.

Mr. LUOW (South Africa) said that he had heard no arguments which would justify a departure from the principles and objectives of the Agreement, nor any that justified an extension of the privileges already granted to underdeveloped countries. Many of the arguments advanced by the Indian representative appeared to him spacious. While he did not deny that such countries as India suffered from natural phenomena and low standards of living and underemployment, he questioned whether quantitative restrictions were the appropriate means to deal with such difficulties. Internal action appeared to be required. Other countries had gone through the process of development, without the use of quantitative restrictions. The economies of some countries that had imposed quantitative restrictions for several years had deteriorated rather than improved. It was a particularly dangerous concept that quantitative restrictions could be used to exclude non-essential goods. The position of the South African delegation, made clear in the plenary meeting, was that the use of quantitative restrictions for protective purposes was in conflict with the objectives of the Agreement. It would be dangerous and wrong in principle to include provisions which would amount to a formal recognition that import restrictions could be used as a legitimate measure of protection, and an admission of failure to remove the present condemnation of this instrument, which was so much more restrictive than protective tariffs. Underdeveloped countries should use other means to encourage the establishment of new industries and to promote their development.

South Africa had been dismantling import control measures over some time and hoped soon to remove the last vestiges of such measures. Although it was a young country, it did not wish to use import restrictions for protective purposes. However, if other countries made use of them in order to restrict the importation of South African products for reasons other than balance-of-payments reasons, his Government might have to resort to similar measures.

Mr. Louw reiterated his enquiry as to how a definition of an underdeveloped country could be drawn up in sufficiently clear terms to distinguish between those countries to which the stricter trade rules should be applied and those which should be permitted derogations therefrom.

Mr. SIRIWARDENE (Ceylon) associated himself with the remarks made by the Indian representative. The Ceylon delegation considered that in order to achieve the aims and principles of the Agreement, certain means must be allowed to them. The difficulties related by the Indian representative applied equally to Ceylon. It also was a country exposed to dangerous fluctuations in its trade, owing to an inadequately diversified economy and an unstable balance of payments. Ceylon had a persistent deficit in invisibles and a fluctuating trade balance. His Government had in the recent past been forced to take strong measures to restore some measure of equilibrium, and unless they had the right to impose restrictions, the process of development was retarded and made difficult.

The South African delegate had referred to tariffs as the proper device. As the Indian delegate had already remarked, tariffs alone were ineffective because of consumer resistance to local products. Furthermore, quantitative restrictions were a more flexible instrument and produced quicker results. Without such restrictions, there was no possibility of arresting a drain on the reserves.

Concerning the question of a definition of underdeveloped countries, he did not think it would be difficult to adopt some criteria for the conditions under which countries could have recourse to special exceptions for purposes of development.

Mr. GARCIA OLDINI (Chile) felt that the intransigence of the Geneva and Havana debates on this same subject had been much reduced. A number of countries had come to understand that quantitative restrictions for development purposes might be a legitimate device, and they now sought to find a solution to the situation through a precise definition of what constituted an underdeveloped country. The secretariat redraft of Article XVIII contained useful suggestions. The level of the standard of living was important and in fact, it was the enormous difference in these levels that accounted for the opposing views on quantitative restrictions. Mr. Garcia Oldini referred to a report of the Economic and Social Council stating that one-third of the population of the world possessed 85 per cent of its resources and wealth.

The Chilean representative referred to his previous remarks on the effect on the Chilean economy of fluctuations in the prices of its primary materials, especially copper, and of the oscillations in the volume of its exports. In such a situation, it was not surprising that a process of inflation occurred which imposed a new misery. If such countries were ever to be able to achieve

stability and to make clear plans, they must promote the process of industrialization, and to this end must be able to defend their position by means of quantitative restrictions. Article XVIII and parts of Articles XII to XIV referred to the situation of underdeveloped countries, but there was a need for more flexible provisions and a wider field of action. The present text did not permit a sufficiently close and subtle correlation between the financial and economic sides to the problem. Economic development should be considered equally decisive as the financial element in imposing quantitative restrictions.

The methods of application of quantitative restrictions, the reasons for their imposition and the real consequences on trade were rarely considered. In his country, for example, almost all the proceeds of the export trade went to pay for imports and servicing the debt and a very small amount was used to increase the monetary reserves. Even without import restrictions, Chile had no possibility of spending on imports more than it spent at the present time, and it seemed only intelligent and inevitable that they should use such resources as were available to them to restrict their imports to goods which were essential to the country.

Mr. Garcia Oldini referred to the definition of underdeveloped countries contained in the secretariat draft of Article XVIII. The French delegate had stated that such a definition would place underdeveloped countries in a second category of membership, but surely it would amount only to a confirmation of the situation which Article XVIII had been designed to meet. Practice had shown that the provisions of this Article did not correspond to the reality. The text proposed by the Executive Secretary had advantages in that it tended to consolidate the provisions placed in several Articles of the present Agreement which would enhance the unity, clarity and hence effectiveness of those provisions. He would wish the Working Party carefully to study the secretariat draft, and thought it needed the addition of certain clarifications and regulatory provisions such as were contained in the existing text. Some effort must be made to accentuate the social and economic character of the Article and to emerge from the exclusively financial and commercial atmosphere. He would ask for the understanding of the countries which did not need special provisions but would benefit indirectly from the development of the other two-thirds of the world.

Mr. VALLADAO (Brazil) did not share the view of the representative of the Union of South Africa, which was anyway a country more favourably endowed by nature and not faced with the problems under discussion. Mr. Valladao was in full support of the views presented by the Indian representative, to which he would add two observations. First, it should be pointed out that quantitative restrictions applied for development purposes would generally not have the effect of reducing imports, but would only help a country to select its imports according to requirements. Secondly, although it would be reasonable to require that all restrictions imposed for balance-of-payments reasons be examined by the CONTRACTING PARTIES in co-operation with the International Monetary Fund, that would not be the case with restrictions maintained for economic development; these would rather be of interest to the regional commissions of the United Nations, such as the Economic Commission for Latin America and the Economic Commission for Asia and the Far East, with which the CONTRACTING PARTIES should establish co-ordination.

Mr. BROWN (United States of America) said that, as had been pointed out by the head of his delegation, one of the major objectives of United States foreign economic policy was to encourage economic development. In the view of his Government, the General Agreement should take full account of the need of less developed countries. It recognized that programmes for economic development might at times cause balance-of-payments difficulties, and that these countries should be allowed to impose restrictions to safeguard their external financial position. Such restrictions should, however, be entirely non-discriminatory in character, and careful consideration should be given both by the countries concerned and by the CONTRACTING PARTIES to limiting the assistance given by Governments to industries which were expected to be able to attain, after a definite period, a state of self-sustenance.

Mr. COHEN (United Kingdom), referring to the statement by the Indian representative on the need of countries in the process of economic development to impose quantitative restrictions on general imports in order to economize on their foreign exchange resources, pointed out that the use of such restrictions was covered by the provisions of Article XII. In this connection, his delegation had proposed, as a special exception in favour of ~~under~~developed countries, that the time limit for such restrictions should be longer than for the other countries. Although such restrictions were applied in the interests of the balance of payments, they would inevitably have protective effects, especially on goods in the luxury category, which being classified as non-essentials would be excluded from importation. The ensuing development of local industries producing such non-essentials would appear to be incompatible with the long-term interests of an ~~under~~developed country, especially as they would have the effect of stimulating imports of capital goods required for the manufacture of such luxury goods. As for quantitative restrictions required for the development or establishment of particular industries and unrelated to the question of balance of payments, it would appear that these were adequately covered by Article XVIII as it now stood. Mr. Cohen was of the opinion that ~~under~~developed countries should not insist on having a free hand in this field, but should allow the CONTRACTING PARTIES to exercise a certain measure of control. The United Kingdom delegation believed that the whole question required close examination and would therefore suggest that all the specific proposals relating to this subject should be referred to a Working Party for detailed study.

Mr. CLULOW (Uruguay) thought that inevitably the definition of an underdeveloped country was uncertain. There would always be industrialized countries and countries that were the producers of raw materials, independently of their degrees of civilization or progress. Naturally each country or region would organize its economy in accordance with its natural possibilities, but it was precisely the countries which produced raw materials which were most affected by changes due to natural phenomena. Such countries did not have the same possibilities as industrialized countries, which largely consumed their own products, or of countries which formed part of a preferential system. The producers of raw materials had the problem of maintaining equilibrium in their balance of payments with means which necessarily fluctuated, and assuring a reasonable standard of living on the basis of full employment. No responsible government had any alternative to using, upon occasion, quantitative restrictions on imports as a solution. Recent experience had shown that, in certain conditions, total liberation of trade resulted in pauperism, unemployment and inflation. Another

fundamental problem for certain countries was that, to promote the development of extractive and transforming industries, it had been necessary to give contractual guarantees of development to such industries. For these and all the various reasons which had been expounded during the debate, it was clear that efforts should be made to maintain and perfect a system which would permit the progressive inclusion of all the countries.

Mr. JHA (India), in reply to the United Kingdom representative, admitted that it would be most undesirable if, because of their need to restrict general imports, underdeveloped countries should allow secondary luxury industries to develop unduly. In fact, however, in the case of India, steps had been taken to discourage the development of such industries and the import of machinery for the manufacture of luxury goods was generally restricted or discouraged. As for the protective effects of balance-of-payments quantitative restrictions, it should be noted that India normally imposed no prohibition on the importation of goods regarded as non-essential. As regards the question of using tariff measures for that purpose, it should be pointed out that tariffs were less effective than quantitative restrictions in achieving selectivity and direction in restricting imports. The Indian delegation was particularly grateful for the sympathetic attitude of the United States Government and would agree with the United States representative that in the application of such import restrictions, discrimination would be unjustifiable. In fact, Indian import licences were not issued for goods from individual countries, and the discrimination against imports from the dollar area was necessary at present owing to, among other things, India's membership in the sterling area.

The CHAIRMAN thought that after the general statement made earlier by the Indian representative, there would be no need for a detailed summing-up. As proposed by the United Kingdom representative, the Working Party should examine all the points raised in the discussions, including the following:

- (a) the Indonesian view that bilateral arrangements were of value under present circumstances to under-developed countries;
- (b) the Chilean proposal that the Working Party should take full account of the revised Article XVIII proposed by the secretariat, and
- (c) the reservation made by the Australian and New Zealand delegations regarding the general applicability of any revised Article XVIII.

The Meeting adjourned at 6.00 p.m.

