GENERAL AGREEMENT ON
TARIFFS AND TRADE

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CONTRACTING PARTIES
Twelfth Session

REPORTS OF THE WORKING PARTY ON BALANCE OF PAYMENTS

On the consultations held with Four Contracting Parties

A. Finland

B. United Kingdom

C. The Federation of Rhodesia and Nyasaland

D. The Union of South Africa

A. THE CONSULTATION WITH FINLAND

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Working Party has conducted the consultation with Finland under paragraph 4(b) of Article XII. In accordance with the Decision taken by the Intersessional Committee at its meeting of 24-27 April 1957, the Working Party has also conducted the consultation with Finland under paragraph 4(b) of Article XII concerning the intensification of import restrictions which occurred in Finland early in 1957.

The Working Party had before it:

(a) a basic document (MGT/70/57) prepared by the secretariat in collaboration with the Finnish authorities, describing the system and methods of the balance-of-payments import restrictions in operation in Finland. The document also contains a statement under Part II - "Effects on Trade" - submitted by the Finnish authorities;

(b) a document (L/697) incorporating a statement received from the Government of Finland on 23 September 1957 concerning the modifications of the restrictions applied by Finland;

(c) documents provided by the International Monetary Fund.

All these documents should be regarded as supplementary material to be annexed to this report.

2. In conducting the consultations the Working Party followed the plan recommended by the CONTRACTING PARTIES for this series of consultations and the plan previously adopted by the CONTRACTING PARTIES for consultations with countries which intensify their restrictions substantially. This report summarizes the main points of the discussion during the consultations.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of paragraph 2 of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with Finland.

4. As part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its most recent consultation with Finland, concluded on 27 March 1957, and in addition provided a supplementary paper, dated 14 September 1957. The results of the Fund's consultation with Finland are reproduced in document QRC/17, dated 16 October 1957.

5. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement concerning the situation of Finland supplementing the Fund's documentation. The statement was as follows:

> "The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with Finland under Article XIV of the Fund Agreement, which consultation was concluded on March 27, 1957.
>
> "As some time has elapsed since the conclusion of this consultation with Finland, the Fund has also provided a supplementary paper on Finland, dated September 14, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This document was prepared before the recent devaluation of the Finnish markka.
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> "With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, and with respect to Section II of the Plan relating to alternative measures to restore equilibrium, on September 15, 1957, the International Monetary Fund concurred in a proposal by the Government of Finland to change the par value of the Finnish markka from 230 to 320 markkas per one United States dollar. Finland is currently in the process of adjusting its restrictive system to this new situation. Since this process is not yet complete, no definitive judgment can be made at this time with respect to the appropriateness of the general level of restrictions of Finland in relating to its monetary reserves. The Fund will provide the CONTRACTING PARTIES with its judgment on the new situation when such a judgment becomes possible."

Opening statement by the representative of Finland

6. The full text of the opening statement of the representative of Finland is attached to this report as an Annex and is summarized in the following paragraphs.

7. In his statement, the representative of Finland made a few general comments on the latest development in the Finnish economic policy which had not been reported in the basic documents before the Working Party.

8. In view of the measures recently introduced, it appeared to the Government of Finland that there was no longer any need for the Working Party to discuss the intensification of quantitative restrictions in Finland, considering that instead of intensifying restrictions Finland had liberalized her foreign trade to a far greater extent than at any time after the war. The representative of Finland recalled that when this intensification of import restrictions was made effective the Finnish Government had pointed out that this was a strictly temporary measure and that the intention was to revert to the liberalization of imports as soon as possible. To achieve this purpose several measures, both through financial policy and monetary policy, were necessary.

9. As to the monetary policy, the representative of Finland stressed that the Bank of Finland had continued its efforts to prevent an inflationary expansion of private bank credit. As a result, the monetary situation had been characterized by a decline in the money supply by about 12 per cent.

10. Public finances had been rather strained already at the beginning of this year. A broad stabilization programme had been introduced in March, to be followed by a supplementary budget in June and by an additional stabilization programme shortly thereafter. As a result of the measures thus taken the situation had considerably improved.

11. In August 1957 the Government had submitted to the Diet a Bill with a view to freezing part of export income. The law in question, which had been passed by the Diet in a somewhat modified form, imposed a special levy on exports with a view to absorbing from 10 to 75 per cent of the increase in export revenue arising from the devaluation.

12. In view of the great obstacles which some important export products were facing, and considering that to restrict imports by tight controls would have raised ever increasing difficulties because of the disparity that had emerged between internal and external prices, further decisions had been taken as follows: (a) on 15 September the Bank of Finland had changed the par value of the Finnish markka; (b) on the same date the President of the Republic had promulgated the law concerning the freezing of a part of the export income; and (c) on 16 September the Government of Finland had decided to liberalize imports to a large extent.

As to the last-mentioned decision, which would put an end to the period of controls which had lasted eighteen years and opened the road for a liberal evolution, it had liberalized imports up to 75 per cent. It was worth mentioning that the degree of liberalization for manufactured goods would

reach 78 per cent, and this meant that manufactured goods were treated as liberally as possible, even at the cost of severe adaptation problems.

The Finnish representative further indicated that liberalization was to be applied to imports from those countries, not including the dollar area, that had: (a) liberalized Finnish commodities from quantitative restrictions, i.e., granted Finland OEEC free-list treatment, and (b) whose reciprocal currency convertibility included Finland.

The Finnish Government had undertaken such extensive liberalization in connexion with the devaluation, but was well aware of the fact that, notwithstanding the alteration of the rate of exchange, it might, as far as some commodities, and consumer goods in particular, were concerned, lead in the short run to heavily increased imports and spending of foreign currency.

13. As, on the other hand, no noteworthy increase of exports was to be expected, at least not during the present shipping season, and the price development of some export goods might show unfavourable tendencies, the above-mentioned liberalization of imports would lead to the use of foreign currency reserves, and might also require the utilization of foreign credits. In taking such a risk as far as the balance of payments was concerned, the Finnish authorities would have to restrain, for the time being, those imports that were not included in the free list. The intention of the Finnish Government, however, was, within the limits permitted by the balance of payments, to continue a gradual elimination of import restrictions.

14. Special attention would be paid to the increase of imports in sectors where it seemed advisable to strengthen competition. The extension of liberalization to include also certain imports from the dollar area, which was under preparation, was being examined bearing especially in mind the need to strengthen competition. The Finnish authorities would as well consider to what extent some of the countries of the sterling area could be granted advantages comparable to automatic licensing.

Finally, as soon as certain technical difficulties had been overcome, it was intended to abolish the system of import licences with regard to products now subject to automatic licensing.

15. Several members of the Working Party expressed their appreciation for the statement by the representative of Finland, which they regarded as highly encouraging. Some representatives welcomed the evolution which had taken place and had been reflected in the announcement of liberalization measures on the occasion of a consultation which was, in fact, concerned with the reinforcement of restrictions. They also expressed the hope that the Finnish authorities would make further progress along these lines and take further measures towards reducing discrimination. Those members expressed their understanding of the difficulties met by the Finnish authorities and their appreciation of the efforts undertaken in order to overcome those difficulties and wished to ask the Finnish delegation a number of questions in order to supplement the information already received.

Balance-of-payments situation and prospects

16. One member of the Working Party expressed the hope that the recent liberalization measures would also apply to non-OEEC and non-sterling area countries. While appreciating the difficulties which the Finnish Government was facing, this representative called attention to the preferential treatment as between EPU and dollar countries. In his opinion this preferential treatment was not justified by balance-of-payments considerations. In fact, the Finnish reserves of EPU currencies which had reached 6.4 billion markkas in December 1956, had declined to 2.8 billion by the end of June 1957. On the other hand, the gold and dollar reserves of Finland amounted to 17.3 billion markkas in June 1957, as against 19 billion at the end of 1956. The same representative also recalled that Finnish imports from the dollar area represented only 7.3 per cent of total Finnish imports, whereas Finnish imports from OEEC countries amounted to 57.6 per cent of the total. It seemed, therefore, that such a situation should make it possible to extend liberalization measures to dollar imports. In answer to this question the representative of Finland recalled his general statement in which he had indicated that a list of dollar liberalization was in preparation and would be introduced depending upon possibilities and dollar availabilities. He made it clear that the Finnish authorities did not in any way intend to practise any discrimination in this field.

17. In connexion with the question referred to in the preceding paragraph, a member of the Working Party asked whether some indication could be given as to the measures that the Finnish authorities were contemplating. He also requested some further information concerning the situation of the exchange reserves of Finland. Regarding the first point, the Finnish representative stated that it was extremely difficult to give an answer, considering the short time that had elapsed since the liberalization measures had been introduced. As to the level of exchange reserves, he said that, by the end of September 1957, they amounted to 38 billion Finnish markkas, including gold, foreign exchange, bonds and bills. Of this total, gold and exchange holdings represented 35 billion markkas. The representative added that these reserves amounted to two months' imports and that therefore the Finnish Government held the view that a cautious policy was essential.

18. Another member of the Working Party then raised the following three questions: (a) in his general introductory statement the representative of Finland had indicated that the recent monetary measures would not result in exports being increased. He therefore wished to know what was the basis for this pessimistic forecast and whether justification could not be found in the export levy; (b) considering that the representative of Finland had not provided any forecasts in respect of imports, he wished to know whether imports could be expected to increase in absolute terms; (c) the exchange reserves of Finland amounted to two months' imports: presuming that imports would increase and that, as indicated by the Finnish delegation, exports remain stationary, did this mean that quotas in the non-liberalized sector would have to be reduced?

As regards the first question, the Finnish delegation indicated that the estimates under reference were based on the fact that export outlets for Finnish products had contracted and deteriorated, and that, therefore, the recent monetary measures would merely restore a situation which had already been jeopardized. As far as the export levy was concerned, this had been imposed because Finland also had internal problems, the most important of which was the checking of inflation. The Finnish authorities had been particularly cautious in making their export forecasts. As regards imports, the Finnish authorities hoped to keep the situation under control so that imports would not increase to a point where the payments position of the country would be threatened. In answer to the third question, the representative of Finland stated that his country intended to proceed with liberalization in the light of the balance-of-payments situation of the country.

19. In connexion with the answer to the first question, another member of the Working Party asked whether the forecasts mentioned by the Finnish authorities were based on the present economic trend and what were the future prospects. The representative of Finland answered that those were short-term forecasts, but he could give no additional information concerning more distant prospects.

20. Still with reference to export forecasts, a member of the Working Party wished to know whether the estimates under reference were of a general nature, i.e. whether they applied to exports as a whole, or only to some export sectors. The Finnish delegation answered that such estimates referred only to certain export sectors (in particular, the woodworking industries), which, in fact, were the most important export item for Finland.

Alternative measures to restore equilibrium

21. One member of the Working Party, after noting with interest the efforts made by Finland in using fiscal and monetary policies with a view to stabilizing the domestic situation, expressed the hope that these policies would prove successful. Another representative also requested the Finnish delegation to submit a few comments concerning the fiscal policy followed by the Government within the framework of its programme for internal stabilization. The representative of Finland stressed that part of the programme concerned the fiscal system and provided for tax alleviations in favour of certain industries. The Finnish authorities hoped that such tax relief measures would improve the competitive capacity of such industries in future.

System and methods of restrictions

22. The representative of Finland stated that liberalization measures vis-à-vis the dollar area were being examined and one member asked whether the Working Party could receive information concerning the products to which such measures would apply and at what time it might be expected that such measures would become effective. The representative of Finland stated in response that it was difficult to give any precise information in this respect. The list in

question may be expected to be available within a few weeks. As to the nature of the products concerned, he said that the list would at least correspond to that applied previously under global quotas for the dollar area.

23. Another member of the Working Party observed that certain products which had been previously in Category B (partly regulated imports) had been transferred to the "regulated" list, i.e. that no quota had been fixed in respect of those goods and that licences were granted on the basis of ad hoc criteria. He was of the opinion that this transfer constituted a retrogressive step and asked whether it was the policy of the Finnish Government that quotas for these particular items would be re-established as soon as the balance-of-payments position permitted any relaxation of the present level of restrictions. The Finnish delegation for their part thought that this could not constitute a retrogressive step considering that the list of liberalized items covered 82 per cent of Category A (or globalized) imports and 51 per cent of Category B (or partly regulated) imports. The member of the Working Party who had raised this question believed, however, that whenever possible a country should abstain from rescinding relaxation measures currently applied. In his opinion, items in Category B were good candidates for promotion. While agreeing to this, the representative of Finland observed that while one step backward had been taken in respect of 49 per cent of the products included in this category, on the other hand two steps forward had been taken in respect of other products.

24. The Finnish delegation was also asked what criteria were followed for bringing certain items under the licensing system, and what factors were taken into consideration for the necessary exchange allocations. The representative of Finland stated in response that the criteria followed were similar to those applied in every other country, the main ones being essentiality, exchange availabilities together with relative price and quality considerations. The traditional interests of Finland's trading partners were also taken into consideration. As regards relative prices the representative of Finland made it clear that this criterion was considered not only for the choice as between two supplying countries but also for the purpose of comparing prices of domestic and imported products. He added that where domestic prices were unduly high an import licence was issued, even though other criteria might not be fulfilled. The Finnish authorities thus wished to avoid granting any undue protection and at the same time to stimulate the competitiveness of certain industries. Another member asked whether these same criteria and in particular the price factor were also applicable to imports under bilateral agreements. The answer was that, in this case as well, the Finnish authorities followed the same criteria, including relative price and quality considerations.

25. One member of the Working Party expressed satisfaction that the opportunity had been taken in introducing new measures of liberalization to reduce the former margin of discrimination against Western European imports and in favour of Eastern European imports and hoped that the permanent

discrimination would gradually be eliminated. Another representative observed that, from the point of view of dollar goods, existing discrimination was more acute to-day than it had ever been since December 1955.

26. As regards the bilateral agreements to which Finland was a party, a member of the Working Party was interested in the following aspects: (a) what had been the recent trend in the Finnish Government's efforts with a view to limiting the scope of those agreements thereby reducing Finland's dependence upon such agreements; (b) had such agreements stood in the way - and if so to what extent - of further trade liberalization; (c) could an idea be given as to the importance of non-liberalized products in such agreements. The hope was also expressed that there would be no further extension of bilateral agreements and that any new preferential treatment involved in the bilateral agreements referred to in the course of the discussion would be kept to a minimum.

The representative of Finland in response to the first question said that in his opinion the liberalization measures in operation were likely to increase trade and that therefore the part played by bilateral agreements should be correspondingly reduced. He further stated that the number of existing bilateral agreements had not changed during the last year. While on the one hand the bilateral agreement with Japan had been terminated, on the other, one country, France, had been added to the list as a result of its non-participation in the multilateral system in operation with other European countries. The representative of Finland further added that he did not see at present that there was much possibility for reducing the number of existing bilateral agreements, the more so as in this field the decision did not depend on Finland alone.

As to the second question, he did not believe that such agreements stood in the way of further trade liberalization considering that Finnish imports under such agreements consisted of raw materials to the extent of 90 per cent or more. He was not in a position to answer the third point but the figures that he had just mentioned, and which also applied to the two most important bilateral arrangements entered into by Finland could give an idea of the importance of non-liberalized items under such agreements.

27. A member of the Working Party asked whether the Finnish authorities were also contemplating a mere stabilization or were envisaging an increase in exports to countries with which Finland had bilateral trade agreements. The representative of Finland stated in this respect that his Government had not finalized any specific plans with such countries and that any guesses in this field were therefore very difficult to make. However, he mentioned the existence of certain long-term agreements which might give some indication as to future developments in the field of exports of specific products to certain countries.

28. As regards global quotas, applying to certain OEEC countries and other countries only, a member of the Working Party mentioned that part of the basic document prepared by the secretariat (page 5) where it is stated that this system "represents a step in the direction of a freer multilateral trading

system". He made it clear that while this system could be regarded as a step forward, it was in fact only a step in the direction of full multilateral trade and that further measures were called for in achieving the goal of full non-discrimination. The representative of Finland agreed on this point.

29. Another member of the Working Party also enquired whether in each case where a quota was provided for in a bilateral agreement it was the intention of the Finnish authorities also to introduce a global quota in respect of the same item. The Finnish delegation said in answer that items which appeared in bilateral agreements always involved a precise description, while global quotas were described in more general terms. He therefore thought it was difficult to say that there was any relationship between the two.

30. Referring to the three categories of products which are mentioned on page 5 of the basic document prepared by the secretariat, a member of the Working Party wished to know what was the practical difference between the status of Category A and Category B imports. He also enquired whether Category A imports might possibly be liberalized in the near future or whether they would at least be more liberally authorized. The representative of Finland stated in this respect that the system applicable to the three categories was described in a very detailed manner in the basic document. However, he recalled the essential difference between the two categories:

(i) Category A (or globalized) imports. Importers of goods in this category were free to choose the commodity to be imported as well as the country of export. Each importer's share in the different global quotas was determined on the basis of the value of licences he obtained in the period from 1 July 1955 to 31 December 1956.

(ii) Category B (or partly regulated) imports. For goods included in this category the Licencing Office approved the individual applications from a particular importer or importers, as well as the commodity to be imported, within the limits of quotas, leaving the holder of the licence free to choose the country of export.

As regards further progress towards liberalization of imports, the representative of Finland stated that the efforts to be made were likely to affect in the first place the non-liberalized goods of Category A.

31. In the course of the discussion a member of the Working Party stated that he viewed with sympathy the conclusion of a multilateral liberalization arrangement between Finland and certain European countries. In this connexion he asked the Finnish delegation whether they could give some additional information concerning the obligations involved, the nature of the undertakings and the ensuing advantages for Finland. He also raised the question as to the currency in which imports from Western Europe would be settled if the value of such imports were to exceed the exchange earnings of Finland. The representative of Finland answered that this multilateral system was beneficial not only to Finland but also to her trading partners. In particular the present system gave importers wider selection possibilities as

between supplying countries for a wider range of products. Thus competition was encouraged. This impact of foreign competition was particularly important as regards the policy followed by the Government with a view to maintaining domestic price stability. This is important because of the system of index-tied wages. A member of the Working Party who had raised this question then stated that he fully appreciated the advantages mentioned by his Finnish colleague but that, in his opinion, such advantages would be greater still if import liberalization were extended to the dollar area. As regards the way in which import surpluses from Western Europe were to be settled, the representative of Finland said that it was difficult for him to give a precise answer. However, he wished to add that within the framework of compensation arrangements within the ECE, Finland had available to it certain means whereby she could balance her import surpluses.

32. Two representatives were particularly anxious to congratulate the Finnish delegation for the publicity currently given in their country to all questions pertaining to the issuance of licences, a description of which is to be found in the basic document prepared by the secretariat.

Effects on trade

33. In view of the fact that the Finnish Government intends to follow a policy of progressive liberalization of imports still subject to quota restriction, a member of the Working Party asked for information regarding the expected effects of such a policy; in particular he enquired what steps the Finnish Government considered taking in order to give assistance to domestic industries which might be confronted with difficulties. The Finnish representative recalled that in his general statement he had pointed out that the Government was well aware that such measures might cause severe adaptation problems in the national economy. Owing to certain special circumstances, new industries (e.g. the metallurgical industry) had developed in the country, but they had never enjoyed an extensive degree of protection. Furthermore, in the 1950's those industries had had an opportunity gradually to adapt themselves to the new situation. It should not be overlooked that the recent currency devaluation should be regarded as sufficient to allow them to compete with imported products on the domestic market. The Government would probably try to ease the situation and measures had already been taken, including the tax relief measures previously mentioned.

34. A member of the Working Party asked whether export subsidies were still maintained on certain products. The Finnish delegation replied that the subsidies were still granted for certain agricultural products, but pointed out that it considered the term "export subsidies" to be not quite accurate in that particular case. Under a special law, Finnish farmers had a certain guaranteed income, which, in turn, was tied to the income levels of other categories of the population. In order to achieve this, the Government had to guarantee the price level of certain agricultural products. That was why he had questioned the appropriateness of the term "subsidies". The Finnish representative added that the subsidies played only a very small rôle in exports and had no harmful effects on the trade of other countries.

35. Another member of the Working Party quoted the following passage in the statement by the Finnish authorities on the effects on trade: "As for agriculture, the problems involved are essentially of the same nature as in other European countries". He was rather surprised at the suggestion that this was a problem peculiar to the European countries, and asked if the elimination by Finland of quantitative restrictions on agricultural products would cause difficulties in the country. The Finnish representative replied that, in fact, that was not a problem related to the balance-of-payments situation only, but a structural problem which was essentially of a social and economic nature. It resulted primarily from the fact that 35 to 40 per cent of the total population was engaged in agriculture and that was in a region close to the Artic Circle. Since that category of the population only accounted for 12 per cent of national income it had proved necessary to subsidize it. The problem was not therefore one that could appropriately be considered on a short-term basis.

36. A member of the Working Party recalled that the basic document mentioned that in examining applications for import licences the authorities responsible for issuing licences give due consideration to prices on the domestic market, and that when domestic prices were found to be unreasonably high as compared with prices of foreign products, licences were granted in order to avoid giving undue protection to domestic industry. He asked whether there were any definite criteria in this connexion and whether importers were kept sufficiently informed of such licensing possibilities. The Finnish representative replied that the present system, which worked on an administrative basis, had shown good results; the propensity to import was so strong in Finland that there was no need to fear that importers might not apply for licences.

37. A member of the Working Party asked whether the Finnish delegation did not think that following the devaluation certain industries which had previously been competitive might now enjoy an even more privileged position. Contrary to Finnish expectations, such a situation should normally result in increased exports. The Finnish representative replied that that was a question of degree. Certain industries were very competitive, others were not. Hence it was correct to say that, following the devaluation, certain sectors would become competitive, but, on the other hand, it should be kept in mind that other sectors had not yet become so.

38. The question was raised whether the export tax was also levied on subsidized agricultural products.

The Finnish representative replied in the negative. He recalled that one of the objectives of his Government's agricultural policy was to guarantee the income level of the agricultural population. The subsidy was one of the measures applied for that purpose. Therefore, if the income of farmers increased as a result of the devaluation, the balance between their income level

and that of other categories of the population, would be restored within the framework of the law referred to above. The prime purpose of the export levy was toreduce inflationary pressures.

General

39. In view of the fact that the Finnish delegation had been unable to provide any definite information regarding the content or timing of their Government's plan for liberalizing dollar goods imports, it was not possible for a member of the Working Party to comment upon contents of the plan. On the other hand, this member had a few comments which he hoped Finland would take into account in making its final determinations in this matter.

This member had noted that Finland's gold and dollar holdings had decreased only moderately during the first half of 1957, whereas EPU currency holdings had dropped substantially. Evidently no regional breakdown of Finland's balance of payments was available. Judging from such information as was available, it might be expected that Finland's liberalization programme for the dollar area should compare very favourably with that for the non-dollar area. It would seem, at least, to argue in favour of narrowing the margin of discrimination. He hoped therefore, that the dollar liberalization programme when instituted would in fact contain less discrimination against dollar imports than heretofore.

With reference to the application of automatic licensing under Finland's current programme to Western European countries that had liberated Finnish goods from quantitative restrictions and whose currency convertibility included Finland, this member pointed out that not only did Finland find liberal trading conditions in the dollar area, but also a completely convertible currency. There were, of course, advantages for Finland in liberalizing toward the dollar area, e.g. greater selection of markets, greater choice of products, widening of competition and consequently savings through ability to purchase in the least expensive market.

In the process of liberalizing dollar area products, he hoped that the Government of Finland would also find it possible to permit the importation of at least minimum commercial quantities of such consumer's goods as agricultural products, automobiles, sporting rifles and ammunition, alcoholic beverages, and canned fruits and vegetables.

Having made these comments, this member of the Working Party wished to commend Finland for its endeavours to reduce reliance upon bilateralism in trade and payments. The elimination of multiple currency practices was constructive and welcome progress. The October liberalization programme was a hopeful sign for the future and he hoped that the return of internal stability and external balance might soon enable Finland to reduce and eventually eliminate restrictions and discrimination in general.

40. The Working Party considered that the consultation so far had not brought out a complete picture of the situation, not only because the Fund was not in a position to make a judgment at this time with respect to the appropriateness of the general level of restrictions of Finland in relation to its monetary reserves, but also because the measures taken by the Finnish authorities were so recent that it was impossible fully to appriase the consequences and, therefore, to make a valid assessment of the situation as a whole. The Working Party decided that as soon as the results of the Fund's consultation with Findland were available they would be added to the documentation for this GATT consultation, as had been done in the case of the consultation and the Netherlands. It was agreed that when the Finnish authorities transmitted to the secretariat information on the new liberalization measures, that communication should also be circulated as additional documentation for this consultation.

41. The Chairman of the Working Party and several delegations thanked the Finnish delegation for the spirit of co-operation and goodwill which it had shown during the consultations, as well as for the full and courteous replies which it had given.

42. The Finnish representative stated that the consultation had been very valuable for his delegation which had thus had the opportunity to hear the views of other delegations; the Finnish authorities would take those views into account in preparing future measures.

ANNEX

Statement by the representative of Finland

Thank you for having given me the floor in order to make some general comments on the latest development of the Finnish economic policy which has not been reported in the Basic Documents before us.

I am happy to start with the fact that, as far as I understand, we don't have to discuss any more the intensification of trade restrictions. Instead of intensified restrictions we now have in Finland liberalization of foreign trade to a far greater extent than at any time after the war. This in itself proves that the intensification of trade restrictions at the turn of the year was carried out only to stop a serious decline in currency reserves fully in accordance with Article XII, paragraph 2.

When this intensification of import restrictions was made effective, the Finnish Government pointed out that this measure was a strictly temporary one and that it was the Government's intention to revert to the liberalization of imports as soon as possible. To achieve this purpose several measures, both through financial policy and monetary policy, were necessary.

As to the monetary policy, it is important to note that the Bank of Finland has continued its efforts to prevent an inflationary expansion of private bank credit. It has particularly relied on the limitation of rediscounting. As a result, the monetary situation has been characterized in 1957 by a general tightening of liquidity. Thus the money supply declined by 13.0 thousand millions, i.e. by about 12 per cent during the same period.

Public finances were rather strained already in the beginning of this year. The State account with the Bank of Finland was fully utilized during the first months and no credits were available from the Bank of Finland. The possibilities of the private credit market were also exhausted. In these circumstances the Government concentrated its efforts on the balancing of State finances. A broad stabilization programme was introduced in March, to be followed by a supplementary budget in June and by an additional stabilization programme shortly thereafter. Although some of the bills introduced did not meet the approval of the Diet, it can be said, as a summing up of the measures already undertaken, that the situation has considerably improved.

In order to restrain the expansionary effect of a possible devaluation, the Government introduced in August a bill with a view to freeze part of the export income. The law in question was passed by the Diet in a somewhat modified form. It imposes a special tax on exports with a view to absorbing from 10 to 70 per cent of the increase in export revenue arising from the devaluation.

It has not been possible for me to go more deeply into the development of the economy in Finland. I have preferred only to stress some aspects which form the corner stones for the economic policy, which has reversed the post-

war inflationary trend by slightly deflationary tendencies. They equally offer safeguards in the future for the maintenance of internal stability.

Together with this change in the economic situation, the following factors were also pertinent. Although a substantial part of exports could still be maintained at the prevailing rate of exchange some important export articles were facing great obstacles, which could only be overcome by a devaluation or by establishing large export subsidies. Furthermore, to restrict imports by tight controls was to raise ever-growing difficulties because of the disparity that had emerged between internal and external prices.

The following decisions were taken on the basis of these considerations:

1. The Bank of Finland changed on 15 September the par value of the Finnish mark.

2. The President of the Republic promulgated on the same day the law concerning the freezing of a part of the export income.

3. The Government of Finland decided on 16 September to liberalize imports to a large extent.

As to the last-mentioned decision, it will put an end to the period of controls which had lasted eighteen years, and open the road decisively for a liberal evolution. Thus the average liberalization percentage has been fixed at 75 per cent. It is worth while mentioning that the degree of liberalization for manufactured goods will reach 78 per cent. This means that manufactured goods are treated as liberally as possible even at a cost of severe adaptation problems.

In accordance with the decree issued on 16 September, the liberalization is to be applied to imports from those countries, not including the dollar area, that have: (1) liberalized Finnish commodities from quantitative restrictions, i.e. granted Finland OEEC free list treatment, and (2) whose reciprocal currency convertibility includes Finland. On her side Finland is prepared to maintain the liberalization of imports on the average level of 75 per cent and to give minimum guarantees as to the level of new global quotas that are to be established for non-liberalized goods.

The Finnish Government has undertaken such an extensive liberalization in connection with the devaluation well aware of the fact that notwithstanding the alteration of the rate of exchange, it may, as far as some commodities and consumer goods in particular are concerned, in the short run, lead to heavily increased imports and spending of foreign currency. As, on the other hand, no noteworthy increase of exports is to be expected, at least not during the present shipping season, and the price-development of some export goods may show unfavourable tendencies, the above explained liberalization of imports probably would lead to the use of foreign currency reserves and may also

enforce the utilization of foreign credits. In taking such a risk as far as the development of the balance of payments is concerned, it is obvious that the Finnish authorities will have to restrain, for the time being, those imports that are not included in the free list. The intention of the Finnish Government is, however, within the limits allowed by the balance of payments, to continue a gradual suppression of import restrictions. Special attention will be paid to the increase of imports in such sectors where it seems advisable to strengthen competition. The extension of the liberalization to include also certain imports from the dollar area which is now under preparation, is carried out having especially in mind the strengthening of competition. The Finnish authorities will as well consider to what extent some of the countries of the sterling area can be granted advantages comparable to the automatic licensing. It is further the aim, after the necessary technical preparations have been accomplished, to abolish import licences altogether for the commodities now subject to automatic licensing.

B. THE CONSULTATIONS WITH THE UNITED KINGDOM

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Working Party has conducted the consultation with the United Kingdom under paragraph 4(b) of Article XII. The consultation under Article XIV:1(g) was held at the same time.

2. The Working Party had before it:

(a) a basic document prepared by the secretariat in collaboration with the United Kingdom authorities describing the system and methods of the balance-of-payments import restrictions in operation in the United Kingdom. The document also contains a statement under Part II - "Effects on Trade", submitted by the United Kingdom authorities;

(b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultation the Working Party followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with the United Kingdom. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its consultation with the United Kingdom concluded on 27 February 1957, as well as a supplementary paper dated 13 August 1957 supplying information on subsequent developments.

5. In accordance with the procedure agreed upon by the Working Party the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the United Kingdom. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation

with the United Kingdom under Article XIV of the Fund Agreement, which consultation was concluded on February 27, 1957.

"As some time has elapsed since the conclusion of this consultation with the United Kingdom, the Fund has also provided a supplementary paper on the United Kingdom, dated August 13, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the last consultation under Article XIV of the Fund Agreement, and the results of that consultation, have been distributed to the members of this Working Party.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the general level of restrictions of the United Kingdom which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Working Party is drawn to the results of the last Fund consultation with the United Kingdom and to the measures taken more recently. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the United Kingdom Representative

6. The full text of the opening statement of the United Kingdom representative is attached to this report as Annex I, and is summarized in the following paragraphs.

7. The United Kingdom representative pointed out that this year they were consulting not only under Article XIV:1(g), about the discriminatory aspects of their import restrictions, but also under Article XII:4(b), about the restrictions themselves. As the difficulty in reducing discrimination had been the difficulty in liberalizing the restrictions it was appropriate that he take up the argument from the point which had been reached last year in the consultation under Article XIV:1(g).

8. The United Kingdom's surplus on current account in the first half of 1956 had been substantial - £154 million; but the second half of the year was seasonally unfavourable and a continuance of the surplus was not to be anticipated. Events in the Middle East had to be watched: these proved caution to be justified, and indeed matters turned out to be much worse than had been feared. Substantial speculative movements against sterling took place in November and December 1956 and at the end of that year the United Kingdom were obliged to make a drawing and obtain a large standby from the IMF and to arrange a substantial credit with the Export-Import Bank. These measures were effective and the drain on sterling ceased.

9. Despite the closure of the Suez Canal, and other Middle East events, and despite the need to obtain large quantities of oil from the Western hemisphere, the United Kingdom had a surplus on current account of £86 million in the second half of 1956, and a further surplus of £125 million in the first half of 1957. The Chancellor of the Exchequer had pointed out that the trends in the United Kingdom economy suggested they would have a still bigger surplus for the year ending June 1958. As would be explained, however, even this surplus would not be enough for all the United Kingdom's requirements.

10. The United Kingdom representative then referred to a statement which he had circulated showing the current account balances of his country by regions for the years 1952 to 1956 and for the first half of 1957 (see Annex II to this report).

The disturbances caused by the Korean war had caused a sharp deterioration in the United Kingdom's balance of payments and they were obliged in 1951-52 to re-introduce fairly widespread quantitative restrictions. Subsequently the position improved and in four of the five following years there was a surplus on current account, the average being £160 million a year.

11. As this improvement took place they liberalized imports; concerning imports from OEEC countries and their dependent territories the percentage of liberalization rose from 44 in February 1953, to 80 in November 1953, 84 in December 1954 and 93 in August 1956, the last mentioned figure being more than the percentage of 90 to which they were committed in OEEC. The position regarding other countries to which the United Kingdom accorded similar treatment was broadly the same. The percentage of United Kingdom imports liberalized vis-à-vis the United States and Canada - on the basis of 1953 trade - rose from 50 in June 1954 to 59 in August 1956. The record of these five years was one of continuing progress in liberalization.

12. The reason why despite this apparently satisfactory current account record, they had not succeeded in removing all restrictions was the state of their gold and dollar reserves. At the end of 1952 those were $1,846 million, and at the end of 1956, but for their IMF drawing of $561 million, would have been even lower. In fact they stood at $2,133 million, and rose slowly in the first half of 1957 to $2,381 million; by the end of September 1957 they declined, because of widespread speculation, to $1,850 million. Moreover the EPU deficit in September amounted to £62 million, and of this three quarters had to be settled in dollars in October. The United Kingdom would be drawing on the Export-Import Bank line of credit in the coming weeks.

13. The fact that surpluses on current account had not been reflected in increases in gold and dollar reserves could be explained by the triple role of the United Kingdom in world trade as trader, investor and banker. Flows of investment capital were as much part of the United Kingdom's "commercial" affairs as payments and receipts for imports, exports, services etc. Such transactions in 1956/57 used up the whole current surplus and about £90 million more. The

United Kingdom had therefore to earn a current surplus sufficient to cover these operations and commitments (including repayments to the IMF and the Export-Import Bank) and to build up sufficient reserves to enable them to fulfil their role of international banker; it was in this role that the United Kingdom had encountered difficulties during the past year.

14. Against the background of the facts and figures presented the Working Party would have little difficulty in appreciating why during the last year the United Kingdom had not been able to liberalize much further. Nevertheless from 1 August 1957 many raw materials, foodstuffs, chemicals and semi-manufactures had been placed on Open General Licence; although some of these were previously importable liberally the change relieved importers of complying with licensing formalities; for other goods the effect was to give United Kingdom importers access to dollar sources of supply which had been partly or largely closed to them. The broad result, the importance of which should not be exaggerated, was to remove such controls as remained on the import of the basic raw materials of industry.

15. The United Kingdom had also extended the £100 travel allowance to the dollar area.

16. Even if only a little progress had been made during the past year in removing restrictions, the United Kingdom had not gone back; they had sought to deal with their balance-of-payments problems by means other than quantitative restrictions. By adopting a firm credit policy and other internal monetary and fiscal measures they had sought to restrict the demand for imports, to stimulate exports, and thereby to improve their external financial position. The United Kingdom were determined to maintain the internal and external value of the £; the increase in the bank rate from 5 per cent to 7 per cent, and other measures announced, were evidence of that determination. When these measures had produced the desired results, further steps in the process of liberalization and in the reduction of discrimination could be expected. The United Kingdom representative concluded by saying that he hoped his statement would show why it had not been possible to go further in the direction of liberalization, and by pointing out that the IMF's statement confirmed the United Kingdom's analysis and conclusions.

Balance-of-Payments Situation and Prospects, and Alternative Measures to Restore Equilibrium

17. Members of the Working Party warmly complimented the United Kingdom representative on the very clear and informative statement he had made, and expressed appreciation of the fact that the United Kingdom Government had not resorted to an extension or intensification of quantitative restrictions on imports, but had preferred to rely on internal measures.

In response to the question what other internal measures had recently been taken in addition to raising the Bank Rate, and how soon results would be apparent the United Kingdom representative referred to the decision to restrict public

investment to the 1956 level and the steps being taken to ensure that bank advances and private investment were similarly restrained. It was difficult to say how soon these measures would have worked their way through the economy, but what had been remarkable was the immediate effect on the exchange rate. The effects of the various measures taken were already beginning to be apparent.

18. Several members commented on the favourable current account position of the United Kingdom, and observed that the main problem seemed to have been the deterioration in the capital account and in monetary reserves. It seemed that the favourable development in the current account provided a rational basis for hoping for further progress in the liberalization of imports. It was important, however, to note that the United Kingdom had not gone back on the liberalization policy developed over the past few years and had even made improvements. That clearly illustrated the liberal policy being followed by the United Kingdom Government and their determination to conform to the principles of the GATT and to observe their economic obligations to other countries.

19. One member noted the improvement in United Kingdom exports to the dollar area and elsewhere, and asked what were the various factors which might have a limiting effect on a further expansion of those exports - in particular, prices and availability of resources. He inquired about the prospects for the future.

20. The United Kingdom representative said he believed his country's export prices were competitive, and that the internal measures recently taken to limit further price increases and to stabilize the internal value of the £ would sharpen the United Kingdom's competitiveness; the measures taken would release resources in such a way as to enable the United Kingdom to take full advantage of export opportunities. Concerning future prospects for exports, they were moderately optimistic, and on forecasts based on current trends, would expect a rather larger current account surplus in 1957/58 than in 1956/57. In regard to the dollar area they were beginning to profit from the consistent efforts which had been made to develop markets there. Even quite small concerns were beginning to realize the opportunities open to them, and to take advantage of them, despite the initial difficulties and costs associated with developing a new market. It was gratifying to observe that exports to the dollar area had risen and were continuing to rise, despite the levelling off in North American business activity. But there were factors which caused apprehension: for example the emergence of some massive creditor positions associated with the adoption by some countries of dis-inflationary policies and the reintroduction by others of quantitative restrictions. There was considerable uncertainty about the level of business activity likely to be maintained in North America. United Kingdom forecasts were necessarily based on the continuance of current trends; if further restrictions and dis-inflationary policies were introduced elsewhere, the forecasts might be falsified.

21. One member, referring to the expected improvement in the United Kingdom's export position, inquired whether the improvement would be in the current trade balance, and made some observations about the possible effects on the

sterling area as a whole of a decline in prices of raw materials. The United Kingdom, as an important purchaser of raw materials, would benefit from such a fall in prices, and thus enjoy some improvement in their balance of payments. A decline of this sort would, however, affect the position of those sterling countries which were exporters of raw materials. Some of those countries had large programmes of economic development which might be affected by a deterioration of their own balance-of-payments position. He noted that the United Kingdom reserves were at about the same level in 1956/57 as in 1952 when the level of import liberalization was much lower. The United Kingdom could be congratulated on this; but maintaining a higher degree of liberalization on the same level of reserves could also be regarded as taking risks. He would like to know to what extent the current favourable position could be maintained, or improved. If the United Kingdom hoped as they did, for an improvement over the next year, would this improvement result from a better trade balance, from capital movements or from invisible transactions? The prospect of an improved trade balance seemed to him to depend on sustained or increasing demand in external markets and on the assumption that the demand, for example, from the United States would remain the same as previously or increase. He inquired whether the United Kingdom assessment of prospects had taken account of the requirements of capital development programmes in other countries of the sterling area.

22. The United Kingdom representative emphasized again that in expressing a view about future propsects the Chancellor of the Exchequer had been referring to the current account balance. He had made no forecast about the capital account and his current account forecast had been based on existing trends in the United Kingdom economy. The United Kingdom representative agreed that many factors would affect the outcome, such as demand in external markets, and that movements in reserves would be affected by such factors as raw material prices. He would not care to venture an opinion on the effects on the reserves of a general fall or rise in prices of raw materials. Different materials moved in different ways and the effects of some decreases might be cancelled out by other increases.

23. One member noted that in the United Kingdom there had been a rise in wages of about 6 per cent and a rise in prices of about 3 per cent between 1956 and 1957. He inquired whether the United Kingdom representative would care to make some comments about future prospects of coping with wage inflation in his country.

24. The United Kingdom representative stated that the Chancellor of the Exchequer in his speech to the International Monetary Fund had made the Government's position absolutely clear. They conceived the supply of money to be the root of inflation and they were determined to limit the supply of money whatever other painful consequences might follow.

25. One member asked to what extent the recent current trade surplus in the United Kingdom had been a result of an improvement in the terms of trade. He noted that the deterioration in the United Kingdom's reserve position had

apparently been mainly on capital account rather than in respect of current payments and that the decline in reserves had been accompanied by some reduction in sterling liabilities. It was to be hoped that, as the United Kingdom's reserves recovered, appropriate priority would be given to dismantling restrictions. He also wondered whether the cost of reducing the remaining restrictions and discrimination - was necessarily so great as had been imagined; in particular he inquired whether the elimination of discrimination against the dollar area would involve a substantial net drain on reserves or simply a shift in the pattern of imports and a release of local resources. He remarked that the money supply had been held down in recent years in the United Kingdom and asked whether the recently introduced measures involved some new element of restraint to bring about the results expected by the United Kingdom Government.

26. The United Kingdom representative said that the average improvement in the terms of trade in 1956 over 1955 was 2 per cent which would account for about £70 million of the improvement in the balance. The figures for the first half of 1957 were not available but his impression was, with reservations, that there had been some slight further improvement. He agreed that the relationship between the monetary reserves and liabilities was important. In the period from end-June 1956 to end-December 1956, for example, reserves had fallen by £90 million: at the same time there had been a reduction in liabilities to all countries of £127 million. In the following six months reserves had increased by £88 million but liabilities had also increased by £73 million. There had, therefore, been some improvement in the last year in the relationship between reserves and liabilities. On the question of priorities he thought the record spoke for itself. Despite the United Kingdom's commitments to invest overseas they had over the years progressively liberalized imports and there was no reason to suppose that they would not continue to carry out their obligations under the GATT. In regard to the cost of further liberalization measures and the consequent reduction in discrimination, the United Kingdom representative could not agree with the observations made by the previous speaker. It was difficult to assess the strength of the suppressed demand for dollar goods; admittedly this should be less now than it was a couple of years ago. But it was thought that there was a strong consumer preference for many lines of dollar goods and the removal of all quantitative restrictions on dollar imports would give free rein to that preference. The initial impact, at any rate, could be substantial. The risk could not be taken at that moment; the bulk of the restrictions applied to consumer goods, and the advantages to the economy of further liberalization would not be so great as they had been for raw materials. He could not agree that the cost to the United Kingdom of eliminating restrictions would not be substantial.

27. A member of the Working Party said he feared that the rules of the GATT were in danger of being forgotten, and the GATT was accordingly becoming weaker; though most people believed that the Agreement could be made really effective. He pointed out that in the United Kingdom the trade balance had improved, yet, according to both the United Kingdom Government and the IMF,

quantitative restrictions on imports could still be maintained. He wanted to know if this was because of investment and banker obligations. It seemed to him that the extra resources had been used for investment; what was important was the balance-of-payments position as a whole. He wanted to know when measures which were in conflict with the GATT could be eliminated. He did not wish to imply that the United Kingdom was at fault in relation to the GATT, but the Agreement seemed to enable a position to be taken under Article XII which was not consistent with the economic facts. Even when the balance of payments had improved, Article XII was still invoked.

28. The United Kingdom representative recognized that in theory there could be a problem of priorities. The point raised was an interesting general one; but as far as his own country was concerned the record spoke for itself. They had not given priority to banking and investment; as the balance of payments had improved quantitative restrictions had been reduced. The United Kingdom were not trying to finance investment and development at the expense of their GATT obligations and as the balance-of-payments position improved further progress would be made in removing restrictions. He pointed out, however, that the criterion laid down in Article XII was the level of monetary reserves, and it was permissible to use quantitative restrictions on imports to safeguard the balance of payments and to forestall a serious decline in those reserves. The IMF had confirmed that the measures taken were not in excess of those necessary for this purpose.

29. A member of the Working Party expressed the opinion that as the level of reserves was now the same as in 1952 when import restrictions had been much more severe, this might indicate that the fear of removing or further reducing restrictions had been greater than necessary; that the danger in liberalizing imports was not really so great as was thought. He referred to the IMF consultation results (in Document QRC/17 para. 5) that particular emphasis must be given to policies designed to restrain the rise in costs and to improve productivity in order to encourage a further expansion of exports. He asked if the United Kingdom representative could give further information on the progress made and the programme for improving productivity. He referred to the importance of flexibility in the use of internal resources to obtain the benefit to the balance of payments of the domestic measures taken by the United Kingdom, and inquired whether the necessary transfers were taking place smoothly, or creating problems for the United Kingdom.

30. In answer to the first point the United Kingdom representative referred to the view expressed by another member that the United Kingdom were taking risks in operating a higher degree of liberalization on the same level of reserves as in 1952 and claimed that no inferences could be drawn about the risks involved in further liberalization at this time. Concerning the progress made in increasing productivity and the programme for the future, the United Kingdom representative said that the measures taken to relieve the inflationary strain, which came into full effect in 1956, had admittedly resulted in a check to industrial growth. Industrial production had not increased in 1956 as compared with 1955. Output per man-year actually fell, partly because of the

increase in part-time employment. But the United Kingdom had carried out a large programme of investment since the war and the potential increase in production and in exports was considerable. Although total production had not increased, production of capital goods and of goods for export continued to rise in 1956 and with the further reduction in defence expenditure and in the demand for defence materials now materializing the stage was set for the United Kingdom to take full advantage of opportunities for an increase in exports. The change-over was taking place smoothly.

31. One member pointed out that the reserves of the United Kingdom were, in effect, the reserves of the whole sterling area and stressed the importance of the United Kingdom's role as investor and banker. His own country, in its import policy, did not distinguish between sterling and other soft currency areas, but this non-discriminatory policy was not always entirely reciprocated. He added that investment abroad by the United Kingdom made possible a higher level of economic development in other sterling area countries and elsewhere, a higher level of trade, and a reduction in discrimination. He hoped the United Kingdom would keep fully in mind the value of such investment.

32. A member, speaking of the increase in the bank rate from 5 per cent to 7 per cent, asked how the United Kingdom regarded this change from the long-term viewpoint, and how it would affect the propensity to import and the propensity to invest.

33. The United Kingdom representative stated that no government would view with equanimity the perpetuation of a 7 per cent bank rate. The Chancellor of the Exchequer had said, in announcing the new rate, that the increase was made necessary because of speculative pressure against sterling. An additional purpose was to give support to the measures taken to stop the rise in investment at home. It would certainly affect the propensity to invest, and to import, as indeed it was intended to do.

System and Methods of the Restrictions and Effects on Trade

34. Clarification was sought by a member of the Working Party concerning the legal basis of the United Kingdom's import restrictions. If it were so that the importation of all goods was legally prohibited, was it in accordance with the letter and spirit of the basic legislation that the importation of all goods could be liberalized by placing them on Open General Licence or by other means?

35. The United Kingdom representative referred to the information in the basic document. The Import, Export and Customs (Defence) Act 1939 gave the Board of Trade power to prohibit or regulate, by Order, the importation of all goods into the United Kingdom. In pursuance of this power the Board of Trade had issued the Import of Goods (Control) Order 1954 Article 1 of which laid down that "subject to the provisions of this Order all goods are prohibited to be imported into the United Kingdom". Article 2 of the Order went on to say

that "Nothing in Article 1 hereof shall be taken to prohibit the importation of any goods under the authority of any licence granted by the Board of Trade under this Article and in accordance with any condition attached thereto". The method adopted to control imports was thus first to prohibit the import of all goods and then to authorize the import of particular categories of goods.

So far as he knew there was nothing in the Act which prevented complete liberalization ultimately. There was, of course, other permanent legislation which prohibited the import of certain goods for health or similar reasons approved by the GATT.

36. One member referred to the statement in the secretariat's basic document (English version, page 20, para. 2) that: "In agreeing bilateral quotas for items in which several countries have an interest, care is taken not to give favourable treatment to a particular country at the expense of others." He would like to hear an elaboration of this point. His country did not grant individual quotas to particular countries because this created considerable difficulties in developing freer trade. He asked what treatment would be given to newcomers trying to break into the market, and how a "fair share of the trade" would be determined in these circumstances. He also inquired about the licensing treatment accorded to members of the Relaxation Countries outside OEEC; was his understanding correct that those countries received exactly the same treatment as members of OEEC?

37. The United Kingdom representative explained that the volume of trade covered by bilateral quotas was very small- about 2½ per cent of their total trade - and consequently the problem was one of relatively little importance; existing bilateral quotas were of fairly long standing, and as the balance of payments improved, they had been increased; as a result many quotas had reached such a size that they had little or no restrictive effect. The United Kingdom, as far as possible, had regard to the traditional trade interests of the countries concerned. In regard to newcomers, the United Kingdom were prepared to consider their requests and to establish new quotas. Care was always taken to ensure that third countries interested in the trade could, as far as possible, be given corresponding quotas, so that discrimination would be avoided. Their experience was that complaints on this score were not at all substantial. Concerning the possible distinction in treatment accorded OEEC countries and other Relaxation Countries respectively, the United Kingdom representative assured the Committee that no such distinction existed; global quotas and imports on Open General Licence applied equally to OEEC and to the rest of the Relaxation Countries.

38. A member called the attention of the Working Party to paragraph 3, page 5 of the basic document where it was stated that; "Most of the goods for which the United Kingdom grants limited import quotas (to Eastern European countries) in return are goods which are admitted freely from OEEC countries; the quotas do not represent discrimination in favour of the countries in Eastern Europe." He enquired whether similar quotas were, or could be, extended to other countries, and to those of the dollar area in particular, in order to help reduce discrimination.

39. The United Kingdom representative replied that they were prepared to accord similar quotas to non-OEEC Relaxation Countries; but they were unable to extend them to the dollar area.

40. Reference was made by some members to the statement in the basic document (para.1, page 12) that (from the dollar area) "Chemicals for the most part are not yet liberalized and are licensed only if there is no adequate alternative United Kingdom source of supply. Machinery is licensed only if there is no non-dollar alternative offering similar advantages." Considerable discussion ensued about the policy for controlling imports of chemicals and machinery, the difference in treatment of these groups, and the reasons for this difference. It was also suggested that the consequence of applying these licensing criteria could be a reduction of the volume of imports, which would represent an increase in restrictiveness, or even a cessation of imports as United Kingdom production increased. It was difficult to regard a licensing policy which had this effect as liberal. The members raising these points enquired why quotas could not be established for some chemical products; they wondered to what extent commercial considerations (such as price, which was one of the criteria in Annex J) were really taken into account in considering imports of these items from the dollar area. They inquired if protective considerations were important in this field, and about the prospects for further liberalization of these items.

41. In reply to these points, the United Kingdom representative stated that the discrepancy between the respective criteria applied to the importation of machinery and of chemicals had now been eliminated - the same criteria applied to dollar machinery and to chemicals - that was: "no adequate alternative United Kingdom source of supply". Admittedly a system of licensing by criteria of the kind adopted for chemicals and machinery appeared to operate to protect home industry in certain instances and even to reduce the volume of imports as home production increased but any such protective effect was incidental and not intentional. Moreover it was mitigated by the general expansion in consumption in the United Kingdom which should have increased the demand for items not produced in the United Kingdom and by the attention paid by the United Kingdom to price differentials in deciding whether there was an adequate alternative United Kingdom source of supply. It was difficult to think of any other system of licensing which could be applied to machinery; quotas for machinery were unsuitable. The main difficulties in the way of establishing quotas for chemicals were practical ones of devising systems of quotas for the immense diversity of products under this general heading which would not result in an additional burden on the balance of payments. All these difficulties would disappear when it became possible to liberalize these categories. The prospect for further liberalization depended of course on the balance of payments. There had been no theoretical study of price disparities but differentials were under constant attention both in the application of the licensing criteria and when considering the advantages and disadvantages of further liberalization of imports.

42. A member enquired whether the United Kingdom, in their import policy for machinery, anticipated the liberalization of particular items in this category from time to time, or whether they would feel it necessary to wait until

conditions were such that the whole category could be liberalized. The member indicated that this question was of interest in regard not only to machinery but also to the remaining restrictions of the United Kingdom. He would not want to see the liberalization of small items held back while awaiting the liberalization of large categories of which they were part.

43. The United Kingdom representative replied that at this late stage even if it were possible to overcome the technical difficulties in adopting intermediate measures they would naturally wish to avoid them if possible. They would hope that the next step in the machinery field would be liberalization of the whole category. Everything would depend on the balance of payments, however, and if improvement was not as rapid as was hoped, they would not exclude from their consideration the possibility of some minor changes as a means of keeping up the momentum.

44. Members asked if the United Kingdom were thinking of applying a more liberal import regime and criteria to products other than chemicals and machinery. They emphasized the fact that intermediate measures, though valuable, were of course not a substitute for full liberalization as the balance of payments permitted. There would be considerable advantages to the United Kingdom in adopting a more liberal licensing policy, including a reduction in costs, and beneficial results in buying from an open rather than a restricted market. It was thought in some quarters that the United Kingdom suffered a dollar burden by importing from non-dollar sources, so that the "dollar impact" did not come through imports from the dollar area only.

45. In reply the United Kingdom representative referred to his earlier remarks on the advantages of further liberalization and on the impact of it on the balance of payments. When the time came to make further moves they would naturally prefer putting items on Open General Licence to taking intermediate measures. The United Kingdom's desire to keep up the momentum of liberalization should be apparent from the timing of the measures of liberalization of raw materials taken in 1957. The small rise in the gold and dollar reserves in the first six months of the year was considered sufficient justification for putting these measures into effect on 1 July.

46. In reply to a question about the general pattern of United Kingdom policy on the liberalization of items still under restriction, the United Kingdom representative stated that the first objective, now virtually attained, was to remove all restrictions on imports of raw materials, the second to liberalize completely machinery and chemicals and finally to liberalize consumer goods. That was the general policy as seen at present, though there had been, and would doubtless continue to be, occasional exceptions in the consumer goods field.

47. Some members, referring to consumer goods, thought that consideration might be given by the United Kingdom to the liberalization of particular items in which certain countries had a traditional interest (for example, canned fruits, canned fish and canned meat from the dollar area); this would not involve a heavy strain on the United Kingdom balance of payments.

48. The United Kingdom representative pointed out that there were quotas for canned fruit and canned fish. Apart from the cost to the balance of payments liberalization of consumer goods in general presented a political problem of presentation, insofar as the public would find it difficult to understand why the Government could afford imports of a non-essential character while imports of essential goods, such as machinery, chemicals and so on were still being restricted.

49. The members who raised this question pointed out that imports of the consumer goods under discussion were, however, permitted from other areas, and asked if the consumers were concerned about that. They questioned whether the opening up of an additional source of supply would in fact create a political problem or whether there would be a substantial effect on the balance of payments.

50. Members suggested that there might be consumer or other goods which could be liberalized with negligible effect on the balance of payments.

51. The United Kingdom representative said that the concept of selecting for liberalization items which would not be imported in appreciable quantities had its own difficulties. One could never be certain beforehand that there would be negligible imports. If appreciable quantities of inessentials did come in the Government would be open to the sort of criticism he had already referred to. Nevertheless the United Kingdom were anxious to maintain progress and the various suggestions made would be borne in mind when further liberalization became possible.

52. A member referred to footnote 2 on page 12 of the basic document and asked for information on the other quotas applicable to Cuba.

53. The reply was: rum, honey, lobsters and citrus fruit.

54. A member noted that the United Kingdom had permitted the importation of minimum commercial quantities of various items in the past. He thought it would be reasonable to suppose that the United Kingdom would be willing to consider, on their merits, particular problem cases that might arise in the future. This was confirmed by the United Kingdom representative.

55. Concerning the protective effects of restrictions on certain products, one member pointed out that the production of apples in the United Kingdom was double the pre-war level.

56. One member observed that, in considering the list of goods the import of which from the Relaxation Countries remained restricted, it seemed to him that most of them could become the subject of a request for a hard-core waiver, if the United Kingdom ceased to be able to invoke balance-of-payments difficulties. He would like to know how the United Kingdom intended to

eliminate or to justify these restrictions when it could no longer do so under Article XII or other provisions of the GATT.

57. The United Kingdom representative said that there were certain items on which they would probably have to invoke the hard-core waiver when the time came. The question did not arise as long as they were in balance-of-payments difficulties, but as these difficulties came to an end and they were ready to leave the shelter of Article XII they would tackle the problems associated with the waiver.

58. One member stated that the incidental protection afforded to United Kingdom producers through the remaining balance-of-payments quantitative restrictions did not to any great extent affect exports from his country to the United Kingdom. However, in this context he wished to make the observation that the United Kingdom producers inter alia enjoyed protection through a system of double-pricing and subsidies. Whilst the first mentioned device, which was effected through the control on exports of certain essential raw materials, placed the industries in his country in an unfavourable competitive position on all export markets, the subsidization had led to a diminishing export of agricultural products to the United Kingdom. He therefore felt that efforts to abolish protective measures should not be confined to import restrictions under Article XII but should be directed towards the elimination of all barriers impeding international trade.

59. Members expressed their gratification concerning the progress made towards liberalization by the United Kingdom, despite recent difficulties, and welcomed the re-affirmation of a policy directed to that end. They expressed appreciation of the valuable information and co-operation given by the United Kingdom delegation during the consultation, and expressed the hope that the various suggestions made would in due course lead to further measures designed to reduce import restrictions and discrimination.

60. The United Kingdom representative stated, in turn, that his delegation appreciated the fairness, consideration and patience shown by the Committee and the Chairman.

ANNEX I

Opening statement by the United Kingdom Representative

Last year the United Kingdom consulted with the CONTRACTING PARTIES under Article XIV:1 (g) about the continuation of discrimination. I then explained why in practice discrimination could only be further reduced by liberalization of imports. I also explained that although we had made some minor easements the state of our gold and dollar reserves had prevented us from making any substantial liberalization of imports during the year, and so from making any great progress in reducing discrimination.

2. This year we are consulting not only under Article XIV:1 (g) about the discriminatory aspects of our import restrictions, but also under Article XII:4 (b) about the restrictions themselves. Since, as I have explained, the difficulty in reducing discrimination has been the difficulty in liberalizing the restrictions themselves, it is appropriate that I should take up the argument from the point which was reached last year, even though this year's consultations go wider than last year's.

3. The United Kingdom's surplus on current account in the first half of 1956 was substantial - it turned out to be £154 million. But as I explained, the second half of the year is seasonally unfavourable and continuance of a surplus of that magnitude was not to be anticipated. Moreover, the unfolding of events in the Middle East needed to be watched. Events proved caution to have been justified. Indeed matters turned out to be very much worse than we had feared. There were substantial speculative movements against sterling in November and December 1956, and at the end of the year we were obliged to make a drawing and obtain a large standby from the IMF and to arrange a substantial line of credit with the Export-Import Bank. This calling up of our second line of reserve was effective and the drain on sterling ceased.

4. The effects on the United Kingdom's economy of the disturbances to trade due to the closure of the Suez Canal, and of other events in the Middle East turned out to be less serious than we had anticipated and in spite of the necessity to obtain large quantities of oil from the Western hemisphere we had a surplus on current account of £86 million in the second half of 1956, followed by a further surplus of £125 million in the first half of 1957. A surplus of over £200 million in a year such as this was no mean achievement. Moreover, looking forward, as the Chancellor of the Exchequer said in his speech to the International Monetary Fund, the trends in our economy suggest that we shall have a still bigger surplus in the twelve months ending June 1958. Unfortunately, as I shall explain, even this is not enough.

5. The Committee have doubtless studied the very excellent background papers provided by the IMF and the most valuable basic document provided by the secretariat. I have also circulated a statement which elaborates a little on the information contained in those papers and incorporates some figures which were not available when these papers were written. It shows the current

account balances of the United Kingdom by regions for the years 1952 to 1956, and for the first half of 1957. The Committee will remember the disturbances caused by the Korean War. They caused a sharp deterioration in our balance of payments and we were obliged in 1951-52 to re-introduce fairly widespread quantitative restrictions on imports. Subsequently the position improved and, as the statement shows, in no less than four of the five following years we had a surplus on current account. The average surplus was £160 million a year.

6. Pari passu with this improvement in our position we liberalized our imports. From the basic documents you will see that our liberalization percentage for OEEC countries and their dependent territories, which had fallen to 44 per cent in February 1953, rose until it had reached 80 per cent in November 1953, 84 per cent in December 1954 and 93 per cent in August 1956. This was rather more than the percentage of 90 per cent which we were committed to in OEEC. The position for the other countries to whom we accord similar treatment is broadly the same.

7. Comparable figures are not available for the dollar countries. The earliest OEEC figures for them relate to 1954, and as the basic document states, the percentage of the United Kingdom imports liberalized in the United States and Canada - on the basis of 1953 trade - rose from 50 per cent in June 1954 to 59 per cent in August 1956.

8. Even if the pace of liberalization slowed down considerably towards the end, the record of these five years was nevertheless one of continuing progress.

9. The question which doubtless springs to the minds of the Committee is why, given this apparently satisfactory current account record we have not yet succeeded in removing all our restrictions. The answer lies, of course, in the state of our gold and dollar reserves. At the end of 1952 they amounted to $1,846 million. Four years later at the end of 1956, but for our IMF drawing of $561 million, they would have been even lower. In actual fact they stood at $2,133 million. They rose slowly in the first half of 1957 to $2,381 million. Subsequently, widespread speculation on the exchanges caused a heavy drain and by the end of September reserves had declined again to $1,850 million. Moreover, the EPU deficit in September amounted to £62 million and of this three quarters has to be settled in dollars in October. As the Chancellor of the Exchequer announced in Washington, we shall be drawing on the Export-Import Bank line of credit in the coming weeks.

10. Why have our surpluses on current account not been reflected in increases in our gold and dollar reserves? The answer is complex but is to be found in the triple role played by the United Kingdom in world trade and commerce. The United Kingdom is at the same time trader, investor and banker.

11. Besides being one of the world's greatest trading nations the United Kingdom normally invests large sums abroad each year. Overseas countries also invest in the United Kingdom. Such flows of long-term capital are as much part of our "commercial" affairs as the payments and receipts for imports,

exports and services and property income which appear in the current account. Transactions of this kind used up the whole of our current surplus in 1956/57 and some £90 million besides. Therefore we must earn a current surplus sufficient to cover these operations and commitments (which now include the repayment of the drawing from the IMF and the Export-Import Bank) and to build up sufficient reserves to enable us properly to fulfil our third rôle - that of international banker.

12. It is mainly in this role that we have encountered difficulties during the past year. Sterling is widely held throughout the world. It is used to finance a large proportion, probably anything up to half, of international trade and payments. As a banker we must expect to meet withdrawals when they come. The bulk of our sterling liabilities are held by sterling area countries and treated as normal currency reserves to cover fluctuations in their balance of payments. Some of these countries, however, hold balances in excess of their normal requirements and draw them down to finance their economic development. In doing so they impose, of course, a claim on our resources. Over the past year we have also had to meet reductions in the sterling holdings of non-sterling countries. More recently there has been speculation on the exchanges which has fallen especially heavily on sterling precisely because it is a widely used international currency. Finally, the gold and dollar reserves of the United Kingdom are naturally affected by the current account balances of sterling area countries who hold their reserves in sterling and the settlement of whose accounts outside the area in sterling naturally falls on the reserves.

13. It was the combined and continuing effects of these forces which led to a fall in the gold and dollar reserves of £90 million (or $252 million) in the second half of 1956 despite the IMF drawing; this loss was nearly but not in fact quite balanced by the rise in the ensuing six months which was in turn more than wiped out by the losses of the last three months.

14. Against this background the Committee will have little difficulty, I hope, in appreciating why the IMF have stated that the general level of restrictions does not go beyond the extent necessary at the present time to stop a serious decline in our monetary reserves and why during the last year we have been able to go no further along the path of liberalization than is described in the basic document. From 1 August 1957, a wide range of raw materials, foodstuffs, chemicals and semi-manufactures were placed on world Open General Licence. The import of some of these goods had already been licensed more or less freely in practice and in such cases the main effect of the change was to relieve traders of the paper work of complying with import licensing formalities. For other goods, however, the effect was to give United Kingdom importers access to dollar sources of supply which had

previously been partly or largely closed to them. Imports of some commodities are expected to increase because of the change. The broad result of the change (the importance of which should not be exaggerated) was to remove such controls as remained on the import of the basic raw materials of industry; United Kingdom manufacturers can now buy freely from whatever sources suit them best, irrespective of currency considerations.

15. Although this Committee is not concerned with invisible imports, I feel I should mention that we also extended the £100 travel allowance to the dollar area.

16. Thus, even if we have not made much progress in the last year in the removal of restrictions, we have not gone back; we have sought to deal with our balance-of-payments problems by means other than the use of quantitative restrictions. By a firm credit policy and by other internal monetary and fiscal measures we have sought to restrict the demand for imports, to stimulate exports and thereby to improve our external position. As the Chancellor of the Exchequer announced on 19 September, the United Kingdom are determined to maintain the internal and external value of the £. The increase in the Bank rate from 5 per cent to 7 per cent and the other measures announced by the Chancellor on that date are evidence of this determination. When these measures have shown results in the strengthening of our position and in current account surpluses of sufficient magnitude to cover our commitments and build up our reserves, further steps in the process of liberalization and of the reduction of discrimination can be expected. The Committee can rest assured, as I said last year, that we shall move forward more rapidly as soon as our balance of payments permits.

ANNEX II

REGIONAL CURRENT ACCOUNT BALANCE OF[1] THE UNITED KINGDOM

£ m

	1952	1953	1954	1955	1956 1st half	1956 2nd half	1957 1st half (Prov.)
DOLLAR AREA							
Exports and re-exports f.o.b.	410	444	423	495	313	309	330
Imports f.o.b.	-606	-517	-556	-732	-352	-409	-412
Trade Balance	-196	- 73	-133	-237	- 39	-100	- 82
Services	-121	- 53	- 11	- 37	65	- 12	- 5
Government Transactions	+ 23	20	22	22	24	13	37
Current Balance	-294	-106	-122	-252	50	- 99	- 50
Defence Aid net of counterpart	121	102	50	46	12	14	18
Current Balance incl. Aid	-173	- 4	- 72	-206	62	- 85	- 32
OEEC AREA							
Exports and re-exports f.o.b.	729	757	788	828	455	486	518
Imports f.o.b.	-738	-678	-760	-877	-458	-454	-437
Trade Balance	- 9	79	28	- 49	+ 3	32	81
Services	5	36	41	34	- 7	- 41	- 43
Government Transactions	- 27	- 29	+ 29	- 32	- 20	- 20	- 22
Current Balance	- 31	86	40	- 47	- 30	- 29	16
OTHER NON-STERLING AREAS							
Exports and re-exports f.o.b.	363	262	276	340	197	194	205
Imports f.o.b.	-359	-367	-361	-410	-212	-209	-203
Trade Balance	4	-105	- 85	- 70	- 15	- 15	2
Services	121	94	100	50	36	+ 42	32
Government Transactions[2]	- 37	- 40	- 35	- 27	- 13	- 7	- 10
Current Balance	88	- 51	- 20	- 47	8	20	24
CURRENT NON-STERLING BALANCE							
Excl. Aid	-237	- 71	-102	-346	28	-108	- 10
Incl. Aid	-116	31	- 52	-300	40	- 94	8
REST OF STERLING AREA							
Exports and re-exports f.o.b.	1,325	1,209	1,333	1,407	736	714	723
Imports f.o.b.	-1,241	-1,326	-1,329	-1,407	-712	-657	-749
Trade Balance	84	- 117	4	-	24	57	- 26
Services	410	383	410	368	181	209	223
Government Transactions	- 131	- 109	- 132	- 146	- 86	- 86	- 80
Current Balance	363	157	282	222	119	180	117
TOTAL CURRENT BALANCE							
Excl. Aid	126	86	180	- 124	147	72	107
Incl. Aid	247	188	230	- 78	159	86	125

[1] Debit.

[2] Including debits of -6, -14, -11, -8, -5, -3 and -7 to Government Transactions with non-territorial organizations.

C. THE CONSULTATIONS WITH THE FEDERATION OF RHODESIA AND NYASALAND

1. In accordance with its terms of reference the Working Party has conducted the consultations with the Federation of Rhodesia and Nyasaland under paragraph 4(b) of Article XII and paragraph 1(g) of Article XIV.

2. The Working Party had before it:

(a) the basic document prepared on behalf of the secretariat by the authorities of the Federation, describing the system and methods of the balance-of-payments import restrictions in operation in the Federation, and including a brief statement on the effects of the restrictions;

(b) a document provided by the International Monetary Fund.

These documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultations the Working Party followed the "Plans" recommended by the CONTRACTING PARTIES for consultations under the two provisions. The present report summarizes the main points of the discussion during the consultations.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with the Federation. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted a background document, dated 30 September 1957, describing "Economic Developments and Changes in the Restrictive System" in the Federation. In accordance with agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the Federation. The statement made was as follows:

> "The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on economic developments and changes in the restrictive system of the Federation of Rhodesia and Nyasaland, dated September 30, 1957. In preparing this paper, the Fund has received the co-operation of officials of the Federation

in ensuring the accuracy of the data used and in supplying the latest available information. I should like to take this opportunity to express the Fund's appreciation for this assistance.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, it is noted that the Federation of Rhodesia and Nyasaland does not have separate membership in the International Monetary Fund. Attention is drawn to the Fund's statement which has been made in connexion with the CONTRACTING PARTIES' consultations with the United Kingdom as relevant also for their consultations with the Federation."

Balance-of-payments situation and prospects

5. The representative of the Federation described for the Working Party the balance-of-payments situation of the Federation, the changes which his Government had introduced in the past year in the import restrictions, and factors and problems relevant to the consideration of the present situation and the future prospects. The complete text of the statement made by the representative of the Federation is given in Annex I to this report. With reference to the documentation mentioned above, the representative of the Federation stressed the continuing need of the Federation for capital investment to sustain the high level of development which was required to enable it to achieve the most desirable utilization of its natural resources, and the Federation's dependence for its export earnings upon a few basic raw materials, including copper, tobacco, asbestos and tea. As the investment need was great the economy was much influenced by changes in the level of world economic activity and particularly by the supply and demand conditions for the few primary products on which the Federation's external income depended. Developments in the last few years had been favourable to the Federation. Its exports had been in good demand and there had been a satisfactory inflow of capital on both public and private accounts. The Federation, however, normally required a surplus on trade account in order to meet its net invisible deficit, resulting mainly from freight payments, foreign travel and payments of investment income abroad. The need for external resources of capital investment became more acute whenever there was a decline in trade surplus, and it should be noted that in 1956 the Federation experienced its largest current account deficit (approximately £33 million) and that its external reserves declined for the first time since the Federation came into being. The main factor in this had been the failure of export earnings to keep pace with the continuing rise in imports, due principally to the fall in the price of copper. The continuing fall in the value of copper exports in the first half of 1957 had been further accentuated by declines in the prices of lead and zinc. On the other hand, the fall in income from these exports had been compensated to a certain extent by the higher returns from tobacco, asbestos and chrome ore.

6. Confidence in the economic future of the Federation was shown by the fact that the development plans of the copper mining industry were not being curtailed in spite of the weakening in the market for copper, although the development of a nickel deposit in Southern Rhodesia had been arrested. The

main development projects undertaken by the Federal Government, including the improvement of the transportation system and the Kariba hydro-electric scheme, were being carried out. Although a large proportion of the capital requirement for these projects came from domestic sources the Federation continued to require capital investment from overseas. The Minister of Finance recently expressed the hope that he would be able to conclude in the near future his negotiations for a dollar loan of between $20 million and $30 million.

7. As regards quantitative import restrictions applied for balance-of-payments reasons, the representative of the Federation recalled a statement made by his delegation in the course of the consultation under Article XIV:1(g) held in October 1956, that it was the firm intention of the Government of the Federation, consistent with its obligation to make a reasonable contribution towards the reserves of the sterling area, to liberalize its trade to the utmost extent possible. Considerable progress had been made at that time in the liberalization of imports from OEEC countries and some success had been achieved in freeing imports from the dollar area. Reference had been made to the practice of introducing an unrestricted list in order to test demand as a step towards the complete freeing from control of the commodities concerned. In spite of the adverse turn in the Federation's terms of trade, further liberalization measures had been introduced since that time. All items on the unrestricted list - both dollar and OEEC - had now been transferred to Open General Licence and, with effect from 1 July 1957, all products of the OEEC countries had been placed under Open General Licence, except for a few items which were subject to control from all sources for reasons other than the balance of payments. At the same time, the list of items which might be imported from the dollar area had been extended and quotas for other items had been re-established at at least the same level as during the preceding half-year. The delegation of the Federation was therefore of the view that the undertakings which it gave a year earlier had been carried out.

8. The representative of the Federation illustrated the effect of the measures with figures showing increases in the share of the country's imports from OEEC and dollar countries. In concluding, he considered that it would be very difficult to make any definite statement on the prospects for the future, which depended both on the expansion of exports and on an adequate inflow of investment capital. Apart from other internal measures which had been taken by the Federal Government to assist in stabilizing the situation, it might be mentioned that in present circumstances the Federal Government had to apply some restrictions on the flow of immigrants into the Federation.

9. Members of the Working Party welcomed the progress that had been made by the Government of the Federation in liberalizing imports, especially in freeing dollar imports and in reducing discrimination. They considered that it was most noteworthy that the Federation was able to liberalize imports in spite of falling external income. To maintain internal stability at a time when the economy was in a process of rapid development was a problem which many countries still found it difficult to solve and the Government of the Federation should be congratulated for the constructive measures which it had taken to achieve these ends.

10. In discussing the monetary reserve situation of the Federation some members of the Working Party thought that the decline in the reserves could not be regarded as substantial and that the level of the present reserves was still relatively high in relation to the country's imports. In their view the balance-of-payments situation of the Federation could not be regarded as precarious and it was to be hoped that further progress could be made in removing restrictions and particularly in reducing discrimination. The representative of the Federation agreed that the present level of reserves was not in any way precarious and that, although the small decline during the latter part of 1956 had continued in 1957, this situation did not call for any more drastic measures than those already taken. Further prospects, however, depended largely on the prices of the Federation's principal exports, particularly copper. The Federal Government had at one stage thought that the price of copper would not go much below £240 per ton. This had subsequently been revised to £220 per ton, but the present price was in the region of £181 per ton. It should be noted that the Federation's surplus on dollar account in 1956 had been only £5 million as compared with £22 million in 1955. The Government of the Federation had hoped to remove all remaining balance-of-payments restrictions in 1957 and was still looking forward to the time when it could remove restrictions, particularly restrictions on dollar imports but its ability to do so would depend on its external earnings and the inflow of dollar investment, the prospects for which were at present uncertain.

11. The representative of the Federation agreed with members of the Working Party that the consultation held under Article XIV:1(g) in 1956 had been a factor behind the steps of liberalization taken by the Federal Government in the past year. As on that occasion, the delegation of the Federation would take note of the suggestions made at this consultation and the Government of the Federation would continue to test demand with a view to preparing for further liberalization and the eventual elimination of all restrictions.

Other questions relating to the external financial position

12. In the course of the consultation a number of questions were put by members of the Working Party which related directly or indirectly to the balance of-payments and the monetary reserve situation of the Federation. The replies given by the representative of the Federation served to throw further light on his country's position. These are briefly noted in the following paragraphs.

13. According to the background paper supplied by the International Monetary Fund, the Federation's imports in 1956 were marked by an expansion in the value of capital equipment, which rose by £15.5 million to £69.6 million, i.e. from 39 per cent to 43 per cent of total imports. A member of the Working Party was interested in knowing to what extent the expansion in capital equipment imports reflected the expansion in governmental economic development programmes and to what extent the imports related to the private sector. The representative of the Federation stated that of the total gross investment of £133.6 million effected in 1956, private investment accounted for some £80 million and that a large proportion of the private investment consisted of expenditures on imports of capital equipment.

14. In answer to a question relating to the immigration policy of the Federation, the representative of the Federation stated that in the view of his Government an increase in population was desirable in order to expand the exploitation of the natural resources of the country and to expand production, especially production for export. The current restraints on immigration had been prompted by the high rate of immigration in the last few years, which had put enormous strains on public services. A continuation of the high level of immigration would require greatly increased amounts of public investment which would be more than the country could afford at present.

15. The International Monetary Fund background paper showed that the Federation's net outward payments on investment income account in the three years 1954-1956 had been £29.8, £33.2 and £37.8 million respectively, whilst the trade surplus in the corresponding years had been £32, £41.3 and £25.2 million. A member of the Working Party wondered whether the principal cause of the deterioration of the Federation's balance of payments might not be the faster growth of payments to service foreign investment compared with the trade surpluses in the last three years. Invited to comment on this view, the representative of the Federation noted that transfers on investment income account represented principally dividends paid by mining companies, and that the decline in the price of copper, with the consequent fall in dividend payment, would mean that the transfers on this account would be lower in 1957.

16. Attention was called to the fact that the Federation's gross imports of capital from the dollar area fell from £7.7 million in 1955 to £4.4 million in 1956. The representative of the Federation thought that the much higher level of capital imports from the dollar area in 1955 might be explained by the fact that in that year the Federal Government had effected drawings against loans from the International Bank for Reconstruction and Development.

17. It was also noted that in 1956 while the Federation's official external holdings of cash balance and securities fell and holdings of private companies declined, the total of other holdings rose by a significant amount, mainly as a result of rises in the external balances of the commercial banks. On this point the representative of the Federation stated that a great deal of private money was held abroad by firms which had roots in the Federation, and he had no doubt that, if the need arose, such firms could draw on these holdings abroad, and to that extent, therefore, private holdings abroad could be regarded as supplementary to public reserves.

Long-term measures relating to productive and export capacity

18. In discussing the relationship between the balance of payments and the economic development problems, the Working Party noted the emphasis placed by the Government of the Federation on investment in basic facilities for economic development. Members of the Working Party were interested in knowing the aspirations and prospects for the diversification of the economy. The representative of the Federation stated that diversification of production while maintaining internal stability was a principal objective of his Government's

economic policy. The Kariba hydro-electric project, when completed, would be a compelling factor in the development of secondary industries in the region, and its facilities would be available from 1961 onwards. In the meantime, the Government was making studies of industrial projects and taking steps to encourage interested persons to investigate possibilities of industrial investment. It was only to be hoped that adequate capital for investment would be available from abroad.

19. In discussing the policy pursued by the Government in encouraging the inflow of investment the representative of the Federation emphasized the completely liberal nature of the income tax and exchange control policies relating to investment. Non-residents had complete freedom not only to transfer dividends but also to repatriate capital which had been invested in legitimate approved industries in the Federation. Certain members of the Working Party thought that the Federation's policy illustrated the Government's clear understanding of the importance of international finance in the economic development of countries in need of capital. They considered that the events had borne witness to the wisdom of the Federation in carrying out economic development with due regard to the limitation of its resources and to the importance of attracting capital from abroad.

20. As a matter of interest the representative of the Federation was requested to provide information on the wage levels in particular industries in the Federation. With the qualification that it was difficult to provide figures which could be used for meaningful comparison with wage levels in other countries the representative of the Federation noted that:

(a) in copper mining, where the wage structure involved a basic wage plus a bonus related to the price of copper, the total earnings of workers were comparable to those in other countries when the copper price was high, but the fall in the price and production would mean that lower wages would be paid; and

(b) in tobacco production the wages paid in the Federation were lower than in, for example, the United States.

21. The representative of the Federation, in response to questions, also informed the Working Party that the general price level had risen by under 3 per cent in 1956 and that a small rise had been encountered in 1957. The newly-established Central Bank could play and was playing a rôle in combatting inflationary pressures through credit control and other measures bearing on spending.

Changes in the import restrictions and discrimination

22. The Working Party took note of the current system and methods of restrictions and recent changes described in the "basic document" prepared by the authorities of the Federation on behalf of the secretariat. It was also noted that in applying the restrictions the Federation resorted to the provisions of Annex J and paragraph 3 of Article XIV. It was recalled that previously the Federation had maintained a "prohibited list", and it appeared that under the

current system this had been replaced by a list of goods which were "not ordinarily licensed". The representative of the Federation explained that this change in name had been made principally in deference to the sensitivity shown by other countries to outright prohibitions. It should be noted that this list was subject to re-examination every six months by the authorities in consultation with the Chambers of Commerce. Insofar as goods on that list could be licensed whenever the authorities deemed it necessary or justifiable, it would appear that the new name for the list was a more appropriate one. Products were removed from the list from time to time. For example, a number of goods had been removed in January 1957 as a result of consultations with importers and discussions between government departments concerned. Unless there should be any unfavourable developments it could be expected that more items would be removed from this list in January 1958 for the next licensing period.

23. Representatives of the countries in the dollar area pointed out that some of the items included in the restricted list appeared to be such that they could be safely derestricted without having any significant effect on the balance of payments, and expressed the hope that these items would be given early consideration. Further, a number of products which had been important in the traditional trade between the territories of the Federation and countries in the dollar area prior to 1947 were still included in the restricted list; the hope was expressed that the Government of the Federation would consider, in the context of the balance-of-payments situation, the possibility of establishing quotas for the import of such goods at least in minimum commercial quantities so as not to impede permanently the normal channels of trade. Such goods included cotton piece goods, outer garments, hosiery, other clothing, refrigerators, electrical appliances, office machines (such as duplicating and addressing machines), and cotton yarns. The provision of such quotas would be consistent with the statement made by the authorities of the Federation as recorded in paragraph 9 of the basic document that "the restrictions are designed not to cause unnecessary damage to foreign trade interests".

24. In reply, the representative of the Federation stated that, in pursuance of the policy of liberalization, his Government had already taken action along these lines. The most recent action of this nature had been the establishment of dollar quotas for such household appliances as electric stoves and washing machines. It had not been found desirable to establish a token import scheme since the administration of any such scheme would place a burden on the licensing authorities which would not be commensurate with the benefit to be derived therefrom. The general policy would be to provide for dollar and other quotas whenever possible and it is the general objective of his Government eventually to transfer all commodities on to the unrestricted list or Open General Licence.

25. The Working Party discussed the list of "Goods Requiring Import Licences Whatever the Country of Origin" annexed to the basic document. The following information was given by the representative of the Federation on the motives and reasons for keeping these commodities under licensing control:

Wheat and wheat products

These products are controlled in order to overcome certain difficulties faced by the transport system. Imports are licensed in such a way as to avoid congestion on the railways between the eastern ports and the centres of consumption.

Margarine

The controls are a legacy from the territorial legislation existing prior to the formation of the Federation and are awaiting re-examination.

Sugar

The control was introduced to enable the fulfilment of commitments under the Commonwealth Sugar Agreement.

Jute grain-bags

The control is to support the distributing arrangements made between dealers, and otherwise to promote orderly marketing.

Cement

The control of this product was originally introduced to meet certain acute transport problems. It is now considered obsolete and is being re-examined.

Gold

The import and export of gold is controlled in order to support legislations designed to prevent illicit dealings and in fulfilment of other international obligations.

Matches containing phosphorus

The control is principally for public safety reasons.

Used clothing

The control is for public health reasons.

Military uniforms, and arms and ammunition, and
Radio-active elements and isotopes

These are controlled for national security and defence reasons.

26. It was noted that for those products mentioned above for which there was no longer reason to restrict imports, licences were being issued. The Working Party was gratified to learn that no protective effect was intended.

Effect of the restrictions on production and trade

27. Paragraph 9 of the basic document states that "since goods from the sterling area are imported without restriction, the protective effects on industry in the Federation of the restrictions on other imports are negligible". Members of the Working Party discussed the implications of this statement and pointed out that the restrictions on imports from sources other than the sterling area could have a protective effect especially as many products were not obtainable in the sterling area at all or at comparable terms. Furthermore, it was thought that it would be an exaggeration to say that "practically the whole of the Federation's imported goods are unrestricted from western sources", having regard to the number of commodities remaining under licensing control from the dollar countries.

28. In response to an enquiry as to which goods under restriction were also being produced locally, the representative of the Federation indicated that supplies of the following products were available from domestic production:

Clothing
Piece goods
Meat products
Blankets
Canvas footwear

29. The representative of the Federation, however, emphasized that the Government constantly warned local producers that they could not expect protection from the import restrictions which were, for the time being, applied for balance-of-payments reasons. The Government would have no hesitation in dismantling any and all restrictions whenever the balance-of-payments position permitted it to do so. The Working Party expressed appreciation of this positive reaffirmation of the policy, which showed the intention of the Government of the Federation fully to observe the spirit and letter of the General Agreement.

ANNEX I

STATEMENT BY THE REPRESENTATIVE OF THE FEDERATION OF RHODESIA AND NYASALAND

1. The Working Party will have appreciated that our somewhat anomalous constitutional position requires these consultations to be regarded as in a sense supplementary to the consultations with the United Kingdom. It has also restrained the International Monetary Fund from making any comment on our restrictions or on the other measures which we have taken to control the situation. The Working Party will also no doubt have appreciated that, as we share in the United Kingdom's quota in the International Monetary Fund, the provisions of Article XIV:3 of the General Agreement cover the policy, which has been followed both by the Government of the Federation and by its constituent territories prior to Federation, of not introducing import restrictions against the United Kingdom.

2. In the economic report for 1957, which we submitted with our basic document, and in the invaluable paper prepared by the International Monetary Fund, there is a mass of statistical material which gives a reasonably adequate picture of the economic state of the Federation during the year 1956. What emerges most clearly is, firstly, our continuing need of capital investment to sustain the high level of development which is required if the Federation is not only to remain viable but also to achieve the most desirable utilization of its natural resources so as to make an adequate contribution to the world economy. Secondly, our dependence for our export earnings upon half a dozen or so basic raw materials, the principal ones being copper, tobacco, asbestos and tea. The International Monetary Fund has pointed out that imports represent from 41 - 43 per cent and exports 51 - 53 per cent of the Federation's gross domestic products at factor cost, and that our economy is therefore much influenced by changes in the level of world economic activity and, particularly, by the supply and demand conditions for the few primary products on which our external income depends.

3. The experience of the last few years has been favourable to the Federation. Our exports have been in good demand and there has been a satisfactory inflow of capital on both public and private accounts. But again it is useful to point to what the International Monetary Fund has described as the normal picture of our international transactions, namely, a surplus on trade account exceeded by a net invisible deficit, mainly resulting from freight payments, foreign travel and payments of investment income abroad. When, therefore, our trading surplus declines, our need to tap external sources of capital investment must become more acute.

4. Against this situation the Working Party should note that in 1956 the Federation experienced its largest current account deficit on record, approximately £33 million. In that year also, our external reserves declined for the first year since Federation.

5. The main factor in this has been the failure of export earnings to keep pace with the continuing rise in imports. This is due to a considerable degree to the fall in the price of copper. In spite of the fact that the tonnage exported in 1956 was over 30,000 greater than in 1955, the value of copper exports at £115 million was only £4 million greater than in 1955. The continuing downward trend has resulted in the value of copper exports for the first half of 1957 (again despite an increase in tonnage) being £5 million less than for the second half of 1956. Add to this, declines in the price of lead and zinc and in the result our favourable balance of trade for the first six months of 1957 amounted to less than £1 million, as compared with over £14 million in the same period of 1956.

6. However, the picture is not an entirely gloomy one. Other developments are satisfactory. The last season was a good one for tobacco, which realized a higher return from a lower weight and indicates a considerable improvement in quality. Exports of asbestos and chrome ore continue to give an increasing return, and the price realized for Nyasaland tea seems to have stabilized at not unsatisfactory levels.

7. The confidence in the economic future of the Federation is shown by the fact that the development plans of the copper mining industry are not being curtailed. On the other hand, the Rio Tinto company, which was developing a promising nickel deposit in Southern Rhodesia, has announced that because of the fall in the price of copper and the weakening in demand for nickel, it will not at present proceed beyond the pilot plant stage.

8. Meanwhile, we are carrying on with the main development projects undertaken by the Federal Government. The principal ones are the improvement of the transportation system and the Kariba hydro-electric scheme, and it is not out of place to point out that, of the £80 million or so required for the first stage of Kariba, the Federation is finding from its own resources 41.7 per cent; 35 per cent is coming from the United Kingdom and the balance of 23.3 per cent from other sources, notably the International Bank for Reconstruction and Development, which made to the Federation for this project the largest loan in its history.

9. We shall continue to require capital investment from overseas, and not only from the United Kingdom, and members of the Working Party may perhaps have noted the hope recently expressed by our Minister of Finance that he will be able to carry to a successful conclusion in the near future his negotiations for a dollar loan of between $20 - 30 million.

10. To come now to the immediate issue of our quantitative restrictions for balance-of-payments reasons, I stated in the course of our consultations last year that it was our firm intention, consistent with our obligation to make a reasonable contribution towards the reserves of the sterling area, to liberalize our trade to the utmost extent possible. At that stage we had gone a considerable distance on the road of liberalization towards the OEEC countries and had succeeded also in improving the position to some extent of our friends in the dollar area. I also mentioned our practice of introducing an unrestricted list in order to test the demand, as a step towards complete freeing from control of the commodities concerned.

11. In spite of the adverse turn in our terms of trade, we have managed to introduce further liberalization measures. All items on the unrestricted lists, both dollar and OEEC, have now been transferred to Open General Licence, and with effect from 1 July last we placed all the products of the OEEC countries under Open General Licence, with the exception of a few items which are subject to control from any source for reasons other than balance of payments. At the same time we extended the list of items, again under Open General Licence, which might be imported from the dollar area and re-established quotas for other items at at least the same level as during the preceding half year. We feel confident, therefore, that we have carried out our undertakings.

12. The effect of the measures which we have taken over the past three years is quite well illustrated by the fact that the non-sterling OEEC countries increased their share of trade with the Federation from 8.4 per cent to 9.5 per cent between 1954 and 1956, while the share of the dollar countries has increased from 5.8 per cent to 7.9 per cent, this during a period when the overall value of our imports rose from £125 million to £159 million. The trend has continued and during the first half of 1957 our importations from non-sterling sources were £2¾ million greater than during the first half of 1956. All these figures, of course, relate to experience prior to the most recent liberalization measures which became effective on 1 July 1957.

13. Prospects for the future are very hard to define. They depend both upon that expansion of exports to which we attach so much importance and upon an adequate inflow of investment capital. The basic document sets out the internal measures which have been taken by my Government to assist in stabilizing the situation, but I think it is not out of place to mention also that in present circumstances we have had to apply some restrictions on the flow of immigrants into the Federation. This represents another form of quantitative restriction, which, however, is outside the purview of the CONTRACTING PARTIES.

D. THE CONSULTATION WITH THE UNION OF SOUTH AFRICA

1. In accordance with its terms of reference the Working Party has conducted the consultation with the Union of South Africa under paragraph 4(b) of Article XII.

2. The Working Party had before it:

(a) the basic document prepared on behalf of the secretariat by the authorities of the Union of South Africa describing the system and methods of the balance-of-payments import restrictions in operation in the Union and including a statement on the effects of the restrictions;

(b) documents provided by the International Monetary Fund.

These documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultations the Working Party followed the "Plan" recommended by the CONTRACTING PARTIES. The present report summarizes the main points discussed during the consultation.

Consultation with the International Monetary Fund.

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with the Union of South Africa. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results[1] and background material from its last consultation with the Union of South Africa, together with a supplement specially prepared for the CONTRACTING PARTIES on developments since that consultation. In accordance with agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the Union. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with the Union of South Africa under Article XIV of the Fund Agreement, which consultation was concluded on April 3, 1957.

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[1] See ERC/17

"As some time has elapsed since the conclusion of this consultation with South Africa, the Fund has also provided a supplementary paper on the Union, dated October 4, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the last consultation under Article XIV of the Fund Agreement, and the results of that consultation, have been distributed to the members of this Working Party.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund draws the attention of the CONTRACTING PARTIES to the results of its most recent consultation with the Union of South Africa under Article XIV of the Fund Agreement, and particularly to paragraph 3, and to paragraph 4, which reads as follows:

'4. Fiscal and monetary policies have remained the principal instruments to establish external equilibrium. The licensing system continues to have some restrictive effects, but the controls are largely of a precautionary nature. The Fund welcomes the relaxation of restrictions announced for 1957 and notes with satisfaction the expressed intention to make further progress in this field.'

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Working Party is drawn to the results of the last Fund consultation with the Union of South Africa. The Fund has no additional alternative measures to suggest at this time."

Balance-of-Payments Situation and Prospects

5. In opening the consultation the representative of the Union of South Africa referred to the documents before the Working Party which in his view provided a complete picture of the Union's current economic position and of the extent to which the import restrictions had been relaxed. The facts showed clearly that the Government of the Union of South Africa was acting fully in accord with the provisions of the General Agreement and that it was moving forward with the liquidation of its import controls as speedily as the exchange reserves permitted. The need for introducing import controls in 1948 had arisen primarily out of the exceedingly rapid rate of economic development which South Africa had experienced in the early post-war years. Mining and secondary industry in particular expanded enormously and, in addition to the direct investment outlays in these branches, large additions also had to be made to basic services to keep pace with the rapid development in the private sector. In recent years these huge investment programmes had begun to show fruit and there had been a consequent increase in the country's productive capacity. This had brought about an increase of no less than 64 per cent in net national income in real terms during the ten years 1946-56, as compared with an increase of 22 per cent in population. Similarly, non-gold exports had advanced from £138 million in 1948 to £413 million in 1956. Gold production had also risen considerably. In 1956, for the first time since the end of the war, South Africa achieved a current account surplus, amounting to £10 million.

6. As the economic position improved the Union Government had progressively relaxed its import restrictions. As long ago as 1954, all discrimination as between different currency areas had been removed, and the importer had since been entirely free to import from the most advantageous source. As a result of subsequent relaxations, upwards of 90 per cent of South Africa's imports were now free from effective control and as soon as the Government deemed the time propitious it would take the final step of removing the remaining restrictions. The Union Government's policy had been, and remained, to proceed cautiously so as to avoid any need for retrogression.

7. The liberalization measures had been an important contributory factor towards the rise in South Africa's imports (the monthly average imports rose from £41.2 million in 1956 to £45.8 million in the first seven months of 1957). In spite of the liberalization, the balance of payments on current account had continued to show an improvement during the first half of 1957. Gold and exchange holdings, however, declined by about £8 million, which indicated that there was a net outflow of capital during the first half of the year. Although South Africa was currently financing about 90 per cent of its investment outlays from domestic savings the country was still vitally dependent on a steady inflow of investment capital from abroad to maintain a high rate of growth, and any unfavourable developments in capital movements would obviously have an impact on the Government's import control policy.

8. Since the middle of 1957, the Reserve Bank's gold and exchange holdings had shown a further decline, of about £16 million, and they now stood at about £110 million, which was roughly equal to two-and-a-half months' average imports. Seasonal factors normally would cause these reserves to rise during the fourth quarter, but the most recent current account figures were not entirely reassuring and the South African Government might have to reassess its position regarding the removal of the remaining import controls, which it had hoped to do in the course of next year.

9. The representative of the Union of South Africa assured the Working Party that his Government would lose no time in dismantling the remaining controls as soon as it felt confident that this could be done without jeopardizing the country's exchange reserves.

10. The Working Party took note of the statement of the South African representative, and the documents supplied by the Union Government and the International Monetary Fund. It was noted that the South African Government was moving steadily forward in the direction of freer trade, the intention being to continue to remove restrictions as rapidly as the balance-of-payments situation would permit; that the discriminatory element in the restrictions had been eliminated as early as the end of 1953; and that 92 per cent of imports were not under effective restriction although a large proportion remained under licence. The Working Party particularly welcomed the statement that barring any serious unfavourable developments, the Government of South Africa expected to remove all restrictions by 1958. Members of the Working Party also expressed gratification at the South African Government's determination to avoid involvement in bilateral arrangements. Although there had been a reversal of the favourable

trend in capital movement and some uncertainty about the current account position, the hope was expressed that the situation would not worsen and that further progress would soon be made in the elimination of restrictions.

11. The Working Party noted that the problems at present faced by the Union of South Africa principally arose from its net deficits on capital account. Members of the Working Party showed considerable interest in the causes and factors responsible for the reversal of the Union's earlier position as a net importer of capital, and in the implications of this development for the country's general balance of payments and commercial policy. In the course of discussion a number of questions were put by members of the Working Party, such as: whether the decline in capital inflow into the Union reflected lower expectations of invested income in the country, or whether it was due to factors of a more temporary nature; to what extent the outflow of capital from South Africa consisted of short-term funds and to what extent equity investment was affected; whether there was any noticeable change in the inflow of capital for direct investment; whether there had been pressures against the controls on the outflow of capital from South Africa introduced in September 1957.

12. In reply to these and other questions, the representative of the Union of South Africa explained that the South African capital market was closely linked with the world market, especially that of London. The very high rate of interest that prevailed on the London market would naturally have the effect of attracting short-term capital, and had caused a considerable reduction in the inflow of funds to South Africa. Measures had been taken to prevent the transfer of South African funds, but it was not within the power of the Union Government to keep up the inflow of foreign capital which was being attracted by high rates of interest elsewhere. The control measures had been taken purely for precautionary reasons, to prevent speculative movements, and consequently did not affect capital which had come in for legitimate purposes. Under the South African regulations foreign investors had not only the right to remit dividends but also to repatriate capital that had found its way to South Africa through normal banking channels. There had been some selling on the London market of South African securities, but funds invested in industry had not as far as was known been withdrawn to any substantial extent.

13. As regards the magnitude of the change in the capital account and its possible relevance to the policy of liberalization, the representative of South Africa stated that whereas in 1953 and 1954 the net inflow of private capital had been £26 million and £55 million respectively, the year 1955 saw a net inflow of £3 million. In 1956 there was an insignificant inflow of about £1 million, followed in the first half of 1957 by a net outflow amounting to £8 million. In spite of the reversal of the trend of capital flow the South African Government had been able to pursue its policy of liberalization principally on account of the high export earnings.

14. According to the statistics supplied by the Fund, a large and increasing proportion of the capital inflow into South Africa had been of dollar area origin. The representative of South Africa pointed out that the long-term

tendency appeared to be for the Union to obtain capital supplies from markets other than the United Kingdom. As the present shortage of capital was not limited to the London market but rather of a general nature, it had been found increasingly difficult to obtain capital also from other sources.

15. The Working Party discussed the prospects of South Africa's exports. It was pointed out by a member that one-third of South Africa's exports consisted of gold, and that the problems faced by South Africa must have been accentuated by the fact that the price of gold had not increased in the last thirty years to any extent comparable with other commodities. The South African representative fully concurred in this view.

16. In reply to specific questions, the representative of South Africa pointed out that proceeds from diamond exports were hardly a factor in the country's balance of payments; they amounted to £13 million out of a total of the Union's non-gold exports of £413 million in 1956. The demand for industrial diamonds depended on the level of economic activity, and that for gem diamonds on changes in personal income.

17. As for exports in general, it was noted that more than a quarter of South Africa's exports now consisted of industrial products supplied principally to other countries or territories in Africa, and the hope was being entertained that such exports, which had already risen by about 200 per cent between 1948 and 1956, could be further expanded. Among primary commodities the export of wool had been maintained although prices were currently tending downwards, that of fruit could be expected to expand as a result of increased production, the value of mineral exports might fall as a result of lower prices, and in the case of lead and zinc the market was uncertain as it depended on stock-piling policies of governments. Taken as a whole, exports were expected to expand gradually, and it was hoped that there would be a resulting improvement in the balance of payments which would be reflected in the commercial policy of the South African Government.

Internal economic policies

18. The representative of South Africa further explained that about eighteen months ago the Minister for Economic Affairs had warned that the expansion of the economy was at too rapid a rate having regard to the country's resources of manpower and capital. He had consequently counselled a policy of consolidation rather than expansion. More recently, however, the emphasis had again shifted to expansion and measures had been taken to encourage new investment. The rate of development in the Union was, however, also dependent on economic conditions prevailing elsewhere and there would seem to be signs of slackening in some of the leading countries abroad.

19. A member of the Working Party observed that South Africa was able to achieve a steady rate of economic expansion and to maintain an even pace in liberalizing its imports at the same time. In his view the stability in prices should be particularly noted. The South African representative thought that the success might be attributed to the favourable natural and other conditions and endowments of the country, as well as to the sound financial and general economic policy of the Government.

System and Methods of Restrictions

20. The Working Party discussed the system and methods of the restrictions on the basis of the documentation before it. It was noted that under the South African import control system imports were divided broadly into three categories:

(a) goods which may be freely imported without licence;
(b) goods subject to import permit but free from quota restriction;
(c) goods subject to both licensing control and quota restriction.

21. The Working Party wished to know whether the two different procedures, as described in (a) and (b), were necessary for admitting unrestricted imports. The representative of South Africa explained that the licensing control retained on goods in group (b) was generally for statistical or precautionary reasons. As these reasons had now largely disappeared consideration was at present being given to their complete abolition.

22. In response to a request for an indication of the extent to which imports were free from effective restriction, the South African representative stated that imports under the procedures referred to in (a) and in (b) above covered about 92 per cent of total import requirements at the current level; only 8 per cent of the total imports remained subject to quota restriction. The "general merchandise" quotas for this category of goods now amounted to 60 per cent of the basic quotas, which for the majority of the importers was the value of their imports of consumer goods in 1948. These restrictions were maintained for the time being also for precautionary reasons and the Government intended to review the situation and examine the possibility of eliminating them at the end of this year.

23. The Working Party discussed the special case of motor cars which had been exempted from quota restriction recently. The representative of South Africa explained that although quantitative restriction was no longer intended on this product, licenses were not issued automatically but, in order to prevent the building up of excessive stocks, on a replacement basis. Under the present arrangement all cars were available on the market and dealers were gradually becoming well stocked.

24. A member of the Working Party pointed out that the goods listed in Annex A (goods free from licensing control) were mostly not very different in nature from the goods listed in Annex B (goods subject to licensing control but free from effective quota restrictions) and enquired as to the basis on which the selection was made. The representative of South Africa informed the Working Party that the grouping of these products was not the result of deliberate selection, but rather a matter of historical accident. For example, at one stage it was decided to exempt ordinary textile and ancillary products from licensing control while keeping the more expensive types of such goods on the restricted list. Subsequent experience had shown, however, that factors affecting the flow of textile imports were highly unpredictable, and consequently, when the more expensive types of textile goods were due for liberalization it was decided to keep them under licensing control so as to enable a statistical check to be maintained which would be useful in gauging the pressure of demand and in the formulation of future licensing policy.

25. The Working Party was generally gratified to learn that a large proportion of goods were being kept under licensing control purely for statistical or precautionary reasons, and that these goods would eventually be transferred to the group free from licence. Some members expressed the view, however, that these licensing requirements, even though only a formality, must inevitably have some deterrent effect on trade and should be abolished as soon as possible. The representative of South Africa referred to his earlier statement that his Government would be considering the complete abolition of the licensing control and quota restrictions as soon as the exchange reserves permit.

26. A member of the Working Party suggested that it would be useful for other contracting parties applying import restrictions if the South African representative were to outline the factors and policy considerations which had led South Africa to dispense with discrimination. The representative of South Africa referred to the declaration which had been made by the Minister for Economic Affairs at the time of the elimination of the discrimination.[1]

27. As noted above, the Government of South Africa was not a partner to any bilateral trade agreements. In discussing the reasons why South Africa was more successful than other countries in avoiding resort to this device, the South African representative noted that not infrequently pressures were brought to bear on his Government to enter into bilateral arrangements. One of the reasons why it had always resisted, and would no doubt continue to resist, such pressures might be that most of South Africa's exports were in demand on the world market (although certain of its exports clearly could benefit from special arrangements providing them with privileged markets). But more fundamentally it was because the South African Government was strongly convinced that multilateral, non-discriminatory trade was in the ultimate interest of all and that bilateralism was a curse to international economic relations.

28. The Working Party generally agreed that the past record of the South African Government of steadily moving in the direction of freer trade should give contracting parties full confidence in its future policy. Unless there should be a serious worsening of the balance-of-payments situation it could be safely expected that the further steps of liberalization alluded to by the South African delegation would be taken at the earliest possible time.

Effects of the Restrictions on Trade and Industry

29. The South African representative stated that his Government had always maintained that the controls on imports were applied for balance-of-payments reasons and that they should not be used for any other purpose. Producers had often been warned that they could not count on the continued maintenance of any such restrictions beyond the time when they could be justified on balance-of-payments grounds. Although the measures must have had certain incidental protective effects, the Government was determined that, if at all possible, there would be no transitional problems for the CONTRACTING PARTIES to consider in the context of the "hard core" waiver. Members of the Working Party considered that the attitude of the South African Government was a good indication of the healthy state of manufacturing industry in the Union, and welcomed this categorical statement which showed the South African Government's determination to uphold the principles, and to abide by the provisions of the General Agreement.

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[1] Cf. SR.8/17