

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/767

30 November 1957

Limited Distribution

CONTRACTING PARTIES
Twelfth Session

THE EIGHTH ANNUAL REPORT OF THE CONTRACTING PARTIES UNDER ARTICLE XIV:1(g) ON THE DISCRIMINATORY APPLICATION OF IMPORT RESTRICTIONS

Text proposed by the Working Party on Balance of Payments

1. Under paragraph 1(g) of Article XIV of the General Agreement, the CONTRACTING PARTIES are required to report annually on any action still being taken by the CONTRACTING PARTIES under the provisions of the Agreement permitting the use of discrimination in the application of import restrictions imposed for balance-of-payments reasons. The present report has been drawn up by the CONTRACTING PARTIES at their Twelfth Session held in October-November 1957. It is based on information supplied by the contracting parties concerned either in writing or in the course of discussions and the consultations during the past year, and on data gathered from other sources including publications and documents of the International Monetary Fund. The report is devoted principally to an examination of the developments in the field of discriminatory import restrictions since the writing of the previous report in November 1956.
2. Since the time Ghana and the Federation of Malaya have become contracting parties and in assuming the same obligations as the United Kingdom had hitherto accepted on their behalf will apply any discriminatory import restrictions under the provisions of Annex J. At present twenty-four of the thirty-seven contracting parties state that they maintain restrictions on imports to safeguard their balance of payments and are exercising some degree of discrimination as between sources of supply under the provisions mentioned above. These are Australia, Austria, Brazil, Burma, Ceylon, Chile, Denmark, Finland, France, Ghana, Greece, India, Italy, Japan, Federation of Malaya, the Kingdom of the Netherlands, New Zealand, Norway, Pakistan, Federation of Rhodesia and Nyasaland, Sweden, Turkey, United Kingdom and Uruguay.
3. The Governments of Indonesia and the Union of South Africa state that they are not acting under any of the provisions of Article XIV. Ten contracting parties, namely Belgium, Canada, Cuba, Czechoslovakia, the Dominican Republic, Haiti, Luxemburg, Nicaragua, Peru and the United States, state that they do not restrict imports for balance-of-payments reasons. The Federal Republic of Germany has ceased to be entitled to apply restrictions under Article XII.

Consultations on Import Restrictions

4. Under paragraph 1(g) of Article XIV, contracting parties acting under certain of the provisions permitting discrimination are required to consult the CONTRACTING PARTIES annually. This year, however, the CONTRACTING PARTIES held a series of consultations under Article XII, and as these consultations were broader

in scope and encompassed all aspects of the restrictions, the Article XIV consultations were combined with them. These broader consultations were the first full-scale discussion of the nature and effects of import restrictions since a review of restrictions held in 1951. As such, they constituted one of the most important activities of the year, and were of considerable significance both for international trade co-operation and for the future operation of the General Agreement. They produced useful results and influenced the commercial policies of contracting parties applying the restrictions. The liberalization measures taken by individual consulting countries are described in a later section of this report.

5. The Article XII consultations were found to be a mutually beneficial experience for all contracting parties concerned. They provided an opportunity for review of the extent to which restrictions are still maintained under Article XII, and contributed to a better understanding of the problems facing the consulting countries. The consultations also brought out in certain cases adverse effects of national policies in other countries on the exports and balance of payments of some contracting parties. They brought a clearer appreciation of the various kinds of measures which contracting parties have taken in implementing their restrictions and the adverse effect which the maintenance of the restrictions has both on the countries that are applying them and on their trading partners. The consultations revealed in many cases the incidental protective effects which restrictions may provide for uneconomic industries, their disadvantages to production costs and the economy in general arising from the inability to purchase in the cheapest and most advantageous markets, and damage to the commercial interests of other contracting parties.

6. Through these consultations the CONTRACTING PARTIES noted the substantial relaxation of restrictions by many contracting parties, and the avoidance of intensification by a number of governments, although experiencing increased balance-of-payments difficulties. This reflected, to an important extent, increasing awareness of the benefits to be achieved from the use of sound internal measures to restore and maintain overall equilibrium and thus to reduce the need for import restrictions.

7. The experience gained by the CONTRACTING PARTIES in conducting these consultations in 1957 will be of value to them in conducting consultations in future such as are prescribed in the revised Articles XII and XVIII:B which have come into force for most contracting parties. The first of these consultations, following a review of all restrictions, is to be held in 1959 for countries acting under Article XII, and in 1960 for countries acting under Article XVIII:B.

The Balance-of-Payments Situation

8. In last year's report an account was given of the continuing growth of the aggregate gold and dollar holdings of the countries outside the United States, and it was noted that the growth was at a lower rate in 1955 and 1956 than the high rate prevailing in the two preceding years. During the first half of 1956 they rose substantially, but taking 1956 as a whole, the growth in the gold

and dollar holdings of these countries proceeded at a further reduced rate, and in the fourth quarter they would have declined had it not been for the dollars made available by the International Monetary Fund to a number of countries. In 1956 official and banking institutions in countries other than the United States added \$1.7 billion to their gold and dollar holdings, including \$600 million advanced by the International Monetary Fund. Of the \$1.1 billion increase in gold and dollar holdings net of drawings from the IMF, \$400 to \$500 million arose from new gold production and the remainder was acquired through transactions with the United States. Whereas the increase in 1955 had largely been confined to continental Western Europe and Japan, the total addition in 1956 was more than accounted for by the gains of the Federal Republic of Germany, Canada and Venezuela. The gold and dollar net reserves of other countries on balance were reduced by about \$600 million.

9. In the first nine months of 1956 there was a net outflow of gold and dollar assets from the United States amounting to approximately \$1 billion. In the fourth quarter of 1956, however, there was a net inflow of gold and dollar assets of about \$300 million from foreign (official and Bank) holders to the United States. The rate of this flow was increased to about \$500 million in the first quarter of 1957. Partly because of seasonal factors, the trend was reversed in the second quarter, the net outflow from the United States being about \$70 million. The net increment to the United States for the first half of 1957 of more than \$400 million considerably exceeded the recent rate of contribution to gold reserves from new production of \$250 million a semester. In the same period, other dollar area countries and the Federal Republic of Germany together accumulated \$750 million in their gold and dollar reserves. Thus other countries as a group experienced a decline in gold and dollar reserves.

10. The shift from a surplus to a deficit in the balance of payments of the rest of the world with the United States during the first quarter of 1957 took place in spite of an increase in the supply of dollars made available through the international transactions of that country. The following figures are all on an annual basis. United States payments to the rest of the world (seasonally adjusted) increased from \$25 billion in the first half of 1956 to \$28 billion in the first half of 1957. United States merchandise imports rose only moderately from \$12.9 billion to \$13.3 billion. The major contribution to the increase in the supply of dollars was a rise in the outflow of United States private capital from \$2.2 billion to \$4.1 billion. Dollar expenditure by foreign countries increased more than the supply. United States exports rose from \$16.7 billion to \$20.4 billion and United States receipts from services, including investment income, from \$5.9 billion to \$6.6 billion. The United States surplus on account of goods, services and private remittances increased from \$2.2 billion to \$5.8 billion. More than half of this increase was matched by the \$1.9 billion rise in the rate of United States private investment abroad and an increase in United States Government grants and net lending from \$2.4 billion to \$2.7 billion. The remainder, together with changes totalling \$1.2 billion in the inflow of foreign private capital into the United States and in unrecorded United States

net receipts, largely account for the changes from the United States outflow of gold and dollars in the first half of 1956 to an inflow in the first half of 1957.

11. Two factors are worthy of note in considering the recent inflow of gold and dollars into the United States. First, during the immediately preceding years the outflow of gold and dollars from the United States had been rather substantial. For example, from 1950 to the last quarter of 1956 countries other than the United States accumulated \$12 billion in liquid dollar assets as a result of their transactions with the United States. Secondly, the inflow of gold and dollars into the United States during the last quarter of 1956 and first quarter of 1957 coincided with a number of temporary, and not necessarily recurring, factors. These include abnormal exports of dollar petroleum, cereal shortages in Western Europe as a result of heavy frost, restocking of cotton abroad, and large speculative capital movements.

12. In 1956 the Federal Republic of Germany increased its gold and dollar reserves by about \$1.2 billion and by the end of 1956 the total reserves of gold, dollars and other currencies amounted to \$4.3 billion. There was a further sharp expansion in the value of exports accompanied by a smaller increase in imports. Apart from the strong world demand for industrial goods, the rise of the German exports by about 20 per cent above the level in the previous year was facilitated by a slowing-down in the expansion of internal demand, particularly in the investment goods sector, the main restraining factor probably being the increasing scarcity of investment funds brought about by the disinflationary policy of the German authorities. In the first eight months of 1957 the payments situation of Germany continued to develop in much the same way as in 1956, and the further increase in gold and foreign exchange reserves amounted to \$1.2 billion. The persistent increase in West German reserves has been of concern both to Germany and to many other countries.

13. Reserve changes in other countries varied widely, reflecting not only shifts in external market conditions but also fluctuations in the relative intensity of domestic and external demands. The effects of the closure of the Suez Canal turned out to be less serious than expected. Its most important economic consequence was found in the temporary movement of short-term funds. As a result of the outflow of short-term capital in the second half of the year, the gold and dollar reserves of the United Kingdom stood at the end of 1956 at barely the same level as a year earlier in spite of a current account surplus of over \$670 million and drawings from the IMF amounting to \$560 million. In 1957 the pound continued to meet with pressure but the drain on the United Kingdom reserves stopped in the early part of 1957, and some addition to the reserves was achieved in the first half year. During the third quarter of 1957, however, further pressures on the pound were experienced, with the result that gold and dollar reserves declined by more than \$500 million. In October, however, almost half of this loss was recovered.

14. In France there was a sharp change from surplus to deficit in 1956, principally due to an intensified pressure of aggregate demand. Under the conditions of a pronounced boom, industry continued to expand at a rapid rate during the year. At the same time the expansion in government expenditure absorbed an increasing part of the private savings of the economy and resulted in deficits which had to be financed to a large extent by recourse to bank credit. In the first eight months of 1957 the payments balance of France deteriorated rapidly mainly reflecting a considerable rise in imports while the rate of exports was only slightly higher than in 1956. Among other European countries the Netherlands met with considerable decline in its reserves in the past year. Losses were also encountered by Finland.

15. Outside Europe, a continuing increase in imports into India resulted in a current deficit of about \$430 million in 1956 and a further decline in reserves in subsequent months. Another country which saw a deterioration in its external reserves in 1956 was Japan. Japan's balance of payments with the sterling area deteriorated considerably and official sterling holdings declined sharply in 1956 following a rise in the previous year, although dollar holdings rose more than in 1955. In 1957, partly because of a widening trade deficit, reserves declined by over \$500 million in the first eight months compared with an addition of \$170 million during 1956. Certain internal measures were taken, and the Japanese authorities expected that balance would be achieved by the end of the current fiscal year, i.e. March 1958.

16. In 1955-56 Australia had met with a large deficit; in 1956-57 a balance-of-payments surplus of \$175 million was achieved and the whole of the loss of reserves in the two previous years was restored. This improvement was mainly due to more favourable export market conditions but monetary and fiscal measures contributed to the improvement. During 1957 it was found possible to make successive relaxations of the import restrictions imposed in 1956. New Zealand also saw its export receipts increased in 1956, mainly due to larger receipts from livestock products. With a decline in wool prices it would appear, however, that the final balance for 1957 might be less favourable than in 1956.

17. During the period under review a pressing demand for capital continued to be experienced in most countries. In a number of industrial countries this reflected the continued high rate of expansion. In the less developed countries, the urgency of the need for capital is related to the current efforts to raise the standard of living of a large and often rapidly growing population. This low level of income itself makes it difficult for such countries to obtain adequate savings from the domestic economy. An inflow of foreign capital is, therefore, essential if the rate of development is to be satisfactory. There is recognition of the need to provide the conditions which would attract such capital in spite of the shortage of investment funds in the industrial countries themselves. These conditions would include remittance facilities for profits and capital, non-discriminatory treatment, adequate compensation in the event of nationalization and stable internal conditions. Many contracting parties provide these basic facilities and welcome foreign investment.

18. It is recognized, of course, that the export earnings of contracting parties dependent on the export of a small number of primary commodities are affected by substantial variation in demand and price, and that this circumstance contributes to the disequilibrium in the balance of payments of such contracting parties. In many cases, where a country is faced with persistent deficits in its balance of payments, one of the main causes is found in internal inflationary tendencies. It is worth noting that in recent years most countries have placed more and more reliance on sound internal fiscal and monetary measures to redress any disequilibrium instead of resorting to restrictions on imports. Even in the few cases in the past year where quantitative restrictions on imports were intensified to meet situations of emergency the governments concerned recognized that such measures could not finally solve the problems but could only provide some respite for more fundamental measures in the internal field to take effect.

Changes in Discriminatory Restrictions

19. In spite of the slackening in the improvement in the balance of payments and monetary reserve position of a number of countries and the deterioration in the position of some, there have been in the past year only a few cases in which a country, faced with a rapid decline in its foreign exchange reserves, intensified its restrictions. This section points to some of the measures of this nature taken in the past year. Most of these did not involve an increase in the element of discrimination; on the contrary, because dollar imports had in general been more severely restricted prior to the taking of such measures and were therefore less affected, the incidence of the restrictions of these countries was perhaps more evenly shared between the sources of supply as a result of the intensification measures. Secondly, this section will mention some instances in the past year where contracting parties applying import restrictions specifically announced a reduction in their restrictions on dollar imports.

Intensification of restrictions

20. As mentioned above, the considerable improvement of France's trade and payments position in 1955 was followed by gradual deterioration of the balance of payments in 1956, reflecting a substantial increase in the trade deficit. The weakening of the reserves position led the French Government to take a number of corrective measures. Early in 1957 the special temporary compensatory tax on imports was standardized at a uniform level of 15 per cent and its scope of application was extended. Simultaneously, an advance deposit requirement was introduced with the object of freezing a part of the country's liquid assets. These measures were, however, found insufficient to avert a further deterioration in the external financial situation and in June, in order to check the drain on foreign exchange reserves which were nearing exhaustion, the Government decided on the temporary suspension of trade liberalization for imports from OEEC countries and from the United States and Canada. A ceiling of 700,000 million francs was set for imports during the second semester of 1957, equivalent to a global reduction in the flow of imports of some 11 per cent. For the products whose liberalization was suspended, use was made as much as possible of global quotas. At the same time, with a view to reducing demand and eliminating inflationary pressures, a number of measures of rehabilitation were taken to reduce budgetary expenditure, to increase revenue and to restrict credit facilities. In August the Government made further adjustments in the country's system of imports and payments. The special compensatory levy on imports was replaced by a standard levy equal to 20 per cent of exchange payment for imports. Since 27 October 1957 all incoming and outgoing payments have been made subject to the 20 per cent adjustment, thus establishing for France a new effective exchange rate.

21. In December 1956, because of falling foreign exchange reserves the Finnish authorities reduced the coverage of automatic licensing under which a considerable number of goods was admitted freely. In March 1957 the automatic licensing

system was discontinued altogether and, after the re-negotiation of several trade agreements, was replaced by a more restrictive but less discriminatory import licensing system based mainly on global quotas. The new import system applied to most OEEC countries and to the sterling area and, as in the case of the previous automatic licensing list, a number of items was allowed to be imported on a non-discriminatory basis from the United States and Canada. As dollar imports were included in the new list to a larger extent than previously in the automatic list, the discrimination vis-à-vis dollar imports was somewhat reduced. As from 1 October 1957, following the devaluation of the Finnish markka, the Finnish Government freed a large number of imports from certain countries in Western Europe. These measures relate to imports from those Western countries which have removed their quantitative restrictions on Finnish export goods and which grant Finland the benefit of their multilateral payments arrangement. The freeing of imports so far has taken the form of automatic licensing, but according to a recent Government decision the licensing requirement for these imports will be abolished altogether as from 9 December 1957. The liberalization of imports from the dollar area is currently under consideration.

22. In India heavy imports of capital goods, industrial raw materials and steel caused severe drains on the country's foreign exchange reserves. As a consequence the import policy for the 1957 licensing period was more restrictive than in previous years. Discrimination between dollar and non-dollar sources of supply was, however, reduced to ensure the greatest possible benefit to the economy from the limited foreign currency resources. All soft currency quota licences were validated for imports from the dollar area to the extent of 50 per cent of their face value and other kinds of licensing continued to be non-discriminatory. Controls were further tightened during the interim licensing period July-September 1957, and all imports (except those on Open General Licences from Pakistan, samples, etc.) were made subject to licensing. The licensing programme October 1957-March 1958 was somewhat more liberal but continued to be strict. The measures taken earlier to reduce discrimination were maintained and in addition imports from the dollar area for use in manufacture for export markets were permitted irrespective of the area of ultimate export.

23. In the past year, Japan continued gradually to reduce discrimination in its import licensing system. Global quotas were further enlarged and several open, or bilateral, account agreements to equalize trade with single countries were abolished and replaced by arrangements providing for cash transactions settled in transferable currencies. The scope of the linking system whereby imports of certain important raw materials are linked to exports of the finished product was reduced. In the spring of 1957, however, in view of the rapid decline in exchange reserves, restrictive internal monetary and fiscal policies were adopted to restrain domestic demand. At the same time, measures were taken to check the rise in imports. The foreign exchange budget for the period from October 1957 to March 1958 was reduced.

Relaxation of discriminatory restrictions

24. On 25 July Italy extended its dollar liberalization by freeing imports of a group of raw materials, chemical products and engineering and steel products, thus bringing its dollar restrictions nearer to the level of those applying to goods of non-dollar origin. The percentage of dollar liberalization thereby rose from 40 to 71 per cent on the basis of private imports from the United States and Canada in 1953. These measures have been adopted within the framework of the policy followed by the Italian Government to reduce discrimination as the payments position permits and will also enable Italian manufacturers to purchase their materials from the most advantageous sources and thereby to improve their competitive position on world markets.

25. As from 1 July 1957, Sweden exempted from licensing control the import from the dollar area of seventeen important agricultural products, including wheat, rye, flour, sugar and certain vegetables. This liberalization will be maintained, however, only insofar as the prices for similar products of domestic origin remain within certain predetermined limits. On 8 July 1957, following the introduction of a purchase tax on motor vehicles, Denmark added private passenger motor cars, motor-cycles, trailers and certain other items to its Regional free list, which specifies goods that can be imported from the non-dollar area without limitation. During the year under review, Norway twice enlarged its dollar liberalization list. Imports of more than forty-five products were liberalized on 1 November 1956, and on 1 April 1957 the same measure was applied to certain fruits, chemical products, machinery and parts. Liberalization measures taken by Finland have been noted in paragraph 20 above.

26. In August 1957, the United Kingdom removed import controls on a number of raw materials, foodstuffs, chemicals and semi-manufactures from the dollar area. The broad effect of this measure of relaxation was that - except for leather, for which the dollar quota was substantially increased, fuels and certain chemicals - imports of the basic raw materials for industry and metal semi-manufactures were no longer subject to control.

27. As its balance-of-payments position improved significantly Australia introduced measures in January and April 1957 permitting a substantial increase in the rate of imports from non-dollar countries. Further relaxations were introduced to operate from 1 August. The level of quotas for a number of items was increased and the "all countries" licensing list of products which can be imported from any source under quotas was extended by the addition of twenty-one items, making a total of thirty-five. With the introduction of a new control technique whereby licences for certain goods were issued to importers in accordance with their sales performance, out of the fifty-six items covered seven were licensed on an "all countries" basis.

28. In the case of New Zealand, along with other measures of liberalization, the number of items on the World Exemption List (i.e. items that can be imported from any source) was increased from 153 to 159 in 1957, and in the import programme for 1958 has been increased to 170. The new additions include

industrial and mining machinery, transisters, electric railway equipment, etc. In addition, the amount of dollar exchange budgeted for administrative licensing has been increased from £8.8 to £11 million. It might be noted that during 1945-55 to 1956-57 New Zealand consistently raised the percentage of dollar liberalization of private imports from 29 per cent to 65 per cent. Imports into New Zealand from the dollar area during the same period had no tendency to increase; there was a decline in imports of some specific items which had been liberalized.

29. Effective 1 July 1957, the Federation of Rhodesia and Nyasaland simplified its import control system and extended the list of items which could be imported from the dollar area. Quotas for other items were re-established at, at least the same level as during the preceding half year. For a number of items the dollar quotas were increased. On 31 August, controls on the imports of certain road building and construction equipment from dollar countries and from non-dollar, non-sterling area countries were relaxed.

30. In the case of Ceylon and Pakistan, which continue to resort to the provisions of Article XIV the discriminatory element in their restrictions has been progressively reduced to a very low level in recent years. At present, Ceylon applies discriminatory restrictions only on four items when imported from the dollar area, and Pakistan's only deviation from the rule of non-discrimination arises from its bilateral trade quotas granted to one or two countries which cover less than 0.5 per cent of total imports.

31. The Kingdom of the Netherlands has ceased to apply restrictions for balance-of-payments reasons to imports from non-dollar sources. Only on imports from the dollar area are there some restrictions being retained for payments reasons.

32. The Federal Republic of Germany which at the beginning of the period under review was still maintaining restrictions for balance-of-payments purposes, further relaxed controls on imports from OEEC countries. These measures raised the percentage of liberalization to 92.6 per cent of private imports from these countries in 1949. On 4 May 1957, the free list, hitherto applicable to imports from the European Payments Union countries, was enlarged and its application extended to cover imports from the partly convertible D-Mark area as a whole. On 24 May a new range of imports from the dollar area, consisting almost entirely of industrial finished products, were freed from controls. The level of liberalization of dollar imports was thereby raised to 93.4 per cent of private imports from the dollar area in 1953. It may be noted that the report (subsequently approved by the CONTRACTING PARTIES) on a consultation held in June 1957 with the Federal Republic of Germany, states that the Federal Republic is no longer entitled to maintain import restrictions under Article XII of the General Agreement, which permits the application of import restrictions to overcome balance-of-payments difficulties and through its relation to Article XIV permits

the discriminatory application of such restrictions. In June 1957, the Government of the Federal Republic expressed to the CONTRACTING PARTIES to GATT its firm intention to consider the measures to be adopted in the light of this situation, and announced that further liberalization steps would be taken in the near future; in particular, the difference then existing between the three free lists applying to different currency areas would be gradually reduced.

General Observations

33. Considerable progress has been made in the past three years in the relaxation of restrictions and in the reduction of discrimination, but in many countries restrictions are still maintained on a large section of their imports. Most countries to a varying extent still retain the practice, evolved during the war and post-war years, under which imports of dollar and non-dollar origin are controlled separately and restricted by different methods. Some countries further discriminate between non-dollar sources of imports. Under the General Agreement discriminatory practices are justifiable on balance-of-payments grounds, and the elimination of such discriminatory restrictions as do exist would constitute an important contribution to multilateralism.

34. The experience of those contracting parties which in the last few years have discarded all or have greatly reduced discrimination in the administration of their restrictions has not substantiated the fears previously expressed that their monetary reserves would be threatened by an inordinate inflow of dollar goods, and it may well be that other countries could afford to remove discrimination without disastrous consequences. The developments in New Zealand's dollar imports, noted in paragraph 27 above, are a case in point. There appears to be increasing evidence of competitiveness in their export products by many non-dollar countries. Of course, the experience of one country or in one year is not necessarily a conclusive guide to the probable experience of another country or in another year as economic conditions may be different.

35. There has also been an increasing awareness on the part of many countries still using import restrictions for balance-of-payments reasons of the advantages of applying such restrictions in a non-discriminatory manner, and substantial progress has been made in reducing the degree of discrimination between currency areas. In doing so, countries have recognized the desirability of giving their importers freedom to purchase from the most advantageous sources in order not to prejudice unnecessarily the competitiveness of their industries. There has also been recognition that substantial discrimination no longer corresponded to the realities of the situation in which a broad measure of transferability of currencies had been achieved and where the differences and the amount of gold and dollars required to effect settlements with different countries and currency areas had substantially narrowed. Countries should be looking more and more at their overall balance-of-payments positions and relying to the extent possible on non-discriminatory restrictions as the most appropriate to meet their balance-of-payments problems and the least damaging to their own economic interests.

36. As was noted in last year's report, contracting parties have been using various methods of liberalization in reducing their import restrictions. In certain cases countries have established lists of products for which licences would normally be issued automatically and in this way have tested the pressure of demand and the limits to which liberalization could be pursued. It appears that an increasing number of contracting parties might give consideration to the possibility of using or extending such methods.

37. Many countries of the world, both in the industrial and primary producing areas, are still faced with persistent or renewed pressures of inflation, and a fundamental solution to their balance-of-payments problem, as repeatedly pointed out by the CONTRACTING PARTIES, will have to be sought in the correction of the basic elements of disequilibrium. Further relaxations of restrictions and reductions of discrimination will no doubt be more easily achieved when the effects of such internal measures are more fully felt. But, here again, account has to be taken of the special circumstances of each country. Not all problems of disequilibrium, however, are likely to be fully resolved by action only on the part of those countries having balance-of-payments difficulties. Recognition by creditor countries of their responsibilities is also important. In spite of steady progress in liberalization and in the removal of discrimination there remains a substantial area of restrictions, and even sound internal fiscal and monetary measures by countries experiencing difficulties have not in all circumstances been adequate by themselves to produce a situation in which the remaining restrictions could be lifted. While it is essential that countries with balance-of-payments difficulties take all possible measures to correct the payments disequilibrium, the success of these measures can be accelerated if at the same time countries which have a high level of reserves or a persistent surplus in their payments position should in framing their various policies have due regard to the effects on other member countries.

38. In many cases, when the restrictions are applied for balance-of-payments reasons, the selection of products is influenced by the current availabilities of domestically produced like products, or by the capacity of local industries, irrespective of relative costs; in some cases the import of products which are available from domestic production is severely restricted or totally prohibited so that domestic producers are totally sheltered from foreign competition. The provision of such protection is not always limited to cases where the benefiting industry is expected eventually to become efficient and self-sustaining, and therefore capable of withstanding competition without excessive protection.

39. In the view of the CONTRACTING PARTIES, insofar as restrictions invariably have incidental protective effects on domestic industries, contracting parties should, wherever possible, employ, in their own interest and in the spirit of the Agreement, certain methods to stimulate efficiency and to prepare domestic industries for the time when import restrictions can be relaxed. The methods recommended included the avoidance of encouragement of investment in uneconomic enterprises, administering restrictions in a flexible manner, allowing the importation of token quantities of otherwise restricted products.¹

¹For list of recommended methods, see BISD 5th Supplement, pages 67-68.

