GENERAL AGREEMENT ON TARIFFS AND TRADE
Eighth Session of the Contracting Parties

General Discussion on Balance of Payments

Before considering in detail, in a working party, matters arising under the agenda item, Balance of Payments Import Restrictions, the Contracting Parties heard a number of general statements on this subject. The following are summaries of the remarks made on this occasion.

Mr. Winthrop Brown, United States, commented on the great improvement that had taken place in the world dollar situation in the past 18 months. In the second half of 1952 the non-dollar world as a whole not only eliminated its dollar deficit but actually earned a small dollar surplus on current and private capital account. This improved situation had been carried over into 1953, he said. Commenting on this development, Mr. Brown said one of the most encouraging features was that it appeared to be the result of fundamental readjustments which gave promise of being permanent, although not all countries had experienced an improvement.

Referring to the more basic causes, mentioned above, Mr. Brown said that in the first place there had been in most countries a noticeable lessening of inflationary pressures, due in many cases to the wise and resolute policies pursued by many countries to attain and maintain internal financial stability. The result, he said, has been a definite decline in the previous seemingly insatiable demand for imports. At the same time the non-dollar world had increased its output to the point where it was considerably less dependent on the dollar area for certain essential commodities. Another cause, reflecting improved productivity and a greater stability of prices and costs, was the ability of a number of industrial countries to compete more effectively with the United States and Canada in third markets. Another cause was the high level of business activity in the dollar area, which had been responsible for large and expanding imports from the rest of the world. For example, in the first half of 1953 the value of imports into the United States was 5 per cent higher than in the first half of 1952, and the volume of imports is now at the highest level in history.

Taking all these factors into consideration it seemed that although there were still important artificial factors in the situation, such as import restrictions and heavy U.S. military expenditures abroad, the improvement in the world dollar situation reflected to a large extent a readjustment of world production and trade toward a more normal pattern, Mr. Brown said. Nevertheless, the U.S. Government appreciated that if the goal of world trade on a fully
balanced and self-sustaining basis was to be achieved, both creditor and debtor countries would have to pursue appropriate policies.

Turning to discriminatory restrictions, Mr. Brown said that the United States Government considered that the present situation offered a challenge and an opportunity to begin dismantling the structure of discriminatory restrictions that had been built up since the end of World War II. He welcomed the initiative already taken by several contracting parties, - the United Kingdom and Greece, for example - and said his Government was convinced that many other countries could and should follow their example. The basic economic drawback of discrimination, as of protection, was that it encouraged the production of the wrong things in the wrong places. The practice of discrimination, he said, leads to first, wasteful and inefficient allocation of resources of the discriminating country which weakens its economy and makes it less, rather than more capable of attaining balance of payments equilibrium; secondly, it encourages hot-house industries in both the discriminating and the supplying countries; thirdly, it causes higher internal costs and prices resulting from the inflated prices paid for imports. Although the total volume of U.S. exports had not been significantly affected by the discriminatory practices of other countries, nevertheless discrimination had distorted the normal pattern of U.S. production by either holding back some industries which would normally have expanded or encouraging other industries to expand too rapidly.

In conclusion Mr. Brown said that once a country had achieved internal financial stability it had no reason to fear significant dollar losses from a moderate liberalization of imports from the dollar area.

Mr. Notarangeli, (Italy) said that the deterioration in Italy's balance of payments situation since the end of 1951 was related mainly 1) to the changed international economic situation, 2) to import restrictions adopted by certain countries such as the United Kingdom, the countries of the sterling area and France, 3) to the increasing competitive difficulties encountered by Italian exports and 4) to the effects of Italy's liberalization and investment policy which resulted from an increase in Italian imports. For these and other reasons - and in view of reduced payments under the Economic Cooperation Administration and the Mutual Security Agency - the Italian Government had been obliged increasingly to draw on the reserves in order to balance the payments.

Nevertheless, Italy has maintained the liberalization of her imports from countries within the European Payments Union at a maximum level, Mr. Notarangeli said, notwithstanding the fact that her exports towards these countries had decreased as a result of quantitative restrictions applied by some of the said countries. As regards countries outside the EPU, with which trade agreements are in force, importation is practically free from restriction. Restrictions would have to be maintained on the majority of dollar area products.
As regards the future it was possible that Italy might have to adopt certain measures to protect her balance of payments, principally with regard to countries belonging to EEU. He suggested that rules should be formulated under which countries applying quantitative restrictions towards one another should previously discuss such measures with countries likely to be affected and thus apply them in the way least harmful to trade as well as to eliminate subsidies and other artificial measures in order to increase exports.

Mr. Simon Reisman, Canada, said he had some comments and suggestions as to how, in the view of the Canadian delegation, the present series of consultations could be used to contribute towards a progressive removal of discrimination and restrictionism in international trade. He recalled that the atmosphere for removing restrictions at the time of the Seventh Session consultations was not favourable; at that time many countries were in serious financial difficulties and a number of them were compelled to adopt new measures. The principal points that emerged from the Seventh Session consultations were, first, the universal agreement that an attack on the underlying causes of balance of payment difficulties required new emphasis on measures to control inflation and to obtain a better balance of the domestic economies of the contracting parties; and secondly, the realisation on the basis of postwar experience that quantitative restrictions and discrimination had not been effective in dealing with fundamental difficulties; in fact, these restraints on trade had actually made the situation more difficult and had prevented the attainment of effective solutions.

This year, said Mr. Reisman, the international financial situation had improved considerably. For many countries the balance of trade and payments was much closer and domestic economies in many cases were more stable. Some countries had relaxed their restrictive systems and reduced the degree of trade discrimination. Mr. Reisman noted that there was now a new and widespread determination to move as quickly as possible in the direction of convertibility and a truly multilateral trading system. The Contracting Parties, he said, must experience considerable satisfaction in finding that the policies they had recommended had proved to be the right ones and had at least begun to bring positive results. It was not accidental, he said, that those countries which had moved most courageously to control inflation and relax restrictions appeared to have made the greatest progress in overcoming both their domestic and external economic problems. The relationship between domestic economic stability and external accounts was now clearly recognised by most countries and there was no need to labour this point. He felt, however, that it would be useful to emphasize again how a relaxation of discrimination could help towards a solution of balance of payments problems. For example, the United Kingdom had taken a series of important steps to relax restrictions on the import of foodstuffs and raw materials. It was significant that these courageous and wise measures were taken at a time when the United Kingdom was in serious financial difficulties. In the U.K. case relaxation was associated with an improvement in the balance of payments and reserves position and with a reduction in the price of essential imports, thus improving its terms of trade,
reducing production costs and enhancing its position in world markets. The United Kingdom example had shown, said Mr. Reisman, that if a start can be made in dismantling discriminatory restrictions on raw materials and foodstuffs a really effective advance can be made. He said that in the view of his Government, the time was now ripe for more countries to follow this lead - particularly in the field of raw materials and foodstuffs. Such steps would be in their own best interests, would reduce costs of production and strengthen their competitive position in export markets. He hoped that the forthcoming consultations would encourage countries to move in this constructive direction and in this way make a real contribution towards increasing international trade on a multilateral basis.

Mr. Erik Ribu, Norway, said that it was now generally agreed that the difficulties in abolishing quantitative restrictions and restoring a system of multilateral trade and payments were not solely a temporary, post-war phenomenon, but that profound structural changes in the world economy had taken place. The underlying problems of finding new ways and means to remedy the balance-of-payments difficulties and bring discriminations to an end would doubtless be considered in the course of the revision of the GATT which all delegations now foresee. Mr. Ribu stressed that the measures which member governments are taking in order to fulfil their obligations under GATT cannot be considered as goals in themselves but rather as means of achieving the final ends of international economic co-operation, i.e. an increasing production and standard of living and a full and productive employment.

In 1952 and 1953 there had been a serious deterioration in the balance of payment situation in Norway, mainly as a consequence of the worsening of Norway's terms of trade, but also closely connected with the slow rate of development of production of many of Norway's most important trading partners, especially in Western Europe. This had limited Norwegian exports. Mr. Ribu stressed that an unfavourable development in the economic activities of a group of countries may have serious consequences for the external position of other countries, especially for those countries which were trying to realise an economic expansion and develop their natural resources.

Mr. M.A.O. de Almeida, Brazil, stressed the difficulties for an under-developed country, such as Brazil, to reconcile its balance of payments with a regime of free trade. Development, he said, meant that per capita income was increasing or, better, that productivity and the national product were growing faster than the population. A country in this position was faced with two problems, first that it must first increase the quantity of its staple product before it could produce the consumer goods needed by its population because of higher incomes, and secondly the return from its staple product was not adequate to provide investments in more advanced capital projects, which are indispensable for accelerating development. Mr. Almeida said that the international demand for primary products is in general inelastic and that in the short run to increase the supply of a primary commodity such as coffee was self-defeating. In other words, the ability of under-developed countries to import was not in their hands alone, and as development accelerates, and productivity and income increase, there was a strong disequilibrating pressure
on the balance of payments of these countries. This was the situation in Brazil today. Brazil could consume more coffee but must somehow convert its national income into things it did not produce. The increase in per capita income is accompanied by a high demand for durable, luxury goods. Brazil's problem was to allocate scarce foreign exchange resources in such a way that the overall dimensions of trade did not suffer. In conclusion Mr. Almeida drew attention to the need for taking into account the structural problems behind disequilibrium, so as to give proper treatment to the special long-term problems of under-developed countries.

Mr. C.W. Sanders, United Kingdom, said that in view of the improved balance of payments situation the United Kingdom was able in April 1953 to liberalize a wide range of imports from the OEEC and certain other countries, in addition to relaxing import restrictions in this way, the United Kingdom had also been able to reduce substantially the element of discrimination in its import policy. There was, however; a limit to what the United Kingdom, or any other debtor country, could do of itself. The United Kingdom had shown her readiness to contribute its share towards the solution of world balance of payments problems. The next step must be with the creditor nations, and, above all, with the United States.

Baron Bentinck, Netherlands, drew attention to the important action being taken by the Netherlands Government towards eliminating quantitative restrictions. During the past twelve months the Netherlands dollar position had improved although still showing a deficit. But due to an overall surplus position with regard to other monetary areas the deficit on dollar account had not adversely affected the currency position; in fact, Netherlands gold and dollar reserves had shown a marked improvement. The Netherlands Government therefore had recently announced an important decision of principle, aiming at a substantial relaxation of dollar import restriction, although proceeding in a gradual and cautious manner. Baron Bentinck said that his Government intended to eliminate the restriction on imports of raw materials, semi-fabricated goods and capital goods, which formed the major part of the dollar import programme. A list of liberalized items would be published very shortly. At the same time the present quotas for certain non-liberalized items would be enlarged and gradually complete liberalization would be extended to this category. Further, the Netherlands Government had decided to discontinue the bonus scheme assuming that other countries would be doing the same. Under this scheme exporters of goods in the dollar area can retain 10 per cent of their dollar receipts and use them for importing dollar goods not provided for in the official dollar programme. After the liquidation of the present scheme the Netherlands would establish quotes for the dollar goods concerned. Summing up, Baron Bentinck said that he felt convinced that these three measures—complete liberalization for a range of essential products, relaxation of restrictions for a range of other products and the creation of possibilities for imports of the non-essential category would be considered as a proof of the continuous aim of his Government to eliminate quantitative restrictions as soon as conditions permit.

M. Frédéric Donne, France, recalled that in 1952, in the consultations between France and the International Monetary Fund, the Fund had stated that the efforts made by the French Government to combat inflationary pressure and improve financial
stability had already met with appreciable results. Such measures, said M. Donne, could not be expected to have immediate results. He recalled that the leader of the delegation, M. Bernard Lafay, in his address at the opening of the Session, had commented on the improvement in French trade in recent months, as compared with the same period of 1952.

In view of this improved situation the French Government had very recently taken certain steps to relax restrictions on imports, namely (by an official notice on 25 September) to exempt from import restrictions certain goods imported from OEEC countries. This was a first step on the road towards more marked liberation. M. Donne also referred to the new measures taken to combat domestic inflation, to reduce prices and reform the tax system, and said that the members of his delegation were ready to discuss with the working party the current French balance of payments situation and the measures which were envisaged for improving this situation.

Mr. L.R.S. Singh, India, said that the Government of India had furnished a detailed note to the secretariat on India's import policy and had explained that none of the measures adopted attracted the provisions of Article XIV:1(c). That being so, consultation under Article XIV:1(g) was not called for. In regard to consultations under Article XII:4(b), India's position was such that there was no obligation to consult. Referring to the recommendations of the Intersessional Committee that consultations under Article XIV:1(g) and Article XII:4(b) if not completed in the year they are initiated, the contracting party should be deemed to have fulfilled its obligations to consult, he said that the Indian delegation supported the proposal.