
International Trade, 1954\(^1\) is the third annual report prepared by the GATT secretariat.

The Report has three parts. Part One analyzes recent developments in the structure and pattern of international trade. Part Two examines Barriers and Controls in International Trade. Part Three sets out the principal activities of the Contracting Parties to the General Agreement during the period under review.

PART ONE

Recent Developments in the Structure and Pattern of International Trade. The following is a summary of some of the main conclusions.

1. The value of world trade has been rising since early 1953 and established a new all-time record in the second half of 1954. The volume of world trade, in the second half of 1954, stood at nearly 29 per cent above the "pre-Korean" level i.e. the first half of 1950; this was a more rapid increase than the increase in the world's industrial production, which rose by only 26 per cent. (Page 1.)

2. Export prices, on the whole, were slowly declining during 1954 (in comparison with the trend during 1953), mainly on account of manufactures. While the prices of raw materials remained steady, food prices as a whole were rising; but this increase was entirely due to the rising prices of coffee, cocoa and tea. (Page 3.)

\(^1\) International Trade, 1954; 146 pages; available in English or French from United Nations Sales Agents; price $1.50 (or equivalent).
3. In relation to the first half of 1950 the prices of both raw materials and of manufactures were, in the second half of 1954, 16 per cent higher; but food prices were 38 per cent higher. Even apart from the beverage crops (cocoa, coffee, tea) food export prices were 25 per cent above the "pre-Korean" level. Food has thus become more expensive as compared with other classes of commodities in international trade. (Page 3.)

4. The increase in the value of international trade since early 1953 has been characterized by two phenomena. First, there has been a marked growth of trade within and among the industrial areas, and a corresponding relative decline in trade between the industrial and the non-industrial areas. Secondly, the increase in the value of trade occurred during a period which includes the second North American postwar recession, without any visible adverse effects resulting from that depression. (Page 4.)

5. The decline in the relative importance of trade between the industrial areas, on the one hand, and the non-industrial areas, on the other, reflects a definite trend since 1937-1938. The recent continuation of this trend is due, not to a fall in the absolute value of trade between these areas, but mainly to the steep rise in the value of trade within the industrial countries of Continental Western Europe, which has greatly outweighed the slight fall of trade within North America. (Page 6.)

6. Industrial production in Western Europe has risen vigorously, and at an even pace, since early 1952, while in the United States it fell in 1954 by about 10 per cent from the high level of early 1953. The period from the beginning of 1948 to the end of 1949, which also included a fall in United States industrial productivity by about 10 per cent, similarly witnessed a strong increase in Western Europe's industrial activity. (Pages 11-12.)

7. Far from having affected adversely Western Europe's economic activity (the quick recovery of which since the war is, of course, due in large part to aid received from the United States), both the North American postwar recessions have, in fact, contributed to its growth, by relieving the pressure on raw materials obtained from other parts of the world and by making larger quantities of North American raw materials available to Europe. (Pages 12, 16, 18.)

8. The situation arising from the fact that the world's manufacturing activity has risen far more than the world's output of raw materials emerges as a major problem which is likely to loom large in the further course of economic development everywhere. (Page 21.)

9. Further analysis shows that the above problem has so far been met partly by a sharp reduction since prewar in the amount of raw materials consumed per dollar's worth of manufactured goods (both measured in constant prices), which has been particularly marked in the industrial areas. In non-industrial areas, where the increase since prewar in manufacturing production has been at the same rate as in industrial areas, the decline in the ratio of "input" of raw materials and energy to output of manufactured goods has been slowed down by the fact that much of the rise in production in non-industrial areas is accounted for by petroleum refining. Where that ratio...
is especially high; (b) by the fact that the relative shortage of raw materials has raised their prices more than those of other commodities - a situation which is likely to last and hence to offer a continued strong inducement for the production of synthetic substitutes. (Page 24.)

10. While the scarcity of raw materials accounts for the decline in the volume of trade between industrial and non-industrial areas, important changes have occurred in that trade in respect of foodstuffs and manufactures. These changes reflect two major production developments which have both been accompanied by marked price increases. The first such development is the large increase in food production in the industrial areas where the prices received by farmers - including producers' subsidies - have risen substantially more than wholesale prices in general. The second is the large increase in manufacturing in non-industrial areas where the prices of - for example - textiles have risen far more since prewar than in industrial areas. Both these developments are the results of protectionist policies. (Page 26.)

11. In contrast with the overall stability of raw materials prices the price level of manufactures has continued its downward trend which had started already in 1952. In comparison with the pre-Korean level, export prices of manufactures had, in the last six months of 1954, reverted to the same level as those of raw materials in general, although they were slightly higher than those of agricultural raw materials, but lower than those of metals and minerals. This is explained by the fact that in several industrial countries in Europe industrial productivity has, in recent years, risen to such an extent that the cost of labour per unit of output has fallen. The price ratio between raw materials and manufactures was back to the pre-Korean relation and there have been savings of raw materials in the output per unit of manufactures. (Page 35.)

Other Points of Interest in Part I

The Key Position of Europe

The Report states that "the outstanding characteristic of the year 1954 has been the contrast between the recession in North America and the uninterrupted growth in the economic activity of Western Europe. The decline of business activity in North America failed to exert any significant influence upon the economic situation of Europe; the same phenomenon was already apparent in 1949 when circumstances were, however, different in many respects. Although there can be no assurance that this apparent immunity of economic conditions in Western Europe from developments in North America will continue, it may be surmised that, as long as this immunity lasts, Western Europe will exert a predominant influence on the further development of international trade."

"Preoccupation with the financial aspects of international transactions has diverted attention from the rôle played by Western Europe in trade. The importance of that region in world trade is mainly due to the high ratio which its imports bear to its industrial production. Since 1945 the value of Europe's total imports from all sources has been roughly in the proportion of 1:2 to the value added by its manufacturing activity. In the United States, the corresponding ratio between imports and value added by manufacturing has
also remained fairly constant since 1948, but at a level of only 1:10. Hence a given fluctuation in European industrial production is bound to have a much larger effect on the volume of trade than the same fluctuation in the United States.

"Furthermore, Western Europe is an important market and a major supplier in the trade among industrial countries, as well as in the trade between industrial and the non-industrial areas. In 1954, 69 per cent of the exports from industrial areas to industrial destinations went to the countries of Western Europe which in turn supplied 62 per cent of these exports. Western Europe in that year also received 63 per cent of the total value of exports from the non-industrial world to industrial destinations, and its share in exports flowing in the opposite direction was nearly the same - 62 per cent.

"The development during the period under review strengthened the relative position of Western Europe. Not only has the trade of Western European countries both with each other and with other industrial countries accounted to a very large extent for the rise in trade within the industrial areas; but trade with the non-industrial regions has also grown both as regards imports and exports. The increase as between 1953 and 1954 in the imports of Western Europe from non-industrial areas ($740 million) has far outweighed the decline of North America's imports from those areas ($330 million). As regards exports from industrial countries to other parts of the world, the increase (by $1,700 million), though also reflecting increased supplies from North America and Japan, (which rose by $275 million in each case) was largely due to Western Europe ($1,150 million)."

USSR, Eastern Europe and mainland China

"The most significant aspect of the foreign trade of the USSR and Eastern Europe in 1954 was a substantial expansion in commercial exchanges with the rest of the world. The trade of mainland China, on the other hand, declined. The value of the combined exports of the region increased from $1,400 to nearly $1,600 million from 1953 to 1954, while import values expanded from $1,300 to about $1,600 million.

"The shares of the industrial and the non-industrial areas in the region's trade on both the export and the import side, did not show much change from 1953 to 1954. The relative increase in exchanges with the industrial areas (chiefly on account of Continental Western Europe) was the same as the relative increase in trade with the non-industrial areas (mainly on account of Latin America)."

Protection for Agriculture in Industrial Areas

After examining the postwar development of protection for agriculture in industrial areas, the Report states that "while food production in the primary producing areas of the world has barely kept up with the rise in population (mainly as a result of the emphasis placed on industrial production in those areas), a substantial part of the resources of industrial countries is being artificially maintained in agriculture by the insulation of that sector of the economy from normal economic forces".
"While gratifying progress has been made in the expansion of international trade during the past year, there is little evidence of progress towards the reversal of the protectionist policies that have become entrenched since the war."

The Report states that agricultural protection in industrial countries and industrial protection in non-industrial countries invoke impediments to trade between the industrial and non-industrial areas of the world. "But since that trade represents about half of total world trade, the processes which are affecting it serve as a useful illustration of the way in which protection against external competition is limiting the contribution that international trade could make toward the more effective allocation of world resources and thereby toward the promotion of economic wealth in all countries." (Page 31.)

Trade in Individual Commodities

In the sphere of manufactured goods, the Report deals in particular with textiles and passenger cars.

Regarding textiles the Report states: "The factors at present governing international trade in textiles, some of which have been mentioned above, are the logical outcome of a structural development that had already started before the last war. The "Textile crisis" that began in 1951 was not a temporary setback. If considered in a longer perspective, it marked the end of a period during which the demand that had been delayed by the war had given rise to a measure of prosperity in the world's textile production and trade; and the situation obtaining since 1953 should therefore not be considered as exceptional or "depressed". Moreover, the radical geographical redistribution of the textile industry which has occurred since the war has created new conditions for the exports of textiles from the old-established producing countries to the rest of the world. Although the growth of output in non-industrial areas had up to 1953 brought about a clear substitution of domestic production for imports only in Latin America, it is quite likely that similar effects will follow elsewhere. The exports from the older producing countries may well continue the trend toward exports of better quality goods to non-industrial destinations. On the other hand, the recent growth of exports of grey cloth from India to countries which used to be major exporters seems to indicate another line of possible further development. Since the production of wholly man-made fibres (e.g. nylon) calls for heavy investments, it is likely to remain concentrated in the more advanced industrial countries. Together with the prospects for maintained, if not larger, exports of textile machinery, the exports of nylon and other synthetic textile products may offer some compensation for the decline in the supply of textiles from the older producing countries to the rest of the world." (Page 56.)

On the subject of passenger cars the report states: "Production of passenger cars in the western world in 1953 increased by fully one-third over the preceding year (8.0 million against 5.9 million units). Output in 1954 was with 7.8 million units slightly smaller than in the preceding year; but whereas there

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1 See GATT Trade Intelligence Paper No.4: "The World Market for Textiles, 1938-53".

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was an increase in Western Europe by about 430,000 cars, there was a fall in North America by about 640,000 units in comparison with 1953. Though still of minor importance, production in some other countries, such as Japan and Australia, has been moving upwards. Of the production of automobiles in Eastern countries, estimated at about half a million units, less than one-tenth consists of passenger cars.

"In 1954, exports from the four principal countries in Western Europe were 752,000 units, about 200,000 more than in 1953, and their share in total exports (i.e. including those of North America) rose from 75 to 81 per cent.

"Exports from Germany expanded both within Europe, to the overseas sterling area and other overseas territories, as well as to North America. The German exports accounted for about 32 per cent of total exports from Western European countries against 25 per cent in 1953. There were increases also in exports from France and Italy."

"In North America, the United States exported about 20,000 units more than in 1953. But there was a fall in Canada's exports by the same quantity. Can Canada's exports have been slowing down in the last three years, mainly because of reduced sales to overseas sterling countries, which have increased their purchases from the United States. The Number of cars exported from the United States has grown steadily since 1950. They have doubled to Continental Western Europe as a result of the liberalization of dollar imports.

"The trend towards smaller cars is reflected in the decline in unit values of Europe's exports; they fell in all cases in 1953 as compared with 1952. The situation in Switzerland, the largest single market for imported passenger cars, is indicative of the tendency towards increased demand for small cars; in 1950, about 25 per cent of cars imported were in the category below 800 kg, in 1953 that proportion had risen to 51 per cent. In the same period, Swiss imports from Western Germany, the largest supplier of small cars, rose from 28 to 49 per cent of the total number of passenger cars imported. Italy, also an exporter of small cars, was the only other supplier whose share in the Swiss market did not fall." (Pages 56-57.)

PART TWO
BARRIERS AND CONTROLS IN INTERNATIONAL TRADE

Customs Tariffs

The Report states that the GATT "continues to safeguard the stability of import duties over a wide range of the customs tariffs of the Contracting Parties. The third period of firm validity of the GATT Schedules ended on 30 June 1955, but the Contracting Parties during their review of the Agreement decided on a further extension until the end of 1957." (Page 95.)
The Report sets out some examples, during the period under review, of duty reductions which were intended to promote domestic production by allowing the importation of raw materials, semi-finished products or machinery at reduced rates or duty free. Examples are given of countries which have reduced import duties to assist domestic agriculture, and of countries which have reduced import duties in a more general way or as the result of bilateral discussions. (Pages 95-97.)

Regarding duty increases the Report states that "during 1954 and the early months of 1955 many countries raised some of their customs duties. Usually the motive for the change was the desire to give more effective protection to domestic producers at a time of keener international competition. Some of the increases in duty were intended to replace at least part of the protection which had been afforded incidentally by the application of quantitative restrictions. Most of the increases were introduced by unilateral action, but a few rates which were bound in GATT Schedules were raised by special arrangement or negotiation." (Pages 98-99.)

On the subject of preferential arrangements the Report states that "the Arab States have done the preparatory work for a preferential system which would provide for the elimination of customs barriers for certain products among members of the Arab League." (Page 99.)

Regarding anti-dumping duties, "Governments whose legislation permits the imposition of anti-dumping duties have made increased use of these provisions in the period under review, and other governments continue to take an increasing interest in the need for such legislation". (Page 100.)

Export Incentives

After commenting on the amendments to the GATT regarding export subsidies, drawn up during the Review of the Agreement, and on the agreed United Kingdom-German statement on this subject in June 1954 and on the OEEC decision of January 1955, the Report states that "through joint action a number of governments are endeavouring to limit the use of subsidies and incentive measures and, eventually, to bring to an end a situation in which each government feels obliged to offer special aid to its exporters to enable them to compete with exports which are assisted by governmental measures in other countries."

"Many subsidies and other export incentive measures are still being applied, however, for example, the use of differential exchange rates ... The use of tariff remissions is still widespread, and the governments of many of the principal commercial countries continue to assist their exporters by enabling them to offer long-term credit facilities." (Pages 106-108.)

Quantitative Restrictions

In 1954 "a number of governments, mostly in Western Europe, have continued to remove or to relax the import restrictions which they have applied for many years to safeguard their external financial position. In 1954, as in 1953, the most important changes in trade controls (including the re-opening of commodity
markets and the restoration of private trading) have benefited the trade of hard-currency areas, particularly the dollar countries, and there is no doubt that imports into Europe from the dollar area are less hampered by licences and prohibitions than at any time since the Second World War."

"Some further progress has been made by members of the OEEC in liberalizing intra-European trade, although there remains an important segment of this trade which is still subject to restrictions. These are the particularly sensitive items for which governments are reluctant to withdraw the incidental protection which the balance-of-payments restrictions have afforded. For many products, particularly in agriculture, protection by quota is preferred to protection by the customs tariff." (Pages 108-109.)

**Trade Agreements**

This year's Report contains an extended section on the trend and purpose of bilateral trade agreements, and an examination of such agreements by areas. "In spite of the improved balance-of-payments position of most of the countries involved there has been no important move towards the dismantling of bilateral trade agreements since the publication of the last annual Report..... It is now apparent that most bilateral agreements of today play a rôle in international economic relations that is substantially different from the rôle they played in the early postwar years." The Report indicates that while the earlier trade agreements were designed rather to achieve an exact balance in the value of trade or current payments between the partners, the agreements of today tend to be limited to the exchange or quote commitments for a few goods, with no attempt to plan the entire trade between the partners. "The changing emphasis of agreements ... negotiated in the past year leads to the conclusion that the need for solving problems of foreign exchange is being replaced by the quest for special trade advantages... Each partner seeks to use its power to control imports (or in some cases exports of essential products) as a direct means of ensuring markets for certain of its exports." (Page 119.)

**PART THREE**

**PRINCIPAL ACTIVITIES OF THE CONTRACTING PARTIES TO THE GATT**

This part of the Report recapitulates the work of the Contracting Parties in the period under review. It gives a brief summary of the background of the General Agreement as a guidance to the reasons why it was necessary to conduct a thorough review of the Agreement between November 1954 - March 1955. The results of the review are set out, together with the decision to draw up an agreement which, when it comes into force, will establish a permanent Organization for Trade Cooperation. (Page 131.)

The Report examines in some detail the progress made in 1954-1955 in the settlement of complaints under the GATT procedures, and the position reached in studying various aspects of customs administration as well as discrimination in transport insurance. The development of relations with the European Coal and Steel Community are also described. Finally the Report sets out the
position regarding contracting parties which resort to those provisions of the Agreement which permit the discriminatory use of quantitative restrictions for balance-of-payments reasons. In this connexion the Contracting Parties "found that there still remains a significant degree of discrimination against imports from the dollar area in many parts of the world and that the trend toward liberalization was by no means uniform. For example, relaxation has occurred particularly with respect to imports of industrial raw materials and other basic commodities, though even in this field certain important products remain subject to discrimination in several countries. Many manufactured goods are still subject to severe discrimination, often amounting to prohibition." (Page 145.)