EMBARGO
CAUTION!!
OBSERVE RELEASE
DATE:

GENERAL AGREEMENT ON TARIFFS AND TRADE

International Trade, 1956: GATT Annual Report published

International Trade, 1956 is the fifth annual report prepared by the GATT secretariat.

The report has three parts. Part One analyses recent developments in the structure and pattern of international trade. Part Two examines Developments in Commercial Policy. 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. During 1956 both the value and the volume of international trade again established a record level.

In the first half of the year the value of world exports exceeded $90,000 million (at an annual rate), and the second half reached the unprecedented figure of $95,000 million.

For the year as a whole the value of international trade was 11 per cent higher than in 1955. (p. 5)
In terms of volume world trade increased by 9.5 per cent. This rate of increase was exactly the same as in the preceding year.

But while in 1955 the increase in the volume of world trade nearly paralleled the rise in the volume of world industrial production - 9.6 as compared with 10.5 per cent - the further growth of trade in 1956 was at more than twice the rate of increase in industrial output - 9.3 per cent as compared with 4.6 per cent. (p. 7) This relatively slow rate of increase in industrial production during 1956 was to a considerable extent due to the moderate increase experienced in North America, which accounts for a much larger part of the world's industrial output than of international trade.

The Report states that it seems unlikely that the volume of world trade may continue to expand at the rate achieved in 1955 and 1956, should the world's industrial production continue to grow at a much slower pace, especially outside North America. The future development of trade thus hinges essentially on the further growth of economic activity in Western Europe. (p. 8)

2. Further Relative Decline in Trade between Industrial and Non-Industrial Areas

The tendency for the proportion of world trade that flows between the industrial areas and the non-industrial areas to decline has continued during 1956. The exports of the industrial areas rose much faster than those of the remaining parts of the world.

Of the total increase in value of world exports by $9,300 million, the exports of the industrial countries accounted for $7,500 mn., which represented an increase by 14.2 per cent over 1955. On the other hand the rise by $1,800 million in the exports of the non-industrial countries represented an increase by only 5.9 per cent.

The exports of the industrial countries to each other again rose more rapidly than to non-industrial destinations - by 15.8 as against 11.7 per cent.

As a result of these changes (i) the share in world exports of trade among industrial countries rose from 38.6 per cent in 1955 to 40.3 per cent in 1956; (ii) the share of trade between industrial and non-industrial countries fell from 50.3 to 49.2 per cent; (iii) the share of trade among non-industrial countries declined from 11.1 to 10.5 per cent.

The decline in the relative importance of trade between the industrial and non-industrial areas was in 1956 entirely due to a further relative decline in the exports from the non-industrial areas, whereas the share in world trade of their imports from industrial countries remained unchanged.
Although both of these trends have been in evidence for a number of years, 1956 was the first year in which the trade of the non-industrial areas yielded a large deficit (i.e. surplus of imports over exports). This deficit, in 1956, amounted to about $1,200 million, in contrast with a surplus of $2,800 million in 1950 and a nearly even trade balance in 1954 and 1955. The Report states that should these tendencies continue as in recent years, the import surplus would eventually reach such proportions as to put a serious strain on the facilities available to finance it.

The relative decline in the exports from non-industrial to industrial areas has produced another significant development. Before the war about 58-59 per cent of the value of primary products imported into industrial areas originated in the non-industrial areas. This proportion was nearly the same as pre-war in 1952 and 1953. Since 1953, however, and especially in 1956, the share of the non-industrial areas in the total supplies of primary products to industrial countries has declined, reaching about 56 per cent last year. (p. 9)

The Report undertakes a more detailed analysis of the continuation of the relative decline of the exports of the non-industrial to the industrial areas:

(a) by examining how the degree of industrialization has affected the exportable supplies of primary products, in various parts of the non-industrialized areas;

(b) by attempting to appraise the long-term prospects for the import requirements of North America and Western Europe; in respect of those primary products on which the export proceeds of the non-industrial areas principally depend;

(c) by analyzing the growth of the trade of industrial countries which is the counterpart of the relative decline of trade between industrial and non-industrial areas.

In particular, there is a brief analysis of intra-European trade, not only because it represents about half the total value of trade among industrial countries, but also because the results of the policy of trade liberalization in Europe may give some indication of the possible effects on trade of plans for a European Free Trade Area.

(a) The Role of the "Semi-Industrialized" Countries in the Decline of Trade between Industrial and Non-Industrial Countries

When this tendency towards a reduction in the relative importance of trade between the industrial and the non-industrial parts of the world was first discussed (International Trade 1954) it was attributed mainly to a
drastic fall in the requirements for raw materials and fuels per unit of manufacturing output in industrial countries and to the effects of two sets of protectionist policies - agricultural protection in industrial areas and industrial protection in the primary producing areas.

Further analysis (International Trade 1955) revealed the important rôle played by the increased production of domestic raw materials within the industrial areas themselves, the intensified use of manufactured raw materials (such as synthetic rubber, synthetic fibres, plastics and aluminium) and the relative decline of the textile industries - all factors making for a fall in the demand for primary products imported from non-industrial areas. (pp.10-11)

This year's Report carries the study of the tendency, for trade among industrial and non-industrial areas, to decline as a proportion of world trade a stage further.

The "non-industrial" areas have been split into two country groups:

(i) eight "semi-industrialized" countries, namely Argentina, Brazil, Mexico, Australia, India, the Union of South Africa, Finland and Yugoslavia. These eight countries account for roughly 40 per cent of manufacturing activity outside the industrial areas proper;

(ii) the rest of the non-industrial world.

The Report brings out the fact that a large part of the decline since 1938 in the share of world exports that flows from the non-industrial to the industrial areas is accounted for by these eight "semi-industrialized" countries. Their exports to the industrial world declined from 9.6 to 6.6 per cent of world exports, between 1938 and 1956. On the other hand the exports of the rest of the non-industrial world to the industrial destinations kept pace with the rate of increase of world trade as a whole. (p. 11)

After a detailed statistical analysis of the trade and production of the semi-industrialized countries the Report comes to the conclusion that the failure of the "semi-industrialized" countries to keep their share in world trade, especially as regards their exports to industrial destinations, is due to the fact that their production of principal primary export commodities has not been sufficient to meet domestic requirements and at the same time to maintain an adequate volume of export supplies. There can be no doubt, the Report states, that, given limited investment resources, this slow growth of primary production is closely connected with the rapid growth in their industrial activities. (p. 17)

The industrial development in the "semi-industrialized" countries has had far-reaching and world-wide effects. These countries accounted before the war for about 50 per cent of the foodstuffs and about 30 per cent of the
raw materials exported from the non-industrial areas. The drop by 1954-55 in these proportions to 36 and 21 per cent, for food and raw materials respectively, must have contributed to a relative reduction in world supply and hence to raising the general price level of primary products.

It is evident, the Report concludes, that the shift in the structure of international trade, i.e., the relative reduction of trade between industrial and non-industrial areas, can largely be traced to the industrial development in the eight "semi-industrialized" countries.

(b) Long-Term Market Prospects for Primary Products in Western Europe and North America

After indicating the statistical and other bases for its system of estimating, the Report deals, first, with the prospects for raw materials and fuels. It states that the long-term prospects of net imports by Western Europe and North America from the rest of the world are distinctly favourable in respect of fuels and metals. The indications are that the volume of imports of both fuels and metals would by 1973-75 have at least doubled. By contrast, the outlook for textile fibres taken as a whole and for natural rubber is distinctly less favourable and there is likely to be a decline in the volume of net imports in these two classes of agricultural products combined. While no analysis in respect of the remaining raw materials (mainly timber, hides and natural fertilizers) was undertaken, it seems reasonable to suppose that the volume of imports may rise say by one half in Western Europe while remaining nil in North America. (pp. 21-22)

Taking all the raw materials and fuels together the net import requirements of Western Europe and North America may by 1973-75 have grown by about 50-60 per cent above the level of 1953-55 - i.e., significantly less fast than the 80 and 90 per cent increase assumed for general activity in Western Europe and North America respectively.

Considering the situation as a whole, the Report states, it seems to follow that, granting a continued growth of economic activity in the industrial areas, and also given the needs in newly industrialized countries outside these areas, the long-term prospects for raw materials and fuels are favourable, leaving room for countries that devote themselves to this type of production to secure substantial increases in export proceeds for their economic development. (p. 22)

The Report examines in detail the long-term prospects for trade in fuels (pp. 22-24), metals and ores (pp. 24-26), natural textile fibres (pp. 27-28), natural rubber (pp. 28-29).

In considering the long-term outlook for certain foodstuffs, during the next twenty years, the Report states that account must be taken of certain non-economic considerations, given the fact that present technology...
makes it possible to vary the volume of agricultural production taken as a whole at will. In these circumstances, the rate of increase in agricultural output can be, and is in fact essentially determined by government policy.

Account must also be taken of the fact that, for a number of reasons - political, social and strategic - no country would be willing to let its dependence on imported food grow, nor let its agricultural population diminish, beyond certain limits. (p. 32)

Because of these considerations the Report deals with the outlook for future domestic food supply by means of alternative hypotheses designed to reflect alternative agricultural policies in terms of the volume of agricultural production that would result from them. (p. 32)

The Report then examines long-term marketing prospects for foodstuffs in Western Europe and North America and considers in detail the outlook for coffee, tea, cocoa, bananas, citrus fruits and other foodstuffs. It concludes that the outlook for coffee, tea and cocoa and for tropical fruits is quite promising. However, in respect of other foodstuffs, the market developments of the future are quite uncertain, depending entirely upon the rate of growth of agricultural production in industrial countries. That rate of growth is decisive not only for trade in food but also for the total export proceeds of the non-industrial areas, which might, on one of the assumptions made in respect of agricultural output in Western Europe and North America, rise in the next twenty years by only 15 per cent and on the other, by about 60 per cent. It is noteworthy that this large difference in the outcome corresponds to relatively small differences in the rate of growth in agricultural output. It is obvious, the Report states, that further rapid growth of agricultural production in the industrial areas would inevitably lead to a radical fall in the volume of world trade in relation to the volume of world production, and to fundamental changes in the geographical distribution of output (industrial as well as agricultural), as between industrial and non-industrial areas. Those countries which would be affected by the reduction in world trade in agricultural commodities would find their export proceeds, their capacity to import, and their ability to carry out development programmes severely curtailed. (p. 35)

(c) The Development of Intra-European Trade in Recent Years

In connexion with the projects for the creation of a customs union among the six Messina countries and of a European Free Trade Area, the Report considers the changes in international trade which have accompanied the programme conducted under OEEC for the elimination of restrictions of trade between OEEC member countries.

The Report comments that the extraordinary increase in intra-OEEC trade in post-war years is often attributed to the progressive elimination of quantitative restrictions on imports from European sources and that

MORE
the difference in the growth of imports by OEEC countries that originate within and outside Western Europe, respectively, is indeed impressive. The value of such imports which came from other OEEC countries rose between 1948 and 1956 by 44 per cent, as compared with an increase of only 38 per cent for imports from other sources. (p. 36)

As a result, the share of intra-European trade in the total imports of the OEEC countries rose from 31.6 per cent in 1948 to 44.9 per cent in 1956. However, this extraordinary development appears much more moderate when comparison is made with pre-war years. Although the share of intra-European trade in total OEEC imports in 1956 substantially exceeded the 37.9 per cent at which it stood in 1937-38, it was not significantly larger than in 1928 when it was 42.5 per cent. Thus the increase in trade among OEEC countries since the inauguration of the liberalization programme would appear to have essentially restored this trade to the relative importance which it had before the adoption of the generalized import controls in the 1930's. (p.36)

The Report proceeds to examine whether this is due to a diversion of Europe's imports from non-European to European sources of supply brought about by trade liberalization in Europe, and comes to the following conclusions, (p. 42):

(i) The extraordinary increase in trade among OEEC countries between 1951 and 1955 was (apart from fuels where special conditions prevailed) due almost entirely to the fact that imports have grown most sharply in respect of those commodity classes which we characterized by a high proportion of supplies originating in Western Europe itself, whereas the changes in that proportion which occurred in the individual commodity classes had only a negligible part in the total increase.

(ii) Clear evidence of substantial diversion of imports from non-European to European sources was found in only two cases - cereals and textiles fibres which play only a modest rôle in trade among European countries.

Taking all commodity classes (other than fuels) together, the diversion of trade from non-European to European sources of supply was almost exactly compensated by diversion in the opposite direction. It is, the Report states, impossible to prove that similar effects would necessarily follow from the creation of a European Free Trade Area. But it is an important fact that, however "discriminatory" the intra-European trade liberalization programme may have been, the programme has - at least between 1951 and 1955 - not been accompanied by a systematic tendency for imports of given commodities (or commodity classes) from European sources to rise faster than imports from outside sources. (p. 42)

The most conspicuous feature of the 1951-1955 period has been the large and essentially uninterrupted increase in the volume of general economic activity in Western Europe, and it may well be that the particular outcome of the OEEC programme in respect of the absence of any market tendency toward a shift in the sources of imports is due to this feature.
However, the Report concludes, the possibility that arrangements for a European Free Trade Area might have their most important effects upon the sources of supply to Western Europe in periods of declining economic activity cannot be ruled out. If this view is accepted, it would constitute yet another reason why continued prosperity in Western Europe is of crucial importance not only to that area itself but to the world economy as a whole. (p. 43)

Trade in Individual Commodities

Taking the year 1956 as a whole, the value of world exports of manufactures was about 13 per cent higher than in 1955, while the value of world exports of primary products rose by 8 per cent. As a result, the share of manufactures in total world exports, which had been 47 1/2 per cent in 1954 and 49 per cent in 1955, rose further to 50 per cent in 1956. (p.43)

The rise of trade in manufactures was most conspicuous in the flow of trade among industrial countries, where their share rose from 58 per cent in 1954 to 60 per cent in the first half of 1955 and further to 61 1/2 per cent in the first half of 1956. (p. 45)

For the year 1956 the export price level in international trade was about 3 per cent higher than in 1955. This was the result of a 4 per cent increase in average export prices of manufactures and a considerably smaller increase, by about 1 per cent, in respect of primary products. (p. 46)

The events which began with the nationalization of the Suez Canal in July 1956 left the export prices of manufactures essentially unaffected, but they had wide, though temporary, repercussions on the world market prices of primary products. These prices rose on the average by 7 to 8 per cent between July and the peak level reached in November-December 1956, but by the end of March 1957 they had reverted more or less to the position at which they had stood before the Suez crisis began. (p. 48)

The Report reviews the trends of trade in individual primary products: foodstuffs (pp. 48-57), agricultural materials and forestry products (pp. 57-63), minerals and metals (pp. 63-69), fuels (pp. 69-72). The Report also reviews trends of trade in manufactures as a whole (pp. 72-77). It pays particular attention to textiles, passenger cars, capital goods, and semi-manufactures.

Textiles. The situation in the textile industries in the main producing and exporting areas in 1956 varied greatly from one country to another and also for the various textile products. One characteristic common to the "old" textile producing countries was the continued difficult state of their cotton industries which manifested itself in a further fall.
in output and exports. With the exception of the decline in India's exports, producers in Asia were on the whole able to make further progress in both production and export trade. (p. 77)

The total increase in Western European textile production in 1956, by about 4 per cent over 1955, was exclusively due to the larger output of wool textiles (in which the United Kingdom did not, however, participate) and of rayon and synthetic fabrics. Only Germany recorded a substantial increase in cotton textile production and an even larger rise in the output of rayon and synthetic textile products since 1955. (p. 77)

The total value of international textile trade in the first half of 1956 remained at the same level as in the two preceding years.... An important improvement was registered in Japan's exports, especially to Latin America, the Overseas Sterling Area and the rest of the world, but no increase occurred in sales to the industrial areas. (p. 78)

In Western Europe as a whole, cotton textile exports were in 1956 about 7 per cent lower than in the preceding year.... Belgium, the Netherlands and Switzerland were the only European exporters which recorded last year any increase in cotton textile exports worth mentioning. (p. 80)

The total decline in United Kingdom cotton piece goods exports in 1956 as compared with 1955 amounted to about 15 per cent. Exports to Australia fell by fully one quarter; but there were increases, for instance to South Africa, Rhodesia-Nyasaland, as well as to Canada and no decline occurred in sales to the United States. (p. 80)

Against the continuous downward trend in cotton textile trade there stands the large rise in exports of rayon piece goods. It is estimated that in 1956 the volume of these exports was about 12 per cent larger than in 1955 due, however, entirely to Japan, by far the largest exporter, which alone experienced an increase by 30 per cent. (p. 82)

Passenger Cars. International trade in passenger cars in the first half of 1956 was 8 per cent larger than in the corresponding period of 1955. This was exclusively the result of higher exports from Continental European countries, since a small increase in North America was more than offset by a fall in the United Kingdom exports.... For the whole year 1956 the number of cars exported was larger than in 1955 in Germany, France and Italy, but considerably smaller in both the United Kingdom and the United States. (p. 83)

The Report provides a table showing production and exports of passenger cars, for the main exporting countries in 1954, 1955 and 1956. (p. 83)

Although production of passenger cars in the Federal Republic of Germany in the last months of 1956 was about one-fifth smaller than a year earlier, the whole year's output was sufficiently large to enable the country to overtake the United Kingdom both as a producer and as an exporter. In terms of
units, Germany last year became the largest exporting country... Together with Sweden and Belgium, the North American market became in 1956 the most important outlet for German exports.... (p. 84)

In spite of a dramatic recovery in the United States passenger car production as from October 1956, after a gradual reduction of output in each preceding quarter, the result for 1956 was about 26 per cent below the 1955 level. (p. 84)

In comparison with domestically produced cars the imported automobiles in the United States represent only a very small share (less than 2 per cent of the whole market). But it should be noted that in the first half of 1956 63 per cent more foreign cars were sold in that market than in 1955, while there was a fall of about 27 per cent in the sales of domestically produced cars. The number of Western European passenger cars exported to the United States in 1956 was about 108,000 compared with 59,000 in 1955. All exporting countries sold more in 1956, but while Germany's share in these exports rose from 54 to 61 per cent, that of the United Kingdom fell from 43 to 34 per cent (pp. 84-85)

Two notable shifts occurred in international passenger car trade in the last few years. First, the share of the United Kingdom in the total value of exports, which was 34 per cent at its post-war peak in 1953, fell steadily to 22 per cent in the first half of 1956. Western Germany's exports rose in the same period from 12 per cent to 26 per cent of the total and thus gained even more than British car exports lost. Secondly, as already noted in last year's Report, an increasing proportion of total passenger car exports was directed to industrial countries. This tendency became even stronger in 1956 (first half) - about 55½ per cent against 51 per cent in 1955 (first half) was exported to industrial countries (p. 85)

Capital goods. The combined exports of machinery and transport equipment (excluding passenger cars) from North America, Western Europe and Japan, which represent the bulk of international trade in capital goods, amounted to about $11,400 f.o.b. (at an annual rate) in the first half of 1955. In the first six months of 1956 the value of this trade was about $13,800 - 21 per cent higher than in the first half of 1955.

Of this total, machinery including electrical equipment, rose from about $8,200 million in the first half of 1955, to about $9,800 million in the same period of 1956 i.e. by 19 per cent, while transport equipment increased at a higher rate, from $3,200 million to about $4,000 million i.e. by 25 per cent. Approximately one-half of the increase in these two groups combined, roughly $2,400 million, went to countries outside the exporting areas themselves, i.e. to the non-industrial parts of the world. As a result, the proportion of capital goods shipped to the non-industrial world, which had been about 54 per cent in 1954 and 55 per cent in the first half of 1955, remained unaltered in the first half of 1956. (p. 87)
The Report indicates that the share of the Continental European suppliers to the non-industrial parts of the world diminished from about 33 per cent in 1955 to 30 per cent in 1956 while that of Japan rose from 3 to 5 per cent. (p. 87)

Trade in capital goods with the non-industrial world has in recent years shown signs of more intensive competition between supplying areas. This is borne out by the following facts:

First, exports of North America, the United Kingdom and Continental Western Europe, taken both individually and as a whole, to their respective associated areas - i.e. those countries with which they are closely linked by monetary or political ties - have since 1954 grown less than the exports of these countries to other non-industrial areas. For the three industrial areas combined, the share of their respective associated regions in their total exports of capital goods to non-industrial areas dropped from 51 per cent in 1954 to 47 per cent in 1956;

Secondly, this decline was not accompanied by a similar decline in the exports of each of the industrial areas to regions associated with other industrial areas. On the contrary, the share of such exports in the total exports to non-industrial areas rose - from 26 to 28 per cent for the three industrial areas combined;

Finally, there was also an increase in the share of capital goods exports that went to the unassociated non-industrial regions - from 23 to 25 per cent. While in these markets, North America roughly maintained its position, the United Kingdom improved its share appreciably since 1954, but the share of Continental Western Europe deteriorated.

The two most significant features that emerge from these observations are a tendency toward less rigidity in trade between each industrial and its associated non-industrial area, in other words, an increase of the competitive element in this trade, and a relative decline of Continental European exports in favour of supplies from the United Kingdom to the "open" markets of the unassociated non-industrial regions. (p. 89)

Semi-Manufactures. This year's Report pays particular attention to the chemical industries.

Up to the end of 1955 the chemical industries in both Western Europe and North America expanded their output faster than manufacturing industry in general. In the first half of 1956, the rate at which chemical production in both these areas increased, slowed down considerably. The same phenomenon was also discernible in Japan. But exports of chemicals by North America and Western Europe showed in 1956 no decline in the rate of increase which had been 9-10 per cent per year since 1954. The share of chemicals in total international trade in manufactures remained practically unchanged at around 12 per cent.
Trade in chemicals within the industrial world has in the last few years accounted for about one-half of total exports of such products from these areas. One significant feature of this trade is the fact that Western Europe has become more dependent on imports from North America, whereas North America's imports from Western Europe have remained fairly constant since 1953. As a result, Western Europe's trade with North America on account of chemicals which had been almost in balance in 1953, showed a substantial import surplus, of roughly $190 million (at an annual rate) in the first half of 1956.

In North America, exchanges between United States and Canada (to which Canada contributes over 40 per cent) increased by 24 per cent in value between 1953 and 1956, while exports to other destinations rose by two-thirds. While imports from all sources remained stationary, North America's total net exports more than doubled. (pp. 91-92)

Trade of Areas and Countries

The year 1956 witnessed an increase in the relative importance of North America as a trading area. While Western Europe's trade still accounts for the bulk of the exports and imports of the industrial areas, North America's share in the total exports of these areas rose from 33.9 in 1955 to 35.5 per cent in 1956, while Western Europe's share declined—from 62.3 in 1955 to 60.4 per cent in 1956. In respect of imports, the shift was much smaller. North America's share rose from 29.3 to 29.9 per cent, and Western Europe's share fell from 66.8 to 65.7 per cent. (p. 97)

Referring to the increase of North America's exports, among the primary products, by far the largest increase, by $820 million, was recorded by foodstuffs (including oilseeds and oils, tobacco and beverages). The export value of agricultural raw materials rose by $250 million (entirely on account of textile fibres, mainly cotton), while fuels and metals recorded advances by $340 million and $270 million, respectively. Among the manufactures, capital goods increased by $500 million. Other manufactures also rose, but their importance in the total increase was small. Altogether, the exports of primary products rose by 27 per cent, those of manufactured goods by 12 per cent. In respect of primary products, special circumstances, some of them perhaps temporary, as well as ordinary market forces, have been at work. (p. 102)

As regards food (especially cereals and oilseeds) and agricultural raw materials (especially cotton), farm exports under the United States Government grant and credit and foreign currency sale programmes approximated $1,400 million in 1956, half again as much as in 1955, according to preliminary official estimates. Of the total increase in United States agricultural exports by $1,000 million between 1955 and 1956, government financing comprised about one half. Moreover, North America's shipments included
agricultural commodities exported through barter which were valued at $335 million in 1956 as against an estimated value of $230 million in 1955, an increase by about $100 million. Thus a substantial proportion of the increase of North America's exports of foodstuffs and agricultural raw materials to other parts of the world, i.e., about $570 million out of $1,070 million, took place under special arrangements which, it may be noted, did not involve any direct outlay of dollars by the importing countries. Given that the import requirements for food were in 1956 extraordinarily high in Western Europe as a consequence of adverse weather conditions in the early months of the year, it is probable that the rise in North America's exports of foodstuffs in 1956 to these countries will prove to be temporary (pp. 104-105).

The rise in fuel exports by $340 million was mainly (to the extent of $280 million) accounted for by shipments to Western Europe. A substantial part of the increased supplies to that area ($180 million) was due to the ever rising coal requirements which European mines are unable to meet. But in addition to this trade, which has been expanding for several years, 1956 witnessed the effects of the Suez crisis which were concentrated upon the last two months. United States exports of crude petroleum which had been negligible since 1953 suddenly attained a rate two-thirds as high in value as that of United States coal supplies to Europe. Shipments of petroleum products were in November at more than twice, and in December nearly five times the usual rate, almost equaling the value of coal deliveries. The effects of the Suez crisis accounted for additional fuel exports from the United States worth $100 million up to the end of 1956. The higher level of petroleum exports to Western Europe has continued into 1957, but will recede with the resumption of traffic through the Canal and the pipelines. (p. 105)

The Report also analyses trade between the United States and Canada (p. 107), the development of North America's imports from outside sources, (p. 107), the trade position of Western Europe (p. 108), the development of trade within Western Europe (p. 109), and the trade position of Japan (p. 111).

On the trade position of Japan the Report states that during 1956, Japan's trade showed a remarkable development, the value of imports (c.i.f.) and exports increasing by 30 and 24 per cent, respectively. In respect of exports, this increase continued the rise registered in earlier years (28 per cent in 1954 and 24 per cent in 1955), whereas the increase in imports stands in contrast with their stability during the three preceding years. In consequence of these movements, the adverse trade balance (measured with c.i.f. import values) which had been reduced from $1,140 million in 1953 to $460 million in 1955, again increased to $730 million in 1956.

Industrial production had recorded but moderate advances in 1954 and 1955 (8 per cent in each of these years), due mainly to increasing export demand, while domestic demand remained stable. But in 1956, industrial production rose sharply - by 21 per cent - since domestic demand rose
substantially (especially for capital goods and for raw materials the stocks of which had fallen in the two preceding years), while export demand continued to increase. (p. 111)

Dealing with the impact of economic development on trade the Report analyses briefly the extent and nature of industrial growth in the eight "semi-industrialized" countries, distinguishing the old-established export branches from those mainly producing for the domestic market, and investigates to what extent export of manufactured goods have been able to compensate the relative loss in export earnings arising from reduced shipments of primary products. (p. 113, onwards)

The Report examines the trade position of the dollar area and of the non-dollar countries of Latin America (pp. 121-141), of the Overseas Sterling Area (pp. 141-161) and of the non-sterling countries of the Middle East and Far East, Spain, Finland and Yugoslavia (pp. 161-175).

Finally the Report provides an extensive examination of the trade position of USSR, Eastern Europe and mainland China. The upward trend in the commercial exchanges of the USSR, Eastern Europe and mainland China with the rest of the world, which had manifested itself during the last two years, continued during 1956 and in that year reached its highest post-war level. The total value of exports (c.i.f.) increased from $2,257 million in 1955 to $2,696 million in 1956 (i.e. by 19.5 per cent) while import values (f.o.b.) expanded from $1,912 million to $2,320 million (by 21.3 per cent). The expansion in the foreign trade of this area was mainly on account of the USSR (the increase being 28 per cent in exports and 31 per cent in imports) and mainland China (28 per cent in exports and 35 per cent in imports), whereas the Eastern European countries as a whole did not experience the same rate of growth (only 11 per cent each in both exports and imports). While Czechoslovakia and Eastern Germany recorded a significant increase in their total trade turnover during 1956, Poland's trade was almost maintained at the level of the preceding year and Hungary's trade suffered a decline. (pp. 175-177)

Regarding trade with the industrial areas, of the total increase of about $229 million in the value of exports (c.i.f.) from the USSR, Eastern Europe and mainland China to industrial destinations from 1955 to 1956, Continental Western Europe accounted for about $218 million and Japan for about $5 million. There was a decline in exports to the European Sterling Area (by $12 million), and an increase in those to North America (by $18 million). The value of imports (f.o.b.) into the USSR, Eastern Europe and mainland China from industrial areas increased by $395 million from 1955 to 1956. Here also the largest increase was in respect of Continental Western Europe ($216 million) followed by the European Sterling Area ($87 million), North America ($58 million) and Japan ($34 million).

Notwithstanding the fact that trade between the United States and mainland China continued to be negligible, there was a significant expansion in the total volume of commercial transactions between North America and
the USSR, Eastern Europe and mainland China from 1955 to 1956, in exports from $64 to $82 million and in imports from $18 million to $76 million.

Most of this increase is accounted for by Canada - in exports from $8 million to $16 million, and in imports from $12 million to $65 million. Exports from Czechoslovakia to Canada rose from about $3 million in 1955 to $6 million in 1956. Major export commodities were glass manufactures (about $2 million), cement ($1 million), textiles (nearly $1 million), fur skins ($1 million) and rubber manufactures (about $500,000). Poland's exports to Canada also rose significantly from $0.6 million in 1955 to $2.4 million in 1956 and cement accounted for most of the increase. Exports from the USSR (mainly undressed fur skins) to Canada amounted to $1.2 million. Exports from mainland China to Canada doubled between 1955 and 1956 (from $3 to $6 million). (pp. 177-178)

Exports from the USSR, Eastern Europe and mainland China to the United Kingdom declined slightly from $329 million in 1955 to $312 million in 1956. While exports from the Soviet Union fell from $175 million to $154 million, those from the Eastern European countries rose from $119 to $123 million and those from mainland China were maintained at $35 million in 1956. Both timber and cereals, which traditionally occupy a prominent place in Russian exports, fell from $68 to $59 million, and from $3.3 to $1.2 million respectively. However, the most serious decline was recorded in respect of raw cotton, exports of which diminished from $19 million in 1955 to $4 million in 1956. (p. 179)

The value of imports (f.o.b.) into the USSR, Eastern Europe and mainland China from the United Kingdom (both domestic products and re-exports) increased from $164 million in 1955 to $247 million in 1956, mainly on account of a marked increase in imports into the Soviet Union, which reached the highest post-war level ($157 million, or 43 per cent above the 1955 figure). In sharp contrast with the substantial surplus which Anglo-Russian trade had yielded in favour of the Soviet Union in the three preceding years, the trade between the two countries during 1956 yielded a small surplus in favour of the United Kingdom. This development resulted mainly from a substantial expansion in imports into the Soviet Union. (p. 180)

The Report also examines the trade of USSR, Eastern Europe and mainland China, in 1956, with Iceland, Continental Western Europe, Japan and the non-industrial areas (including the Middle East and Latin America).

In conclusion the Report offers some general remarks about the growth of the trade of the USSR, Eastern Europe and mainland China with the rest of the world. This rate of growth was in 1956 much higher than that experienced by any other major trading region, with the exception of Japan. However, the increase in the area's trade was not uniform. While there was an intensification in commercial exchanges with Continental Western Europe,
Canada, the Middle East and Yugoslavia, trade with the United Kingdom did not grow as much as was expected in spring 1956 when the Soviet leaders during their visit to London made substantial trade proposals to the British Government. Though the increase in imports envisaged in the bilateral trade agreements concluded in recent years with some non-industrial countries, mainly those belonging to the Overseas Sterling Area, had not yet taken place in 1956, a much greater proportion of the contemplated increase in exports was achieved during that year. (pp. 187-188)

The growth in exports of capital goods to the non-industrial countries has been assisted by an increase in the credits advanced by the Soviet Union to these countries, which are estimated to have reached by the end of 1956 about $1,400 million. The main recipient countries were Yugoslavia ($460 million), Egypt ($350 million), India ($230 million) and Afghanistan ($150 million). The most significant aspect of these credits is that they carry an interest of 2 to 2.5 per cent (i.e. about half the rate generally charged on international medium- or long-term credits granted by western lending institutions and the World Bank) and provide for long repayment periods and the acceptance of local currencies. Most of the credits have served to finance the export of complete plants for producing steel, textiles, cement, fertilizers, as well as to procure equipment necessary for the development of mineral resources (petroleum, non-ferrous metals and diamond mining). (pp. 188-189)

The success which the Eastern European countries have had in recent years in selling capital goods (mainly in the form of complete industrial installations) in some of the non-industrial markets is also due, as already mentioned in last year's Report, to the existence of close economic collaboration and technical integration among these countries. The trend towards further specialization by individual countries in particular lines of production and towards closer integration of foreign trade with the production programmes continued during 1955, when the new five-year plans were launched simultaneously in all the Eastern European countries. However, the achievement of further integration may prove difficult owing to the changes in the economic policy of Poland and also in view of the measures taken recently by the USSR which aim at a complete re-arrangement of its industrial organization. Moreover, any further decline in Poland's coal exports and in Hungary's exports of bauxite and aluminium to the USSR and other Eastern European countries would considerably upset the whole balance of inter state economic cooperation upon which the success of the integration and specialization policy depends. (p. 190)
PART TWO

Developments in Commercial Policy

Commenting on developments in commercial policy in 1956, the Report states that "generally, the trends of recent years have continued without significant change. The reductions in import duties have been more important than the increases, with emphasis on the reform and modernization of tariff structures and nomenclature. And, as shown in the section on quantitative restrictions, there has been some further relaxation of import controls. On the other hand, some of the techniques of export promotion, such as export credit guarantees, are more widely used than hitherto." (p.191)

Customs Tariffs

Regarding customs tariffs the Report notes that "changes in the field of customs tariffs in 1956 reflect the favourable developments in the world economic situation. Tariffs, generally, were very stable, and the reductions and suspensions of duties were more numerous and more important than the increases. This stability was due partly to the maintenance of the tariff concessions under the General Agreement and was accentuated by the additional reductions accorded in the tariff negotiations of 1956. There was, however, an increasing tendency for governments to use their import tariffs as an instrument of short-term economic policy."

"Another trend which developed in the period under review is to be seen in the efforts of countries in various parts of the world to form bigger economic units by the creation of customs unions or free-trade areas. The Republics of Central America and the Arab countries have taken further steps in this direction, but the most important project ever attempted in this field, from both the political and economic points of view, is the attempt to bring about a closer economic integration of Western Europe by the creation of a European Customs Union and Free-Trade Area." (p.191)

Under Tariff Reforms the Report states "there were very few changes towards major tariff reforms in Europe" (p.191), and notes that "there is a tendency on the part of some South American governments to replace the very complicated exchange and import restrictions, at least partially, by making their customs system more effective" (p.192). Tariff reforms in various countries of Latin America, Asia, Australia and Africa are described (pp.192-195).

Under Reduction of Import Duties the Report refers to reductions for economic and social reasons and observes that "some of the tariff reductions in 1956 indicate the tendency of governments to permit the importation of specified products duty free or at reduced rates to ensure their availability in satisfactory quantities and at reasonable prices. Many such measures - especially those affecting foodstuffs - are limited to periods in which domestic production is small or nil and stocks have been consumed." (p.195)
Regarding reductions resulting from bilateral and multilateral negotiations, the most far-reaching action in the field of tariff concessions in the period under review resulted from the Fourth GATT Tariff Conference, which opened on 22 January and ended on 23 May when the protocol containing the concessions was signed by the representatives of the twenty-two negotiating governments. Import trade of the negotiating countries in the items affected by concessions granted in those negotiations is estimated at about US $5 billion. (p.196)

The Report sets out a variety of temporary tariff reductions to assist domestic industry and notes that the products affected by such reductions are more principally ores and base metals, iron and steel and some chemical products. (p.197) Reductions in the interest of particular industries are also described. (p.198)

A number of tariff reductions to assist the farming population are listed, as well as reductions to assist tourist traffic (p.200), reductions in the interest of public health, and in the interest of education and public information (p.201).

Turning to Increase of Import Duties, the Report examines increases for economic policy and similar reasons (p.202), to protect domestic industry (p.203), to protect agriculture and fisheries and increases for fiscal reasons (p.204). The Report states that "among the tariff increases intended to afford protection to the domestic industry those affecting textile duties were probably the most important" and gives a number of examples. It also states that "since 1945 an increasing tendency to give special treatment to agriculture within the general framework of economic policy may be noted in a great number of countries".

"Relatively few anti-dumping duties were imposed in 1956 although an increased interest in dumping and associated problems was evident" (p.204).

Under customs unions and preferences the Report refers to a number of developments including the plan for a European Economic Community, the status of the Saar, the Central American Free-Trade Area and preferential developments among the Arab League states (pp.206-207).

"In 1956 there were few changes of importance in export duties due to the stable prices for commodities on which export duties are levied" (p.210).

On the subject of customs formalities, the Report describes developments covering consular formalities, certificates of origin, marks of origin, temporary importation, free harbours, valuation for customs purposes and special treatment of samples. (pp.212-215)
"In the four previous Reports (1952, 1953, 1954 and 1955) an account was given of the gradual improvement in the world payments situation after 1952. The gold and dollar reserves of the countries outside the United States continued to increase, though at a declining rate in 1954 and 1955, and against this background most of the more important trading nations relaxed their import restrictions and reduced the discriminatory element in those they retained. It was pointed out, however, that the increases in reserves were not evenly distributed and that some countries, mostly those in the early stages of economic development or dependent upon the export of a few primary commodities, continued to face balance-of-payments difficulties. Although there were some noteworthy exceptions, liberalization of imports in these countries was not in general significantly furthered.

"In 1956, the year now under review, gold and dollar holdings of countries outside the United States increased for the fifth consecutive year, and the gains were again concentrated in the industrial regions, particularly Continental Western Europe. Consistently with this situation the marked difference that emerged in the previous years between the commercial policies of industrialized countries and those of under-developed countries has persisted". (p.215)

"In the industrial countries the favourable developments in the payments situation in recent years has been based on the recovery and expansion of production. Since 1952 the rapid expansion of industrial production has been accompanied by high and rising demand, and where the rise in the volume of domestic output lagged behind the rise in demand, prices have tended to move upwards and increases in imports have tended to be faster than in exports. Since 1955 the monetary and fiscal authorities in most industrial countries, and in many others, have found it necessary to take steps to restrain internal demand. In some countries, e.g. the United Kingdom, Germany and Benelux and Scandinavian countries such measures were taken in 1955 and in some cases were reinforced in 1956. By the middle of 1956 the measures thus adopted had begun to show effects on internal stability and on the external accounts of these countries. There was evidence of some moderation of price advances, of orders and deliveries coming more into balance and of a halting or reversal of earlier drains on gold and foreign exchange reserves. Recently, some of these countries have attained a position where they consistently run a surplus in their external payments, thus joining the traditional group of creditors". (pp.215-216)

"In 1956 the freer pattern of trade and payments created in recent years was generally maintained. Countries in the industrial regions, when faced with pressures on their external reserves, generally avoided resorting to the intensification of import restriction and relied on further internal financial and monetary measures for redressing the situation." (p.216)
"In most non-industrial countries there has been no sign of any permanent improvement in their balances of payments, and they have remained dependent on quantitative import restrictions or similar measures for safeguarding their monetary reserves. Some of them are still grappling with the problems of inflation, and as long as stability is not restored in internal prices, it is hard to see how they can improve their present situation on a lasting basis. Other principal causes of the persistent pressures on their external financial situation are the instability in the prices of primary commodities, on which most under-developed countries depend for their external income, and the rate of their economic development. The wide fluctuations in the prices of such primary commodities as coffee, wool and copper are well known, and the demand for imports in both capital goods and consumer goods sectors in countries in the process of rapid development are likely to be heavy. In such countries pressures on the balance of payments can be alleviated only by the adoption of suitable credit and fiscal policies to restrain demand, and in the long run by increases in capital inflow, improvements in the terms of trade and by increases in exports and in domestic production substituting for imports. In so far as the possibility of effecting the latter changes immediately is limited, it should not be surprising if such countries consider it necessary to ration their available exchange resources in order to concentrate their imports on essential goods.

"However, there has been seen, especially in Latin American countries, a tendency towards making less use of physical controls for restraining the volume, or for influencing the composition of imports. The most important developments involved the reduction of reliance on multiple currency practices although in isolated cases there have been movements in the opposite direction. In some cases the reduction in the use of quantitative restrictions was associated with currency devaluation". (p.216)

Bilateral Trade Agreements

In this section the Report analyses on a geographical basis various types of bilateral trade agreements that have been concluded or modified during 1956. (pp. 229-237)

Export Promotion

This section of the Report deals with subsidies, export incentive schemes and programmes for the disposal of surplus stocks. (pp.237-246)
PART III

Activities of the Contracting Parties to the General Agreement
on Tariffs and Trade

This part of the Report provides a survey of the work of the Contracting Parties in the period under review, in particular the business completed at their Eleventh Session, 11 October to 27 November 1956. Special sections refer to customs unions and free-trade areas, quantitative restrictions maintained by twenty-five contracting parties for balance-of-payments reasons, arrangements for Swiss accession, the new Brazilian tariff, commodity trade, settlement of differences, reports under waivers, customs administration, relations with other bodies and training in commercial policy.

Commenting on the outlook for the future the Report states: "In 1957 the Contracting Parties will be confronted with challenging problems. The establishment of a common market by six European countries, which might be followed, in a much wider framework, by the creation of a free-trade area in Europe, may involve far-reaching adjustments in the trading relations of the participating countries with other contracting parties to the General Agreement. A satisfactory adjustment of these problems in the GATT framework is essential if the search for regional integration is not to risk a disintegration of the world-wide multilateral trading system which has been so painfully re-established in the years since the war. The GATT recognizes the desirability of increasing freedom of trade through agreements for economic integration and its rules in this field provide a basis for the mutual reconciliation of the interests involved.

"It is unfortunate, on the eve of tackling such basic and far-reaching problems, that the GATT should still lack the reinforcement of its authority which could be conferred by the establishment of the Organization for Trade Cooperation and the entry into force of the important amendments agreed upon in 1955. At the time this report goes to press legislation approving United States participation in the OTC is pending in Congress, backed by urgent recommendations for favourable action from the United States Administration". (p.247)