Before considering in detail the various matters which arise under items 4 and 5 a number of representatives of the Contracting Parties expressed their views on the progress which had been made in reducing quantitative restrictions on imports and other barriers to trade, since 1947.

The delegate of Australia, Mr. J. G. Phillips, said that Australia had always in the past conducted its trade on a multilateral basis and was one of those countries which hoped to be able to return to that position at the earliest possible moment. Australia, he said, traditionally had a deficit with the United States and Canada and a surplus with Europe, a situation which gave rise to no difficulty in the days of convertible currencies. The system had broken down in the last decade or so and it was the earnest wish of his country to see it restored as soon as possible, he said.

Mr. Willard Thorp, United States, said that the review under Article XII of quantitative restrictions and the reports required under Article XIV on the discriminatory administration of restrictions had significance to the operation of GATT as steps provided for in the Agreement to facilitate the elimination of quantitative restrictions applied for balance of payments reasons. The GATT and the International Monetary Fund, he said, had both been launched at a time when quantitative and exchange restrictions were prevalent and were considered necessary in view of the circumstances then prevailing. It had been hoped that as time went on countries would be able to deal more effectively with the problem and that both quantitative and exchange restrictions would be progressively eliminated with a view to permitting market forces to resume their traditional influence upon trade and finance.

Clearly, said Mr. Thorp, encouraging signs could be discerned in the situation obtaining today - a situation which was essentially different from the immediate post-war period. The dominating problem in those days had been the intense preoccupation by many countries with dollar deficits. Towards the solution of that problem, the United States had contributed some 30 billion dollars in the form of grants and loans. The problem which confronted many countries today, said Mr. Thorp, if more complex, was less acute and more diffused. The situation today was no longer dominated by one balance of payments situation but by many such situations. Mr. Thorp said he thought it was fair to say that in spite of existing uncertainties many countries are in a position to undertake substantial removal of discrimination and relaxation of non-discriminatory restrictions, and to make significant progress toward convertibility.

Referring to the effect of the purchase of raw materials for strategic stockpiling and armament production, Mr. Thorp pointed out that during the whole post-war period emphasis had been put on increasing production, especially in the industrial field; and as a result of the recent industrial "boom", which was well on its way before the outbreak of hostilities in Korea, the indices of industrial production for the United States and Western Europe had advanced 25 per cent in a year or so. This, he said, had been an important element in the increased demand for raw materials and primary goods and in affecting the terms of trade between the industrial and primary producing countries. The pressure created by armaments production had been very limited. This, he said, was only now beginning and had not yet placed burdens on most economies. The phenomenal rise in prices during the 3rd Quarter of 1950 was due more to a world-wide wave of speculative buying than
to stockpiling purchases by governments, which, as far as the United States was concerned, were moderate.

Professor Adarkar, India, referred to the improvement in the balance of payment situation which had been achieved by many countries and asked how and why these improvements had been brought about and whether they were temporary or permanent in nature. If one examined the improvement since the middle of 1950, he said, one would see that it had been achieved mainly on account of the scarcity of heavy industrial materials. There was therefore no guarantee that such an improvement would be long lasting. There was no doubt, he said, that all contracting parties would work towards the objective of removing restrictions but it might take a long time to produce tangible results. Further, it was worth remembering, he said, that quantitative restrictions, especially if discrimination was involved, were sometimes damaging to the interests of the importing countries even more than to the potential exporters. India, said Dr. Adarkar, had always been ready to modify or relax its import restrictions even when there was only a slight improvement in her balance of payment situation. Discrimination, he said, tended to be applied only against hard currencies; while India in its licensing policy was not unresponsive to changing conditions and had in fact recently liberalized its trade with soft currency countries to a great extent. Finally, Dr. Adarkar stressed that discrimination was in almost all cases an essential element in the policy of restriction and was almost inevitable when many currencies were inconvertible. The Government of India was doing everything in its power to eliminate its quantitative restrictions, even though it was a soft currency country.

Speaking for South Africa, Dr. P. R. Botha said that what struck him was that the contracting parties were making steady progress towards relaxation of restrictions and elimination of discrimination and that some countries had already completely removed such restrictions. But there was one aspect of restriction of competition and the free flow of trade in which the contracting parties did not seem to be improving the position. He referred to bilateral methods of trading. It was the impression of his government that despite the declared intention of contracting parties to concert their trade policies and practices with a view to promoting the early re-establishment of a multilateral system of international commerce, this objective was far from being attained. It was, said Dr. Botha, difficult to escape the impression that recent developments in international policy had steadily taken them further away from the objective of multilateralism which was one of the cornerstones of the whole GATT structure. Every month saw the negotiation of a new series of bilateral trade treaties, he said, the basic elements of which seemed to run counter to the objectives of the contracting parties. The general tendency of these treaties seemed to be for them to increase not only in numbers but also in their disturbing effects on the trade of those countries which were excluded from the benefits which they were intended to confer.

Dr. Botha said that the government of the Union of South Africa had always regarded the early establishment of a multilateral non-discriminatory system of world trade as the principle reason for GATT's existence and it was in this spirit that South Africa accepted the limitations which accession to GATT had imposed on their freedom of action. Nevertheless he could not avoid the impression that bilateralism was becoming more and more the trading system of today while countries which adhered to the principle of multilateralism were finding it increasingly difficult to resist the pressure upon them by those nations which were openly resorting to bilateral trade practices. Every new bilateral trading or quota arrangement operated more and more to the detriment of those countries which were trying desperately to promote the GATT objectives of multilateral trading, he said. South Africa's export trade had suffered considerably in recent years for this reason.
Although bilateralism was recognized by his government, as an evil arising from the disturbed post-war economic conditions, said Dr. Botha, his government had constantly held that resort to bilateral methods of trade regulation should not exceed the bounds of necessity. If the contracting parties individually failed to make sacrifices to further the GATT objective of multilateralism, they would indeed deal a severe blow to further international economic co-operation. Dr. Botha said he sincerely believed that they were confronted with an issue which struck at the very foundations of GATT - an issue which would have to be faced squarely. The South African government was particularly anxious that in its trade with other contracting parties its exporters should enjoy fair and equal access to their markets and not be penalized in this respect because South Africa had been consistently true to the principle of multilateralism and had refused to submit to the conditions that it should negotiate bilateral treaties in order to avoid discrimination against its exports, Dr. Botha added.

As to whether South Africa should invoke certain provisions of the GATT if it felt its rights and privileges under the GATT were being nullified or impaired, Dr. Botha said that it has always been their impression that the successful application of GATT depended very largely on the spirit in which the participating countries approached the obligations and responsibilities which they have assumed in the common interest. In other words, progress towards the objectives of multilateralism and non-discrimination would ultimately depend not so much on the ability of the Contracting Parties acting jointly to control successfully the action of any particular contracting party on the basis of an unduly narrow interpretation of the rules of GATT, but on the determination of individual contracting parties to frame their policies so as to ensure that they would make the maximum possible contribution towards the achievement of the agreed long-term objectives.

In conclusion Dr. Botha said he feared they could not serve two masters. They must either set a firm course in the direction of multilateral trading or revert to complete bilateralism. The pursuit of multilateral trade was the principle reason for GATT's existence.

Mr. John Lockie, United Kingdom, thought that the Contracting Parties should give due weight to the underlying factor which gave rise to the need for restrictions. The problem of dollar scarcity had indeed become more complex and diffused but it had also become more acute for some countries, including some which bulked largest in international trade.

Mr. S. Reisman, Canada, said that the review of quantitative restrictions applied for financial reasons and the report on discrimination gave the Contracting Parties an opportunity to take stock of where they were and where they were going in this important field of commercial policy. In 1947 when the GATT was written, they were all clearly agreed that what they wanted was to establish as soon as possible a multilateral system of world trade free of restrictions and discrimination. They recognized, of course, that this could not be achieved immediately and GATT was written in a realistic way to permit the use of discriminatory restrictions during the post-war period when countries were attempting to restore their production and re-establish the normal channels of trade. They had expected, however, that by 1951 they would be well on their way to the achievement of these objectives.

While there had certainly been some progress these last four years, Mr. Reisman said that the widespread use of discriminatory restrictions by many countries showed that they were still a very long way from their goal of multilateral trade free of discriminatory restrictions. To some extent they had perhaps been too optimistic when drawing up the Agreement, said.
Mr. Reisman. They had underestimated the serious economic disruption which the war had left in its wake, and they had planned for a world of peace, not a world of cold and hot war. Nevertheless, very real progress had been made and most countries had by 1950 succeeded in making good the damage caused by the war. Production and trade were considerably above the pre-war levels and significant progress had been made towards reaching equilibrium in their international accounts. In particular the improvement which had occurred by 1950 in overcoming the dollar gap had been especially gratifying. It appeared, however, that the progress which had been made in removing restrictions and discrimination in international commerce had not kept pace with the real improvement in basic economic conditions.

The Korean war had, of course, introduced a number of complicating elements into the picture. But the effects of the Korean war and the active preparations for defence were not entirely negative as far as their impact on international trade was concerned. Some countries found themselves in a much better position as far as their reserves and balance of payments were concerned, while others which were directly involved in defence measures had suffered some deterioration in their position. Taking all these factors into account in appraising the present position, said Mr. Reisman, it appeared to Canada that some countries had not moved as rapidly as their circumstances would have permitted to the progressive relaxation of trade restrictions and discriminatory practices.

Mr. Reisman placed special emphasis on the need to re-examine the application of discriminatory trade restrictions. The replies to the questionnaire showed that all countries, with minor exceptions, which were applying trade restrictions were applying them in a discriminatory manner against the dollar countries. While such practices might have been justified during the period when the dollar problem was the main element in the post-war trade disequilibrium, it should be recognized that real progress had been made in overcoming the dollar shortage. It was not unreasonable to expect, said Mr. Reisman, that discrimination against dollar imports should be reduced in keeping with the progress in overcoming the dollar problem. There was no automatic link between the need to restrict imports and the need to discriminate between supplying countries. In fact the GATT envisaged that in certain cases quantitative import restrictions might be required after the post-war transitional period, whereas trade discrimination would disappear entirely. Even in circumstances, when discriminatory trade restrictions might be justified, it did not follow automatically that such discrimination should be against dollar countries. Mr. Reisman suggested that it would be useful if the Contracting Parties, in their consideration of these problems, gave increasing attention to the desirability of doing away with discriminatory practices as soon as possible.

In conclusion, Mr. Reisman said that, with the present acute shortage of many goods and the heavy inflationary pressure in many countries, the existing structure of restrictions had to a large extent become obsolete. In these circumstances, while some form of control might indeed be necessary, it should be recognized that the removal of restrictions would help countries deal with the problems of shortages and inflation. He hoped that countries would take this opportunity to re-examine their position with a view to removing these restrictions which were not strictly necessary either for financial reasons or for considerations of defence.

DISCUSSION CONTINUED IN PART II, GATT/52.