17 July 1955

INTERNATIONAL TRADE - 1954

A Report by the Secretariat on Trade, Trade Barriers and the Activities of the CONTRACTING PARTIES

Attached hereto is the draft for the Section of Part II dealing with trade agreements. Comments should be submitted to the Executive Secretary not later than 8 July.
TRADE AGREEMENTS

In spite of the improved balance-of-payments position of most of the countries involved there has been no important move toward the dismantling of bilateral trade agreements since the publication of "International Trade - 1953". On the other hand, the trend toward an alteration in the motivation underlying such agreements, and in their structure, has continued during the past year. 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 earlier bilateral trade agreements were negotiated to reinforce bilateral payments agreements, which in turn were made necessary by the widespread inconvertibility of currencies. The typical trade agreement was designed either to achieve an exact balance in the value of trade or current payments between the partners or to restrain within predetermined limits the differences that would eventually have to be liquidated in gold or hard currencies.

Comparatively few of the bilateral agreements still maintained are designed to balance the total value of trade between the partners. The most important reason for this is the disappearance in most cases of any foreign exchange necessity for trade balancing between pairs of countries in view of the transferability of currencies within the European Payments Union as well as the greatly widened area of transferability of such currencies as sterling and the Deutschmark.

Another influence that may have contributed to the decline of agreements aimed at strict bilateral balancing has been the failure of many of those agreements to accomplish what was expected of them. More often than not experience has shown that the effort to bring about an arbitrary balance where no natural basis for a balance exists has either been impossible or has been too costly for one or both partners. It was originally contemplated that when one partner proved unable to meet its export target and accumulated debits which exceed the swing credit provided for in the agreement, exports from the creditor to the debtor partner would be curtailed. In practice the creditor has often been reluctant to accept the consequences of bilateral balancing, and the partners have put off the day of reckoning through one device or another not contemplated in the original agreement. Additional credits have been extended: settlement dates have been deferred; sometimes the transfer of balances to third countries has been permitted though prohibited in the original agreement; triangular trade has been introduced by the permitting of commercial switch transactions, in which the creditor imports the debtor's goods and re-exports them to third countries or the debtor re-exports to the creditor goods obtained from third countries. In still other cases the deviation from strict bilateralism has been accomplished by the transfer of the unliquidated balance to a third country.

1 A summary of trade agreements is compiled every six months by the GATT secretariat and is distributed with the February and August issues of the International Trade News Bulletin.
The view that the foreign exchange incentive for the bilateral balancing of trade is gradually disappearing is supported by the changing character of the agreements themselves. The number of agreements involving a total balancing of trade has diminished. Rigid quotas have in a great many cases been replaced by "targets". There has been an increasing tendency to omit quantities in the agreements and for each partner simply to list the goods of the other for which an import demand exists. Finally, many agreements are limited to the exchange of purchase or quota commitments for a few goods, with no attempt to plan the entire trade between the partners.

These developments help to explain why the widening transferability of major world currencies has not resulted in a drop in the number of bilateral agreements. The changing emphasis of agreements as they are renewed and the character of the new agreements negotiated in the past year lead to the conclusion that the need for solving problems of foreign exchange is being replaced by the quest for special trade advantages as the principal motive for bilateral agreements. 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.

The circumstances which induce trading countries to resort to bilateral agreements as a means of ensuring export markets of course differ widely. In most cases the need for surmounting the import restrictions of the partner country, actual or threatened, is an important element. In some cases, however, countries have sought and obtained bilateral agreements to ensure exports to countries which do not restrict their imports. Agreements so inspired reveal a lack of confidence in the ability of the export to compete and a desire to obtain a more advantageous position than would be possible in the absence of restrictions.

So long as bilateral agreements existed primarily to meet the special problem arising out of widespread inconvertibility of currencies there was reason to hope that they would prove to be a passing phenomenon. Today it is becoming apparent that they will not be liquidated unless there is a determined and concerted effort by the major trading nations to do away with them. For even though it is clear that total trade must suffer and all trading countries must lose in the long run from the existence of widespread discrimination, only the strongest countries can afford to abandon a trading weapon that is freely used by their competitors. The temptation to use the threat of discrimination to extract special trading privileges is a powerful one, and even those countries which would prefer to rely on competition and non-discrimination may be forced in self-defence to follow the lead of others.

A discussion of bilateral trading would hardly be complete without reference to a type of bilateralism which differs in a number of important respects from the agreements discussed in the preceding paragraphs. Special arrangements involving the disposal of agricultural surpluses by the United States of America fall into this category. In spite of the common elements that exist between
these commodity transactions and bilateral trade agreements, however, they can
more conveniently be dealt with in connexion with the general subject of export
incentives, which is treated in the chapter on export incentives in this report.

Western Europe

Trade agreements between countries which are members of the European
Payments Union are not designed to achieve a bilateral balance. In so far
as they include agreed quotas these are, of course, limited to commodities
which have not been liberalized within the Organization for European Economic
Cooperation. In view of the relatively high level of liberalization undertaken
by Organization for European Economic Cooperation countries toward each other,
this necessarily means that the total amount of intra-European trade governed
by quota agreement is relatively small. The portion of trade that has been
liberalized by any one country, however, does not benefit equally all the other
members. For example, only about one-quarter of Switzerland's present exports
to France falls within the category of liberalized French imports, and a
substantial part of Swiss exports to France are covered by the bilateral agreement
between the two. Turkey has had the most serious difficulties in balancing its
trade within the OEEC area, and special long-term agreements have been recently
concluded with several European countries for the settlement of debits it had
incurred. Turkey has also made vigorous efforts to develop other markets through
bilateral agreements, e.g. with countries of Eastern Europe and with Israel
and has had resort to barter trade in many cases.

The United Kingdom has not attempted to achieve a balancing of trade
with individual countries. The effort to conduct trade multilaterally, however,
has proved difficult in certain cases where the other party conducts trade
primarily along bilateral lines. The increased transferability of sterling in
1954 did not prevent - and may have stimulated - the sharp reduction which
took place in United Kingdom trade with Argentina, Brazil and Chile, for
example. The United Kingdom has departed from its usual policy and permitted
compensation deals in a few cases, such as that of Turkey, in an effort to
restore the level of trade.

Western Germany, which had been one of the most active of European countries
in concluding bilateral trade agreements, discontinued bilateral payments with
two countries, i.e. Colombia and Finland, and made a further departure from
bilateralism during the year by increasing the scope of transferability of the
Deutschmark. It is of interest that while Germany's exports to most markets
have expanded rapidly in the last few years, its exports to those countries
with which it has maintained agreements aimed at a bilateral balancing of trade
have generally failed to expand.

The Western European countries members of the OEEC, in addition to
agreements with each other, have trade quota agreements with most Eastern
European countries providing for bilaterally balanced trade.1 They also

1 See below.
have a variety of agreements with Latin American countries. On the other hand, there are relatively few bilateral agreements between Western European and Far Eastern countries.

Western European countries not members of the OEEC have continued to resort to agreements involving bilateral balancing, though there has been some tendency toward increased flexibility in these agreements. Thus Finland continued to resort to some triangular balancing, and used some of its rouble balances obtained from trade with the USSR for settlement with other Eastern European countries. The Finnish agreement with the United Kingdom for 1955 dropped the quotas which were provided for in earlier agreements. Spain has agreements containing target quotas with nearly all the EPU countries and similar agreements with a number of the non-dollar countries of Latin America. In the case of the Spanish agreement with Switzerland, however, Spain has granted fixed quotas for the importation of some Swiss products which are considered non-essential in order to receive essential machinery, precision instruments, etc.

Latin America

Bilateral trade agreements have been used more extensively between Latin American and European countries than between any other two areas in the Western world. In addition to the agreements with Western Europe the Latin American countries have concluded a number of agreements with Eastern European countries. Where bilateral agreements with Europe have been based on the concept of bilateral balancing, notably agreements of Argentina, Brazil, Paraguay and Uruguay, serious difficulties have arisen which have led to the introduction of greater flexibility such as the extension of swing credits and the introduction of switch deals. In the agreement between Brazil and West Germany a great variety of expedients have been resorted to in an effort to correct the persistent imbalance.

In several agreements between Latin American countries and countries in Western Europe the bilateral agreement has been used in an effort to stimulate exports where in fact there has been no need to strike an actual balance in payments. Thus, in the last year, Belgium concluded agreements with both Argentina and Brazil in order to assure the issuance of import licences by those countries for certain Belgian goods. Although an agreement was negotiated between Switzerland and Colombia, it did not obtain final acceptance because of the unwillingness of Switzerland to agree to a firm import commitment for coffee. As a result of this failure, it has become virtually impossible for Colombian importers to purchase Swiss goods, including watches. Since the United Kingdom has transferred trade in basic commodities to private hands that country also has been unable to accept firm purchase commitments. In a new agreement between Argentina and the United Kingdom, signed in April 1955, an attempt has been made to meet this situation by an undertaking on the part of Argentina to deliver certain specified quantities of such commodities as meat, grain and cotton in exchange for petroleum, coal, machinery and other industrial products.

1 See "Eastern Europe and Mainland China".
Argentina has perhaps the most complete system of bilateral agreements with the rest of the world, close to two-thirds of her total imports and exports being covered by such agreements. In the last two years this system has been extended by the conclusion of agreements with the USSR and other Eastern European countries. In 1954 a new agreement was concluded with Belgium and one with Colombia; on the other hand negotiations with Mexico, Venezuela and Cuba did not lead to positive results.

The proportion of Brazil's trade that is conducted under agreements has expanded steadily since the war, rising from about 21 per cent to about 34 per cent in 1953. The volume of non-essential goods permitted under these agreements has declined and now amounts to only about one-tenth of total imports under the agreements. Brazil has not, however, been able to obtain all her essential imports under agreements. Up to the present time, for example, she has been forced to spend a large share of her dollar earnings on imports of petroleum products.

Eastern Europe and Mainland China

The recent trend toward development of East-West trade is reflected in the growing number of trade agreements between the Eastern countries and the West. About one hundred and eighty such agreements are now in force, the number having increased in each postwar year. Half of these agreements are with Western Europe. In the last two years Mainland China has signed agreements with the United Kingdom, Italy, France and Finland. The USSR and other Eastern countries are taking a lively interest in developing trade relations with primary producing countries and have included in a number of these agreements the grant of credits and technical assistance.

Agreements with Western European countries have frequently failed to develop the trade volumes envisaged because of the difficulty of finding goods acceptable to them. In the new agreement between Sweden and the USSR petroleum represents a large proportion of Russian deliveries, and a further increase of trade between the two countries may depend on Sweden's willingness to accept a larger proportion of its petroleum imports from this source. In other cases, the Eastern countries have found it necessary to offer settlement in the currencies of third countries, principally in dollars because of the difficulty of achieving a bilateral balance.

Other Areas

In the Middle East and the Far East, with certain exceptions, the recent tendency has been to use bilateral agreements largely for the purpose of moving specific commodities rather than to attempt a bilateral balance of trade. Egypt's effort to stimulate cotton exports and to establish the Egyptian pound as a means of settlement has resulted in a fairly complete network of trade agreements, covering nearly two-thirds of its trade. Through trade agreements, Israel has increased its exports of industrial goods and citrus fruits. In a barter agreement with the USSR it has traded fruit for fuel oil.
In the Far East the extensive use of sterling as a means of settlement and the fact that many payments can be cleared through the European Payments Union has removed the incentive for agreements involving bilateral balancing. Nevertheless, a large number of trade agreements exist within the area and with other countries. Indonesia, Pakistan and India have used agreements extensively but the tendency in these agreements is either to establish annual targets or simple lists of commodities, with no attempt at bilateral balancing. In some cases more detailed provisions are included, covering the exchange of individual commodities, and Indonesia has concluded agreements in which exports of its basic raw materials are tied to commitments by the partner to accept other Indonesian exports. For example, the agreement between India and Pakistan is designed to facilitate the exchange of coal and jute. Burma has entered into bilateral agreements to dispose of rice.

Among the Far Eastern countries Japan has developed perhaps the most complete system of bilateral agreements. Although the proportion of its total trade carried out under such agreements declined between 1951 and 1953, it still represented about two-thirds of Japan's total exports in the latter year. Although an effort has been made to achieve bilateral balances a number of these agreements have failed to yield the expected results. For example, Japanese purchases of cotton from Pakistan have not been matched by sales of textiles and machinery to Pakistan. In trade with Sweden Japan has developed a deficit in spite of efforts to overcome this by transferring to Sweden balances acquired in trade with third countries. In the new agreement with Western Germany, quotas have had to be reduced. The failure to conclude an agreement with Italy involving the importation of rice against textiles has led to the initiation of private barter deals involving copper against rice. Last year the agreement between Japan and Argentina achieved disappointing results, and trade reached only about one-half of the planned volume.

The recent tendency in the British Commonwealth has been toward diminished reliance on bilateral agreements. Australia has gradually reduced the number of such agreements and now maintains only two, with Western Germany and Indonesia. South Africa abolished all discrimination and has refused to enter into agreements which would have resulted in larger import quotas for South African exports in exchange for import quotas.