INTERNATIONAL TRADE - 1955

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

The draft of the Quantitative Restrictions section of Part II is attached hereto. Any contracting party wishing to make suggestions is requested to do so not later than 27 April.

The draft of Part I will be distributed at the end of this week.
QUANTITATIVE RESTRICTIONS

In 1953 and 1954 the western world witnessed considerable progress in the direction of freer trade. The freer pattern of trade and payments that emerged was maintained during 1955, the period under review in this report.

In response to a movement towards a better balance in the payments position of many countries, steps had been taken in 1953 and 1954, principally in Western Europe, to relax restrictions previously imposed for balance-of-payments reasons. Especially in 1954, there had been a substantial reduction in the discriminatory element in the restrictions that remained in force; disparities in the treatment of imports from different sources or payable in different currencies had been greatly reduced and, in particular, discrimination against dollar imports had become much less prominent than in any previous year since the war. In 1955, further progress was made but this was more gradual than in the two preceding years, largely because of the slight deterioration in the payments position of certain countries.

The gold and dollar holdings of countries outside the dollar area continued to grow in 1955 but at a slower rate than in the two preceding years. During the year, aggregate holdings of these countries, including their official gold reserves and official and private dollar holdings, rose by only $1.6 billion, compared with an increase of $2.6 billion in 1953 and $1.9 billion in 1954. Furthermore, this increase in 1955 was largely confined to Continental Western Europe, with some of the non-sterling countries of Asia sharing a small proportion. The holdings of Latin American countries also rose slightly. On the other hand, the aggregate holdings of the sterling area countries fell, although at a more moderate rate than in the declines of 1949 and 1951.

Against this background, the further progress made in 1955 in the relaxation of restrictions consisted in a large number of individual measures, which indicated a continuation of the trend of relaxation of restrictions that began two years ago. Most of the important trading nations maintained in 1955 the gains already made in the relaxation of their restrictions or made further progress. Among others, Denmark, the German Federal Republic, Greece, the Netherlands, Sweden and some sterling area countries, which in the preceding year had substantially reduced their restrictions or eliminated discrimination, took no retrogressive steps. In a number of cases, further measures of relaxation were taken through the establishment of new or the extension of existing lists of products admitted free of licensing restriction. In addition to such formal measures, there is reason to believe that the stringency of restriction and the degree of discrimination were in many cases reduced with regard to products remaining under control.
In recent years there has been an encouraging tendency for countries faced with balance-of-payments difficulties to seek solutions through measures other than the introduction or intensification of restrictions on trade. This tendency has developed as more and more countries have been convinced that import restrictions cannot in themselves provide a satisfactory solution to balance-of-payments difficulties and that, at most, they may prevent a further deterioration in a country's reserve position pending the adoption of a fundamental corrective remedy. It would be outside the scope of this report to analyze the effects of the internal fiscal and economic measures adopted by governments since 1952, but suffice it to say that, by and large, experience has borne out the expectation that, by relieving undue pressures on domestic prices and demand, such internal measures can make a fundamental contribution to the alleviation of a country's external payments difficulties. In 1955 and early 1956, when the fall in the central reserves of the sterling area called for action by the United Kingdom and other sterling area countries to redress the situation, attention has again been focussed on monetary and fiscal measures; only in Australia has an intensification of restrictions on imports been considered necessary by the Government in the face of rapidly declining reserves and lower export prices of wool. Even in this case import restrictions were tightened only in order that the internal measures, which had been adopted to meet the inflationary pressures resulting from the high foreign exchange earnings of previous years, would have time to exert their effects on the balance of payments. Renewed inflationary strains of a similar nature were encountered by some countries in Western Europe, some of the primary producing countries in Latin America and some other countries such as New Zealand. Many of these countries took corrective measures of a general nature, notably in raising the Bank Rate and in making other adjustments in the monetary domain, and avoided resort to direct control of imports.

If the more restrained use that has been made in the past year of restrictive measures is encouraging, there is little ground for complacency; for a substantial part of world trade remains under licensing control or quota restriction, often involving discrimination. Only in the dollar area are imports generally free from such impediments. Yet even here restrictions are not entirely absent. The United States, for example, has been applying quota restrictions under the authority of the Agricultural Adjustment Act on a number of products on the ground of preventing interference with internal price support programmes. In 1955 a number of such restrictions were removed or relaxed, and no such restrictions were intensified nor new ones introduced; the products which remain under quota restriction are cotton, wheat, some dairy products, flaxseed and rye.¹

¹ See Part III, page...
In the industrial countries outside the dollar area, principally in the countries of Western Europe, imports have been greatly liberalized in recent years, but in many of them restrictions are still maintained on a section of their imports, usually agricultural products. Furthermore, where dollar imports are liberalized the liberalization often does not apply to manufactured goods to the same extent as to industrial materials and certain other primary commodities. The countries find it difficult to remove these remaining restrictions, for various reasons. Certain industries and particularly certain branches of agriculture have for a number of years received incidental protection from import restrictions maintained during the period of persistent balance-of-payments difficulties, and in the view of the governments concerned the complete dismantling of restrictions now or as soon as they are no longer justified on balance-of-payments grounds might cause hardships to the industries or branch of agriculture in question or create other difficulties for their economy. It is recognized that in some cases an industry may require some breathing space in order to adjust itself. In considering these "hard core" cases, the CONTRACTING PARTIES to GATT have agreed to take into account such special factors, and, if a case is made out, to permit a contracting party to maintain restrictions for a very limited period of time and under supervision. It is expected that, with this new approach, the restrictions now applied in these countries for balance-of-payments reasons will have been eliminated within a few years after their balance-of-payments difficulties disappear.

Many countries in other areas are in the process of rapid economic development, and their programmes of industrialization often involve an increased demand for imports of capital goods which place further strains on the balance of payments. The sudden fluctuations in the prices of their exports also contribute to the precariousness of their external financial position. For these reasons, most of them continue to ration available foreign exchange and restrict imports. Some of these countries, e.g. Brazil and Indonesia, have attempted to use more flexible means of limiting imports, but others still apply licensing or quota restrictions on a product-by-product basis. The selection of products for restriction for the purpose of limiting foreign exchange expenditure is determined in many cases by the availability of like domestic products and the capacity of local productions, and to that extent is affording protection to domestic industries; in some of these countries, the import of products of the types which are available from domestic production, or of which local supply is estimated to be adequate, is generally severely restricted or totally prohibited.

The following sections will briefly review the developments in 1955 in the field of import restrictions, applied principally for balance-of-payments reasons, in the sterling area, in Continental Western Europe, in Latin America and in the other areas. Developments in the field of bilateral trade agreements will be discussed in a concluding section.

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1 In 1955 the CONTRACTING PARTIES examined the case of Belgian restrictions under this waiver (see Part III, page...).
The aggregate gold and dollar holdings of the sterling area countries declined by $501 million during the twelve-month period ending September 1955, as against a rise of $347 million during the previous twelve months. The central gold and dollar reserves held by the United Kingdom, however, fell by a greater amount - viz. $642 million - to a level of $2,120 million at the end of that period. By the end of the year the United Kingdom's dollar payments appeared to have achieved a better balance. With stress placed on achieving a surplus in order to meet external obligations, to increase overseas investment and to build up monetary reserves, the Government announced in February 1956 a series of measures to promote stability and restore equilibrium; no resort was made to further import restrictions. Among the countries in the sterling area, Pakistan and the Union of South Africa apply import controls which involve no distinction between sources of supply, licences issued being in both cases valid for imports from all countries; generally speaking, stricter control is exercised on imports from the dollar area. The following paragraphs will deal separately with (a) the relaxation or intensification of restrictions which affect dollar imports only or which relate to all imports including those from the dollar area, and (b) changes in restrictions affecting non-dollar imports.

**Dollar imports**

In recent years, the United Kingdom has continually increased the number of products which may be imported under "World Open General Licence" from all sources including the dollar area. In January 1955, wool and animal hair, fats and oils were added to the list. In April, the list was extended to cover hides and skins, aluminium alloys and scrap, cotton linters, certain chemicals, phosphate rock and a number of other items known as naval stores. As from 1 January 1956, sulphur has been accorded the same treatment. Some of the goods mentioned above had been freed from restrictions when imported from non-dollar sources. During the year, new or additional dollar import quotas were granted for hardwood, cottonseed oil, dried peaches and prunes, copper wire rods of certain types and canned grapefruit. In addition, for a considerable range of consumer goods the token import scheme has been continued for imports from Canada and the United States on the basis of 30 per cent of average imports of the products in question in 1936-1938.

The intensification of Australian import restrictions in April and October 1955, which generally affected imports from countries outside the dollar area, will be discussed later. But in the October intensification a reduction was also made in the level of licences issued under the dollar import licensing budget; the reduction was by 12½ per cent, which was similar to the cut in the imports from non-dollar countries subject to individual licensing control. At the same time, a step was taken towards lowering the degree of discrimination through the establishment of a limited list of basic materials, notably sulphur, paper, pulp, cotton, aluminium, which would be licensed without discrimination, thus allowing importers to buy from the cheapest source and helping to reduce production costs.
In New Zealand, imports from the so-called "scheduled countries" are subject to discriminatory restriction. In 1955, the list of "scheduled countries" was reduced; these now comprise mainly the dollar area and Japan. Certain products are included in a "World Exemption List" which permits imports from any source without licence. In 1955, this list was substantially enlarged, the number of items being increased from 95 to 153. The newly liberalized items included principally agricultural implements and industrial raw materials. As regards those imports which remained under licensing control, the more liberal attitude which had been adopted in 1954 in licensing imports of essential plant and equipment and industrial materials from the dollar area is understood to have been continued. On the other hand, along with the reduction in quotas for motor vehicles from "non-scheduled" countries, permissible imports from the United States of special types of vehicles were reduced.

From the beginning of 1955, the Union of South Africa withdrew a number of items from the "restricted list" of goods for which licensing is subject to administrative decision, and provided quotas for their importation. Preliminary quotas of 33-1/3 per cent of 1948 imports were provided for consumer goods, including textile piece-goods, canned fish, meat and vegetables, jewellery, radios and toys, compared to preliminary quotas of 25 per cent in 1954. Some additions were also made to the list of goods which could be imported without licence. A further relaxation of imports was effected in February 1955, when quotas were substantially increased for components for the assembly of motor vehicles, which had been in short supply in South Africa, and for agricultural machinery and implements. The preliminary quotas for consumer goods were supplemented by a second tranche of 20 per cent which brought the total allocations for the year to over 53 per cent of 1943 imports, compared with the total of 45 per cent granted in 1954. In the new import regulations for 1956, certain changes have been made in the administrative arrangements but the general level of imports is expected to be maintained in spite of a fall in foreign exchange reserves which has been generally considered to have been caused by the rise in the Bank Rates in the United Kingdom and other sterling countries, which seriously affected the flow of capital. In addition, fixed quotas have been abolished for a number of goods in favour of control through special permits which have been issued freely to registered importers, and special arrangements have been made to enable conversion of ordinary import permits into permits valid for imports of a wide range of goods remaining on the "restricted list".

The Federation of Rhodesia and Nyasaland also extended its list of goods which could be imported free of restriction from all sources (except Japan). In the first half of 1955, allocations for dollar imports were raised by about £1 million above the level of actual imports in the previous half-year, but allocations for the second half of 1955 were substantially lower than in the first half-year. A substantial measure of liberalization has been announced for 1956 by the extension of the unrestricted list to cover a large number of items which were previously not permitted to be imported from the dollar area. In addition, currency allocations have been made for the importation under licence of certain types of piece-goods of dollar origin.
Among the Asian countries in the sterling area, Burma on account of the continuous decline in its foreign exchange reserves intensified its restrictions in March 1955. Early in that month, the Government suspended the validity of 50 per cent of the value of all licences issued and cancelled the Open General Licence. The suspension of licences was later withdrawn in respect of imports from the dollar area and open general licensing was restored for a few products of that origin.

In India, in view of a substantial trade surplus with the dollar area in the preceding year, the import programme for the first half of 1955 provided for a slight liberalization of imports from that area, mainly for essential goods. A similar step was taken in the second half of 1955 when for some fifty-five items either dollar quotas were increased or a proportion of soft currency licences issued to each importer was made valid for imports from the dollar area. In September, however, the Government suspended the issue of licences for the import of raw cotton of dollar origin.

From 1 January 1955, Pakistan abolished the distinction between dollar and non-dollar import licences and licences have been valid for imports from all countries. The import policy for the first half of 1955 provided for more imports both in terms of the number of items permitted - 311 compared to 144 in the previous period - and in terms of the value of total quotas granted. The Open General Licence, which had been suspended in November 1952, was, however, not restored and all imports remained subject to individual licensing. The restrictions were somewhat tightened in the second half of the year when the number of importable goods was reduced from 311 to about 150. In August 1955, the Pakistan rupee was devalued by 30 per cent and was thus brought into line with other sterling area currencies which had been devalued in September 1949. In the import programme for the first half of 1956, the number of permitted items has been raised to 211.

Several of the overseas dependent territories of the United Kingdom also modified their import restrictions in the course of 1955 in a way which permitted increased imports from the dollar area. For example, Barbados, Bermuda, Hong Kong and Trinidad either increased the number of licensable import items from dollar countries or enlarged the coverage of the Open General Licences. In the case of Jamaica, the number of products which could be imported from all sources under Open General Licence was increased early in 1955 and in the second half of the year a special scheme was put into force to allow additional imports from Canada and the United States. On the other hand, adverse measures were taken during the year affecting imports of motor cars from North America and of knitted woollen goods, fabrics with synthetic fibre and footwear from all countries except for special permits issued for certain imports from France and Japan to fulfil bilateral trade agreement commitments.
Non-dollar imports

Through successive steps of liberalization, a high proportion of the United Kingdom imports from Western Europe and certain other countries had been freed from restriction in the preceding years. In 1955, further additions were made to the list of goods so liberalized, including iron and steel products, certain fertilizers and chemicals and bananas. Certain other products, e.g. jute, rice and citric acid, were included in Open General Licences for unrestricted import from all sources outside the dollar area. There were no significant changes in the quotas granted for imports from Western Europe which remained under quota control. In June, the licensing arrangements for imports from within the sterling area were simplified and the range of goods for which separate licences are not required was slightly extended.

Beginning with the second half of 1955, the Federation of Rhodesia and Nyasaland considerably relaxed its restrictions on imports from OEEC countries and several other countries which are contracting parties to the GATT. Unlimited licensing was introduced for sixteen of the nineteen classes of goods into which imports were divided for licensing purposes, the three classes not included being textile goods, vehicles, books and stationery. The goods thus liberalized represent 90 per cent of total imports from the countries concerned, and the quotas for certain of the residual items were stepped up. From the beginning of 1956, textiles and ready-made clothes have also been freed from restriction.

In India, the two half-yearly import programmes for 1955 followed the same basic structure developed in previous years, yet it appears that the import policy has become even more closely related to domestic industrial development. Quotas were raised in the second licensing period, mainly in the case of items needed by industry or for meeting increases in demand which had not been matched by corresponding rises in domestic production, e.g. antimony, ingot drills, textile preservatives, paper. For some goods of which rising domestic production met a large proportion of demand, such as saw blades, chains, spark plugs, acetic acid and certain other chemicals, quotas were reduced.

The intensification of restrictions in Burma has been referred to above. In contrast to the case of dollar imports, the suspension in March 1955 of 50 per cent of licences was not withdrawn in respect of non-dollar imports, with the result that the discrimination against dollar imports was somewhat reduced. On the other hand, almost immediately after the total cancellation of the Open General Licences some thirty-five items were restored to the Open General Licence for non-dollar imports. More items were added to the OGL in October and December.
In view of the continued deterioration in its balance of payments, Australia further intensified its import restrictions in April 1955. A number of internal measures were taken or formulated with a view to restoring equilibrium in its balance of payments and to preserving stability in the economy, but further restrictions were considered by the Government to be inevitable in order to stop the rapid decline in the monetary reserves. From 1 April, quotas for both essential and less essential goods were reduced and a few items which had been free from restriction or had been granted fixed quotas were transferred to the category subject to administrative discretionary licensing within quota limits. Owing to the decline in wool prices at the 1955 auctions which opened in August, the Australian Government reconsidered its import policy. As a result, the restrictions were further intensified in October. Imports in the essential category were cut by 12½ per cent, except a few items to which reductions of a smaller magnitude were applied. In the less essential categories, the reduction was generally 25 per cent.

CONTINENTAL WESTERN EUROPE

The 1955 increase in the aggregate gold and dollar holdings of countries other than the United States reflected principally the continued improvement in the reserve position of most continental Western European countries. During the twelve-months period ending September 1955, the largest gain was made by France which added to its holdings an amount of $524 million, cut of the total rise of $1,705 million for the Western European countries. The second largest gain was made by the German Federal Republic with a rise of $425 million, with Italy and Belgium also adding considerably to their holdings.

Dollar imports

In 1953 and 1954 a number of Western European countries had made important progress in the liberalization of imports from the dollar area. Dollar-free lists, covering goods which could be imported without limitation from the dollar area, had been published by the Belgium-Luxemburg Economic Union, Greece, Iceland, Ireland, Italy, the German Federal Republic, the Netherlands, Sweden and the United Kingdom. In 1955 further progress was achieved, and the steps taken by the various countries may be briefly described as follows.

1 See page...

2 These measures taken in April and October were considered by the CONTRACTING PARTIES to GATT to be substantial intensifications of restrictions, and consultations were held between Australia and the CONTRACTING PARTIES, as required by the Agreement. See Part III, page...
In July 1955 Austria put into force a dollar liberalization list covering sixty-five tariff items which represented 8 per cent of the country's dollar imports on private account. In Denmark a first liberalization list was introduced in February 1955 affecting over 200 products or groups of products, representing 38 per cent of the country's private imports from Canada and the United States in 1955. A second list covering some eighty items was brought into force in November raising the percentage to fifty-five.

Up to the end of 1955 all dollar imports into France were controlled through individual licences, although it is understood that certain imports from the dollar area were being licensed in a very liberal way. On 1 January 1956 formal liberalization was introduced and the free list includes various types of machinery, industrial materials, etc. representing 11 per cent of France's total dollar imports.

Germany supplemented the two dollar-free lists issued in 1954 with a third which came into force towards the end of May 1955, embracing some 600 items mainly agricultural products and some industrial products. This new measure raised the dollar liberalization percentage by a further 9 per cent to 68 per cent. The measures affecting dollar imports taken by the United Kingdom have been described in the preceding section, and the level of such liberalization has been estimated at 56 per cent of the country's private imports from the dollar area on the basis of 1953 trade.

In Portugal a free list covering 53 per cent of the country's private imports of dollar origin was announced in August 1955. Switzerland and Greece were the two continental European countries which applied practically no quantitative restriction on dollar imports. In 1955 both countries further extended liberalization to some of the few items remaining under restriction.

The following table shows the percentages of liberalized dollar imports of members of OEEC, as compared with their private imports from the United States and Canada in 1953:

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>8%</td>
</tr>
<tr>
<td>Benelux (Belgium, Luxemburg</td>
<td>87%</td>
</tr>
<tr>
<td>and the Netherlands)</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>55%</td>
</tr>
<tr>
<td>France</td>
<td>11%</td>
</tr>
<tr>
<td>Germany, Federal Republic of</td>
<td>68%</td>
</tr>
<tr>
<td>Greece</td>
<td>99%</td>
</tr>
<tr>
<td>Iceland</td>
<td>3%</td>
</tr>
<tr>
<td>Ireland</td>
<td>15%</td>
</tr>
<tr>
<td>Italy</td>
<td>24%</td>
</tr>
<tr>
<td>Portugal</td>
<td>53%</td>
</tr>
<tr>
<td>Sweden</td>
<td>64%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>98%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>56%</td>
</tr>
</tbody>
</table>

The percentages referred to in this and the following paragraphs are based on calculations made by the OEEC. Although for statistical convenience they are calculated on the basis of trade with the United States and Canada only, measures of dollar liberalization for particular products generally have been applied to imports from all countries in the "dollar area". The term "dollar area" is however defined more narrowly by some countries than by others.
Finland in 1955 extended its liberalization measures to dollar goods. The combined imports from the dollar area and non-dollar countries which have been freed amount to half of the country's total imports.

In addition to the "formal liberalization" through published dollar lists, a number of these countries have enforced various measures which amount to "de facto" liberalization. Most of these have been introduced in the last year or two. In the Benelux countries, Denmark, Ireland, Italy, and Sweden, for example, a certain proportion of imports in the non-liberalized sector has been treated liberally and in some cases licences have been granted upon application. Among the countries which apply no free lists, Norway maintains a liberal régime on a large part of essential imports, which has been estimated at 73 per cent of its total dollar imports.

It should be noted that the progress made in the relaxation of restrictions on dollar imports has not been uniform as between the different categories of goods imported. The emphasis has been mainly on industrial raw materials and other basic commodities the import of which can directly contribute to lowering costs of production. In a considerable number of countries a wide range of manufactured goods remain subject to restriction when imported from the dollar area. Furthermore, the proportion of imports under state trading, while greatly reduced in recent years, remains substantial.

Intra-European Trade

Since 1949 the Western European countries have greatly liberalized their imports from each other. The progress has been based on the successful development of the EPU mechanism, which had guaranteed the transferability of the currencies of OEEC members, and on other favourable factors. By the end of 1954, 83 per cent of OEEC member countries' private imports from other OEEC countries, calculated except in the case of a few countries on the basis of 1948 trade, had been freed from restriction. Early in 1955 the OEEC decided that further progress should be made in the year, and member countries undertook first to abolish restrictions on another 10 per cent of the products which remained under restriction on 30 June 1954, and subsequently to raise their liberalization percentage to at least 90 per cent overall and at least 75 per cent for each of the three categories of imports, namely foodstuffs, raw materials and manufactured goods. While the first of these objectives has been attained by all but three of the member countries, the second objective at least has been achieved by only six of them. As will be seen from the following table, six countries, namely Germany, Greece, Ireland, Italy, Portugal and Sweden have freed 90 per cent overall and 75 per cent in each category; four countries (the three Benelux countries, which in the course of 1955 adopted a common list for OEEC liberalization purposes, and Switzerland) have freed 90 per cent overall, but have not reached the 75 per cent level for the foodstuffs category; among the five countries whose overall percentage falls short of 90, two (Austria and the United Kingdom) have fulfilled the obligation to free more than 75 per cent in each category, two (Denmark and Norway) have failed to do so with respect to manufactured goods, and one country (France) with respect to both foodstuffs and manufactured goods. Two other countries (Iceland and Turkey) have been exempted from these obligations.

1 The effects of dollar liberalization on the trends of international trade are discussed on page...
Liberalization of Intra-European Trade Expressed as Percentage of Private Imports in 1948

<table>
<thead>
<tr>
<th>Country</th>
<th>Foodstuffs</th>
<th>Materials</th>
<th>Manufactures</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>79.4</td>
<td>98.4</td>
<td>83.3</td>
<td>88.7</td>
<td>82.4</td>
</tr>
<tr>
<td>Benelux</td>
<td>69.0</td>
<td>98.6</td>
<td>91.8</td>
<td>91.1</td>
<td>(87.7 (BL)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(92.5 (N)</td>
</tr>
<tr>
<td>Denmark</td>
<td>80.6</td>
<td>98.2</td>
<td>63.3</td>
<td>78.4</td>
<td>75.9</td>
</tr>
<tr>
<td>France</td>
<td>63.2</td>
<td>95.7</td>
<td>64.4</td>
<td>77.5</td>
<td>64.6</td>
</tr>
<tr>
<td>Germany</td>
<td>81.3</td>
<td>98.0</td>
<td>95.6</td>
<td>91.3</td>
<td>90.1</td>
</tr>
<tr>
<td>Greece</td>
<td>(100.0)</td>
<td>(100.0)</td>
<td>(89.0)</td>
<td>(95.0)</td>
<td>(97.0)</td>
</tr>
<tr>
<td>Iceland</td>
<td>56.5</td>
<td>40.9</td>
<td>15.0</td>
<td>29.0</td>
<td>29.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>84.6</td>
<td>97.0</td>
<td>88.9</td>
<td>90.2</td>
<td>76.8</td>
</tr>
<tr>
<td>Italy</td>
<td>97.6</td>
<td>100.0</td>
<td>98.9</td>
<td>99.1</td>
<td>99.7</td>
</tr>
<tr>
<td>Norway</td>
<td>77.5</td>
<td>88.4</td>
<td>70.1</td>
<td>75.0</td>
<td>75.0</td>
</tr>
<tr>
<td>Portugal</td>
<td>88.2</td>
<td>98.9</td>
<td>91.7</td>
<td>93.7</td>
<td>92.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>79.6</td>
<td>100.0</td>
<td>90.6</td>
<td>92.6</td>
<td>91.2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>66.7</td>
<td>100.0</td>
<td>97.2</td>
<td>92.5</td>
<td>91.6</td>
</tr>
<tr>
<td>Turkey</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>89.8</td>
<td>83.6</td>
<td>78.0</td>
<td>84.8</td>
<td>82.9</td>
</tr>
<tr>
<td>Total</td>
<td>81.9</td>
<td>93.5</td>
<td>81.3</td>
<td>85.8</td>
<td>83.3</td>
</tr>
</tbody>
</table>

Since these figures were published Austrian liberalization has been raised, through measures taken in January 1956, to 90.3 per cent, and the French total has been raised to 79 per cent. It should be noted that the percentages for Greece show the "de facto" liberalization which the Government, in order to retain flexibility, has not officially notified to the OEEC.

The countries which have not complied fully with the obligations have, as envisaged in the OEEC decision, invoked various reasons, such as balance-of-payments difficulties, safeguards for industries of national importance, or equity. Others have requested more time for their fulfilment. Furthermore, the obligations to liberalize to 90 per cent, imposed by the OEEC decision of January 1955, were qualified in many important aspects. Among other things, provision was made for members to withdraw measures of liberalization after
a period of eighteen months and, towards the end of this period, for a general review of the extent to which countries have fulfilled their obligations, taking particularly into account the degree of reciprocal treatment achieved. The OEEC has commented on the difficulties in dismantling the remaining restrictions and in definitely liberalizing imports, in the following terms:

"The difficulties in the way of further progress towards liberalization are complex, since they often involve several of the following considerations. In several countries, including some of the more important ones, the balance of payments is still unstable. The sectors still protected by quotas are often the least efficient ones, and hence are those where such protection is most uneconomic, but where opposition to foreign competition is strongest. The greater the sacrifices, the more the countries insist on strict reciprocity from their partners, and the use of means of protection other than quotas (customs tariffs, State trading, etc.) appears all the more contrary to the idea of equality of treatment. Countries which consider themselves harmed by such practices tend to retain quotas as a defensive weapon. Lastly, quantitative restrictions are sometimes retained as a check on competitive practices which the countries consider unfair. The greatest difficulties, however, are to be found in regard to the liberalization of agricultural products, as in this sector production policy has for a long time been formulated without taking sufficient account of the advantages of the international division of labour. This development, resulting from a complex set of historical, political and social factors, can only be changed by national corrective measures, harmonized with the gradual reduction of obstacles to international trade."

Concerted international action is evidently necessary for the removal of such impediments to further progress. In 1955 the CONTRACTING PARTIES to GATT, after reviewing the provisions of that Agreement, made certain changes with a view to keeping the restrictions applied for balance-of-payments reasons under closer scrutiny, and as indicated above, agreed to give special consideration to circumstances requiring a more gradual dismantling of restrictions. During the year, the CONTRACTING PARTIES considered the case of Belgium, a country whose import restrictions are no longer justified on those grounds. As for the question of further liberalization being retarded by tariff disparities, it should be noted that the CONTRACTING PARTIES to GATT are constantly engaged in reviewing tariff levels and in promoting the reduction of tariffs.

1 Seventh Report of OEEC, pp. 67-68.
2 See page....
3 See Part III, page....
Among non-OEEC countries in Europe, Finland introduced in the middle of 1955 a new system under which about half of the country’s imports were licensed automatically upon application. Until about the end of the year, when the number of items covered was increased, this system was limited to non-dollar imports.

**LATIN AMERICA**

Although the gold and dollar holdings of some Latin American countries increased in 1955 the general balance-of-payments position of the region remained adverse. This reflected the continued deterioration in the trade balance of some of the countries exporting primary products. On the basis of the trade figures of the first nine months of the year, deficits were incurred by Argentina, which had had a trade surplus in 1954, and by Peru and Uruguay. Trade surpluses were reduced for Chile and certain other countries in this area.

In most of the countries in this area there is relatively little discrimination against dollar imports as such. The discriminatory elements in their restrictions generally arise from their reliance on bilateral arrangements and from the special attention they give to the trade on current account balance with individual countries. And restriction itself is to greater extent than elsewhere in the world achieved through exchange restrictions, exchange taxes or differential exchange rates. In 1955, a number of countries made adjustments in their exchange rates and some progress was also made towards simplifying the trade and payments systems. An attempt was also made by some of the countries at reducing the rigidity of bilateral trading arrangements.

Since exchange measures play a much more important part in Latin American countries, it is difficult, if not impossible, to gain a clearion of the pattern of their restrictions on trade without some description of the measures taken in the exchange field in so far as they affect imports.

In 1955, Argentina made several changes in its classification of imports the granting of exchange permits at the official and other exchange rates. October, following a change in the general outlook in economic policy, series of decrees were issued whereby radical changes were made in the exchange control system. The major alterations were the abolition of the buying and selling rates and the substitution of various exchange rates applicable to various types of transactions.

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Exchange restrictions are dealt with in great detail in the annual reports on exchange restrictions by the International Monetary Fund. The seventh report in the series will be published in the spring of 1956.
Brazil made some changes in the system adopted in October 1953 under which import licences were issued automatically to holders of foreign exchange sold by auction by the exchange control authorities. An arrangement entered into between Brazil and certain European countries for the purpose of making their currencies transferable will be discussed in a later section on trade agreements.

In Chile, inflationary forces have been increasing in strength in recent years; the pressures exerted on its balance of payments by the high demand for imports are reinforced by rising costs which impede the competitive position of the country's exports in the world market. The severe strain on the payments position was somewhat alleviated by the recovery in the United States price of copper in early 1955, but this did not prevent the country from continuing to experience difficulties in its external payments. In 1955 the Government engaged a team of international experts to study the problems of inflation and instability which were faced by the country with a view to formulating new policies to remedy the situation. In 1953 the Government had made attempts gradually to simplify the exchange rate structure, but beginning in 1954 ad hoc adjustments in exchange rates applying to particular commodities were again resorted to and resulted in a selective devaluation of the peso. In 1955, however, imports with a few exceptions were again subject to settlement at a unified rate of P.200 to the dollar. Later in the year some imports were granted the preferential rate of P.110. A "prohibited list" was maintained which prevented the import of products which competed with domestic production. Furthermore the import of certain goods was permitted only if they were paid for at the free rate with exchange obtained from exports of a few commodities (iron ore, nitrate, zinc and wines).

In the new control system instituted by Colombia in February 1955, imports were divided into five categories, each of which was made subject to "stamp taxes" at a different rate. Raw materials for essential industries, the "preferential" category, were taxed at 3 per cent, other materials and essential products at 10 per cent, essential durable and semi-durable goods at 30 per cent, less essential goods, which were importable only from certain countries, at 80 per cent. For specified non-essential goods the stamp tax rate was 100 per cent, of which 60 per cent must be paid in "export vouchers". Specified luxury goods were prohibited; the items affected included motor cars costing over $2,000, clothing, salt and matches. Extensive changes were made in the control system in May; among other things, free market exchange rates were again to be used for certain imports. In October, the area covered by the official rate of exchange was reduced and the use of the free market rate was extended.
OTHER COUNTRIES

The non-sterling countries of Asia increased their total gold and dollar holdings by $357 million during the twelve-month period ending September 1955, compared with a $270 million decline during the previous year. This improvement to a large extent reflected the more favourable balance of payments of Japan and Indonesia, which added $198 million and $48 million respectively to their holdings. The rise in foreign exchange holdings in Japan was principally due to a substantial increase in exports which followed the accession of Japan to GATT and the entry into force of the tariff concessions granted to Japan by certain contracting parties to that Agreement. The increase in its exports to sterling area countries may be partly attributed also to the relaxation of import restrictions in those countries. In Indonesia's case the increased exports of rubber, petroleum products and sugar were responsible for the increase in earning. Thailand benefited from an increase in the volume of rice exports and from a higher price for rubber.

Principally due to an increased need for imported goods, several countries in Asia and the Far East took various steps to liberalize their imports. In part this tendency has developed also from an increasing awareness of the limitations of quantitative import restrictions as a means of redressing any imbalance in a country's external payments. In the case of Japan the economy has benefited greatly from the internal economic measures which helped to restore stability and external equilibrium. On the other hand, certain countries in the Far East, notably Burma, Ceylon and Indonesia, have used the licensing of imports as a means of securing a larger share of their import trade for their own nationals.

The Japanese import budget for the six-month period April - September 1955 provided for a liberalization of imports from the sterling area and other non-dollar countries. A further increase in exchange allocations, mainly, but not exclusively, for imports from the sterling area, was made in the import budget for the subsequent period, October 1955 - March 1956. Following a new Anglo-Japanese trade and payments agreement, concluded in October 1955, Japan revised its import budget and further relaxed its restrictions on imports from sterling area countries. Along with import restrictions Japan also agreed to remove certain discriminatory measures affecting sterling imports, such as the requirements of a higher collateral deposit than for imports from certain other sources including the dollar area. Furthermore the automatic approval system was extended to many items normally exported by sterling area countries, a measure which should have the effect of increasing Japan's imports from those countries.

In September 1955 Indonesia simplified its import regulations and introduced a new system under which less reliance was placed on quantitative restrictions; imports were divided into four categories and exchange taxes at various rates were imposed. These increased surcharges, coupled with the requirement of prepayment of a certain percentage of the value of imports and a stricter credit policy applied by the Central Bank, were expected effectively to limit the value of imports without the use of import licences.
In 1953 Thailand had adopted a comprehensive system of import restrictions with a view to restoring balance in its external payments. In 1955 various measures were taken to provide incentives for the expansion of its export of rice. The Government, however, found that the extensive use of import restrictions had the effect of reducing customs revenue. In September 1955 it decided to eliminate all import restrictions except on a limited list of items and to increase the rates of customs duty on items which were regarded as non-essentials or which were of a type being produced locally.

In August 1955 the Philippine Republic, seeking to avert a further decline in its foreign exchange reserves, reduced its exchange quotas for imports in the six-month period July - December. While no change was made in the quotas for essential and less essential producers' goods, quotas for non-essential consumer goods were on the whole reduced by 50 per cent of the amount imported in the previous licensing period. Certain specified items were cut by 70 per cent. In December the import of cotton and rayon knitted fabrics was prohibited on the ground that local production adequately met domestic needs. The measure was taken partly also to conserve foreign exchange. The import of coffee beans was prohibited in December.

Changes in import controls were made in the past year by a number of countries in the Near East. Among the more important measures taken were those by Egypt, which relaxed its import restrictions on dollar goods in March and which abolished in September the "sterling import entitlement account" which had had the effect of discriminating against sterling area imports to Egypt. In October the import of certain non-essentials such as luxury motor cars, refrigerators, radio receivers, etc., was suspended in order to conserve foreign exchange, in view of the weakened demand for the country's cotton exports. The action it has taken to promote such exports to Eastern countries through bilateral arrangements will be discussed in the next section.
BILATERAL TRADE ARRANGEMENTS

While there has been little reduction in recent years in the number of bilateral trade agreements, the character of these agreements has undergone some fundamental changes. As noted in last year's report, comparatively few of the bilateral trade agreements now in force have been designed to balance the total trade between the partners, as was the case in the earlier postwar years. But in 1955, a number of agreements covering the whole range of trade between the partners were negotiated, principally by Eastern European countries and China. The effects of this new development, however, are not yet clear.

With the gradually widening transferability of currencies, countries which still rely on bilateral arrangements as a major method of commercial policy are finding it increasingly difficult to obtain from the trading partners those reciprocal advantages without which bilateral quota arrangements would serve little purpose. Furthermore, the diminishing number of commodities traded by State Agencies has also reduced the need for governments to enter into firm commitments.

In spite of these developments, some countries have been reluctant to relinquish their resort to them. Some countries still see in such agreements a means of maintaining exports that are important in their trade, and sometimes of preventing a decline in the prices of their exports. Even when, as is often the case, no present advantage is to be derived from such arrangements, and when clear advantages are manifest in a policy of freer trade, some countries hesitate to deprive themselves of this means of protection so long as their competitors have not renounced the use of bilateral arrangements. Many agreements are apparently continued more as a kind of safeguard against the event of the introduction of new import restrictions by trade partners, rather than out of any real necessity. Consequently, although the scope and rigidity of bilateral trade agreements were further reduced in 1955, the general elimination of such agreements is not yet in sight.

One of the reasons for which bilateral agreements providing for quotas are entered into is the need to supplement bilateral payments arrangements. And it is interesting to note that in the past year there have been developed several payments arrangements which aim at avoiding the rigidity and inconveniences of bilateralism by bringing more than two parties into payments relationship. In the preceding year, Germany had introduced the Be-Ko Mark which is transferable for current payments among a large number of countries. In 1955, the use of the Be-Ko Mark was further extended by an arrangement with Brazil, Finland, Japan, Paraguay, Spain and Hungary. By November 1955, there remained only a few countries with which Germany's payments were cleared on a bilateral basis.

1 A summary of newly concluded bilateral trade agreements is compiled every six months by the GATT secretariat, and is distributed with the January and July issues of the Trade News Bulletin.

2 See International Trade 1954, pp. 119-126, where the motives for the negotiation of these agreements were described in some detail.
Finland, which is not a member of EPU, made arrangements with the Netherlands, Switzerland and the United Kingdom whereby its export earnings from these countries can be used for import payments to any EPU country. Brazil negotiated an agreement with the German Federal Republic, the Netherlands and the United Kingdom, by which a payments system was set up under which Brazil’s earnings from Germany, the Netherlands and the United Kingdom together with the sterling area countries would be pooled and used for payments for its imports from any of these sources. This was later extended to Belgium. This multilateral arrangement is regarded by its proponents as a major step towards the liberalization of Brazil’s imports as it lessened the need for discrimination in the trade among these countries. In January 1956 officials of the five countries met and agreed to try to extend the operation of this multilateral arrangement to other European and Latin American countries. These various attempts at jettisoning bilateralism seem to give a lead to the aspirations, particularly in Latin America, for developing better methods of settling external payments, instead of the bilateral arrangements.

Although a large number of trade agreements were signed in the past year, many of them represented merely an extension of expired or expiring agreements, and as such affected but little the existing pattern. In the following paragraphs attention will be drawn to some of the more important and more significant developments in 1955.

Trade agreements concluded between West European countries in 1955 generally aimed at increasing trade volume in the sectors of imports which remained under restriction. In some cases trade benefited from the replacement of earlier value quotas for certain commodities by quotas expressed in terms of volume. The negotiation of some agreements proved particularly difficult. The agreement concluded between France and Switzerland in October 1955, for example, was signed only after prolonged negotiation and after increased import commitments were accepted by both parties. In the agreement concluded between Sweden and Germany liberalization was secured for motor car imports into Sweden, but in return Germany had to agree to take increased quantities of wheat from Sweden. Negotiations between France and Germany encountered difficulties when it came to the fixing of quotas for those goods of which French trade liberalization had been withdrawn, and to the determining of seasonal quotas for agricultural products. These instances will help to illustrate the increased difficulty in negotiating for special advantages in the face of the narrowing area of imports subject to restriction.

Among the goods which remained under restriction in intra-European trade, motor cars figured prominently in the bilateral arrangements that were negotiated in 1955. The Swedish-United Kingdom agreement for 1956 provided for the first time a small quota for the import of Swedish motor cars into the United Kingdom. Increased imports of cars from the USSR and Czechoslovakia were agreed to by Norway, Iceland, Sweden and Finland.
Among OEEC countries Turkey has had persistent difficulties in balancing its trade and has accumulated substantial debit balances with a number of countries. In order to meet its payment deficits and to clear the arrears in payments, agreements were negotiated with Western European countries which provided for increased deliveries of cotton, ores and grain. The agreements reached generally provide for a part of the surplus in trade to be used for payments of those arrears.

A large proportion of the trade between Western European and Latin American countries is still carried out under bilateral arrangements, but some of the agreements concluded in the past year have indicated a tendency towards liberalization; for example, under the agreement concluded between Chile and Switzerland, Chilean exports to Switzerland have been granted the same treatment as those originating in OEEC countries. Among the notable agreements concluded were the one between France and Chile which provided for increased imports of Chilean copper and nitrates into France, and those between Venezuela and France, between Venezuela and Switzerland and between Uruguay and Switzerland.

Some Latin American countries entered into important deals involving barter or compensation. For example, Colombia resumed compensation arrangements with respect to its exports of coffee, bananas, hides and skins, and petroleum; arrangements were made by Chile with Switzerland for the exchange through compensation, of various Chilean exports for Swiss textiles; and an agreement between Yugoslavia and Chile provided for the exchange on a compensation basis of a considerable volume of nitrates and copper for industrial products. An agreement between Uruguay and Japan covered the exchange of Uruguayan rice for railroad equipment and a similar agreement between Colombia and Japan provided for the exchange of coffee for ships. Among the more important barter deals concluded in the past year was that between Mexico and Indonesia in which the former's cotton was exchanged for rubber from the latter country. Within Latin America bilateral agreements of one year's duration were concluded between Argentina and Bolivia and between Argentina and Paraguay.

Changes in domestic and commercial policies are being contemplated in many Latin American countries. But so far there have been only minor changes in the basic system under which trade of these countries has been carried on since the war; while the northern countries of Latin America and the Caribbean countries generally settle their mutual trade in convertible currencies, the countries in the southern part of the Continent carry out by far the largest part of their transactions under bilateral clearing or barter arrangements.

Among countries in the Far East, Japan has somewhat reduced the proportion of its trade which is conducted through bilateral clearing or barter. In 1955 bilateral clearing was resorted to in an attempt to expand trade with Sweden which had been stagnant for some time, but its trade with Germany has, since October 1955, been put on the basis of the Be-Kc Mark. A recent agreement with Italy which superseded the earlier bilateral clearing agreement provided for payments in free currencies; the purchase of certain important commodities, e.g. Italian rice, is to be negotiated separately.
The payments agreement for 1956 between Japan and the United Kingdom provides for an increased trade turnover between Japan and sterling area countries. As has been mentioned in the previous section, Japan has agreed to increase import quotas for certain British goods and has agreed to eliminate regulations which discriminate against sterling goods.

The agreements that are still being maintained by countries such as Burma, Ceylon, Taiwan, Pakistan and Thailand mainly aim at securing markets for their major staple exports such as rubber, rice, cotton and tea. Although some of these agreements do not provide for bilateral balancing of trade or fixed quotas the countries exporting these primary commodities nevertheless are often obliged to license imports up to a comparable value from the partner countries. It is under such obligations that Pakistan, for instance, which otherwise applies no discrimination in licensing imports, issues special licences valid for imports from Japan or France which agreed to open quotas to purchase Pakistan exports. In the case of India agreements are in force with several Western European countries but none of these involves definite commitments on either side; the lists included in these agreements merely show the commodities which are available for export. Some of the recent agreements of India, e.g. the agreement with Indonesia, reflect the increasing extent to which India has become able to export industrial goods.

The USSR, the Eastern European countries and China, all of which practise state trading and have extensive trade agreements with countries in various areas of the world, entered into such agreements with more countries. Several Eastern European countries concluded agreements with Yugoslavia; the USSR entered into bilateral trade relations with Austria; and Bulgaria concluded its first postwar agreement with the United Kingdom. With these developments the network of bilateral trade arrangements between East and West European countries became all but complete. Of all countries in Western Europe only Spain, Portugal and Ireland were not linked in this way with countries in Eastern Europe. It is, however, with countries in Asia, the Middle East and to some extent Latin America, that bilateral trade of the East European countries has expanded most noticeably during 1955.

The year 1955 will be remembered as one in which the USSR and other East European countries began to apply an active trade policy in Asia, the Middle East and Latin America. The beginning of this policy was marked by trade agreements concluded with various countries in these regions, in many cases accompanied by arrangements on technical aid and long-term arrangements for repayment in kind or credits provided for capital goods. An agreement concluded between the USSR and Israel provided for the exchange of Soviet petroleum products for fruit; under the agreements concluded between the USSR and Syria, a wide range of Soviet investment goods were exchanged for cotton, wool, tobacco and certain other products. The USSR also signed a similar agreement with Afghanistan. Agreements signed by the USSR and Poland with Burma provided for the import of rice to be paid for with industrial equipment, vehicles, ships, etc. Czechoslovakia agreed with India and Indonesia to increase the volume of their mutual trade, and East Germany signed a new agreement with the Sudan. In addition several East European countries, notably Poland and Czechoslovakia, have been negotiating with Ceylon with a view either to concluding regular trade agreements or to making specific deals.
A barter agreement was signed between the USSR and Egypt for the exchange of Egyptian rice for petroleum. A new agreement between Czechoslovakia and Egypt made express mention of the possibility of triangular trade. By entering into a three-year agreement with China, Egypt secured an assured market for its cotton. In exchange Egypt will receive various industrial products including steel and machinery. Cotton exports to countries in Eastern Europe with which Egypt has trade agreements have been given the added facility of governmental credit guarantee by the Egyptian Government.