GENERAL AGREEMENT ON TARIFFS AND TRADE

Eighth Session of the Contracting Parties

BALANCE-OF-PAYMENTS CONSULTATIONS HELD UNDER ARTICLE XII
AND ARTICLE XIV

1. In accordance with certain specific provisions of the General Agreement on Tariffs and Trade, the Contracting Parties have held at their present Session consultations with a number of governments on particular aspects of the import restrictions which they apply for the purpose of safeguarding their balance-of-payment and monetary reserves. Participating in these consultations were Australia, Ceylon, Chile, Finland, Pakistan, Sweden, Southern Rhodesia and the United Kingdom.

2. The provision of consultations with individual governments is one of the special features of the General Agreement, and the purpose of consultations on import restrictions is to afford an opportunity for the exchange of views on the problems facing the countries imposing restrictions and the difficulties which were created for exporting countries by the restrictions. On this occasion the Contracting Parties discussed in considerable detail the financial basis and the policy and administration of the restrictions in question.

3. As provided for in the General Agreement the Contracting Parties consulted fully with the International Monetary Fund and representatives of the Fund participated in the consultations conducted by the Contracting Parties. In each of their consultations, the Contracting Parties had before them and made extensive use of background material prepared in the Fund in connection with its consultations under Article XIV of the Fund Agreement. They also took into account the results of the Fund's consultations with the countries concerned. The consultations were concluded after a full and frank discussion in which the governments concerned readily provided the information required by the Contracting Parties and opinions were freely exchanged. The representatives of the governments whose restrictions were the subject of the consultations indicated that they had taken full note of the views expressed by other contracting parties and that these views, as well as certain specific requests, would be conveyed to their respective governments for consideration.

4. In conducting these consultations, the Contracting Parties have arrived at certain general conclusions. It was noted that there has been a marked improvement in the world dollar situation in the past year. Although this improvement has been achieved with the help of certain temporary and artificial factors, including continued restrictions against imports from the dollar area and the
heavy volume of United States off-shore purchases and military and other expendi­tures abroad, it appears to have been due in large part to the operation of more fundamental causes. The lessening of inflationary pressures in many countries has reduced the high demand for imports and the supply situation of many goods has been eased owing to increased production in the non-dollar world, where im­proved productivity and more stabilized costs in many countries have made their products more competitive with those from dollar sources. The falling of non­dollar prices more into line with dollar prices has helped to lessen the risks of moving towards the non-discriminatory application of restrictions. At the same time, the sustained high level of economic activity in the dollar area has main­tained and expanded imports from the rest of the world. Some of these more fundamental factors to which the improvement can be attributed seem likely to be enduring and to this extent should provide an opportunity for making an advance towards a system of international trade free from restrictions and discrimination. On the other hand, if the goal of world trade on a fully balanced and self-sustain­ing basis is to be achieved, both creditor and debtor countries will have to pursue appropriate policies. It is gratifying to note that serious consideration is being given by the governments of certain important countries to the forma­tion of consistent policies in this field, and that a renewed and vigorous determination to pursue policies leading to the achievement of the basic objectives of convertibility and multilateral trade has been manifest both in the pronounce­ments and action of many governments.

5. In reaching these general conclusions the Contracting Parties noted that not all countries shared in the overall improvement in the world payments situa­tion. In particular some of the countries dependent on the production and export of primary commodities have in fact experienced a deterioration in their external financial position associated with a decline in the prices of their basic exports. These countries have been unable to make rapid adjustments in their demand for imports in the face of a decline in their export earnings. The Contracting Parties noted that these difficulties became more acute in cases of countries which were engaged in large development programmes.

6. In a report they made in October 1952, the Contracting Parties noted that discriminatory restrictions could not in themselves be regarded as providing a satisfactory solution to balance-of-payments difficulties. "At most, they may prevent a further deterioration in a country's reserve position (or in the case of a contracting party with very low monetary reserves, permit it to achieve a reasonable rate of increase in its reserves), pending the adoption of fundamental corrective action. When maintained for long periods, their effect on a country's industry and trade may even accentuate the balance-of-payments difficulties and prolong them"; it said. Attention was also drawn to the relationship between internal monetary and fiscal policies pursued by governments and their balance­of-payments position, and in several cases, substantial improvements in the external financial position were noted consequent upon the introduction of policies aimed at achieving and maintaining internal economic stability. The Contracting Parties are gratified to note that in the period now under discussion these
conclusions have been further confirmed by developments in an increasing number of countries. It is no accident that those countries which have been most successful in controlling inflation should have made the greatest progress in overcoming their external economic problems. Last year's report also stressed the undesirable effects of import restrictions and the inherent dangers of discrimination. The Contracting Parties are of the impression that in the past year those contracting parties which pursued policies of reducing discrimination and import restrictions, especially in the fields of raw materials and basic foodstuffs, obtained substantial benefits by way of lower import expenditure and increased competitive power, with a favourable effect on their overall balances of payments.