REPORT OF WORKING PARTY "K"
ON CONSULTATIONS UNDER ARTICLE XII:4(b)

(As approved by the Contracting Parties on 8 December 1950)

1. INTRODUCTION

1. In accordance with the terms of reference agreed upon by the Contracting Parties, the Working Party initiated consultations with Australia, Ceylon, Chile, India, New Zealand, Pakistan, Southern Rhodesia and the United Kingdom under the provisions of Article XII:4(b). The Working Party also consulted with the International Monetary Fund on behalf of the Contracting Parties in accordance with Article XV:2. The Working Party had before it the documents supplied by the International Monetary Fund for each of the countries entitled "Background Notes." Some members of the Working Party wished to make certain comments on the information thus provided. Their comments, together with the comments of the Fund thereon, are contained in an annex to this Report. The International Monetary Fund also provided reports on each of the countries (1), the factual portions of which are for convenience annexed to this Report, and the conclusions summarised below. The countries with whom consultations took place submitted statements as to their position and made certain comments on the reports submitted by the Fund. Those statements, and others submitted to the Working Party, have been distributed as separate documents. (2)

(1) The reports provided by the International Monetary Fund on the import restrictions of the following countries have been numbered as follows:

- United Kingdom CP.5/K/SECRET/1
- Australia CP.5/K/SECRET/18
- Ceylon CP.5/K/SECRET/19
- India CP.5/K/SECRET/20
- New Zealand CP.5/K/SECRET/21
- Pakistan CP.5/K/SECRET/22
- Southern Rhodesia CP.5/K/SECRET/23
- Chile CP.5/K/SECRET/24

(2) These documents have been distributed under the following symbols:

Memorandum submitted by the United Kingdom delegation on behalf of the Governments of Australia, New Zealand, India, Pakistan, Ceylon, Southern Rhodesia and the United Kingdom SECRET/CP/11

Notes by the Australian and Ceylon delegations to be read in conjunction with the above Memorandum GATT/CP.5/K/243

Statements by representatives concerning the position of their own respective countries:

- United Kingdom CP.5/K/SECRET/2 & 5
- Ceylon CP.5/K/SECRET/12
- India CP.5/K/SECRET/11
- New Zealand CP.5/K/SECRET/8
- Pakistan CP.5/K/SECRET/9
- Southern Rhodesia CP.5/K/SECRET/14

Statements by the representative of the United States:

Relating to the United Kingdom CP.5/K/SECRET/4
Relating to Australia CP.5/K/SECRET/7

Statements by the representative of Cuba regarding the United Kingdom and Australia CP.5/K/SECRET/17

Statements by the representative of the International Monetary Fund and by the representative of Australia concerning the position of Australia and the Sterling Area CP.5/K/SECRET/13, 15, 25 and 26.
2. The consultations on the import restrictions of the countries concerned were, in conformity with the discussion in the plenary session, not limited to the situation as it existed at the time the matter was first on the agenda of the Contracting Parties. In this connection, the representative of Australia associated himself with the position taken by the representative of the United Kingdom when this matter was discussed in the plenary meeting. He stated that the Australian Government considered that these consultations ought to be confined to the circumstances existing when the intensification of restrictions which had given rise to the consultations took place. However, the Australian Government, like the United Kingdom Government, were prepared to proceed with these consultations in the light of current circumstances without prejudice to their contention. In these circumstances, the Working Party considered it unnecessary to seek a ruling from the Contracting Parties on this point. The Working Party noted special circumstances which had led to the postponement of the consultations with the acquiescence of the contracting parties concerned. It agreed that normally all consultations initiated under Article XII should be expeditiously carried out.

3. On the basis of the material before the Working Party there was a full and frank exchange of views relating to the matters referred to in Article XII:4(a). The opinions expressed in this exchange of views on restrictions against hard currency countries are set out in Section II of this Report.

II. STATEMENTS AND VIEWS

(a) International Monetary Fund

4. The representatives of the International Monetary Fund stated that on the basis of the factual material presented by the Fund to the Contracting Parties, the Fund had concluded that in the case of the United Kingdom, Australia, New Zealand and Ceylon the present level of reserves and the current rate of earnings made feasible a progressive relaxation of restrictions. In each case this opinion was qualified to the effect that caution in the degree and rate of such relaxation was justified having regard to the extent to which current demand for imports is being controlled by the existing restrictions, and in the case of the United Kingdom, Australia and New Zealand, to the adverse reaction on net earnings which may arise from the economic and financial burdens undertaken to cope with the international situation.

Moreover, in the case of the United Kingdom, caution was also required having regard to the undesirability of any serious decline in reserves from the present level. In the case of Australia and New Zealand, the extent to which the improved position could be made the basis of a relaxation of restrictions also depended in part on the convertibility of their non-dollar (especially sterling) earnings and reserves. A special factor in the case of Australia was the indicated large inflow of foreign capital.

5. As regards Southern Rhodesia, the International Monetary Fund had not been able to reach a judgment as to the feasibility of relaxing restrictions until more information was available, particularly as to capital movements. It appeared, however, to the International Monetary Fund that Southern Rhodesia might be able to undertake some reduction of discrimination against hard currency imports, although such relaxation would probably involve some additional restrictions against soft currency imports.

6. In the case of Chile, the International Monetary Fund pointed out that the present international situation might reasonably be expected to maintain the demand for Chile's principal exports and improve the balance of payments situation in the remainder of 1950. However, it was the Fund's opinion that the level of reserves and the degree of domestic stability which could be achieved in Chile in a short time did not yet make feasible a further general relaxation of restrictions.
7. In the case of India, the Fund representatives pointed out that there had been some recent relaxation of overall import restrictions, including restrictions against dollar imports, which were resulting in a significant use of present reserves. The current indications were that under prevailing conditions, including the trade difficulties with Pakistan, India might again be experiencing a balance of payments deficit, including a dollar deficit. The Fund was of the opinion that, under these conditions, India did not appear to be in a position to undertake further substantial relaxations of import restrictions.

8. With respect to Pakistan, the Fund reported that the present import restrictions of Pakistan were intended to cope with various balance of payments factors affecting Pakistan's reserve position, particularly with those special factors arising out of government purchases in the United States, and trade difficulties with India. Until these factors were reduced in importance and the conditions improved, Pakistan did not appear to be in a position to relax its import restrictions.

(b) Members of the Working Party and Other Contracting Parties

9. As regards Chile, India and Pakistan, note was taken by the Working Party of recent relaxations by these countries and in no case was it suggested that further relaxation of the general level of the restrictions under discussion was appropriate at this time. In the consultation representatives of these three countries explained the steps which their Governments were taking to overcome the special difficulties which they were encountering, and members of the Working Party expressed the hope that their situation would improve sufficiently to permit further relaxation to be undertaken.

10. The Belgian, Canadian, Cuban and United States representatives expressed the opinion that the time had come for Australia, Ceylon, New Zealand, the United Kingdom and Southern Rhodesia to begin the progressive relaxation of their respective restrictions on imports from the dollar area. Emphasis was laid, in the first four of these cases, on the sharply and steadily improving dollar balance of payments positions of these countries since the devaluation of their currencies in September 1949. Southern Rhodesia has maintained a small but consistent gold and dollar surplus in recent years. In the case of Ceylon, this favourable movement in current dollar accounts has materially increased a consistent dollar surplus. In the cases of Australia, New Zealand and the United Kingdom, the latter including its dependent overseas territories, 1949 dollar deficits have been transformed into substantial and increasing 1950 dollar surpluses. During the same period, the gold and dollar reserves of the United Kingdom, which also serve as gold and dollar reserves for countries which hold reserves in London, have been rising rapidly, quite apart from any increase attributable to extraordinary foreign assistance. In the case of all of these countries, current export returns and the various factors affecting prospects in the coming year are predominantly favourable for continued improvements in dollar earnings. The Belgian, Canadian, Cuban and United States representatives called attention to the substantial increase in productive capacity in the United Kingdom, the high prices for major exports of many of these countries, the increasing availability of needed imports in soft currency areas at prices competitive with prices in the dollar area, the high level of demand in the dollar area with the prospect that this will continue and probably increase, the effect of devaluation upon the competitive position of these countries' exports in dollar markets and the effects to be anticipated from the investment of time and effort which has been put into the United Kingdom's dollar export drive.

11. The Belgian, Canadian, Cuban and United States representatives recognised that, in the case of each of these countries, caution in the degree and rate of relaxation was justifiable in the light of various uncertainties, particularly the net impact of rearmament programmes on the dollar positions of Australia, New Zealand and the United Kingdom. In the case of the five countries
caution was likewise justified in view of the difficulties of determining the amount of demand for imports which is being controlled by the existing restrictions. Nevertheless, it was the opinion of the Belgian, Canadian, Cuban and United States representatives that, with all due caution, it was now possible for Australia, Ceylon, New Zealand, the United Kingdom and Southern Rhodesia to begin the progressive relaxation of their restrictions against imports from the dollar area.

12. The representatives of all the Commonwealth countries whose import restrictions were the subject of the consultation, whether members of the Working Party or not, submitted that their action in restricting dollar and other hard currency imports was directed towards protecting and building up the gold and dollar reserves of the sterling area. The representative of the United Kingdom felt that, while those members of the Working Party who had expressed views on the possibility of the relaxation of restrictions by the Commonwealth countries concerned had said that they were well aware of and had given full consideration to the existence of the sterling area, they did not give adequate weight to the common interest which the individual countries must have in protecting and strengthening the central reserves of the sterling area as a whole. In this connection the United Kingdom representative pointed out with regard to the reference by the Fund to relaxation by Australia and New Zealand depending "in part on the convertibility of the non-dollar (especially sterling) earnings and reserves" that, whether or not sterling is convertible, the members of the area have a common interest in the central reserves of the area and that it was precisely this common interest that formed the basis of the sterling area relationships and of the action taken by the Commonwealth sterling area countries.

13. The United Kingdom representative also felt that the views referred to above gave insufficient weight to the need for further strengthening of these reserves. The events of recent years had shown the effects on the sterling area system which could follow from comparatively minor changes in world economic conditions. There had been a great improvement in the reserves in the past twelve months but they were still inadequate in relation to the further progress that must be made towards the declared objectives of fully multilateral world trade and the eventual restoration of sterling convertibility. When the Commonwealth Ministers had met for economic and financial talks in London in September 1950, they had agreed that the restoration of the central gold and dollar reserves of the sterling area to an adequate level remained of great importance.

14. In this connection the United Kingdom, Australia and New Zealand representatives felt that undue weight had been given to the favourable factors in the developments of the past 12 months and that insufficient attention had been paid to the adverse factors operating in the present situation, the full force of which would not be felt until 1951. It was pointed out that the surplus in the sterling area's balance of payments with the dollar area which had prevailed since late in 1949 accounted for less than one-third of the increase in the sterling area's reserves since devaluation. Receipts under the European Recovery Programme and other external assistance were declining sharply and it was quite impossible at present to forecast what the position in this respect would be in 1951. Account must also be taken of the fact that some part of the recent increase in reserves was attributable to the speculative movement of capital into the United Kingdom.

15. The representatives of the United Kingdom, Australia, New Zealand and Ceylon also pointed out that the improvement in sterling area dollar earnings was closely related to the development of the United States stockpiling programme, which would not continue indefinitely, and to the exceptionally high prices brought about by the unsettled international situation. The representative of the United Kingdom pointed out that the full impact of higher prices for dollar imports and of growing shortages of non-dollar supplies had not yet been felt.
16. The United Kingdom representative also stressed the burden which the additional defence programme and other measures associated with it would place on the United Kingdom economy. This programme would necessarily involve increased dollar imports and, as the diversion of productive capacity became fully effective, would impair United Kingdom export capacity. Every effort would continue to be made to maximise both dollar earning and dollar saving exports but there was no doubt that the rate of progress would be slowed down over the next two or three years. The arrangements for an equitable distribution of the burden of defence between the members of the North Atlantic Treaty Organisation were still under consideration. There were therefore great uncertainties in the outlook for 1951.

At the meeting of Commonwealth Ministers referred to in paragraph 13 above it was considered that increased dollar expenditure would inevitably take place and that the formula for restricting dollar imports in general to 75% of the 1948 level was out of date. All the sterling area Governments concerned had agreed upon the need to persevere with measures designed to increase the dollar earnings of the sterling area and upon the need to maintain strict economy in dollar expenditure.

17. In their concluding remarks, the representatives of all the countries whose restrictions were the subject of the consultation said that they had taken full note of the views expressed by other members of the Working Party and that they would be given due weight in the consideration of future policy in regard to restrictions on dollar imports.

18. In the course of the consultations, the representatives of the United Kingdom, Australia and New Zealand expressed concern at the fact that the International Monetary Fund had presented the Contracting Parties with conclusions on the feasibility of relaxations in import restrictions by the countries concerned in the consultation. A consultation under Article XII:4(b), as opposed to the consideration of a complaint under other provisions of the Agreement, was essentially the occasion for a full and frank exchange of views on the situation of the country or countries concerned, and the purely consultative character of proceedings under Article XII:4(b) must be preserved. In such circumstances, it was their view that it was wholly inappropriate and contrary to the co-operation between the Contracting Parties and the Fund enjoined on both bodies by the relevant instruments, for the Fund to present conclusions which, they were convinced, prejudiced the purely consultative character of Article XII:4(b). They felt that every effort should be made to avoid any repetition in the future of the difficulties which had been experienced in the present consultations; otherwise the whole future of the General Agreement might be endangered.

19. The French delegation expressed the opinion that the submission by the International Monetary Fund of their views in the form of conclusions did not appear appropriate within the framework of consultations initiated under Article XII:4(b). The French delegation noted, however, that, in view of the strictly consultative nature of the current procedure, the position adopted by the representatives of the International Monetary Fund did not result in any practical inconvenience.

20. The United States representative was unable to agree with the views expressed in paragraph 10. He called attention to the unanimous agreement in the Working Party that the Fund should not merely present the Contracting Parties with a mass of undigested statistics and he felt that when an international institution was asked to participate in a consultation, the form in which it expressed its views was a matter for it to decide. He stated that quantitative import restrictions under Article XII were only acceptable under the GATT to the extent that they were justified by financial necessity and that the expression by the Fund in its reports of an opinion on the question of the feasibility of relaxation was, therefore, clearly appropriate in a full consultation with the Fund under Article XV of the General Agreement. The representatives of Belgium, Chile and Cuba associated themselves with this view of the United States representative, the representative of Italy also associated himself with the view of the United States representative, but he added that the views of the Fund were not binding except to the extent provided for in Article XV of the General Agreement.
21. As to the contention of the United Kingdom delegation that it was inappropriate for the Fund to submit to the Contracting Parties its conclusions on the import restrictions of the countries being consulted here at Torquay, the Fund representative said that in accordance with an invitation from the Contracting Parties, the Fund had accepted the responsibility of advising the Contracting Parties. This responsibility that the Fund was asked to accept by the Contracting Parties means that the Fund must express its views freely and fully. With this understanding the Fund prepares its reports for its consultations with the Contracting Parties. The Fund representative stated that it was clearly for the Fund to decide for itself what was appropriate, and what was not appropriate to say.

22. The members of the Working Party expressed concern and regret at the fact that the reports of the International Monetary Fund to the Contracting Parties had been the subject of unauthorized press leakages from some sources unknown. The Working Party noted that these leakages had occurred before the reports had been transmitted to the secretariat for circulation to the Contracting Parties and that no blame could be attached to the secretarial arrangements of the Contracting Parties. In view, however, of the vital importance of maintaining complete secrecy in connection with consultations under Article XII, the Working Party emphasized that in any future consultations special precautions should be taken by all concerned to ensure such secrecy.

III. RECOMMENDATIONS

23. The Working Party recommends that the CONTRACTING PARTIES:

(a) take note of this Report, and

(b) record that the consultations resulting from the invitation to consult issued at the Fourth Session are concluded with the adoption of this Report.
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Report on the Import Restrictions of the United Kingdom

I. Introduction

In August 1949, the United Kingdom notified the Contracting Parties to the GATT that it had been obliged to take certain steps towards the intensification of import restrictions, particularly against imports from the dollar area. Subsequently, at the fourth session of the Contracting Parties, the United Kingdom accepted an invitation to consult with the Contracting Parties at their fifth session, in accordance with Article XII, 4(b).

II. Nature of the United Kingdom's Balance of Payments Difficulties

The reserve position

In the spring and summer of 1949 the gold and dollar reserves of the United Kingdom were subjected to pressure, and the available information indicates that some measures to correct the drain were required at that time. In the second quarter of 1949, the reserves of gold, U.S. and Canadian dollars held by the Exchange Equalization Account — the central reserves of the sterling area — declined by £362 million, from £1,912 million on March 31 to £1,551 million on June 30th. From June 30th to September 18, 1949, when sterling was devalued, the reserves fell another £311 million to a level of £1,340 million.

In the months following devaluation and the intensification of restrictions, the drain on the central reserves was arrested and there has subsequently been a substantial increase. Between September 18, 1949, and the end of the year, the reserves rose £348 million. During the first half of 1950 the increase continued — at an annual rate of £1,468 million, lifting reserves by £734 million to £2,422 million. The most recent information available indicates that the increase persisted in the third quarter, raising the reserves to £2,756 million.

The balance of payments position

After a favorable start in the first quarter of 1949 — when the central reserves increased by £56 million — the balance of payments position of the United Kingdom deteriorated in the second and third quarters. These transactions of the United Kingdom which affect the central reserves showed unfavorable movements. The U.K. deficit with the dollar area, which must be settled through the use of external aid or drawing on the central reserves, rose from £232 million in the first quarter to £323 million in the second. The dollar deficit fell somewhat — to £322 million in the third quarter. This, however, appears largely to have been explained by an inflow of capital (apart from EC aid) from the United States. The current deficit continued to increase. Increased imports, decreased exports and an increase in the current invisible deficit all contributed to the continuing deterioration of the U.K. current position with the dollar area. Meanwhile, the rest of the sterling area's deficit with the dollar area (net of gold sales to the United Kingdom) rose from £25 million in the first quarter of 1949 to £146 million in the second and — at £107 million — remained at a high level in the third quarter. Gold and dollar payments on behalf of the whole sterling area to non-dollar countries rose slightly but steadily over the first three quarters of the year. Thus the gold and dollar deficit of the sterling area rose from £330 million in
the first quarter to $632 million in the second and amounted to $539 million in the third quarter of 1949. In the second and third quarters of the year, external aid was insufficient to cover this deficit, so that the central reserves were subjected to the substantial drains already noted.

Following the intensification of restrictions on imports from the dollar area and the devaluation of sterling, the U.K. dollar balance of payments showed a marked improvement. Despite the non-recurrence of the third quarter capital inflow, the U.K. deficit with the dollar area was cut from $332 million to $115 million between the third and fourth quarters of 1949. The improvement appears to have continued, so that the U.K. deficit with the dollar area, excluding the surplus of the dependent sterling territories, has been further reduced and is possibly being eliminated. Contributing to this improvement has been the reduction of imports from the dollar area by more than the 25 per cent target, the development (at least in the fourth quarter of 1949) of an invisible surplus with the dollar area, and a rise in exports to the dollar area from the low pre-devaluation and immediate post-devaluation levels.

Besides the intensification of restrictions and devaluation, other favorable factors at work on the U.K. position included the curtailment of certain inflationary pressure, the increasing availability of supplies in the United Kingdom and other soft currency countries, and the higher level of demand in the United States. It is to be noted, however, that—comparing the first half of 1949 and the first half of 1950— in the case of the nine most important commodities accounting for the decline in the dollar value of imports from the dollar area and other hard currency countries there has, by and large, been an overall reduction in the volume of imports. Increases from soft currency countries have not, in general, offset the reduction in the volume of these commodities from the hard currency countries. Nor has the reduction in U.K. stocks of these commodities been of universal import—although it has occurred in some commodities. Increases in U.K. production have presumably facilitated some import reductions, while higher sterling prices resulting from devaluation may have aided in curtailling consumption. These factors may also have facilitated the expansion of exports. For some goods, on the other hand, the actual dollar cut, because of a drop in dollar prices, did not require proportionately as large a drop in volume—at least up to the middle of 1950.

More recently, the outbreak of hostilities in Korea and the actual and expected increases in armament expenditures have introduced new elements—some favorable to further increases in the central reserves, some unfavorable. On the favorable side, U.S. demand for the products of the United Kingdom has undoubtedly increased. It is probable that United Kingdom demands for goods from the dollar area will rise as a result of increased military activity and rearmament. So far, however, most recent developments appear, on balance, to have been favorable as far as the gold and dollar accounts of the sterling area as a whole are concerned. In the third quarter of 1950, the sterling area had a gold and dollar surplus of $107 million, $7 million above that in the previous quarter. Some part of this surplus may have resulted recently from the flow of "hot money" from the dollar area and from speculative payments in advance of debts owing in sterling. Nevertheless, available data indicate that the improved reserve position results essentially from normal trade and commercial developments.
The favorable developments in the direct dollar accounts of the United Kingdom appear to have been paralleled by an increase in the surplus of the dependent sterling territories and the rest of the sterling area with the dollar area and by a reduction in the payments of gold and dollars to non-dollar countries by the sterling area as a whole. Much the same factors appear to have brought about this improvement as in the case of the U.K. relations with the dollar area. Thus the sterling area's gold and dollar deficit of 1949 has been converted into a gold and dollar surplus in each of the three quarters of 1950. Because of this development of a gold and dollar surplus, external aid has, in effect, been available to increase the central reserves.

III. Steps Taken by the United Kingdom to Cope with the Balance of Payments Difficulties

Prior to July 1949, the United Kingdom's restrictive system limited imports on private account from all countries by licensing. Imports on Government behalf accounted for roughly half of all imports. The licensing system was applicable to practically all commodities, and particularly restrictive in its application to imports from "hard" currency countries, i.e., those countries, payments to which were likely to lead to a loss of gold or dollars. The scale and nature of imports from the dollar area were determined by advance programming covering imports both on private and Government behalf. Bilateral arrangements existed between the United Kingdom and many other countries and these determined the volume and, in some cases, the nature of licensed imports from those countries. These bilateral arrangements also insured that payments between the sterling area and those countries were made through specific channels. There was also a limitation on payments in respect of non-contractual invisibles particularly applicable to "hard" currency countries.

In July 1949, the British Chancellor of the Exchequer announced the further restriction of U.K. imports from the dollar area as a result of the decline in the central reserves of gold and dollars which had set in in the second quarter of the year. Initially, this intensification of import restrictions took the form of a "stand-still" arrangement. In October 1949, a new program was settled on involving a 25 per cent, or $400 million, reduction from the 1948 level of U.K. imports from the dollar area. Similar action was taken by other countries in the sterling area. The U.K. program did not consist of a series of firm commitments but was rather a set of decisions to guide Government buying and licensing of private imports.

On the other hand, at the end of September 1949, the United Kingdom announced relaxations in import licensing affecting mainly imports from soft currency countries. This relaxation took the form of an Open General License effective October 5, 1949, permitting without limitation the import of certain commodities from all countries except those in the dollar area and certain others—trade with which might lead to a possible loss of gold or dollars. The list of commodities to which this arrangement applied has been considerably lengthened by successive stages, and the countries to which it extends have been increased by the inclusion of the Belgian Monetary Area and Western Germany.

At the same time as import restrictions were intensified, the British authorities stressed the necessity of the continuance of the dollar export drive. In particular, care was taken to insure that the intensification of the import restrictions did not result in supply difficulties in those
industries providing dollar exports. In October 1949 the Government also announced that certain reductions in U.K. domestic investment and in Government expenditure were being taken as counter-inflationary measures and to assist in the export drive.

Meanwhile, in September 1949, talks regarding import restrictions and other matters were held between American, British and Canadian officials in Washington. On September 16, sterling was devalued from £1 = $4.03 to £1 = $2.00 after approval of the International Monetary Fund.

IV. Alternative Corrective Measures

As noted in the previous section, the U.K. program, at the time the import restrictions were intensified, stressed the continuance of the dollar export drive. Without fundamental changes, such as intensified disinflationary measures or devaluation, it was not, however, possible in mid-1949 to overcome through increased exports the urgent difficulties which beset the United Kingdom. As noted, the devaluation of sterling took place rather soon after the intensification program was adopted. Other alternatives were either not feasible or too slow in their desired effects. Under the circumstances of the time, it seems reasonable that both devaluation and the intensification of import restrictions were employed as devices to correct the U.K. balance of payments disequilibrium.

At the present time, with the central reserves at a much higher level, the question of alternatives is much less relevant than it was in the summer of 1949. The basic question today is the extent to which the discriminatory import restrictions can be relaxed as a result of the increase in reserves. The devaluation of sterling has already taken place. The problem on inflation today is to hold the line in order to prevent further price increases resulting from expected increases in Government spending consequent upon rearmament. This will facilitate the continuance of the export drive to the dollar area.

V. Present Outlook for the Balance of Payments Position

Even before the outbreak of hostilities in Korea, there appeared to be some inflationary pressure in the United Kingdom, although not enough to offset the effects of devaluation. Continuing vigilance, nevertheless, appeared to be required. On the external side, the introduction of EPU was not expected to have any substantial immediate effect upon U.K. demands for dollar imports nor upon U.K. ability to export to the dollar area. It is possible that there will be some increase in U.K. exports to the rest of the sterling area which might affect the ability to export to the dollar area; in addition, U.K. industry might require increased supplies of certain dollar commodities. On the other hand, the basic improvement in the U.K. position vis-a-vis the dollar area seemed likely to be maintained as long as conditions in the United States remained prosperous. On balance, therefore, a continuation of the improved U.K. position vis-a-vis the dollar area seemed to be expected. A similar expectation held for the rest of the sterling area. Thus, while the rate of increase in the central reserves might decline somewhat, the expectation was that a further rise in the central reserves would likely occur under the then-existing conditions.
As noted earlier, the outbreak of hostilities in Korea and expected increased expenditures on armament introduced both favorable and unfavorable elements into the situation. The net effect of these developments on the central reserves is particularly difficult to determine since a number of crucial decisions are still to be made or implemented. So far, the developments appear to have been favorable, although speculative movements may have had some role in increasing reserves. Whether an increase in the U.K. demand for dollar imports will offset the increased dollar receipts will depend upon a number of factors, including the availability of supplies in non-dollar, as well as in dollar countries, the ability to control new inflationary pressures, and the level of external assistance.

October 25, 1950.
I. Introduction

At the Fourth Session of the Contracting Parties to the GATT, the Australian Government agreed to consult with the Contracting Parties with regard to the intensification of import restrictions which followed the Commonwealth Conference of mid-1949. Following this conference Australia agreed with the United Kingdom to convert smaller amounts of sterling into dollars.

II. Nature of the Balance of Payments Difficulties

1. The Reserves

Total Australian foreign exchange reserves increased from £A379 million in December 1948 to £A508 million in December 1949 and £A650 million in June 1950. During this period the portion of the reserves held in gold remained relatively stable at approximately £A30 million; the remaining part of the reserves are practically all in sterling. Thus the increase in the reserves during 1949 and the first half of 1950 amounting to £A119 (£1 million and £A142 million respectively, took the form of an increase in sterling balances held by Australia. This accumulation has been considerably greater than Australia's surplus on current account, owing mainly to a large influx of capital, chiefly from the sterling area. A substantial amount of the post-war capital influx, possibly as much as £A300 million, may be regarded as more speculative; much of it has taken the form of pre-payments for Australian exports and the postponement of payment for Australian imports.

Owing to the fact that the amount of these sterling balances that is converted is a matter of arrangement between the United Kingdom and Australian governments, it is impossible to regard all of these reserves, especially those arising from the sterling capital inflow, as immediately available for financing deficits with the dollar area. The agreement accepted by Australia to restrain the rate of utilization does not, of course, alter the fundamental character of the sterling balances; they constitute the Australian international reserves.

2. Balance of Payments Position as of mid-1950

Australia's overall international accounts improved between 1947-48 and 1948-49; the surplus on goods and services account rose from £A10.2 million to £A33.4 million; the capital inflow, partly speculative in nature, increased from £A83.1 million to £A172.7 million. The deficit on goods and services account with the dollar countries fell from £233 million in 1947-48 to £115 million in 1948-49; this more than offset the decline in the dollar capital inflow from £25 million to £11 million. As a result of these and other changes the amount of sterling converted into dollars declined from £164 million in 1947-48 to £74 million in 1948-49.

As both the overall and dollar accounts improved during 1947-48 and

(1) excluding valuation changes
1948-49, the willingness in mid-1949 to agree to convert smaller amounts into dollars cannot be attributed entirely to growing weaknesses in Australia's external accounts. This agreement must be largely attributed to the desire of the Australian Government to cooperate with the exchange conservation policies of the sterling area as a whole, rather than to any marked deterioration in the Australian balance of payments position.

The balance of payments position changed considerably from 1948-49 to 1949-50, insofar as the overall accounts were concerned. The surplus of £433 million on goods and services account in 1948-49 was followed by an estimated deficit of £30 million in 1949-50, with the result that the accumulation of foreign exchange assets in 1949-50 was less than the capital inflow. This contrasts with the previous year when both the capital inflow and most of the surplus on the goods and services account could be added to reserves. Most of this change was attributable to increased imports and concomitant transportation payments which rose from £445 million in 1948-49 to £600 million in 1949-50. The position with the dollar area improved, the deficit falling from $115 million to an estimated $90 million on current account. In addition, there was a $20 million drawing on the Fund. Conversion of sterling into dollars, amounting to $74 million in 1948-49, was therefore reduced considerably in 1949-50.

Several external factors influenced the development of Australia's postwar balance of payments. Shortages in soft currency areas, prevented in 1947-48 total imports from rising by more than 10 per cent over the prewar volume, Simultaneously, the volume of dollar imports was 25 per cent above prewar, and the 1947-48 value was $269 million compared with $98 million in 1938-39. The improvement in the supply position of soft currency areas since 1947-48 has enabled Australia to increase its imports from these areas and to reduce hard currency imports. Total Australian imports increased from £437 million in 1947-48 to £444 million in 1948-49, while during these years imports from the dollar area decreased from $269 million to $174 million.

The volume of Australian exports in 1948-49 was approximately 13 per cent above prewar, and did not further increase in 1949-50. Thus the postwar rise in the value of exports was primarily caused by the increase in the prices of primary products, especially wool, which makes up almost half of the total exports. Total Australian exports increased from £136 million during 1936-37 - 1938-39 to £527 million in 1948-49, and to £602 million in 1949-50.

In addition to the rise in prices, the increase in the value of exports to the dollar area was, in part, caused by the increase in the share of wool exports going to the dollar area as compared with prewar. Exports to the dollar area amounted to $131 million in 1947-48 as compared with $22 million in 1938-39. The U.S. recession in 1949 reduced direct exports of greasy wool to the United States by 39 per cent in volume and 33 per cent in value. Increases in the exports of other products to the dollar area, mainly non-ferrous metals and dried fruit, however, prevented a decline in total exports to the dollar area. In 1948-49, total dollar exports rose to $137 million and in 1949-50 they rose further to $140 million.

The strong import demand, reflected by the continued rise in total Australian imports, was closely related to the development of domestic inflationary pressures. Unemployment was at near-minimum levels, and wholesale prices were rising about 10 per cent a year. Inflation arose from unusually large investments, combined with an export surplus in the years before
1949-50. The inflationary forces were controlled, in part, by partial sterilization of the capital inflow.

III. Steps taken by Australia to cope with the Balance of Payments Difficulties

In the Australian import restrictions system the regulations regarding hard and soft currency imports have been repeatedly changed during the postwar years. In August 1947, following the suspension of the convertibility of sterling into dollars, outstanding hard currency import licenses to the extent of £A17 million out of a total of £A52 million were cancelled, and the issue of further licenses for dollar imports was virtually cancelled. In April 1948, the issue of licenses for imports from the dollar area was resumed at a reduced rate. These imports were to be restricted to essential commodities not available elsewhere; and a stricter criterion for essentiality was adopted.

At the end of July 1949, after the British Commonwealth Conference, Australia announced that dollar imports were to be reduced to 75 per cent of the 1948 level. Since at that time heavy import commitments had already been made, the reduction could not be fully effective before April 1950, and consequently the target reduction could not be fully attained before 1950-51.

Since 1948, the restrictions on imports from hard currency areas have been intensified, while those on imports from soft currency areas have been relaxed. This relaxation was effected in stages - the most recent adjustment occurred in September, 1950 - so that, at present, practically all imports from the United Kingdom and nearly all imports from the rest of the sterling area and other soft currency countries are exempt from import licensing. Thus the Australian import licensing system has become essentially one of discrimination against hard currency imports. The hard currency area has become limited to the dollar area, Switzerland, European countries outside the E.P.U. and a few other countries - payments to which can involve a possible loss of gold and dollars to the sterling area.

IV. Alternative Corrective Measures

Among the alternative corrective measures which might have been considered in mid-1949, are the financing of a part of the hard currency imports by dollar loans, and a reduction in imports achieved by devaluation. Australia devalued vis-a-vis hard currency areas after the decision to intensify import restrictions was taken. Even although a large part of the dollar imports were used for the carrying out of investment projects, no use was made of dollar loans as an alternative corrective measure in 1949. However, in August 1950 a $100 million loan with IBRD was contracted.

Since mid-1949, several of the factors which created the need for discrimination have changed. Of most importance was devaluation which was in varying respects a substitute for or complementary to restrictions. Because supply conditions in soft currency countries have continued to improve, the effectiveness of the changes in the price relations resulting from devaluation has been enhanced. The prospects for dollar
exports have also improved in response to inflation in the United States. Receipt of a loan of $100 million (equal to 60 per cent of total dollar imports in 1949-50) should also permit the inflow of additional dollar imports. Acceleration of inflation in Australia has, however, increased total import demand including that portion which is directed towards dollar area goods.

V. Present Outlook for the Balance of Payments Position

While the underlying factors affecting the need for dollar restrictions appear, on balance, to have improved so that restrictions are less necessary, financial problems are involved in considering relaxation beyond that permitted by the International Bank loan. If a surplus on goods and services account with the dollar area was to emerge in 1950-51, increased dollar imports could be financed. If a dollar deficit occurred, however, some sterling would have to be converted to finance any increase in dollar imports resulting from relaxation of restrictions. Depending upon the current account position of Australia with the non-dollar area, and subject to the agreement on conversion with the United Kingdom, Australia would be able to finance a continuing hard currency deficit, either by the conversion of currently earned sterling or, alternatively, conversion of past accumulations and/or the sterling capital inflow. If the surplus on goods and services account with non-dollar countries increases compared to 1949-50, more sterling would be available for conversion of current earnings; if the surplus diminishes, less sterling will be available for conversion.

Present trends suggest that on the one hand the deficit with the dollar area is being rapidly closed, if it is not already closed, as a result of the improved export position; and, on the other hand, as a result of the inflationary developments in Australia, the surplus with the non-dollar area has recently been declining, if it has not been eliminated.

October 25, 1950.
Report on the Import Restrictions of Ceylon

I. Introduction

In the summer of 1949, the Government of Ceylon, a participant in the Commonwealth Conference of July 1949, decided to reduce its imports from the dollar area. Subsequently, at the Fourth Session of the Contracting Parties to the GATT, Ceylon expressed its willingness to consult with the Contracting Parties on its intensification of import restrictions.

II. Nature of Ceylon's Balance of Payments Difficulties

Reserve Position

Ceylon's foreign exchange reserves are mainly in the form of sterling balances and Indian rupees. Until the establishment of a Central Bank in August 1950, Ceylon did not maintain independent gold and dollar reserves.

In 1945, Ceylon had total wartime-accumulated foreign reserves mainly in sterling and Indian rupees of Rs. 1158 million, of which Rs. 958 million were in sterling.

From 1945 through the end of 1947 Ceylon was drawing rather heavily on these balances, particularly during 1947, when 25 per cent of its total sterling balances, drawing them down to Rs. 574 million by the end of 1947. In view of this rapid drawing, the United Kingdom and Ceylon entered into agreement to limit this rate of utilization. This agreement has twice been extended and amended. The agreement provided for a limited specified amount of blocked sterling to be transferred to Ceylon's No. 1 Account (free for current use).

Subsequent to 1947, Ceylon's level of sterling has fluctuated from time to time but increased overall. During 1948, sterling reserves were increasing; beginning in 1949, however, Ceylon again began to use sterling reserves, so that they declined from Rs. 636 million at the end of 1948 to Rs. 555 million by September 30, 1949. At the same time Ceylon's holdings of Indian rupees were also declining notably. During the latter part of 1949, Ceylon's sterling assets began to rise rapidly and by the end of the year had recovered nearly to their levels of a year earlier. The overall deficit actually materializing for 1949 was financed principally by the use of Indian rupee assets.

At present, Ceylon's reserves are probably above end of 1949 levels.

Except during 1947, Ceylon has not had to convert its accumulated sterling balances into dollars. In fact, as measured by Ceylon's trade surplus with the U.S. and Canada (other transactions in dollars are probably negligible), Ceylon was a net dollar earner in 1946, 1948, 1949 and 1950, and as a result of its arrangements with the United Kingdom contributed the dollars so earned to the central reserves. It is estimated on trade account with the U.S. and Canada that Ceylon had cumulative net surpluses from 1946 to the first half of 1950 totalling about Rs. 370 million (approximately $75 million). In an agreement signed with the United Kingdom for the year 1949-50, Ceylon obtained the right to retain, out of her net surplus of dollars on current account, an independent...
reserves of gold or dollars to be held by the newly-established Central Bank, providing the amount so retained during that year would not exceed $1 million. Presumably additional amounts may be added in the future.

Balance of Payments Problems

Except for approximate balance in 1948, Ceylon had an overall deficit on current account for the years 1946 through 1949. Figures for the first half of 1950, however, suggest a sizeable overall current account surplus.

The pattern of Ceylon's annual current account position has usually been that trade surpluses have consistently prevailed but deficits on invisible transactions have exceeded the size of trade surpluses. Thus, in all the postwar years, except 1947, Ceylon's exports have exceeded imports, but sizeable payments on direct investment and personal remittances more than offset the surplus on trade account. Direct investment income payments arise largely from non-resident investment in Ceylon's agriculture. Personal remittances represent mainly payments to India made by the large number of Indians residing and working on estates in Ceylon. Considering the postwar period as a whole, the improvement in Ceylon's current account has come from larger trade surpluses and smaller deficits on invisible transactions, resulting from increased export receipts and marked declines in direct investment income payments. There has been a significant movement by Ceylon's residents to purchase foreign-owned property and between 1946 and 1949 there was a reduction of about two-thirds in such income payments.

With regard to Ceylon's dollar position, most of Ceylon's transactions have consisted of trade transactions. Invisibles are reported to be very small. Except for 1947, Ceylon has had an overall trade surplus with the United States and Canada. This amounted to about Rs. 40 million in 1946, Rs. 120 million in 1948, Rs. 73 million in 1949, and Rs. 135 million in the first six months of 1950. This may be compared with imports from these two countries during these years of about Rs. 84 million in both 1948 and 1949. Ceylon has consistently had an even larger trade surplus with the United Kingdom and has had trade surpluses with Continental Europe as well. Ceylon's trade deficits have been primarily with Far Eastern sterling area countries such as Burma and India since a large part of Ceylons' imports consist of food grains and textiles. In this connection, it is to be noted that in 1948 Ceylon had accepted a limitation on her gross dollar expenditures of Rs. 100 million. The same limitations were extended until June 30, 1949.

During the first 7 months of 1949 Ceylon's balance of payments was showing serious signs of weakness. It still had a trade surplus with the United States and Canada, but this surplus was dropping significantly. In addition, it was running an overall deficit on trade account, which had not existed in 1948. In the first 7 months of 1949, Ceylon had an overall trade deficit of Rs. 60 million or an annual rate of about Rs. 103 million. This began to compare with the huge trade deficit of 1947. Ceylon's surplus with the United States and Canada on trade account was only Rs. 40 million, whereas it had been Rs. 69 million for the same period of 1948. This deterioration in Ceylon's balance of payments originated primarily from a decline in export earnings. Exports were declining to sterling area countries both in the Far East and elsewhere and to the United States and Canada, while imports were being maintained at about the same rate. In the first 7 months of 1949, Ceylon suffered a sharp drop in exports to the United States of about 40 per cent as compared with the
corresponding period of 1948. This drop in Ceylon's exports reflected declines in some commodity prices, particularly rubber, as well as some declines in volume. By mid-1949 with a drop in business activity taking place in the United States, it appeared that commodity prices and perhaps world demand for Ceylon's basic exports might deteriorate further.

It was this deterioration in Ceylon's balance of payments in the first half of 1949 and the immediate unfavorable outlook for the period ahead, together with its cooperation with the United Kingdom, which presumably caused Ceylon to take several steps affecting its balance of payments position even though Ceylon was still more than in balance on dollar account. These measures included devaluation, import restrictions, and some domestic anti-inflationary measures.

III. Steps Taken by Ceylon to Cope with the Balance of Payments Difficulties

At the Commonwealth Finance Ministers' Conference in London in July 1949, Ceylon agreed to cut dollar area expenditures during the year July 1949 to June 30, 1950, back to a level representing 75 per cent of such expenditures in 1948. Although shortly after the Conference a new financial agreement was signed with the United Kingdom providing for additional blocked sterling balances to be released on Ceylon's current account, nevertheless, Ceylon estimated that imports would have to be restricted not only from the dollar area but also from "soft" currency sources as well. In August 1949, an intensification of restrictions against dollar imports was placed in effect. In the first instance, there was a cancellation of all outstanding licences for imports from the American Account area. A subsequent re-validation was made of import licensing covering dollar items which were "absolutely essential" as well as commodities which were in transit and were irrevocably covered. Through the import licensing system subsequent dollar imports were restricted to "essential goods" such as some foods and capital goods. In January 1950, a virtual ban was reported to have been placed in effect on imports of automobiles, refrigerators, textiles, and ready-made clothes from the dollar area.

In September 1949, Ceylon joined other countries in devaluing its currency to the extent of 30.5 per cent. As a result of favorable developments which followed devaluation and better export receipts including larger dollar earnings, the outlook for Ceylon's balance of payments seemed considerably improved. Ceylon avoided placing the further restrictions on sterling imports which had been expected earlier and in April 1950 lifted import restrictions on a wide variety of goods from "soft" currency sources. 1/

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1/ "Soft currency" includes all but the following countries: Argentina, Belgian Congo and the Mandated Territory of Ruanda-Urundi, Belgium, Bolivia, Canada, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Western Germany, Guatemala, Haiti, Honduras, Japan, Liechtenstein, Luxembourg, Mexico, Nicaragua, Panama, Paraguay, Philippines, Portugal and Portuguese Colonies except Portuguese India, Switzerland, U.S.A. and territories under its sovereignty, Venezuela (as at June 1, 1950).
Some domestic measures have been taken in 1950 by Ceylon to cope with its balance of payments difficulties. Ceylon has to import about 60 per cent of its foodstuffs. In an attempt to reduce this dependence on foreign sources for food, and more pressingly, to meet the requirements of a rapidly-growing population, since February 1949 Ceylon has conducted a drive for increasing local food production. In 1950, the food drive has been intensified, with the object of placing more land under cultivation and increasing the yield per acre.

As an anti-inflationary measure, in July 1950 the Government attempted to lower domestic prices and the cost of living by reducing import duties to pre-December 1947 levels on a large number of articles consumed by the people, in addition to items needed to foster specific local industries and agriculture. Income tax rates were raised as an anti-inflationary and revenue-producing measure. Similarly, in an effort to reduce the inflationary effect of higher export receipts, export duties were placed on rubber and pepper, and were raised on tea. The export duty on copra was doubled in June 1950.

While formerly the credit structure of the country had been such that the authorities did not have adequate control over the domestic money supply and bank lending, the establishment of the Central Bank in August 1950 has changed the possibilities of effective monetary controls.

IV. Present Outlook for the Balance of Payments Position.

Although balance of payments figures other than for trade are not available for 1950, it is probable that the trade surplus is substantially offsetting non-merchandise deficits on overall current account. The favorable trade balance during the first 7 months of 1950 has been estimated to be Rs. 118 million, or an annual rate of about Rs. 200 million. This is considerably larger than the trade surplus of any previous year. The previous largest trade surplus was Rs. 69 million in 1946. Even assuming a considerable increase in payments on invisible transactions due to such factors as the moderate relaxation of restrictions on personal remittances which took place in July 1950 -- say an increase from the level of Rs. 65 million in 1949 to a level of about Rs. 100 million per annum -- Ceylon would still experience an overall current account surplus of over Rs. 100 million. Moreover, Ceylon's surplus on trade with the dollar area was about Rs. 136 million in the first 6 months of 1950 alone, thus more than offsetting a deficit on current account with non-dollar areas.

Following devaluation in September 1949, there has been a substantial diversion of tea exports to the dollar area. Such diversion, together with larger volumes of rubber exports in the first 6 months of 1950, and the large rises in rubber prices beginning in February 1950, have all increased Ceylon's dollar earnings. In the first five months of 1950, exports to the U.S. and Canada were over twice the rate of the corresponding period of 1949; these exports accounted for 27 per cent of Ceylon's total exports as against 17 per cent in the first 5 months of 1949; about 15 per cent in the year 1949; and about 20 per cent in 1947 and 1948.

At the same time, Ceylon's imports from the U.S. and Canada have shown notable declines, while imports from Thailand, India, and the United Kingdom have been rising. Imports from the dollar area in the first five months of 1950 represented only about 5 per cent of the total, as against 9 per cent in 1948.
The outlook for Ceylon's future balance of payments seems favorable. Most of Ceylon's export earning prospects are related to world prices for rubber, tea, copra, and coconut oil. Although tea prices have shown declines, by July of this year rubber prices were more than twice the levels of last fall, and prices for copra and coconut oil have also been rising in recent months.

Pressure on Ceylon's overall imports from inflationary pressures, however, may still be substantial despite recent anti-inflationary measures noted above, and devaluation. Inflationary pressures have been expanding particularly since September 1949. Total money supply has moved from Rs. 587.3 million in the third quarter of 1949 to Rs. 667.5 million as of May 1950. The cost of living index has moved from 237 in the third quarter of 1949 to 254 in August 1950; a considerable governmental subsidy on foodstuffs helps to limit the cost of living. Import prices (unit values) rose 5 per cent in the first 5 months of 1950, after only nominal increases in the last part of 1949. The 1950 export surplus is another source of inflationary pressure.

In light of existing conditions, the broad relaxation of import restrictions on "soft" currency goods of April 1950 might reasonably be associated with some rise in overall imports. As noted during the first 6 months of 1950, Ceylon probably had a marked current surplus, but this may well tend to diminish as the impact of those relaxations is felt.

Ceylon is likely to continue to have a substantial surplus on dollar account, reflecting both rises in raw material prices and rises in U.S. import volumes from Ceylon.

October 25, 1950
Report on the Import Restrictions of India

I. Introduction

At the Fourth Session of the Contracting Parties to the GATT, India was invited to consult with the Contracting Parties with regard to the intensification of import restrictions which followed the Commonwealth Conference of mid-1949.

II. Nature of the Balance of Payments Difficulties

Reserve Position

India has maintained the bulk of its foreign exchange reserves in sterling balances, which were at an all-time high of Rs. 17.33 billion on April 5, 1946. When the first sterling balance agreement was concluded with the United Kingdom covering the period July 1, 1947 to December 31, 1947, the sterling balances of (undivided) India were Rs. 15.47 billion, as at July 18, 1947. Specified periodic releases therefrom for current transactions were arranged for in a series of agreements. As of the end of 1948 these balances were Rs. 10.25 billion, the decline reflecting mainly payment to the United Kingdom for military stores and pensions for British personnel, and payment to Pakistan of its share of the assets of the Reserve Bank of India. In the period July 1, 1949 to June 30, 1950, the sterling balances rose from Rs. 8.20 billion to Rs. 6.27 billion, actually reflecting a rise of Rs. 70 million.

The above figures consist solely of Reserve Bank of India balances. Corresponding figures are not available for the sterling balances which commercial banks are permitted to hold; it is understood that these are merely nominal working balances which do not fluctuate significantly. Private holdings are, however, included in the reports of Indian short-term assets in the United States, which have moved from $62 million at the end of 1947, to $52 million and $63 million at the end of 1948 and 1949 respectively. The monthly average of $51 million for June 1950 represents a decline of $10 million from June of the preceding year.

The sterling agreements have made provision for the amount of sterling convertible into hard currencies, mainly U.S. dollars, to be released to India for current expenditure. Since August 1949 India has operated as a "full member" of the sterling area. In the period July 1, 1949 to June 30, 1950, during which India agreed to limit dollar expenditure, it has not made any net drawings of dollars from the central reserves of the sterling area.

Balance of Payments Position

In the two years preceding partition, 1946 and 1947, India had deficits in its balance of payments on current account, amounting to Rs. 328 million and Rs. 1,214 million respectively (without allowing for "errors and omissions"). The corresponding merchandise deficits were Rs. 420 million for 1946 and Rs. 612 million for 1947; these deficits may be regarded as essentially reflecting particularly a large postwar volume of food imports at prices substantially higher than prewar, and a relatively reduced volume of exports. As regards import restrictions, the postwar period was one of liberalization up to March 1947, followed by a period of relative restriction until July 1948.

The balance of payments data for the post-partition period, 1948 to the present, do not relate to transactions with Pakistan, which receive separate attention. Excluding Pakistan, the figures for calendar 1948 indicate...
a deficit on current account of Rs. 1429 million. This includes a surplus in the first half of the year, followed by a large deficit in the latter half when merchandise receipts dropped markedly, mainly as a result of an internal inflationary demand for many of India's export goods. The second half of 1948 also witnessed a considerable relaxation of import controls, particularly vis-à-vis soft currency sources, and a large volume of grain imports from the hard currency area, which increased merchandise payments substantially.

The comparatively liberal import control policy was continued to May 1949, and was the principal factor in a merchandise deficit of Rs. 1,787 million for the first half of 1949 (invisibles showed a small surplus of Rs. 19 million). The overall deficit encompassed deficits with the hard currency areas, the sterling area and other soft currency areas. Thus, the regionwise distribution of the current account deficit for this period was Rs. 496 million for hard currency areas, Rs. 715 million for the sterling area, and Rs. 558 million for other areas. The merchandise deficit in relation to the dollar area for this six-month period was $63 million.

As a result of the above developments, the period July, 1948 to June, 1949 brought an unprecedented deficit on current account of Rs. 3,011 million. In addition to the increased volume of imports, this deficit represented reduced merchandise receipts, particularly from the dollar area, where resistance arose to Indian export prices. The recession of business activity in the United States in the first half of 1949 is also believed to have influenced the decline of India's dollar exports. The comparatively low level of overall exports in that period has been analyzed as resulting from low output, transportation difficulties, domestic inflationary pressures, and some increased export duties.

In the second half of 1949, a great improvement in current account took place. A deficit of only Rs. 27 million occurred, as a result of a 20.5 per cent increase in receipts and a 32.8 per cent drop in payments, representing an improvement with all currency areas. This arose not only from the import restrictions imposed in May 1949, and subsequently, particularly on dollar imports, but also from the beneficial effects of devaluation.

In the first half of the present year, a liberalization of imports from soft currency sources, intended to ease shortages arising from the earlier severe restrictions, helped induce a net deficit on current account of Rs. 5 million. Export receipts exceeded those of the preceding six-month period by Rs. 43 million despite increased export restrictions on domestically-needed items such as cloth and groundnuts. The trade balance with the dollar area was favorable, in the amount of $2.2 million.

With regard to the balance of payments situation with Pakistan, there occurred a deficit on current account, mainly trade transactions, from the time of partition (August 15, 1947) to the end of 1949. This amounted to Rs. 338.4 million in July 1948 - June 1949, and to Rs. 92.7 million in the following half year. While some decline of trade between the two countries took place in the six months preceding devaluation, a further sharp curtailment arose in connection with the subsequent disagreement over exchange rates. In 1948-9, more than half of Pakistan's trade was with India, whose own trade with Pakistan was about 17 per cent of Indian trade; the following year, the corresponding proportions were about one-third, and less than 10 per cent. The diminished supplies of raw jute and cotton from Pakistan meant for India a reduced ability to export jute manufactures abroad as well as decreased cotton goods production.

III. Steps Taken by India to Cope with the Balance of Payments Difficulties

In analyzing the difficulties which have been mentioned for India’s balance of payments, it should be noted that the policy of the Indian Government in the postwar period was to utilize gradually the accumulated sterling balances for imports of essential consumers goods, including substantial quantities of food grains, machinery to replace worn-out equipment, and capital goods for the development program. This meant large deficits on current account, which were limited by import control as far as practicable to the agreed sum released from the blocked sterling balances plus any special financing such as drawings from the International Monetary Fund and loans from the International Bank for Reconstruction and Development. In 1949 India drew on the International Monetary Fund to the extent of $51.7 million. In the last year, 1949-1950, however, attempts have been made to restrain the depletion of sterling assets, and no net drawing was made on them.  

Import restrictions have been used as a primary instrument in balancing India’s external accounts. Following the recommendation of the British Commonwealth Financial Ministers’ Conference of July 1949, India agreed to limit imports from the dollar area during the period July 1, 1949 to June 30, 1950 to 75% of dollar imports in the calendar year 1948 ($429 million), apart from imports to be financed by International Bank for Reconstruction and Development loans. This meant a maximum of $322 million, and actual imports from the dollar area in the year 1949-50, according to available data, amounted to about $250 million (including I.B.R.D. loan imports of $31.2 million).

At the beginning of this year, restrictions were relaxed on soft currency goods not available locally, and further relaxations were permitted in the later months. Dollar area imports continued, however, to be severely regulated except that additional raw cotton imports were permitted. In August 1950, an open general licence provided for imports of such goods as metals, alloys and chemicals from any part of the world, and several other essential goods from the soft currency countries only; this licence is valid for shipments on or before December 31, 1950. This was in line with the policy of extending top priority to the import of raw materials and capital goods. In addition, the Belgian Monetary Area and Western Germany were no longer considered hard currency countries for licensing purposes.

India has attempted to overcome some of the causes of its balance of payments difficulties by endeavoring to reduce the large proportion (about 20 per cent) of food imports to total imports, which compares with a prewar ratio of less than 10 per cent. The government-sponsored agricultural development program has succeeded in increasing food grain production from 41 million tons in 1948 to 43 million in 1949, according to government reports. Similarly, efforts to reduce dependency on foreign sources for the raw material cotton and jute, have brought increases from 1.77 million and 2.05 million bales respectively in 1948-1949 to 2.16 million and 3.12 million bales in 1949-1950.

The most important step taken in 1949 to redress the balance of payments situation was the devaluation of the Indian rupee by 30.5 per cent in September 1949. This, no doubt, assisted materially in the 1949-1950 year increases realized in both the value and quantity of exports of tea, seeds, hides and skins, and tobacco, and sharp increases in exports of cotton manufactures, manganese and spices. The exchange dispute with Pakistan has, however, hindered the maximum utilization of the advantages of devaluation. A commodity agreement of April 1950 between India and Pakistan provided for a partial resumption of the former trade movement, including 800,000 bales of raw jute to India, but this expired in September 1950.

The inflationary tendencies which have exerted a significant pressure on India's balance of payments are traceable in part to the government's budget deficits, arising particularly from capital expenditure. In 1949, the Indian Government took various measures to stimulate private investment, including the extension of tax concessions, and also to attract foreign capital. Moreover, it utilized development loans amounting to $14.7 million from the I.B.R.D. In order to raise additional money for its development program, the government has recently taken steps to attract small savings through national savings certificates and post office savings deposits, and has instituted a compulsory savings scheme for its employees.

Various anti-inflationary steps were taken by the government subsequent to devaluation. These included imposition or raising of export duties (on mustard oil, iron and steel, hessian, raw cotton, and black pepper), and price control measures covering raw jute, jute goods, and essential goods for personal consumption as well as industrial use. Nonetheless, the general index of wholesale prices has shown a steady rise since May 1950. This may reflect the disturbed international situation, as well as the delayed effects of devaluation, continued budgetary deficits, and diversion of some goods, particularly cloth, to the export market.

IV. Present Outlook for the Balance of Payments Position

The favorable turn in India's balance of payments situation which followed devaluation continued through the first quarter of 1950. The second quarter of 1950 shows a sizeable deficit on current account, but in the first half of 1950 as a whole, India has realized a surplus of Rs. 91 million, which becomes a deficit of only Rs. 5 million when "errors and omissions" are applied. This includes a favorable trade balance with the dollar and sterling areas, the net merchandise deficit being with soft currency areas outside the sterling area. However, the restriction of imports has also been an important reason for the improved trade balance.

Exports in the four months April-July 1950 have shown a decline over the preceding months, reflecting, however, in part seasonal factors and export restrictions on such commodities as cotton textiles. The average monthly exports for that period are almost the same as in the corresponding period in 1949.

The present outlook for the Indian balance of payments is obscured in part by the difficulties with Pakistan. The availability of raw materials from Pakistan which could permit of expanded export production and make less necessary the use of hard currency substitute suppliers, will depend at least in the short run on a settlement of the exchange dispute between the two countries. On the other hand, India's efforts to increase raw cotton and jute production have been vigorous and provide the basis for increased exports of the related manufactures. The encouragement of industrial investment and production, as part of the development program, should in due course help improve the export situation.

As to the expenditure side of the balance of payments outlook, the present prospects are that food imports will continue to be high: an original 1950 target of 1.5 million tons has been reported to have been raised to 2 million tons, part of which will probably enter from hard currency sources. It is possible that this latter figure could be forced upwards as a result of unexpected adversities such as earthquakes and floods, which have occurred recently. A self-sufficiency goal for food has been
set for the end of 1951, but this is subject to the higher priority extended to cotton and jute production. The disturbed international and inflationary situation may also mean higher prices for Indian imports. The recent Indian liberalization of imports, particularly of industrial raw materials from all areas, including hard currency areas, promises to permit a higher level of imports.

In the twelve months July 1950-June 1951, India can draw on her accumulated sterling balances to the extent of £100 million, £50 million being the carry-over from 1949-50, and £50 million representing the release for 1950-51. It is not known to what extent the Indian government would actually wish to draw on the available balances, although substantial use is expected in the light of recent decisions on import policies.

While India had in the first quarter of 1950 a favorable balance on current account with the sterling area and the dollar area, as well as with the hard currency area as a whole, the tendency since then seems to be for a deficit, at least on trade account, with all area. The foreign exchange reserves of the Reserve Bank of India have fallen by Rs. 526 million between March 31 and September 21.

October 25, 1950.
Report on the Import Restrictions of New Zealand

I. Introduction

At the fourth session of the Contracting Parties to the GATT the New Zealand Government agreed to consult with the Contracting Parties with regard to the intensification of import restrictions which followed the Commonwealth Conference of mid-1949. Following this Conference, the New Zealand Government agreed to reduce dollar imports.

II. Nature of Balance of Payments Difficulties

1. The reserves

New Zealand has not been accumulating substantial sterling reserves in the postwar period. Foreign exchange reserves in sterling fell from the 1948 peak in June of £81.9 million to the 1949 peak of £81.4 million in May. Reserves fell further in the second half of 1949 in accord with the seasonal pattern, but rose again in the first five months of 1950 to £90.9 million.1 The May figure which is probably the peak for 1950 is about £10 million above the highs in 1948 and 1949. From May to July the sterling reserves fell, in accord with the seasonal pattern, to £81.6 million.

2. The balance of payments position

New Zealand’s overall current account was in approximate balance from 1946 to 1949; there was a surplus of £30 million in 1946 followed by deficits in the next three years of £9 million, £1 million and £4 million respectively. On capital account, the chief feature has been a considerable repayment of external debt financed, in the main, by the current account surplus in 1946 and by the use of sterling reserves in subsequent years. There has been a substantial dollar deficit postwar, amounting to £22 million in 1947, £11 million in 1948 and £13 million in 1949. Almost all of this dollar deficit has been financed by conversion of currently earned sterling.

These developments reflect two characteristics of the New Zealand balance of payments in the postwar period. First, the overall balance indicates the comprehensive nature of the New Zealand Government’s import control policy. Private imports from all sources require licenses. Thus the Government, by matching the issuance of licenses with prospective export proceeds net of other expenditure, attempts to maintain approximate balance in the overall accounts depending upon the accuracy of the predictions of export proceeds. Second, the repayment of sterling debt partly out of accumulated reserves has perhaps resulted from the existence of limits on the use of past accumulations of sterling. The reserves have not been used to finance an import surplus with the non-dollar area, owing in part to difficulties in obtaining supplies, especially in the early postwar years and, in part, to the desire to minimize the U.K.’s unrequited exports. So far as the dollar area is concerned, sterling balances have not been used to finance a larger deficit presumably because of the agreed limits on the amount of sterling which could be converted.

The discriminatory form of the import restrictions is thus accounted for by the restrictions on the conversion of sterling.

There were no major changes in New Zealand’s balance of payments from 1948 to 1949. The overall goods and services accounts were in approximate

1) If gold holdings, valued in dollars and converted to sterling terms, are added the figures become: June, 1948, £87.6 million; May, 1949, £91.0 million; and May, 1950, £100.9 million.
balance in both 1948 and 1949; there was a deficit with the United States and Canada and a surplus in sterling with OEEC and all other non-sterling area countries in both years. The slight surplus on goods and services account with the sterling area in 1948 (£1.5 million) was followed by a deficit (£6.7 million) in 1949.

The chief method of financing the dollar deficit in both years was the conversion of currently earned sterling. In 1949, £13.3 million was converted as compared with £11.1 million in 1948. Over half of the sterling converted in each year was derived from the surplus with the OEEC countries. The slight deterioration in the dollar accounts from 1948 to 1949 does not appear to have warranted the planned reduction in dollar expenditures undertaken in 1949. New Zealand's agreement to limit the amount of sterling converted must be attributed to the desire of the New Zealand Government to cooperate with the exchange conversion policies of the United Kingdom - its principal trading partner - rather than to a deterioration in New Zealand's balance of payments.

Balance of payments data for 1950 are not as yet fully available, but some information is available on the overall position in the first half of 1950. Owing to the seasonal high of exports in this period, a surplus usually develops, but the surplus in the first six months of 1950 was unusually large, exceeding that of the first half of 1949 by £10.9 million, or 64 per cent. Exports increased 30 per cent and imports 22 per cent from the levels in the first half of 1949. Some indication of the changes in the regional balance of payments position is indicated by the trade data for certain major countries. A trade surplus with the dollar area has emerged in the first half of 1950 and the surplus with many other countries, particularly the United Kingdom, has diminished.

External factors have had considerable influence on New Zealand balance of payments developments. The long term contracts for agricultural products have covered the great bulk of New Zealand's exports. Exports to the dollar area have consisted mainly of wool, hides and skins, and the value of these has been greatly increased by an advance in prices. As New Zealand exports are primarily agricultural products, and as agricultural production is only 17 per cent above prewar, most of the rise in exports has been due to price rather than to volume changes. Import prices have risen substantially in accord with external price levels, and this has been reflected in the increasing value of New Zealand's imports. The total level of imports has been kept under close control.

Direct controls were maintained in the New Zealand domestic economy at least to the end of 1949. Price and wage control, together with commodity rationing and supervision of bank credit, were applied against inflationary pressures. At the same time, imports were subject to control so that pressures emanating from the domestic economy were not permitted to impinge directly on imports to any great extent.

III. Steps Taken by New Zealand to Cope with the Balance of Payments Difficulties

1. Restrictions

The intensification of New Zealand's dollar import restrictions followed the agreement to reduce dollar imports reached at the Commonwealth Conference in mid-1949. This intensification apparently took the form mainly of changes
in the criteria governing the discretionary granting of import licenses for imports from the United States and Canada. While there is no direct information regarding the changes made in administrative criteria governing dollar imports, the sharp fall in imports from the United States and Canada in the first half of 1950, while imports from other sources were rising, suggests the considerable tightening of dollar import licensing.

The New Zealand import licensing schedule for 1949 distinguished four groups of commodities which involve a geographic designation of the country of origin for which import license quotas, usually based on the previous year's imports, were allocated. No commodities falling within these groups could be imported from the United States and Canada. License applications for imports from these two countries were subject to administrative discretion. In the licensing schedule for imports in 1950, imports from the United States and Canada continued to be treated in the same manner, and imports from Belgium and Switzerland were, for the first time, included in this group. There were minor adjustments in the commodity composition of the various groups from 1949 to 1950 which, on the whole, had the effect of reducing the number of commodities which could be imported from the dollar countries. Apart from these shifts among the commodity groups, administrative criteria governing the granting of individual dollar import licenses were tightened.

The New Zealand Government has announced that in 1951 a substantial number of commodities will be free of licence when imported from soft currency countries. The group of countries, imports from which are confined to the commodities subject to discretionary granting of import licenses, has been broadened so that it is now identical with the list of countries imports from which are also limited under the U.K. import regulations. At the same time, some commodities were removed and others added to the list of commodities eligible for import from dollar countries.

IV. Alternative Corrective Measures

The decision to intensify import restrictions was, in the New Zealand case, primarily related to the weakened position of the central sterling reserves in mid-1949. The question whether there were corrective measures alternative to further intensification of the discriminatory import restrictions thus should be focused on the problem of overcoming an expected dollar deficit with less possibilities of converting soft currency earnings into dollars. Devaluation as a double-acting device, tending to lift exports to the dollar area and to lower imports, was in fact adopted as a complementary measure when sterling was devalued in September 1949. Since the inflow of private investment funds from the dollar area had been negligible, the alternative of borrowing from abroad would have meant, in effect, recourse to governmental borrowing operations. The slower-acting measures of deflation and redirection of exports were probably not practicable as alternative measures to meet the immediate problems raised by the deterioration of the sterling area reserves in the middle of 1949.

1) These hard currency countries are Albania, Argentina, Bolivia, Bulgaria, Canada, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, French Somaliland, all of Germany, Guatemala, Haiti, Honduras, Hungary, Iran, Japan, Korea, Liberia, Liechtenstein, Mexico, Nicaragua, Panama, Philippines, Poland, Rumania, Switzerland, Tangier, Uruguay, U.S.A., U.S.S.R., Venezuela, Yugoslavia, (as at September 1, 1950).
V. Present Outlook for Balance of Payments Position

Since mid-1949, some of the major factors determining New Zealand's balance of payments position and its regional accounts have changed. For the most part these changes reduce the pressure on the dollar import controls and indicate the possibility of larger dollar earnings. First devaluation has presumably served as a substitute measure in some respects for the import restrictions, and as supplies have become increasingly available in soft currency countries the effectiveness of the change in relative prices resulting from devaluation has been enhanced. Second, the lower level of economic activity in the United States characteristic of the first half of 1949 has been followed by an upturn stemming, in part, from the rearmament program; the demand for New Zealand's exports — chiefly wool and hides and skins — has increased as a result, with concomitant sharp rises in dollar prices. Moreover, there is some prospect that in the longer run New Zealand's imports from the United States — especially metals, metal manufactures, and machinery — may become somewhat more difficult to obtain. Third, the dollar reserve position of the sterling area has improved considerably since mid-1949. On the other hand, as the narrowing surplus with soft currency countries indicates, New Zealand is likely to feel the effects of a rising demand for imports — which has its origin in the domestic inflationary pressure.

The changes in these underlying factors have been evident to some extent in the balance of payments developments in the first half of 1950. The increased balance of payments surplus on overall account appears to be due mainly to the higher export prices being received. On the other hand, imports appear to be running at higher levels than in 1949. Although there is a lack of detailed data, particularly on trade and balance of payments developments, it does not seem unsafe to judge that New Zealand is still in over-all equilibrium, or surplus encompassing equilibrium, or surplus in both her soft currency and dollar accounts.

October 25, 1950.
Report on the Import Restrictions of Pakistan

I. Introduction

At the Fourth Session of the Contracting Parties to the GATT, Pakistan agreed to consult with the Contracting Parties with regard to its agreement at the Commonwealth Conference in mid-1949 to curtail dollar expenditures.

II. Nature of Pakistan’s Balance of Payments

Difficulties

Reserve Position

As a result of partition arrangements, Pakistan received approximately £178 million in sterling and sizeable sums in Indian rupees and Government of India securities. These assets, together with approximately the equivalent of $27 million in gold, have constituted the foreign exchange assets of the State Bank of Pakistan. Since free sterling accounts are very small, and Pakistan has no “hard” currency balances, the use of Pakistan's sterling reserves is conditioned by periodic negotiations made with the United Kingdom for the unblocking of Pakistan’s assets from No. 2 Account (blocked), and until July 1949, for the conversion of sterling into “hard” currencies. After accumulating approximately £20 million from January 1, 1948 to June 30, 1948, it has been estimated that Pakistan utilized about £38 million in the year ended June 30, 1949, and £32 million in the year ended June 30, 1950, making a total utilization of about £50 million over the two and one-half year period. Pakistan’s total dollar deficits during this period have been tentatively estimated at about between $70 and $80 million (about $47 million in 1948-49 and $24 million in 1949-50), which was financed largely by the conversion of part of Pakistan’s sterling assets agreed to with the United Kingdom. From January to June 1948, the United Kingdom agreed to convert up to £3.5 million into “hard” currencies and from July 1948 to June 1949, up to £5 million. Then in July 1949, Pakistan agreed to curtail expenditures and it is presumed that resulting dollar deficits for 1949-50 and 1950-51 were to be financed by drawings on the central reserves of the sterling area.

After allowing for scaling down by the devaluations of the pound sterling and the Indian rupee, it has been estimated that by June 1950, Pakistan had total foreign exchange assets equivalent to US$647 million (or equivalent to approximately 1.7 billion Pakistan rupees or £168 million in pounds sterling). Of this, about the equivalent of US$320 million was in pounds sterling (about £120 million), and most of the rest was in Indian rupees and Government of India securities. 1/

1/ A small amount of these assets is listed in statements of the State Bank of Pakistan as “pending transfer”, since they are part of the financial issues for which no final settlement has yet been reached between India and Pakistan.
Under a new sterling balance agreement signed with the United Kingdom in July 1950, Pakistan will be allowed to draw up to £15 million from the balance in its blocked account in the year ending June 30, 1951. In addition, drawings up to £2.5 million were to be allowed to meet exceptional requirements up to the end of September 1950, arising from the present state of trade and payments with India. If the exceptional requirements continued after that date, it was agreed that Pakistan might request a review of this provision.

During the year ended June 30, 1950, Pakistan drew £14 million in addition to the £17 million released under the terms of the 1949-50 agreement. These additional drawings were necessary since the assumption made when the 1949-50 agreement was reached—that Pakistan would receive some N° 1 account (free) sterling through her normal trade with India—was not fulfilled. The 1950-51 agreement, however, provides that if Pakistan receives any such sterling from India, a transfer of up to £5 million shall be made to Pakistan's N° 2 Account. Thereafter, an amount up to £5 million will be used, if necessary, to bring the working balance of Pakistan's N° 1 Account to £12 million. The remainder if any, would be transferred to the N° 2 Account, with such transfers not to exceed £14 million.

The foreign exchange assets of the State Bank of Pakistan which, apart from small free sterling accounts, represent Pakistan's international reserves have thus shown a declining trend almost since their inception after partition.

Balance of Payments Position

Since partition, Pakistan has continued to have balance of payments difficulties, reflected by an overall balance of payments deficit. Until perhaps recently, some part of these difficulties could be attributed to relatively low levels of output in Pakistan, due both to disruption of the economy following partition and to adverse weather conditions, at a time when large imports were needed. Imports were required for replacing inventories, establishing new businesses, emergency food requirements, etc., and the Government was also engaging in considerable purchases abroad of defense machinery and stores. Thus, for the year ended June 30, 1949, although data are not adequate for a firm estimate, Pakistan had an overall balance of payments deficit, tentatively estimated in the magnitude of Rs. 200-250 million, including a dollar deficit of perhaps Rs. 160 million and a deficit with all other countries except India of Rs. 300-350 million. As a result of the trade under the Indo-Pakistan Payments Agreement for 1948-49, Pakistan had a favorable balance with India of Rs. 2.7 million. Because Pakistan received in sterling only part of this surplus with India, somewhat greater use of Pakistan's total sterling assets was required than suggested by the size of its overall deficit.

Following the decision of India in September 1949 to devalue the Indian rupee and the decision of Pakistan not to devalue, a state of trade dispute developed between the two countries which still continues. For Pakistan, these circumstances mean increased concern over the disposition of its normal output of raw jute, its chief export product, and, as other import sources are substituted for commodities formerly coming from India, increased concern over the size of the deficits which have to be financed through the use of sterling reserves.
For the year ended June 30, 1950, largely because of reduced imports, Pakistan reduced its overall deficit, including both its "soft" currency (excluding India) deficit and its dollar deficit, despite a much lower trade surplus with India. This overall deficit might be tentatively estimated in the magnitude of Rs. 100 million. Exports to countries other than India rose notably in volume, but overall exports were about 20 per cent below the previous year's volume. Practically all available exportable surpluses were exported despite the trade difficulties with India, but Pakistan's 1949-50 jute crop was only about 75 per cent of normal size, and a substantial portion had been moved to India prior to the dispute. Increased quantities of other export products were sold to countries other than India. Wheat stocks threatened to accumulate for a time, but in the summer of 1950 arrangements were made for the disposal of sizeable amounts of wheat through exports to Japan and Germany. Overall imports declined even more than total exports, particularly of textiles and jute manufactures from India; total imports from countries other than India also declined, including about a 30 per cent decline in Pakistan's dollar expenditures.

III. Steps Taken by Pakistan to Cope with the Balance of Payments Difficulties

In the Pakistani import restrictions system, up to September 1949, practically all commodities could be imported without license from "soft" currency areas. All imports from "hard" currency countries were subject to specific license, although for a few items licenses were more or less automatically granted. In October 1949, in view of anticipated balance of payments problems growing out of trade difficulties with India, Pakistan shortened the list of commodities which could be imported without license from "soft" currency areas, but Western Germany, Belgium, Portugal, and others, which had previously been treated as "hard" currency areas, were now treated as "soft" currency countries. All commodities from American Account countries were still to be subjected to specific license.

With regard to dollar expenditures, Pakistan reduced governmental purchases in the United States, particularly for food, as Pakistan's emergency food requirements came to an end, but also for machinery and stores, including defense equipment, as more of such purchases were made in other countries. Reductions in governmental dollar expenditures accounted for about 60 per cent of Pakistan's total reduction in dollar expenditures. In addition, fewer licenses were issued for private imports. In July 1950, the number of commodities that could be imported from "soft" currency countries without license was again lengthened, and a few commodities could be imported without specific license from American Account countries as well as from Japan.

IV. Possible Alternative Measures

The possible measures for Pakistan to attempt to overcome these difficulties without more import restrictions included capital inflows or larger usage and conversions of sterling into "hard" currencies; reduced governmental expenditures abroad; devaluation; and disinflation.
No data are available on Pakistan's dollar capital inflows, but it is likely that they were very small. Conversions of sterling depended upon agreements negotiated with the United Kingdom. Governmental expenditures were expected to be cut substantially, particularly for food, as food production in Pakistan became normal.

In September 1949 the Government of Pakistan decided not to devalue the Pakistani rupee, although all other parts of the sterling area and several European countries were devaluing their currencies. Pakistan believed that the nature of its payments problem differed from that of other sterling area countries and that devaluation would not significantly alleviate its payments problems. Exports would improve with increased output; and exports to "hard" currency areas had been significantly increasing. The prevailing level of imports represented abnormal needs which would begin to decline later.

As for disinflation, new competition following the devaluations by other countries was expected to be met by some downward adjustments in the internal prices of Pakistan's export products, made easier by cheaper import products. During the next several months, prices in Pakistan of several export products and of foodgrains showed declines.

V. Present Outlook for the Balance of Payments Position

The principal factors which could improve Pakistan's balance of payments position in the relatively near future are an improvement in its trading relations with India and a possible decline in governmental expenditures abroad. During the next year, some increase in Pakistan's total exports to countries other than India might occur if Pakistan exports more raw jute to these countries. Much more significant improvement could occur from larger raw jute exports to India. As much as Pakistan's 1950-1951 jute crop is expected to be a more normal size of about 5 to 5.5 million bales and inasmuch as even under favorable circumstances Pakistan would probably not be able to export more than 2.5 to 3 million bales to countries other than India, the lack of exports to India means the loss of possible marked improvement in Pakistan's balance of payments. In fact, if India purchases less than it did in 1949-50 of Pakistan's jute crop, there may even be deterioration in Pakistan's future balance of payments. It will be recalled that much of the 1949-50 jute crop was sold to India before the current difficulties began.

The prospects for closing Pakistan's "soft" currency deficit thus depend largely on the status of trade with India. The restoration of trade with India would provide overall larger "soft" currency exports, and allow more imports purchasable with Indian rupees. This would tend to reduce the rate of use of sterling assets, depending on the extent to which trade with India provided Pakistan with sterling.

In any case, Pakistan's deficits with American Account countries and Japan may be reduced, depending on the size of governmental expenditures. Recent rises in U.S. imports and prices have probably improved Pakistan's dollar earning position somewhat, although Pakistan does not experience as much increased dollar earnings from these developments as might be expected for a raw material exporting country, since its chief export, raw jute, is not sold principally in dollar markets. Although private trade transactions are probably yielding a dollar surplus, Pakistan may, nevertheless, continue to have a dollar deficit -- although reduced -- because of governmental expenditures.

\[1]\text{In view of consideration being given to this problem by the Fund, the discussion given here to the exchange rate aspect is limited to publicly expressed official Pakistani views as to why the Pakistani rupee was not devalued.}

October 25, 1950.
Report on the Import Restrictions of Southern Rhodesia

I. Introduction

At the fourth session of the Contracting Parties to the GATT, the government of Southern Rhodesia agreed to consult with the Contracting Parties on the intensification of import restrictions which followed the Commonwealth Conference of mid-1949.

II. Nature of the Balance of Payments Difficulties

The Reserve Position

No information is available on Southern Rhodesia's total monetary reserves in 1949 and 1950. "Foreign exchange assets" as shown in the balance of payments statement fell very slightly (£1 million) in 1946, and increased a small amount (£.7 million) in 1947 and a larger amount (£5.6 million) in 1948.

The Balance of Payments Position

As a result of increasing imports the overall balance of payments position deteriorated continuously during the postwar years. The current account deficit increased from £2.9 million in 1946 to £15.7 million in 1947, £19.1 million in 1948 and £29.0 million in 1949. The most important reason for the increasing imports was the postwar economic development with consequential heavy purchases of essential goods at a time when world prices were rising. The drastic curtailment of imports during the war years and the continuing scarcity of essential goods immediately after the war also influenced the rising trend in imports in the later postwar years.

A substantial increase in capital inflow, virtually all from sterling sources, took place throughout the postwar period; it amounted to £4.1 million in 1946, £15.8 million in 1947, and £24.6 million in 1948. The large capital inflow in 1948 seems to have been partly due to the inflow of speculative capital. Although complete information is not as yet available on the capital inflow in 1949 and 1950, indications are that the capital inflow continued.

The overall trade deficit has encompassed deficits on both dollar and non-dollar accounts since 1947. The trade deficit on non-dollar account has been supplemented by deficits on other current items. The current account deficit with the non-dollar area has been financed since 1947 partly by long and short-term capital, partly by immigrant's funds, and partly by government

1/ Although a separate signatory to the GATT, Southern Rhodesia is covered under the quota of the United Kingdom in the International Monetary Fund.
borrowing. As the capital inflow exceeded the current account deficit in 1947 and 1948, small amounts were available to add to foreign exchange assets. Comparable information regarding capital inflows for 1949 and 1950 is not available, but the current account deficit with non-dollar countries increased from 1948 to 1949.

Southern Rhodesia had a trade deficit with the dollar area during postwar years, but with a possible exception in 1947 gold sales to London surpassed the deficit each year. According to the balance of payments data, current dollar earnings dropped slightly from 1948 to 1949, but as dollar payments fell a corresponding amount, the dollar deficit (excluding gold) remained constant. In both years, gold sales to the United Kingdom exceeded the dollar deficit by £6 million. Thus in 1948 and 1949 Southern Rhodesia was able to contribute £6 million to the central reserves of the sterling area. The intensification of import restrictions against dollar goods in mid-1949 came about as the direct result of Southern Rhodesia's arrangements with other members of the sterling area. There had been no significant changes in Southern Rhodesia's balance of payments position with the dollar area during 1948-49.

III. Import Restriction Policies

The Southern Rhodesian system of import restrictions leaves imports from all-soft currency sources free of control except for a short list of commodities which require import licences if imported from any country. All imports from hard currency countries are subject to licences; allocations are granted for various industries. Thus the system contains a substantial degree of discrimination against imports from hard currency sources.

In July 1949 restrictions on dollar imports were intensified in compliance with the decision taken at the Commonwealth Finance Ministers' Conference to reduce dollar expenditures by 25 per cent. The Southern Rhodesian Finance Minister made a reservation that Southern Rhodesia would reach this goal either by reducing dollar imports by 25 per cent, or by expanding dollar exports by the same amount. However, immediately after the Conference, Southern Rhodesia reduced its planned dollar expenditure by cutting down its allocations for dollar import permits from £23 million for a twelve months period running from April 1, 1949 to March 31, 1950 to £20 million for a fifteen months period running from April 1, 1949 to June 30, 1950.

Balance of Payments Prospects

Some of the factors underlying the Southern Rhodesian balance of payments have changed in such a way from 1949 to 1950 that the deficit on dollar account (i.e., excluding gold sales) is likely to fall. Production of the chief dollar exports has been increasing. The change in U.S. business conditions has increased demand for Southern Rhodesia's chief dollar exports — asbestos and chrome. The prices of both of these have risen sharply since devaluation. Devaluation has also had the effect of stimulating exports and reducing the demand for dollar imports.
The data which is available indicates that considerable improvement occurred in Southern Rhodesia's accounts in the early part of 1950. Exports to the United States of the principal dollar commodities were up sharply in the first four months of 1950. Moreover, total exports have also increased compared to 1949, and, as imports are not likely to rise as much judging by trends in the early part of the year, the current account deficit is likely to be smaller, but it may be repeated that information is not available as to what extent capital movements are covering this deficit.

October 25, 1950.
I. Introduction

Since 1947 the National Foreign Trade Council in Chile has prepared an Annual Foreign Exchange Budget. In this budget the expected receipts from exports, invisibles and capital, as well as expected expenditures for imports and services are estimated. In the middle of 1949 the Council found that the realized dollar receipts were running considerably below expectation— as a result of a decline in copper exports. Accordingly, the Council revised its 1949 budget downwards and concurrently intensified the restrictions against dollar imports. In the following exchange budget for 1950, the Council's decision to permit a lower level of dollar imports was maintained. Subsequently, at the Fourth Session of the Contracting Parties to the GATT, Chile was invited to consult with the Contracting Parties in accordance with Article XII, 4(b) of GATT.

II. Nature of the Chilean balance of payments difficulties

The reserve position

During World War II the gold and foreign exchange assets of the Central Bank and of the Amortization Fund increased $14.6 million—from $40.8 million in 1940 to $115.4 million in 1945. In the latter year holdings of commercial banks were $14.5 million, making a total of $129.9 million. As a result of a substantial rise in imports, balance of payment deficits were experienced in 1946 and 1947; total foreign exchange holdings dropped $63.6 million and reached $66.3 million at the end of 1947. During 1948, as a result of higher returns for copper exports and of a stricter import control system, the position improved slightly; total reserves reached $72.7 million at the end of the year. In 1949 the gold and foreign exchange holdings of the Central Bank, Amortization Fund, and commercial banks were $74.9 million, and at the same time Chile had used $1.5 million of a $25 million United States Export-Import Bank loan. In the first seven months of 1950, the total holdings of the Central Bank and Amortization Fund increased $6.1 million—from $74.9 million to $83.5 million.

Since the overall current account deficit has averaged about $36 million a year for the years 1946-49, it would appear that the reserve position has been kept fairly stable since 1947 by a system of trade restrictions, multiple exchange rates, and external borrowing. In the exchange budget of 1950 the expected receipts include the $20 million balance left on the Export-Import Bank loan, leaving the reserves unchanged.

Balance of payments position

Since 1946 the main source of pressure upon the balance of payments has been the import demand. The fall in export income in mid-1949 became an additional source of pressure.

1/ Figures on commercial bank holdings of exchange are not available for these years.
In the prewar period Chile ran a deficit with the U.S. and Latin America, which was covered by the surplus arising mainly from its copper exports to Europe and the rest of the world. Currently, Chile finds itself obliged to trade partly in convertible and partly in inconvertible currencies. Copper exports are traded exclusively in dollars - irrespective of their destination - and constitute the main source of Chilean foreign exchange income. Nitrate exports, agricultural and small mining products follow in importance and are principally traded in currencies other than dollars; this trend became more marked in 1949.

Chile's import demand has been high in the postwar years on account of domestic inflationary conditions. Quantitative restrictions have been used consistently to reduce "ordinary" import payments. Around 25 per cent of all imports of 1946-49 (totalling $1,084.7 million) has been paid with the proceeds of loans granted by Export-Import Bank and the IDB and with the mining companies' own exchange (unsurrendered export receipts). Private capital inflow has also been substantial.

The fall in copper prices in mid-1949 caused Chile to experience a substantial overall reduction in its exchange receipts from large mining companies — from $160.8 million in 1948 to $142.0 million in 1949 — and, therefore, with particular importance for its dollar receipts. This moved the Chilean authorities in July to revise downwards its 1949 import budget, mainly in the hard currency sector. However, in 1949 the overall balance of payments turned out to be favorable in the amount of $1.5 million. Chile ran a deficit in current and capital account of $33.6 million with the U.S., Canada, and Latin America, which was covered with the surplus derived from its trade with Europe and the rest of the world — including non-monetary gold exports — ($32.8 million); with $1.5 million of a loan from the Export-Import Bank; and with $0.6 million of its own reserves. Chile also improved its clearing account position with Latin America by $1.3 million.

The 1950 import restrictions constitute a prolongation of those imposed in mid-1949 and are directed to keep separately in balance the "dollar" sector and the "other currencies" sector of the foreign exchange budget.

III. Steps taken by the country to cope with the balance of payments difficulties

In order to check the expansion of import demand, Chile has relied principally on quantitative restrictions and multiple exchange rates. A prohibited list of non-essential imports is established annually by the Government in conjunction with the exchange budget. All other imports are given specified quotas within the exchange budget, with reference extended to items essential to the domestic economy and to the development program. Imports of the mining companies are paid for with their own retained exchange and are, for the most part, not subject to licensing; an overall quota is included to that effect under "Offset Accounts" within the budget. For the first time since 1947, the exchange budget for 1950 indicates separately for each item the corresponding quota in dollars and

1/ Certain prohibited goods can be imported at a penalty rate using proceeds of non-monetary gold exports.
in "other currencies". The distribution of the dollar quotas and of the "other currency" quotas by countries is not shown in the budget. Presumably, Chile allocates all its receipts in currencies other than dollars (inconvertible) among the imports from the non-dollar countries and uses its dollar receipts mainly for payments in the hard currency countries. This results in discrimination in those items where only "inconvertible exchange" is provided. It is not possible to appraise the extent of discrimination in the more numerous items where both dollar and non-dollar allocations are provided. The amount of Chile's exchange income currently being received in dollars and in other currencies determines periodic adjustments of the budget as a whole, as well as of its distribution by currency areas.

When the 1950 budget was drawn up, it was expected that the lower level of the dollar income experienced in the second half of 1949 would continue. Total income, excluding offset accounts, was estimated at $232.2 million (against $307.3 million in 1949). Debt services and other invisibles were estimated at $40.9 million. Imports were budgeted at $191.3 million (against $266.6 million in 1949), of which $20 million were to be covered with the balance of the loan obtained from the Export-Import Bank. Of the remainder of $171.3 million in imports to be covered with the proceeds of exports and invisibles, 52 per cent constituted dollar payments and the balance, payments in other currencies. The proportion between payments in dollars and payments in other currencies corresponded closely to the actual distribution of income receipts in 1949, according to balance of payment estimates.

Multiple rates have been used to penalize the importation of less essentials and to favor that of essentials, foodstuffs, and capital goods. The pace of internal inflation has continuously rendered the rates inadequate to effectively check import demand and has forced periodic downward adjustments of the Chilean peso. In January 1950 a new rate of 60 pesos per dollar was introduced to cover part of the exports and imports. Further adjustments took place in July. Multiple (subsidy) export rates have also been used in an attempt to accommodate rising domestic costs of minor export (agricultural and small mining) products to the level of foreign prices. The application of a relatively low export rate on major exports -- copper, nitrate, and iron ore -- has resulted in a kind of indirect taxation of the foreign-owned exporting companies. However, increases in productivity and higher external prices for copper have made it possible for the companies to afford this situation, which has resulted throughout the years in an increase in the amounts of dollar exchange that the companies sell in Chile.

The domestic economic situation has not contributed to the achievement of equilibrium in the international accounts. In the absence of adequate savings, part of the development plan -- and largely the domestic investment -- has been financed out of credit expansion. This has been facilitated by the Central Bank's liberal lending policy and also by the Government and the government-owned banks maintaining large deposits with

2/ Adjustments vis-à-vis countries with which Chile maintains clearing accounts are made as appropriate; adjustments vis-à-vis dollar payments were made in mid-1949 (reduction) and in mid-1950 (increase).
commercial banks. In the last ten years prices have risen substantially and wage adjustments have also been great. The Chilean economy has grown on account of the development plan and the increase in investments. The Gross National Product, measured in terms of 1940 pesos, has increased from 10.8 billion to 23.5 billion in 1949. On the other hand, the changes in the pattern of production seem to have resulted in some dislocation of the agricultural sector of the economy. Attempts to correct the effects of this situation upon the balance of payments through the maintenance of subsidy multiple export exchange rates seem to have been only moderately successful.

IV. Alternative corrective measures

The measures taken in mid-1949 were in line with the policy followed by Chile since the end of the war: instead of anti-inflationary measures, more reliance upon quantitative import restrictions in order to reduce imports to the level of the fallen exchange income. Credit expansion and increases in prices continued through the year. It was not until early 1950 that a devaluation in effect took place through the introduction of new multiple import and export rates. Even then, the new level chosen for the Chilean exchange rate structure was not adequate to restrict import demand without reliance upon quantitative restrictions or to make export subsidies unnecessary. The reliance upon import restrictions was taken for granted. However, this time the devaluation hit wage goods, and local prices of imported goods have been rising. Further adjustments in the same direction have been introduced in the effective rates in July 1950.

V. The present outlook for balance of payments and reserves

As anticipated in the exchange budget, imports and exports are running in 1950 at lower levels than in 1949. The price of copper has risen since April and in August was above the December 1949 quotation but still below the figure for the first quarter of 1949. Agricultural exports, on the other hand, have fallen considerably.

In the first six months of 1950 customs statistics show a trade surplus larger than the one corresponding to the whole year 1949. Imports from the Western Hemisphere (mainly paid for in dollars) have fallen considerably, and the 1949 trade deficit ($55.5 million) has been reduced to $4.5 million. The trade surplus with Europe and the rest of the world (partly in convertible currencies) is, however, smaller.

The inflationary pressure appeared to have slackened somewhat between January and July. Moderate increases occurred in the money supply, commercial credit, and Central Bank lending to banks. Import prices increased substantially, probably in response to the exchange rate increases of January. In August however, new expansionary trends began to appear; in this connection, it is understood — although the details are not yet available to us — that a new plan freezing salaries and wages, instituting forced savings, and modifying the credit structure of the country has been presented to Congress early in September.

In the same month the exchange budget was adjusted, mainly to take into account the improvement in the export receipts. As a result of that adjustment, provision was made in the budget for imports to be increased by
a net amount of $3.4 million. This readjustment seems to have been under consideration since July and takes into account mainly the developments in the trade situation in the first half of the year. Total foreign exchange and gold holdings of the Central Bank and of the Amortization Fund increased $6.1 million in the first 7 months of 1950, and at the end of July they stood at $53.5 million. No figures are available on the reserve position of commercial banks during the same period.

The Korean situation and the rearmament programs may reasonably be expected to maintain the demand for copper and to influence favorably the Chilean balance of payments position in the remaining part of 1950. However, much will depend upon the degree of domestic stability achieved.

October 25, 1950.

1/ The adjustment is $22.1 million, of which $18.8 million constitutes issuance of import licences 10 per cent in excess of the budgeted figure to offset an equal amount of licences expected to lapse or be cancelled without being used.
Comments by Contracting Parties on the Reports of the Fund

Comments by Australia

In the introduction and Parts II and V of the Fund Report on the Import Restrictions of Australia, it is variously stated that Australia agrees with the United Kingdom the amount of her sterling balances which may currently be converted into dollars. The implication here of a bilateral agreement is incorrect.

The Fund report states that, following the Commonwealth Conference of mid-1949, Australia agreed with the United Kingdom to convert smaller amounts of sterling into dollars. What was, in fact, agreed was that Australia, and other sterling area countries, would reduce their claims on the central gold and dollar resources of the sterling area in payment for dollar imports during the forthcoming twelve months to a level not exceeding 75% of the value of their expenditure on such imports in 1948.

Comments by Ceylon

Paragraphs 7 and 17 - The references to an overall current account surplus in the first half of 1950 are based on published trade statistics and assumptions about invisible transactions. The Ceylon representative informed the Working Party that this deduction was not borne out by figures supplied by the Central Bank of Ceylon based on actual payments and receipts for the period.

Comments by Southern Rhodesia

Paragraphs 4 and 5 - The Report states that complete information is not available on the capital inflow in 1949 and 1950. This is correct, but the Southern Rhodesian representative is informed by his Government that the figures used in the "Background Material" in respect of long and short term capital and Government borrowing cannot be agreed. The statements in the Report on the financing of Southern Rhodesia's international transactions should therefore be treated with reserve.

Paragraph 6 - "There had been no significant changes in Southern Rhodesia's balance of payments position with the dollar area during 1948-49". This statement is based on figures supplied previously to the Fund by the United Kingdom. The Southern Rhodesian representative referred to the fact that these figures had now been revised. These revised figures did not bear out the above statement.

Paragraph 10 - "Exports to the United States of the principal dollar commodities were up sharply in the first four months of 1950". The Southern Rhodesian representative pointed out that this increase has not been proportionately maintained in the second four months, and that the impression given is misleading since the limiting factors on dollar exports have not been given due weight.

Paragraph 11 - "... such relaxation would probably involve some additional restrictions against soft currency imports". The Southern Rhodesian representative pointed out that this suggestion ignores the needs of the expansionary development of Southern Rhodesia and the fact that Southern Rhodesia's capital inflow is almost entirely from soft currency sources.
Comments by the United Kingdom

Paragraphs 4 and 5 - "third quarter (1949) capital inflow from the United States" - This is an inaccurate description of the change in the "leads and lags" situation and the return of "hot money" which occurred immediately after the devaluation of sterling on September 18th, 1949.

Paragraph 6 - "comparing the first half of 1949 and the first half of 1950 in the case of the nine most important commodities accounting for the decline in the dollar value of imports from the dollar area and other hard currency countries there has, by and large, been an overall reduction in the volume of imports." - This Statement based on a comparison over six-monthly periods for only nine commodity groups gives a misleading impression. The periods are too short for reasonable comparison. In the "Background Material" it is stated that on the basis of 24 commodity groups "Total volume ....... (was) ........ down in 8 cases, up in 14, and uncertain in the remaining two".

Paragraph 9 - "These bilateral arrangements also ensured that payments between the sterling area and those countries were made through specific channels". - The phrase "specific channels" is obscure and misleading.

Paragraph 15 - "The problem on inflation today is to hold the line in order to prevent further price increases resulting from expected increases in Government spending consequent upon rearmament" - Government spending on rearmament is only one factor. The United Kingdom is faced also with substantially higher import prices, particularly for raw materials, as a result of developing world shortages.

Paragraph 16 - "It is possible that there will be some increase in U.K. exports to the rest of the sterling area which might affect the ability to export to the dollar area". - The United Kingdom representative could not accept this supposition.

Notes by New Zealand

(1) The New Zealand representative pointed out that no limits were imposed on the amount of sterling which New Zealand could convert and stated that New Zealand's position in this respect was similar to the Australian position which had been previously explained.

(2) The New Zealand representative also stated that in Part III of the Fund report, an incorrect explanation was given of New Zealand's import licensing system as far as it affects imports from dollar countries. For certain commodities some licences on soft currency sources were issued automatically to importers and these automatic allocations were related to licences issued to individual traders in some previous year. Such allocations were not generally made for imports from dollar countries. The Fund report implied that commodities in respect of which basic allocations were made were not eligible for import from dollar countries. The correct position, which was clear from published information of the New Zealand Government, was that dollar licences could be issued for all commodities whether or not they were subject to basic allocations. There were, therefore, no lists of commodities ineligible for import from dollar countries. Any changes made between the groups for which basic allocations are made, on the one hand, and the group for which basic allocations are not made, on the other hand, had, therefore, no particular significance in considering New Zealand's policy towards dollar imports.
The Fund representative has examined the comments presented to the Working Party by Australia, Ceylon, Southern Rhodesia, United Kingdom and New Zealand. He does not find in these statements anything that would affect any of the Fund's conclusions. Most of these statements raise questions of minor different interpretations of some facts. Only a small part of the statements referred to additional statistics and facts. As to this latter part the Fund representative has forwarded them to the Fund for processing and analysis by the technical staff of that institution. There is no other way to deal with this new material since it is obvious the Fund is the proper place for that highly technical operation to be undertaken. Any attempt to deal with this matter here would be useless. This is recognized in Article XV, paragraph 2 of the GATT which provides that "the Contracting Parties shall accept all findings of statistical and other facts presented by the Fund relating to foreign exchange, monetary reserves and balances of payments."

No better answer can be given to the comments stated to be submitted by Ceylon than to quote from the second statement of their representative (CP.5/K/SECRET/12) who said, "I would wish to apologize to the International Monetary Fund if I gave the impression in the statement I made last time when we met that I was questioning the accuracy of the figures submitted by the Fund". It appears from conversations with the representatives of Ceylon that the figures presented by their delegation do not correspond with the period that the Fund's statistics cover. In any event, as stated above, no one here is in a position to appraise these figures. Upon the request of the representative of Ceylon the Fund's representatives have received the figures and have already sent them to the Fund.

As for Southern Rhodesia, the statistical information underlying the statements made by the Fund in its report on that country was received (as the Southern Rhodesian paper admits) from official sources in the United Kingdom which is the Fund member responsible for Southern Rhodesia. If Southern Rhodesia feels that these statistics are subject to revision or that it has additional statistics, the Fund shall be very glad to receive them from the Fund Executive Director for the United Kingdom.

With respect to New Zealand's statement that an incorrect explanation was given in the Fund's report of New Zealand's import licensing system insofar as it affects imports from dollar countries, the Fund's representative wishes to point out that it was indicated to the Working Party that the description of the import licensing system in the material submitted by the Fund was based on official sources of information. Furthermore, the Fund did not attempt to enumerate the administrative aspects. The Fund's representative states that the explanation given by the representative of New Zealand does not affect the over-all position described in Part I of the Background Material on New Zealand. So much for the facts and statistics.

As to the statements covering the opinions, the Fund representative intends to deal here with several questions which may be significant. The first is the statement by Australia that there is an implication in the Fund's report that a bilateral agreement exists as such between Australia and the
United Kingdom. A similar view was taken by New Zealand. In CP.5/K/SECRET/15 the Fund has answered this amply and the representative of Australia in the Working Party acknowledged that there was a "gentlemen's agreement" between Australia and the United Kingdom as to the convertible currencies to be used by Australia within any one period.

As to the comments of the United Kingdom concerning paragraphs 4 and 5 of the Fund's report on the United Kingdom, the Fund's representative points out that the Fund's report provided an accurate statement of the situation which developed in the third quarter of 1949. It stated that there was a return of "capital" from the United States. It did not try to describe whether that capital was "hot money" or for long-range investment. This was immaterial for the Fund's analysis at that point.

The United Kingdom has also contended that the Fund's statement in paragraph 6 "based on a comparison over six-monthly periods for only nine commodity groups gives a misleading impression." This contention is inaccurate. The Fund stated that the comparison is between the first half of 1949 and the first half of 1950 and for the nine most important commodities accounting for the decline in the dollar value of imports. The Fund has not yet received official detailed figures for the second half of 1950 and therefore was in no position to make comparisons on the basis of a period longer than the six-month period selected. Furthermore, the statement of the United Kingdom is in itself misleading since it confined itself to irrelevant extracts from the Fund's Background Material and did not mention, for example, that the nine categories or commodity groups account for about 88 percent of the identifiable reduction in the value of imports from the hard currency countries between the first half of 1949 and the same period of 1950. (See page 66 of Background Material on United Kingdom.)

The United Kingdom has also contended that the phrase "specific channels" in paragraph 9 of the Fund's report is obscure and misleading. The phrase "specific channels" refers to authorised channels specified in the agreements or arrangements between the United Kingdom and the other countries to eliminate, wherever possible, merchandise transactions financed through the use of cheap sterling. This point is discussed on pages 74-76 of the Background Material.

The United Kingdom has also commented on paragraph 15 of the Fund's report and states that "Government spending on rearmament is only one factor" of the inflationary problem today. The Fund's representative wishes to point out that the substance of this paragraph of the Fund's report is that the current worldwide rearmament is a very important factor promoting inflation. It is reflected in the large Government spendings, higher prices for critical materials, etc.

In the light of the foregoing remarks the Fund representative states that he could not, on the basis of the written statements submitted up to now by Australia, Ceylon, Southern Rhodesia, United Kingdom and New Zealand, come to the conclusion that any statistics or factual data in the Fund's reports are inaccurate. Moreover, he could not find anything in the opinions expressed in these statements that would affect the Fund's considered conclusions with regard to the import restrictions of those countries.
ANNEX II

STATEMENTS RELATING TO THE "BACKGROUND MATERIAL"
PROVIDED BY THE FUND

Comments by six Contracting Parties on the "Background Material"

The representatives of Australia, Ceylon, India, New Zealand, Southern Rhodesia and the United Kingdom did not consider it necessary to comment in detail on the Fund staff documents giving background material on their position since the points on which comment could be made which had not been covered in their statements did not affect the course of the consultations. In view, however, of a statement in the second paragraph on page 41 of the Fund document giving background material on Australia, the Australian representative felt compelled to draw the attention of the Working Party to the fact that, although butter had been available, Australia had not been able to ship any butter to the United States since that country had granted a tariff concession on this item in 1947. The New Zealand representative also pointed out with reference to page 42 of the document giving background material on New Zealand, that whatever effects bulk contracts with the United Kingdom may in theory have on exports of butter by New Zealand to the United States, such exports are, in fact, at present limited by an entirely different factor outside the control of the New Zealand Government. The representative of Southern Rhodesia referred to the statement in the second paragraph on page 50 of the document giving background material on Southern Rhodesia that "Southern Rhodesia earns dollars by transporting copper from Northern Rhodesia on the Rhodesian Railways", and stated that the Government of Southern Rhodesia had advised that this statement was incorrect.

Reply of the Representatives of the Fund to the Comments of Six Countries on the "Background Material"

1. The representatives of the International Monetary Fund have noted with satisfaction that the only specific comments of the representatives of Australia, Ceylon, India, New Zealand, Southern Rhodesia and the United Kingdom on the 500 pages of Background Material prepared by the Fund were confined to two points: (1) Butter shipments from Australia and New Zealand to the United States, and (2) dollar earnings on copper transportation by Rhodesian railways.

2. It is clear that these points had no effect on the substance of the consultations nor on the Fund's conclusions.

3. However, since the representatives of Australia, New Zealand and Southern Rhodesia seem to attach some importance to these questions, their comments will be forwarded to the Fund headquarters in Washington for examination and appropriate action deemed necessary.