Official Documents

Restrictions Under Review

(From Our London Correspondent)

Fourth Annual Report on Exchange Restrictions, International Monetary Fund, 1953, International Trade, Contracting Parties to GATT, 1952.

AT the end of war when thoughts were turned towards rebuilding the world economy on the basis of free international movement of capital and goods, it was hoped that exchange and quantitative restrictions would be among the first obstacles in the way of trade and economic freedom to be cut down, if not completely abolished. And so the countries gathered together, to set up those much-discussed institutions, the International Monetary Fund and GATT. Many years have now passed but the object of achieving a free flow of goods and services across national frontiers is still to be realised.

The stage is now being prepared for the annual meetings of the International Monetary Fund and the General Agreement on Trade and Tariffs and their two recent reports provide a good opportunity to examine how far these restrictions have been relaxed so far. The period covering 1952 and the early months of 1953 was essentially one of consolidation after the vicissitudes of the post-Korean boom in raw materials. It was also a period during which a number of countries were watching world developments to see what would take place elsewhere before taking any decisive measures to lessen their own exchange restrictions.

In Europe, intra-European payments continued to dominate the economic programmes of the countries participating in the Organisation for European Economic Co-operation. Crises in the position of individual members were apparently not as severe in' 1952 and early 1953 as they had been in 1950 and 1951. The monthly settlements have continued on a more even basis, although the various special restrictive arrangements introduced earlier to meet abnormal situations were in general maintained. There have, however, been interesting modifications, although of a temporary nature, in the practices of some countries. For example, the United Kingdom introduced for a brief period the " Commodity Scheme " permitting the trading of dollar commodities in Europe on a sterling basis. A limited degree of freedom has also been granted to authorised banks in most West European countries, permitting them to conduct foreign exchange transactions within exchange rate limits set by their central bank or exchange stabilisation fund authorities.

There has been considerable interest in the prospects of a convertibility scheme for sterling. The statements of the Commonwealth Ministers after their meetings of January and November 1952 prompted widespread comment and discussion throughout Europe and the United States. But, so far, nothing of any significance has resulted from these meetings, other than an extension of quantitative restrictions in almost all the Commonwealth countries to enable them to achieve a balance in their foreign payments account. These were considered necessary for the achievement of the conditions without which convertibility could not be successful. Many in Europe are now viewing this policy with a great deal of doubt, since it has resulted only in an intensification of the barriers to trade between the countries of the sterling area and the rest of the world.

Since the end of the Second World War, and especially in the years from 1948 to 1951, great strides have been taken under GATT' to reduce the level of import duties. Nearly all the reductions negotiated at the Torquay Tariff Conference in 1951 have been brought into force, although there have been isolated instances of increases. But since 1951, new tendencies arc discernible. 'There is a distinct trend towards the imposition of high protective and fiscal duties in the unbound sec tors of the tariffs of the contracting parties to GATT and in the tariff legislation of other countries. The members of European Coal and Steel Community have been permitted to make special arrangements for the removal of customs duties among themselves on coal and steel products. But this has not stopped them from intensifying their tariff restrictions on non-Community imports.

The most outstanding increases in tariff duties have occurred in textile goods. 1951-52 was a critical year for the industry and increased protection was accorded to it by many Governments, the most notable being those of Ireland, Egypt, Mexico. Australia, India, Pakistan and Peru. As the GATT report states, " the maximum rates inscribed in the GATT schedules have not always applied and on many such items, the duties have been increased ". There have also been during the past two years, a number of increases in bound duties under the " Escape Clauses " of the General Agreement, which permit emergency action in certain circumstances. 'The main culprit has been the United States Government which, to the annovance of countries like Belgium, Turkey, Greece and Holland increased its duties on commodities like cheese, dried rigs, fur, etc. Another feature of exchange restrictions in recent years has been the widening use of export subsidies, exchange retention schemes, and such measures. Subsidies on their present scale would be far more important in international trade in a world free from import restrictions than they are today. Countries which apply quantitative restrictions because of balance of payments difficulties can ward off competition of a subsidised foreign product in their own territories by maintaining restrictions on its importation, but then products cannot compete on equal terms with the subsidised products in other markets. It is in these third markets that the effects of subsidies are mainly fell in present circumstances. 'The GATT report gives an excellent example of the evil consequences of export subsidies. The effect of the United States subsidisation of sultanas on the trade of Greece and Turkey has caused these countries to lose a number of their traditional markets thus worsening their balance of payments positions.

In the field of quantitative res-

ns, 1952 has been an in-
IS year. Heavy pressure on monetary reserves of a num-
countries led to substantial ises in import controls and re-
ins in import quotas. This larticularly true of the sterling and France. On the other in spite of the failings of e and the sterling area, the ries of the OEEC maintained liberalisation code and in eases improved on it. Under OEEC programme for the re- of quantitative restrictions European trade, Governments nee from time to time the ets which can be imported it restriction. This liberalisa- of trade is measured against due of non-governmental iiii- in 1948. The percentage of e intra-European trade, freed quantitative control, was by most OEEC countries to 948 = 100) by the beginning 52. By April 1953 it had ed 82.

countries, where the most import restrictions have been ed, are those of Latin Ame- Here, the reversal in the of commodity prices in 1952 n the early months of 1953 forced countries like the tine to suspend all import ts which were originally grant- itomatically for a number of ial goods and raw materials, ne last, the Government dis- a new foreign trade policy sterity and bilateralism under purchases were limited to ensable raw materials, fuel apital equipment for agricul- and industry. Similar mea- were taken by Chile and a er of other States.

advance towards freedom ide has, thus, not been very raging since the end of the But, as the IMF report states, of the countries of the world indicated an awareness that of such practices frequently ndesirable effects in addition effects which the country is g to achieve ". These res- ns tend to have an inflationary t, where they lead to a general tion of imports or cause a to more expensive soft cur- . sources of supply. They also to protect domestic industries o isolate the economy from orld market. But even if the ries concerned are aware of facts, the achievement of international conditions depends ultimately on American policy. It is the dollar shortage whose persistence has demanded of these countries policies discriminatory to the dollar area. It is the United States which must give substance to the slogan " trade, not aid ", and unless American economic policy changes significantly the countries of the world will have to maintain these restrictive practices to avoid bankruptcy.

Taxation and Foreign Investment

United States Income-Taxation of United States Private Investments in Latin America. United Nations. New York, January 1953. Pages 80. Price 75 cents. Available from Oxtord Book & Stationery Co, Scindia House, New Delhi.

WHEN analysing the motivations which lead to decisions in the held of capital investments, it is an uncertain ground that one has to tread. But, complex as the problem is, it has not deterred experts from studying the effect of specific conditions on the level and direction of such investments. It is an interesting study, for example, to determine how far the tax measures can be effective incentives or forbidding deterrents to the flow of capital specially in the international field. 'This publication of the United Nations gives a good idea of the magnitude of research that must go into the efforts of those who propose tax measures to encourage international investments. In the background is the presumption that given proper incentives, American capital would be available for investments abroad and that this export of capital is an objective worth pursuing.

The report, however, is only an introductory analysis of the reliefs which are available under the United States Income-lax Laws to foreign income derived specially from Latin America. It also examines critically in a logical and precise way, the current proposals for changes in this law. But wisely enough, it docs not rush forward to make any specific recommendations. No attempt has been made in the report to make an examination of tax laws in Latin America. Without the proper study of the interaction of the laws of United States and Latin America., it would indeed be difficult to judge conclusively the merits of several proposals for reform of the United States Laws.

There are three ways in which the present tax legislation in the United States can be said to provide an incentive to investments abroad;

(1) The. Western Hemisphere Trade Corporation provisions which entitle such domestic corporations as are carrying on an active trade or business in the Western Hemisphere and have 95 per cent or more of the gross income outside the United States to a special reduced rate.

(2) Tax credit of a foreign subsidiary's foreign income-tax subject to per-country and over-all limitations.

(3) And the postponement of United States tax on earnings of a foreign corporation until distributed to the investor.

The report examines the concrete benefits which flow from these provisions to United States investors in Latin America. It further examines such proposals for changes in the pattern of United States Income-tax as total exemption of foreign income, modification of the foreign tax credit and the extension of the deferral of United States tax on the income of a foreign branch of a United States Corporation. It has been suggested that the third, *viz* postponement of United States tax on the income of a foreign subsidiary, would be particularly effective, if the legislation in capital-importing country would also exempt its income until it is distributed to the parent country. This should be worth serious consideration in India also, where no effort has been made so far to use tax provisions as incentives to the import of foreign capital and this aspect of tax legislation merits research.