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INTERNATIONAL MONETARY FUND

Exchange Restrictions Department

Intra-Regional and Extra-Regional Payments Arrangements and Trade Agreements of the ECAFE Countries

Prepared by Y. C. Wang

Approved by Roger V. Anderson

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I. Summary and Conclusions

The purpose of this study is to analyze the present payments arrangements of the ECAFE countries in both their mutual trade and their trade with countries outside the region. Particular attention is given to the question as to whether these payments arrangements make necessary a strictly bilateral balancing of intra-regional and extra-regional trade, or whether these arrangements permit the settlement of trade balances on a more multilateral basis. In addition the trade agreements of these countries are analyzed in order to ascertain whether, regardless of the payments aspects, they provide for bilateral equation of trade through the rise of import and export quotas.

In this study, the term "bilateral settlements of payments" refers to the direct offsetting of payment transactions between two countries, generally effected through a "clearing account". Under such an arrangement, credits earned by one country from its exports of goods or services to the other can only be used to purchase goods or services in the partner country. Although bilateral payments arrangements sometimes provide for a transfer of credit balances to third countries, facilities of this nature have seldom been used in actual practice. The provision of swing credits and transfer of U.S. dollars (or other currencies acceptable to the creditor country) to settle extra-swing debit balances tend to reduce the rigidity of bilateral settlements. However, under these arrangements it is generally attempted to balance trade bilaterally through the use of annual trade plans, import and export licensing and other measures. Under non-bilateral settlement of payments, the exchange proceeds which a country earns from its exports may be transferred and used for payment to third countries. The extent of such transferability will, however, be limited in the case of inconvertible currencies, depending on the payments arrangements concerned.

As will be seen from the review of the payments and trade arrangements of the ECAFE countries given below, there is in principle no difference between the nature of intra-regional as against extra-regional payments arrangements of each country taken individually. Where countries

in the ECAFE region face problems in settling their payments, those problems have generally arisen in their relations with countries both inside and outside the region. Since most of the ECAFE countries are linked to large monetary regions, namely the EPU and the Sterling Area, or use sterling and/or dollars in a significant part of their trade, bilateral payments arrangements are, on the whole, not important in the trade of the ECAFE countries. However, the most important trading nation in this region, namely Japan, does not belong to either of these regional groups and has found it necessary to settle its payments on a bilateral basis with a large number of countries.

For the present analysis the countries in the ECAFE region may conveniently be classified into three groups: (1) sterling area countries (Burma, Ceylon, India and Pakistan); (2) non-sterling area countries associated with the EPU system (Indonesia and the Associated States of Indochina), and (3) the other countries (Japan, South Korea, the Philippines, Taiwan and Thailand). The intra-regional and extra-regional trade and payments arrangements of each of the countries in these three groups are reviewed in Sections II, III and IV respectively.

1. Payments Arrangements in Intra-regional Trade

The trade of sterling area countries with the other countries in the region is conducted on a sterling basis, with the exception of trade with the Philippines, which is settled in dollars. Trade between sterling area countries is actually carried on in their own currencies, but any surplus or deficit is cleared through London, together with the balances resulting from trade with other countries. Thus, this part of the intra-regional trade of the ECAFE countries is not settled on a bilateral basis.

Since Indonesia and the three Associated States of Indochina are linked to the EPU system through their payments arrangements with the Netherlands and France respectively, their trade with each other and with the sterling area countries does not need to be balanced within the framework of bilateral agreements. Their trade with countries in the region which are neither members of the sterling area nor associated with the EPU system is relatively unimportant except in the case of Japan. Indonesia, which has a bilateral payments agreement with Japan, derived about 17.6 per cent of her imports from Japan during 1950 to 1952, but sent to Japan only 2.4 per cent of her total exports. Trade between Indochina and Japan, (accounting for approximately 2 per cent of total Indochinese trade) is not conducted on a strictly bilateral basis, because it takes place under a payments agreement concluded between Japan and the French Union as a whole. Trade with the Philippines is done on a dollar basis. In trade with the other countries (Thailand, Taiwan and South Korea), sterling and Hong Kong dollars are probably used to a large extent in addition to some use of dollars. Thus, with the exception of their trade with Japan, Indonesia and the Associated States of Indochina do not tend to settle their intra-regional trade on a bilateral basis.

Of the countries in the third group (non-sterling area countries not associated with the EPU system), the Philippines conducts all her intra-regional trade on a cash dollar basis except in the case of Japan with which she has concluded a bilateral payments agreement. Trade with Japan, however, did not need to be balanced on a strictly bilateral basis on account of the fact that although trade has been consistently in favor of the Philippines, Japan generally has been very prompt in making extra-swing settlements. In her import licensing system, the Philippines has generally not granted preferential treatment to imports from Japan. As exports to Japan accounted for only 8.4 per cent of total exports in 1950-52, and imports from Japan only 5.1 per cent, bilateral settlements occupy only an insignificant role in the payment structure of the Philippines.

Although Thailand is not a sterling area country, her trade with most of the non-sterling area soft currency countries, except Japan, is settled on the basis of sterling. According to trade statistics, trade with Japan accounts for 18.4 per cent of Thailand's total imports and 13.6 per cent of her total exports during the period of 1950-52. However, the part of trade actually conducted on a bilateral basis is probably smaller than indicated by these percentages. Part of Thailand's rice exports to Japan is effected on a cash dollar basis because Thailand has been trying to avoid putting all her sales of rice to Japan on a bilateral settlement basis in order to prevent the necessity of increasing imports from Japan.

Taiwan's trade with Japan, accounting for about 50 per cent of her total trade, is done on a bilateral basis. Taiwan has also concluded a new bilateral payments agreement with the French Union. However, this agreement serves largely to accommodate transactions with France and her territories outside the ECAFE region, because Taiwan has very little trade with Indochina. Taiwan draws a considerable portion of her imports from Hong Kong against Hong Kong dollars, but this is offset by sterling surpluses in her trade. Trade with other countries in the region, besides the Philippines and Japan, is probably largely effected on the basis of sterling, although dollars may also occasionally be used.

Somewhat similar to Taiwan, South Korea depends on Japan as a major market for her exports. According to trade statistics of 1950-1952, South Korean exports to Japan amounted to 58.2 per cent of her total exports, while her imports from Japan amounted to 29.33 per cent. Trade between South Korea and other countries in the region is not important; a large part of the transactions might have been transacted in dollars - especially imports which have been largely provided through U.S. aid and the United Nations Economic Rehabilitation Program.

In contrast to the other countries in the region, Japan's trade with all the non-sterling area ECAFE countries is conducted on a bilateral basis. With South Korea and Indonesia, Japan has been accumulating large annual surpluses which are immobilized. With Thailand and the Philippines, Japan has generally a trade deficit and frequent transfers of cash dollars for extra-swing settlements have been necessary. Japan's trade with Indochina is unimportant, and in any case has to be settled together with her trade with other parts of the French Union. Japan's trade with Taiwan is more balanced through effective bilateral equation of trade on the basis of annual trade plans.

The nature of the payments arrangements existing between ECAFE countries, with the exception of Japan and Taiwan, and, to a certain extent, South Korea, indicates that these countries do not settle a significant portion of their intra-regional trade on a strictly bilateral basis. The most notable characteristic of the present intra-regional payments arrangements of the ECAFE countries is the low number of bilateral payments agreements. Altogether the payments arrangements of eleven countries 1/ are surveyed. If each of these eleven countries were to settle its trade with the others bilaterally, there would be fifty-five separate payments agreements. However, there are at present only seven such bilateral agreements, six of which have been concluded between Japan and one of the non-sterling area countries, namely, Indonesia, Thailand, Philippines, Indochina, South Korea and Taiwan. 2/

The reason for this low number of bilateral payments agreements lies in the predominant position occupied by sterling in the settlement of the intra-regional trade of the ECAFE countries. Sterling is not only used in the intra-regional trade of the sterling area countries in the region, but is also used to a considerable extent by various non-sterling area countries in the area in their trade with one another. As sterling is used to finance a considerable share of total world trade, and is moreover linked to various continental European currencies through the EPU system, the multilateral settlement facilities of sterling are important to the intra-regional trade of the ECAFE area, even although sterling held by non-dollar countries is still not convertible. Furthermore, the magnitude of intra-regional transactions effected in dollars is not negligible. Transactions effected in dollars are especially important for those non-sterling area countries in the region not associated with the EPU system. The Philippines conducts all her trade with the other countries in the region on a dollar basis, with the exception of Japan. Some of the countries of this group may also use dollars in their mutual trade side by side with sterling, although such dollar transactions cannot in any way compare with the magnitude of sterling transactions.

2. Payments Arrangements in Extra-regional Trade

All the ECAFE countries conduct their trade with dollar area countries in dollars. With the exception of the Philippines, sterling is used in extra-regional trade with sterling area countries. Trade of the sterling area countries in the ECAFE region with the continental EPU countries is also settled multilaterally through the accounts of the United Kingdom. The part of extra-regional trade of sterling area countries in the ECAFE region covered by separate payments arrangements of a somewhat bilateral nature is not significant. 3/

1/ The three Associated States of Indochina are considered as one country here.

2/ The agreement between Taiwan and the French Union is the seventh.

3/ The separate payments arrangements include the one between Pakistan and France, the one between India and Egypt, and those concluded by India with several Soviet Bloc countries.

Trade of Indonesia and the three Associated States of Indochina with EPU countries is settled through the accounts of the Netherlands and France respectively. Moreover, these countries participate in various payments agreements concluded by the Netherlands and France respectively with various non-EPU countries. 1/ It may be concluded that practically all the extra-regional trade of these two groups of countries with countries outside the region is not conducted on a bilateral basis.

As to the five non-sterling area countries not associated with the EPU system, Japan is the only country which has an important network of bilateral payments arrangements with various soft currency countries outside the sterling area. Sterling is used, of course, in her trade with the sterling area countries outside the region, just as in the case of the sterling area countries inside the region. With most of the important EPU countries Japan has concluded separate payments agreements. This applies also to those countries in the Middle East and Latin America with which Japan has important commercial relations. Trade with other non-sterling area soft-currency countries with which Japan has no bilateral payments agreement is normally done on a cash dollar basis although sterling may sometimes be used.

The Philippines conducts all her trade with countries outside the region on a dollar basis. Although South Korea has no separate payments agreements with countries outside the region, a large part of her trade with these countries is probably effected on the basis of cash dollars although sterling and some other soft currencies may also occasionally be used. Thailand uses primarily sterling in her trade with soft currency countries outside the region. The same is probably true for Taiwan. Although Thailand and Taiwan are not associated with the EPU, their trade with individual EPU countries does not need to be balanced bilaterally because of the use of sterling, which is tied to the EPU system.

On the whole, by far the larger part of the extra-regional trade of the ECAFE countries is conducted on a dollar or sterling basis, or otherwise is settled through the EPU mechanism. However, as in the case of intra-regional trade, Japan is an important bilateral settlement country in the extra-regional trade of the ECAFE countries. With the exception of Japan, it would seem that the nature of the payments mechanism for the extra-regional trade of the ECAFE countries does not give rise to the difficulties associated with bilateral settlement of payments.

3. Intra-regional and Extra-regional Trade Agreements

In contrast to the low number of bilateral payments arrangements, there are a great number of trade agreements concluded by the ECAFE countries both between each other and with countries outside the region. Among the sterling area countries in the region, India and Pakistan have concluded

1/ Indonesia has concluded separate payments agreements with several Soviet bloc countries. However, it would not seem that trade under these agreements is of significance.

a large number of trade agreements. On the other hand, both Ceylon and Burma have entered into only a few trade agreements with other countries.

Indonesia has entered into separate trade agreements with practically every non-dollar country with which she has some trade, in addition to participating in a few joint trade agreements concluded by the Netherlands with third countries. The three Associated States of Indochina participate in the trade agreements concluded by France on behalf of the whole French Union. Only recently has Vietnam started to conclude separate trade agreements with a few Western European countries.

Japan has concluded trade agreements not only with the countries with which it has bilateral payments agreements, but also with some countries with which payments are settled on a cash dollar or sterling basis. In order to balance her sterling trade on a global basis, she has negotiated trade agreements with the U.K., fixing annual targets for total sterling payments and receipts. Each of the rest of the countries in the region - Thailand, Taiwan, South Korea and the Philippines - has just one trade agreement in connection with their bilateral payments agreement with Japan, except Taiwan, which has also a trade agreement with the French Union.

Most of these trade agreements do not provide for bilateral balancing of trade, except those concluded in connection with bilateral payments arrangements, like those with Japan. Mutual concessions are often exchanged to assure the issuance of import licenses of goods in which the exporting country takes special interest. Otherwise, the two parties generally commit themselves to give each other's goods soft-currency-origin treatment, and the exports of the two countries are listed without any quotas. There are also agreements under which the exporting country commits itself to guarantee the supply of specified commodities to the importing country. As there are, in general, no longer scarcity conditions in most commodity markets, few agreements of this kind are still operative for countries in the region.

There are a few trade agreements providing for bilateral equation of trade, even though payments are not effected on a bilateral basis. India used to have many such agreements, but of late India seems to have discontinued this policy. Pakistan still has a few agreements of such a nature, the most notable example being the trade agreement with Japan. Ceylon has also concluded an important bilateral trade agreement with Mainland China. Some of the trade agreements between Indonesia and EPU countries other than the Netherlands and that with Australia, provide for bilateral equation of trade.

II. Payments and Trade Agreements of Sterling Area Countries of the ECAFE Region

1. Transfer Facilities Under Payments Arrangements of Sterling Area Countries

(1) Payments arrangements among Sterling Area countries

Payments between one Sterling Area country and another are governed by the general understanding which every country is expected to fulfill as long as it remains a member of the Area. The obligation of Sterling Area members as far as payments arrangements are concerned is that all members must honor the principle of multilateral settlements within the Area. That is to say, payments can be made in any Sterling Area currency, usually sterling or that of one of the two countries concerned. As all the members hold working balances in sterling this amounts to mutual settlements in sterling. Moreover, the members of the Sterling Area undertake to pool their hard currency resources. Although there are no rigid rules as to how the common hard currency pool is to be drawn upon by the individual members, each country follows a gentleman's agreement in economizing its use of hard currency. This also leads to a very close co-ordination of exchange control among member countries, especially between the United Kingdom and the rest of the Sterling Area countries.

Furthermore, while each country of the Sterling Area has its own exchange restrictions, there is a general understanding which permits payments on current account to be made as freely as possible among the members. With some local exceptions, there is also a general understanding to permit certain forms of capital movement. Capital movements in the cases of countries with blocked sterling balance are in principle settled through the country's No. 2 Account in London. If, during any period, there is a surplus inflow of capital from other Sterling Area countries to such a country, this is adjusted by debiting the amount of net inflow to its No. 1 Account and crediting it to its No. 2 Account. Conversely, if during any period, there should be a net outflow of capital from the country to other Sterling Area countries, this is adjusted by crediting the amount of net outflow to its No. 1 Account and debiting it to its No. 2 Account.

Private and commercial transactions between India and Pakistan may be effected only in Indian or Pakistan rupees, although the balances accumulated by the two Central Banks on account of current transactions are convertible into sterling on demand. Although this arrangement does not permit the use of other Sterling Area currencies, it does not deviate from the basic mechanism of the clearing of accounts through London.

(2) Payments to and from non-Sterling Area countries

Transactions between the Sterling Area and many other non-dollar countries are governed by payments or monetary agreements signed by the United Kingdom, and the application of which extends to all Sterling Area territories. India, Burma, Ceylon, Pakistan, Hong Kong, Malaya and Singapore,

as members of the Sterling Area, availed themselves of these arrangements, the terms of which are reflected in their respective exchange control systems through the prescription of currencies for payments and receipts.

Without going into the detail of these agreements, they may broadly be classified under two types: sterling payments agreements and monetary agreements. In the case of a sterling payments agreement, all transactions must be effected in sterling or another Sterling Area currency, but under the monetary agreements, mutual transactions can be effected also in the currency of the other agreement country.

The effect of these arrangements is that, as a general rule, exporters must obtain proceeds of their exports in the following manner according to the ultimate destination of the export:

1) Canada and American Account countries — Canadian or U.S. dollars or Canadian or American Account sterling or the currency of the exporting country obtained from the account of a bank established in Canada or in an American Account country.

2) Transferable Account countries 1/ — sterling from a Transferable Account, or the currency of the importing country where there is a monetary agreement, or the currency of the exporting country obtained from the account of a bank established in a Transferable Account country.

Unless special permission is obtained, foreign exchange receipts must be sold to an authorized bank in exchange for local currency (except in the case of Hong Kong, where most exports proceeds in U.S. dollars do not have to be surrendered in this way). Authorized payments to countries outside the Sterling Area must be made in a similar manner corresponding to the export proceeds requirements enumerated above. The recipients of Canadian or American Account sterling are able to convert this freely into Canadian or U.S. dollars, while recipients of Transferable Account sterling are able to convert their sterling into local currency in their own country, or with the approval of their own exchange control, negotiate their sterling with persons in their own or other Transferable Account countries wishing to acquire such sterling since the U.K. authorities permit transfers between Transferable Accounts regardless of purpose. This feature and the extension of Transferable Account arrangements to nearly all countries outside the dollar and Sterling Areas have only been in operation since March 22, 1954, but should enhance further the multilateral transfer facilities of sterling since it permits sterling funds to flow freely from countries with a sterling surplus to those that have deficits.

1/ Transferable Account countries are all countries other than Canada, American Account and Sterling Area countries, Hungary, Iran and Turkey.

2. India: Payments and Trade Agreements

(1) Separate payments arrangements between India and other countries

India has not concluded any separate payments agreements, but in some of her trade agreements there are certain payments provisions, which deviate somewhat from the regular payments arrangements existing between these countries and the Sterling Area. Besides the payments arrangements between India and Pakistan which have been covered previously, mention may be made particularly of the payments arrangements between India and Egypt and the one between India and the U.S.S.R.

a. Payments arrangements between India and Egypt

In view of the fact that trade balances between India and Egypt have been consistently in Egypt's favor, India has endeavored to expand her exports to Egypt by the institution of a bilateral rupee account under the trade agreement concluded in May 1953. Payments arrangements under that agreement provide for the payment for exports from Egypt to be effected in sterling for 60 per cent of their value and in rupees for the remaining 40 per cent. The balances in the rupees account can only be utilized for payments of imports from India. The National Bank of Egypt will keep 10 per cent of the value of exports to India in a special sterling account which will be made available for financing purchases from India when the rupee balances of the Egyptian Bank are exhausted. In case the available amounts credited reach Rs 100 million, then further credits will be convertible into sterling. 1/

As to the final settlement, it was agreed that any balances remaining to the credit of the rupee accounts at the termination of the Trade Agreement, might either be utilized for the purchase of goods in India or converted into sterling, at the option of the Egyptian Government. It may be said that this is a modified form of bilateral trading under sterling settlement.

As far as the operation of the agreement on the Indian side is concerned, authorized banks were advised that as a result of the Trade Agreement, trade between India and Egypt would be financed only in rupees. The authorized banks were advised to divide the amount of each rupee bill which they handled in connection with Egyptian exports to India into two parts, in the ratio of 60 to 40 and credit them to A and B Accounts, respectively, of Egyptian banks.

Balances in A Accounts are convertible into sterling, while balances in B Accounts will be used only for financing purchases of goods by Egypt, and are not allowed to be utilized for any other purpose. All other payments and receipts to and from Egypt may be made in sterling or in rupees to or from the A Account. 2/

1/ National Bank of Egypt: Economic Bulletin, Vol. VI No. 2, 1953, p. 125
2/ Reserve Bank of India, Exchange Control Department, A.D. No. 14 to Authorized Dealers in Foreign Exchange.

b. Payments arrangements between India and U.S.S.R.

The agreement between India and the U.S.S.R. provides that all payments may be made in Indian rupees. It was agreed that the State Bank of the U.S.S.R. would open rupee accounts with one or more Indian commercial banks. In addition, the State Bank of the U.S.S.R. would, if necessary, maintain another rupee account with the Reserve Bank of India. The rupee balances on the accounts with the commercial banks are to be used to cover purchases in India and a few invisible payments. The accounts with the Reserve Bank of India are to be used only for replenishing the balances with the commercial banks. The rupee balances in the accounts of both the commercial banks and the Reserve Bank of India are convertible into sterling on demand. Provision has also been made for replenishing the State Bank's balances of the accounts with the commercial banks by a direct sale of sterling to them.

c. Payments arrangements with Yugoslavia, Czechoslovakia and Rumania

India has trade agreements with these three countries. They provide for the use of both sterling and rupees as mutually convenient to both parties. However, in the agreements concluded with Czechoslovakia and Rumania there were detailed arrangements about the setting up of various rupee accounts similar to those described above in the case of the U.S.S.R.

It is hardly necessary to say that there is little real difference between the arrangement with the U.S.S.R. and these three cases; in all of them, the alternative of settlement in sterling is reserved. As the Russian balances in various rupee accounts are convertible on demand into sterling, payment on a rupee basis at the commercial level does not constitute a mutual settlement on a bilateral basis.

(2) Pattern of trade agreements

Since 1948 India has concluded trade agreements with a large number of countries. 1/ The Indian memorandum on trade agreements submitted to the ECAFE Secretariat 2/ grouped these agreements under six headings, namely,

i) Bilateral trade agreements
ii) Trade arrangements
iii) Barter deals or pacts
iv) Bulk purchase agreements
v) Treaties of Friendship and Commerce
vi) Exchanges of letters.

1/ Trade agreements are operative at present with the following countries: Burma, Ceylon, Indonesia and Pakistan in the Far East; Egypt, Iraq and Syria in the Middle East; Austraia, Western Germany, Norway, Sweden, Turkey, Finland, Yugoslavia, Hungary, U.S.S.R., Rumania and Poland in Europe. For detailed description of Indian trade agreements, see the Memorandum on Trade and Payments Agreements of India, by Subimal Mookerjee.

2/ Memorandum on Indian Trade Agreements, p. 15-35 of E/CN. 11/18 T/61 Annex A, 20 August, 1951.

The term "bilateral trade agreement" is defined as an agreement formally signed and ratified by the two governments and of which an essential feature is the inclusion of schedules of commodities to be exported by the countries with an understanding by the parties concerned to issue export and import licenses up to the quantity or value specified against each item. Both the "trade arrangements" and the "exchanges of letters," however, involve only the listing of export and import items and various other formal understandings for promoting mutual trade. The other three categories are self-explanatory. For present purposes, the relevant types of agreements, of course, are the bilateral trade agreements and the trade arrangements or exchange of letters with lists of imports and exports. Barter pacts and bulk purchase contracts are too temporary and fragmentary in nature. On the other hand, treaties of friendship and commerce cover many other relations besides mutual trade. There has been considerable shift in Indian policy with regard to the bilateral trade agreements. The present attitude is to avoid bilateral agreements with quotas. Therefore, most of the agreements now in effect only list the exportable items of the two parties.

The commodity quotas contained in a few trade agreements refer to certain items of which the importing country is anxious to have an assured supply. The agreements concluded with Pakistan and Burma are an example of this kind of arrangement. In the agreement with Pakistan, India is committed to facilitate the export of coal to Pakistan, while the latter is committed to supply a minimum of 1.8 million bales of jute annually to India. In the 1953 agreement with Burma, India agreed to provide Burma with increased quantities of a number of commodities, especially iron and steel.

(3) Licensing policy in respect of source of imports

In general the Indian import licensing system does not allot quotas to particular sources of supply in the soft currency area. In the past some bilateral trade agreements were concluded with some countries with which an attempt was made to achieve bilateral balance by providing specific commodity quotas. However, this practice has been discontinued. Most of the present trade agreements contain only lists of commodities to be exported by the two contracting parties. If, as a result of any bilateral negotiations, India has agreed to liberalize the import of a particular item, the liberalization is extended to all countries in the soft currency group. The only discrimination which exists in the licensing system as a whole, results from the more severe restrictions still maintained against imports from the dollar area.

3. Pakistan: Trade and Payments Arrangements

(1) Pattern of Pakistan's payments arrangements

In all of Pakistan's existing payment arrangements with non-sterling area countries, she has availed herself of the monetary and sterling payment agreements concluded by the United Kingdom, except for the case of a special arrangement contained in the trade agreement with France in

September 1953.[1] Under that agreement the French Government established a special franc account into which the proceeds of the export of cotton from Pakistan are credited. The balance on this special franc account may only be used for importing French goods into Pakistan. Commercial contracts relating to imports of cotton from Pakistan, and to the export of goods which are financed through this special French franc account, must be drawn up in French francs. At the termination of the agreement the balance will be settled in sterling. The rest of Pakistan's exports to France will be made in sterling in the usual way. This arrangement is made largely at the request of France, which is a large customer for cotton and jute from Pakistan and had been in balance of payments difficulties.

According to the financial press,[2] an official spokesman in Pakistan has stated that the Pakistan Government is considering a proposal for a "Rupee Account Area" to facilitate her trade with the Arab States of the Middle East. The participating countries would be expected to maintain working balances on rupee accounts in Pakistan and be ready to accept inter-transfers from such accounts in settlement of payments arising from current and financial transactions among them. However, no information is available from official sources.

(2) Types of trade agreements of Pakistan

Pakistan has concluded trade agreements with a large number of countries. According to an article which appeared in the Pakistan Trade of March 1953, Pakistan at that time had agreements with seventeen countries, namely, Australia, India, Ceylon, Japan, Egypt, Iraq, Belgium, Austria, France, Western Germany, Italy, Norway, Switzerland, Spain, Czechoslovakia, Hungary, and Poland. Some of these, however, were in the state of renegotiation and others were pending ratification. Later information indicated that some of the agreements negotiated were not approved by the Pakistan Government due to foreign exchange difficulties.[3] In a statement made to Parliament during the Fall session of 1953, the Government of Pakistan proposed to negotiate trade agreements with Australia, Austria, Ceylon, Czechoslovakia, Egypt, Western Germany, Hungary, Lebanon, U.S.S.R., Iraq, Syria, and Turkey. However, not all of the negotiations led to the conclusion of agreements.

Although there is variation in the coverage of individual agreements, they can be classified into two types: those with commodity quotas and those with only lists of exports. Many of the agreements, especially the early ones, had bilateral quotas, although these did not constitute commitments on the part of either party to do more than issue the necessary import and export licenses. In spite of the obvious limitations of these agreements, attempts were often made to balance the exchange of goods between the two signatories.

1/ Pakistan's payment arrangements with India have been previously covered - see sub-section on payments arrangements among sterling area countries.
2/ Evitt Publications, February, 1954.
3/ Pakistan Trade- October 1953 - page 34.

The objective of these agreements is indicated by the following quotation from an address made by Mr. Fazlur Rahman, former Minister of Commerce and Economic Affairs, to the Pakistan Merchants Association in March, 1953.

> " Bilateral trade agreements have enabled us to diversify our trade and take advantage of competitive prices in imports and find new markets for our exports. That the trade both ways has not come up to the expectations incorporated in such agreements is true, but balancing of trade with each country is not often possible. We have to avoid restricting trade to only a few countries, but should take advantage of purchasing in the cheapest market and selling in the dearest." 1/

In various official statements it has usually been pointed out that in consequence of the successful operation of these agreements, Pakistan has broadened the market for its principal products and also obtained imports from a larger number of sources. For instance, the State Bank of Pakistan indicated in its annual report for 1952 that the number of countries with which Pakistan's trade volume exceeded rupees 100 million, increased from 4 in 1948 to 10 in the fiscal years 1951 and 1952.

Although Pakistan has claimed some successful results from these bilateral agreements, increasing her trade contacts and decreasing her dependency on a restricted number of countries for her principal exports, there has recently been a certain indication of a shift in policy. A number of new agreements list only exports and imports with no commodity quotas. At the fourth session of ECAFE's Committee on Industry and Trade, a Pakistan delegate stated that Pakistan was not wedded to bilateralism. Allocation of foreign exchange for single country licenses was stated to be restricted to a minimum and only authorized in the case of countries supplying goods which could not be obtained elsewhere. He also anticipated that the policy of bilateralism would be dropped as soon as difficulties in the procurement of capital goods were overcome.

(3) Licensing policy in respect of source of imports.

The basic objective of Pakistan's import policy is to stimulate the growth and expansion of indigenous industry with a view to making the country self-sufficient in the supply of consumer goods. Consequently, only imports of capital goods essential for economic development are encouraged. The import program is budgeted on a half-yearly basis. The items for which applications are to be invited during a particular half year and the ceilings up to which licenses for those items are to be issued, are decided in the light of the foreign exchange position, essentiality of the items, the local supply situation and other relevant considerations. Global quotas are fixed for each commodity and then subdivided between the hard and soft currency

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1/ Pakistan Chamber of Commerce: Trade Journal - Volume VI, No. 6 and 7, 10 April, 1953, p. 7.

areas, according to the sources of supply. Quotas for individual countries within a particular currency area are also sometimes fixed, if there are bilateral trade agreements with the countries concerned providing for the issue of such single country licenses for specified items. The commitment to issue such single country licenses naturally gives the exporters of those countries a preferential treatment because their goods can also be admitted under the general license scheme.

(4) Licensing policy of goods imported on a deferred payment basis

In 1953 Pakistan introduced an arrangement for the import of capital goods and machinery on a deferred payment basis. The idea of this arrangement is that import licenses are granted automatically if the foreign suppliers of such goods are willing to receive payment on a deferred basis. Japan was the first country to accept this arrangement. Later, such concessions were also obtained from various suppliers of capital goods in the United Kingdom. Then the Government of Pakistan issued a general regulation applying the scheme to contracts of similar nature entered with suppliers of other countries.

The main feature of the arrangement is that the exporter will be permitted to open, in a mutually agreed bank, a non-resident rupee account into which the importer will deposit, at the time of placing the order for goods, an amount not less than 10 per cent and not more than 15 per cent of the value of the goods. On proof of shipment of the goods, the importer will deposit into the account a further sum of not less than 25 per cent and not more than 50 per cent of the value of the goods. The importer will deposit the balance due into the account in such instalments as may be agreed between the exporter and the importer. The exporter may invest the amount deposited in these rupee accounts in Pakistan Government Securities and remit in sterling as current payment the interest earned on deposits in the account or from investment. 1/

Notwithstanding the payment of deposits into a non-resident rupee account, the liability of importers for the value of the goods in sterling shall continue until exchange remittance for the full value has been made. In case the exporter prefers to accept deferred payment on a foreign exchange basis, the importer will make direct payment of the instalments in sterling. No interest will be charged by exporters on outstanding balances due as exchange payment.

1/ It has, however, lately been agreed to by the Governments of Pakistan and Japan that the funds to be deposited in a non-resident Rupee Account in the names of the Japanese exporters are to be invested in non-interest bearing Treasury Bills to be issued by the Government of Pakistan. No interest will thus be earned on deposits in the account or from investment.

4. Burma: Trade and Payments Agreements

(1) Payments pattern of Burma

Burma is a member of the Sterling Area. Therefore, its payments relations with other Sterling Area countries both inside and outside the ECAFE region are governed by the settlement arrangements within the Sterling Area as described elsewhere. Similarly, Burma also availed herself of the monetary and sterling payments arrangements concluded by the U.K. with the non-Sterling Area countries on behalf of the whole Sterling Area. Unlike the other three independent Sterling Area countries of the region, Burma has not entered into separate payments arrangements with any non-Sterling Area country.

(2) Pattern of trade agreements

None of the four existing trade agreements which Burma has concluded with other countries (Japan, India, Ceylon and Czechoslovakia) involve the policy of bilateral balancing. It must be noted, however, that the two first Burma-Japan trade agreements (concluded in 1950 and 1951) did provide for balanced trade through annual trade plans. The 1950 agreement fixed exports of each party at US$24.67 million, while the 1951 agreement fixed them at £10 million each way. 1/ No trade plans were drawn up for 1952 and 1953. Under a new trade agreement signed in December 1953, no reference was made to a balancing of trade. As the purpose of the agreement was to provide for reciprocal treatment in various commercial and tariff matters, the agreement is in the nature of a temporary commercial treaty.

A somewhat similar type of agreement was concluded between Burma and Czechoslovakia in June 1953, under which each party agreed to import certain goods from the other but with no commodity quotas. In an effort to expand the foreign market for Burmese products, the government also sent a number of missions to other countries to explore trade possibilities and to conclude this type of agreement. 2/

Burma concluded with India in September 1951 a five-year trade agreement under which both sides are committed to make a certain minimum quantity of basic commodities available to the other party, rice from Burma, gunny bags, ground nut oil, cotton yarn and galvanized iron sheets from India. As to the other goods not specified, the two signatories agreed that export and import facilities granted by each country to the other should be no less favorable than those applied to any other country in the soft currency area. In a supplementary exchange of letters signed in July 1953, certain modifications were made to the original agreement and the list of Indian exports to Burma has been expanded, although quantitative quotas are not stipulated. 3/

1/ ECAFE f/CN 11/I and T/61 Annex A, 20 August, 1951, p. 2.

2/ The Economic and Social Board: Quarterly Report on Economic Progress in Burma, third quarter, 1953, p. 65. See also Annual Report of the Union Bank of Burma for 1953, p. 23.

3/ Foreign Commerce Weekly, August 10, 1953.

Burma has concluded a number of annual rice sales contracts. These, however, cannot be considered as trade agreements. Of late, the tendency has been to negotiate long-term rice sales agreements with important customer countries. There are at present three such agreements in force, namely, the four-year rice agreements signed with Ceylon, (1954-1958) and Japan (Dec. 1953 to Dec. 1957), and a three-year agreement with Mauritius (1954-1957). 1/

(3) Policy of import restrictions

Although Burma has concluded several trade agreements with other countries, none of the agreements now in force provide for bilateral quotas. Under the existing Burmese import restriction system, import licenses are not issued on a particular country basis but for hard currency and soft currency countries in two separate groups; license holders are free to import goods from any country within each area. On account of the continuous surplus position of balance of payments with the soft currency countries, import restrictions have been progressively liberalized during the last few years both in regard to volume and variety of products. Roughly two-thirds of current imports from soft currency countries are under open general license, while the remaining one-third is subject to individual licenses. All essential commodities have been included in the open general licenses. Since the policy has been to admit enough of those goods subject to individual licensing to meet fully the local demand for them, it may be said that the restriction on imports from soft currency countries is nominal. 2/

All imports from the dollar area countries are subject to individual license and are severely restricted. Burma traditionally has a trade deficit with the dollar area because practically all her exports go to soft currency countries. Another reason for conserving dollars is that she has to rely upon dollar countries for certain capital goods to meet the needs of her development programs.

5. Ceylon: Payments Arrangements and Trade Agreements

(1) Pattern of payments arrangements

Ceylon is a sterling area country which settles her trade and other payments with the rest of the sterling area through the transfer facilities for sterling described in sub-section 1. In the case of non-sterling area countries, the payment arrangements concluded between them and the United Kingdom provided the mechanism for payments between these countries and sterling area countries. Ceylon, like other members of the sterling area,

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1/ The three-year rice sale agreement which Burma signed with India has already gone out of force because Burma exercised the option of providing in 1954 all the rice originally contracted to be supplied over three years.

2/ The annual report of the Union Bank of Burma for the year 1953, p. 23.

avails herself of these facilities. With the exception of the trade agreement Ceylon concluded with Mainland China, which provides for separate clearing mechanism in Ceylon rupees, Ceylon has not entered into any payment arrangements with non-sterling area countries.

All payments under the agreements with Mainland China are to be effected in Ceylon rupees. The accounts will be settled quarterly and any outstanding balance may be carried forward or settled in sterling or in any other manner as may be mutually agreed upon. 1/

(2) Pattern of trade agreements

Ceylon has trade agreements in force with the following countries: Federal Republic of Germany, Sweden, Ireland, Yugoslavia, Japan, Mainland China, and the Maldive Islands (a British colony).

The three-year agreements with the Maldive Islands (1953-1955) provided for the mutual exchange of certain food supplies on the basis of minimum annual quotas. On account of proximity and other reasons, the economic relations between Ceylon and the Maldive Islands are very close. Ceylon constitutes the only market for the principal export commodity of the Maldive Islands, dry fish, while they depend upon Ceylon as the main source of various kinds of food supplies. Similar agreements concerning mutual exchange of commodities were once in effect with India and Pakistan with target figures for the exports of both sides, but these agreements were not renewed after they expired in 1953. In the opinion of the Ceylon Government, the main purpose of these two agreements was to ensure the provision of various goods in short supply during the Korean War period. 2/ The general trade agreement concluded with Mainland China attempted to balance mutual trade bilaterally by fixing targets for imports and exports amounting to 250 million rupees.3/ This agreement operated for a period of one year from January 1, 1953 and is renewable for such further periods as may be agreed upon between the two parties. Another agreement, for a period of five years, provided for the sale to China of 50,000 metric tons of Ceylon rubber and for the sale of 270,000 metric tons of Chinese rice to Ceylon. The price of these two commodities is to be fixed each year subject to the condition that the price of rubber shall be in excess of the average Singapore market price. The actual price quoted for 1953 rice sales to Ceylon was also considerably below the export price level of that of Burma and Thailand. It has been estimated that the agreement should result in a gain of Rs98 million to Ceylon. 4/

1/ Article IV of the Agreement. Ceylon Trade Series No. 1 of 1953.
2/ Administration Report of the Director of Commerce for 1952 - page 6.
3/ Ceylon Trade Journal, March 1933 - page 176. This figure is the target for total trade including rice and rubber exports respectively.
4/ See statement made by Mr. R. G. Senanayake, the Minister of Trade and Commerce, as reported in The Ceylon Trade Journal, March 1933, p. 177.

The agreements with the other countries listed above do not include target figures, although some of them list commodities available for export from each party. They generally provide for mutual concessions with respect to import restrictions and customs duties, shipping charges and other matters such as technical assistance and ceylonization of trade. For instance, in the 1953 Trade Agreements with Western Germany and Sweden, Ceylon agreed to treat imports from these two countries not less favorably than imports from other EPU countries. On the other hand, Sweden extended the liberalization privileges granted to other countries of OEEC to Ceylon, while Western Germany agreed to license certain imports from Ceylon without quantitative restrictions and other items listed on a fixed quota basis.

(3) Commercial policy and import restrictions

Under the Ceylonese system of import restrictions countries are grouped in four categories, namely, other sterling area countries, Japan and non-sterling E.P.U. countries, the remainder being regarded as dollar countries. Most imports from sterling area countries are covered by open general license. A liberal policy is now also pursued with respect to imports from Japan, especially basic consumer goods, such as textiles. Restrictions on imports from E.P.U. countries (other than U.K.) have recently been intensified in connection with the sterling area's deficit in E.P.U. All imports from E.P.U. countries (other than U.K.) are subject to individual licensing with monetary ceilings fixed for each commodity. Strictest restriction is applied in respect of goods from the dollar area. Only goods essential for industrial and agricultural development are now licensed.

Although Ceylon does not, in general, resort to bilateral balancing of trade, import restrictions are not applied indiscriminately vis-a-vis soft currency countries. Most preferential treatment is given to other sterling area countries, while restrictions on imports from Japan are less strict on imports than from other non-sterling soft currency countries. Imports from the Philippines are treated as dollar imports; Ceylon's trade with that country is insignificant. 1/

1/ Central Bank of Ceylon Bulletin - August, 1953 - page 10. For import control policy of early periods, see Department of Import and Export Control - Annual Administrative Reports for years 1950-52.

III. Payments Agreements of Non-Sterling ECAFE Countries Associated with the EPU System

1. Indonesia: Payments Arrangements and Trade Agreements

(1) Netherlands-Indonesian payments agreements with third countries

Before the severance of sovereignty, Indonesia participated in the payment and trade agreements concluded by the Netherlands with third countries. Indonesia's transactions with these countries were cleared through bilateral accounts maintained by the Netherlands Bank with their Central Banks or clearing offices. These countries did not find it necessary to draw a distinction between Indonesian and Dutch transactions. All these transactions between Indonesia and third countries were settled through a Netherlands guilder account opened on behalf of Indonesia known as "A Account". This balance on "A Account" could be converted, as far as the Netherlands Bank's position with other agreement countries permitted, into other foreign currencies needed by Indonesia. This system permitted a substantial transferability in Indonesian bilateral balances and served as a prior condition for the negotiation of joint trade agreements.

Under the agreement reached at the Round Table Conference between Indonesia and the Netherlands, which was held in the Fall of 1949 to settle various problems concerning the severance of sovereignty, Indonesia agreed to take over all of Indonesia's rights and obligations under the joint trade and payments agreements then in effect. There was also an article in that agreement providing for the continuation of the joint commercial policy with respect to third European countries pending further review. 1/

At the second Indonesian-Netherlands Union Ministers' Conference it was agreed that Indonesia's payments with third European countries should continue to be cleared through the Netherlands Bank account, (the so-called "A Account"). This led to the indirect participation of Indonesia in the EPU settlement system. Indonesia's status is usually called associate membership in EPU because she is not considered a regular member and is not, therefore, obligated to fulfill the duties of members as far as mutual trade liberalization is concerned. Neither do the EPU credit facilities apply to Indonesia. On the other hand, Indonesia can make use of the mutual transferability of the various EPU currencies. Her exports to EPU countries are also accorded the same treatment as goods exported from one EPU country to another under the OEEC trade liberalization program.

1/ At the second Indonesian-Netherlands Union Ministers' Conference held in November 1950, it was agreed that Indonesia could thenceforth conclude separate trade agreements with other European countries.

(2) Indonesia's payments agreement with the Netherlands

In addition to settlement with third countries the "A Account" is used for all payments in connection with direct current and capital transactions between the Netherlands and Indonesia. Under the payment agreements concluded between these two countries in 1951, settlement of balances on the "A Account" must be made by transfers of a third country's currency acceptable to the creditor country. For instance, if the "A Account" shows a credit balance in favor of Indonesia, the Netherlands shall transfer foreign exchange to Indonesia to redress the balance and vice versa. The Netherlands has agreed to grant a swing margin of 25 million guilders in favor of Indonesia. In calculating the amount in excess of the swing credit, the total working balance held by Indonesian banks with their offices or correspondents in the Netherlands (so-called "small A accounts") are deducted. Due allowance is also made of Indonesian tin sent to the Netherlands under refining contracts. Eighty per cent of the value of the stock of tin ore or tin sheets afloat or in Holland, not previously financed by the United States is deducted. 1/

In connection with tin and other products exported through the Netherlands to the dollar area countries, Indonesia has the right to demand settlement in U.S. dollars from the proceeds of such sales. Under an arrangement with the Netherlands the Indonesian High Commissariat in the Hague can give binding instructions with respect to the destination of these products.

(3) Indonesian payments and trade agreements with Japan

In the latter part of 1948 trade and financial arrangements were concluded between Japan and the Netherlands including Indonesia and other Netherlands overseas territories, covering a period of one year (October 1948 - September 1949). The financial arrangements provided that all transactions between the parties were to be contracted in terms of U.S. dollars and entered into ESCROW accounts. The trade plan provided for total imports into Indonesia from Japan of U.S. $63,000,000 and exports to Japan from Indonesia of U.S. $ 23,652,000. The estimated deficit of about US$ 40 million was to be financed by the transfer to Japan of an ECA allocation for offshore purchases for Indonesia. On the other hand, only US$500,000 was planned for Netherlands imports from Japan and US$ 600,000 for Netherlands exports to Japan. It can be readily seen that this agreement was primarily concluded to facilitate trade between Indonesia and Japan.

Under this first financial arrangement, two separate accounts were established, one for Indonesian transactions and the other for non-Indonesian transactions. On the two semi-annual settlement dates the debtor country had to pay cash U.S. dollars on demand of the creditor for uncompensated balances accrued from items that were entered into the books at least sixty days before the settlement date.

1/ A more detailed description of the operation of the A Account and other relative aspects is given in ERD 27 - Trade and Payments Agreements of Indonesia: Study of Indonesia's Experience in Bilateralism, prepared by Y. C. Wang.

In May 1950, Indonesia concluded a separate payments agreement with Japan. This agreement provided for settlement of mutual transactions on an open account basis with a swing margin of US$ 10 million. In an exchange of letters a further understanding was reached that the swing margin should not be regarded as credit to the partner country and if the debtor position of either party should exceed US$ 6 million during a period of 90 days, the two countries should consult each other in order to take measures to bring the trade balance into equilibrium.

A trade agreement was also signed between the two countries (May 1950) with a trade plan attached for the next twelve-month period, providing for total Indonesian imports from Japan of US$ 44.4 million and exports of US$ 30 million. Upon expiration of this trade agreement (June 30, 1951) a new agreement was concluded under which targets for Indonesian imports from Japan and exports to Japan were fixed at US$ 40 million and US$ 30 million respectively.

Japanese exports to Indonesia in 1950, amounting to U.S. $46 million, exceeded the target levels by a small margin, while Japanese imports from Indonesia (US$ 13 million) lagged far behind original expectations. In 1951, however, Japanese exports increased three times the level reached in the preceding year. Although Indonesian exports to Japan also improved remarkably, Indonesia still incurred a trade deficit of US$73.6 million. Consequently, Japan accumulated a large balance on the open account because Indonesia was unable to make extra-swing cash settlements. The negotiations for the conclusion of a new agreement held in November 1951 were deadlocked after two months of discussion, when the two sides were unable to reach an agreement on how to settle the open account balances. The negotiations were resumed in June 1952 and an agreement for the disposal of these balances was finally reached, according to which US$ 54 million of the outstanding balances had to be settled by means of four annual installments before June 1, 1957; another US$6 million had to be transferred to a special account, the settlement of which was subject to negotiation after the above mentioned date.

A new trade plan consisting of US$55 million of Indonesian imports and US$40 million of Indonesian exports was fixed for the trade year ending June 30, 1953. The swing margin was abolished and a new settlement formula adopted. According to the new financial agreement, balances are to be settled each year at the end of June. If, during the trade year, Japanese imports from Indonesia fail to reach the target fixed ($40 million) the difference must be deducted from the total credit balances so that it may be covered by additional imports by Japan in the first quarter of the next trade year. Up to US$15 million of Japanese credit balances are to be covered by transit imports from Indonesia; of any debit balances remaining, up to an addition US$ 5 million is to be settled in US dollars; any balance left over is to be transferred to a special account for settlement in installments during a two-year period.

Recent information indicates that even under the new trade plan, which makes use of triangular trade to adjust Indonesia's deficits in her trade with Japan, Indonesia has still incurred very large trade deficits. Indonesia's debit balance increased from approximately US$64 million at the time of the conclusion of the new settlement arrangement in August 1952 to US$140.7 million in March 1954.

(4) Other Independent payments agreements of Indonesia

Indonesia has further concluded separate payment agreements with Czchoslovakia, Poland, Finland, Yugoslavia and Hungary. In the first three of these agreements, the currency of account is the pound sterling, while in the two others, U.S. dollars and Dutch guilders are used. The agreement with Czechoslovakia (October 1951) provided for a swing of £400,000; however, settlements had to be made for net debit balances in excess of £200,000 in order to prevent the use of swing credit as a permanent loan by either party. The agreement concluded with Poland in June 1951 provided for a sterling clearing account with a swing of £200,000. Under the payments agreement concluded with Finland in June 1952 all transactions are to be effected in cash sterling; no bilateral accounts were established.

In the payment agreement concluded with Hungary in October 1952 the currency of the account (Dutch guilders), is different from the currency of settlement (Swiss francs). There is a swing-margin of two million guilders. However, as in the case of the agreement with Czechoslovakia, any settlement of an extra-swing debtor position must be effected to reduce the total debit balance to less than one million guilders.

According to a press report, Indonesia concluded a payments agreement with Yugoslavia on June 11, 1953, providing for bilateral accounts with U.S. dollars as the currency of account. 1/ No information is available as to whether or not a swing margin is provided.

Indonesia concluded an agreement with Mainland China in November 1953 to promote mutual trade on a balanced basis. 2/ However, the payment arrangements do not seem to have been worked out. 3/

(5) Payments arrangements with Malaya and Singapore

Indonesia has very important commercial relations with the sterling area, particularly with Singapore and Malaya because of geographic proximity. As a member of the Netherlands monetary area, sterling held by Indonesian residents was granted the same treatment as sterling held by Netherlands residents. Therefore, Indonesia had access to the automatic transfer facilities of the transferable sterling even before the recent change of British exchange regulations which put all non-resident sterling of non-dollar countries on a transferable account basis.

Indonesia has two special payment arrangements with Malaya and Singapore, relating to the settlement of Indonesian exports in transit. In an agreement

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1/ Het Financieele Dagblad - July 17, 1953.

2/ According to the Report on Indonesia, published by the Indonesian Information Office in New York, dated February 4, 1954.

3/ Mr. Sardju, Chief of the Economic Affairs Ministry, Trade and Industry Division, said in mid-January that he foresaw no difficulty in reaching a payment arrangement. He was of the opinion that transactions could be made by opening letters of credit, parallel transactions or other means. Sterling, dollars or Swiss francs could be used as currency.

reached in September 1951, Indonesia is entitled to get U.S. dollars for transit exports to dollar countries. 1/ This arrangement constituted a revision of an earlier and similar arrangement negotiated in 1948 between the U.K. and the Netherlands on behalf of Singapore and Malaya, and Indonesia, respectively. Under this arrangement Mal.$148 million were converted into US$49 million in 1950, and Mal$292 million were converted into US$96 million in 1951. 2/

The other arrangement is of local significance only. Because of the lack of banking facilities in certain parts of Indonesia which are adjacent to Singapore and Malaya, the Indonesian Government has secured the co-operation of the exchange authorities of Singapore and Malaya for settlements of transit exports of "native" (i.e., non-plantation) products. Under the arrangement an exporter of native products opens a "barter account" with the Indonesian Trade Commissioner in Singapore or Penang. Seventy per cent of the proceeds of the transit exports concerned are entered into an "Indonesian account" with a bank in Singapore or Penang for which the exporter will receive a check in rupiahs converted at the official rate of exchange. The remaining 30 per cent, available to the exporter in Malayan dollars, may be used by the exporter to buy certain goods for his own consumption or resale. 3/

Indonesia also imports various consumption goods through Singapore. On account of balance of payments difficulties, Indonesia has imposed severe restrictions on transit imports through Singapore and Malaya. This, naturally, has caused the dissatisfaction of authorities in Singapore and Malaya, and trade talks have been carried on from time to time in an attempt to rectify the situation. A recent discussion which ended on January 19, 1954 has had no immediate results. 4/

(6) Pattern of Indonesian trade agreements

Besides those described above, Indonesia has also concluded trade agreements with a large number of other countries. They include many independent trade agreements signed with various European countries, such as Portugal, Switzerland, Austria, Greece, Italy, Denmark, Western Germany, France, Sweden, Norway, Finland, Yugoslavia, Poland, Czechoslovakia and Rumania. Separate trade agreements were also concluded with sterling area countries like Pakistan India and Australia in addition to the recent agreement concluded with Mainland China, mentioned previously. Most of these trade agreements provide for definite commodity quotas. In the case of agreements with many EPU countries, no attempt is made to achieve bilateral balancing because of the transfer facil ities offered by the "A Account" under the payments agreement with the Netherlands.

1/ American Embassy in Djakarta: U.S. Foreign Service dispatch No. 604, unclassified, p. 7.

2/ According to the Report on Indonesia's Balance of Payments submitted by the Minister of Finance to the Indonesian Parliament in December 1952. Economics and Finance in Indonesia, Vol. 6, No. I, p. 63.

3/ The retained percentages in some special cases are different from the standard 30 per cent, depending upon products and places. It can be as high as 100 per cent. See the Economic Review of Indonesia, Volume 7, No. 2, April-May-June 1953, pp. 54-55.

4/ Report on Indonesia, Vol. V, No. 9, February 4, 1954, p. 8.

Indonesia has been taking advantage of joint payments and trade agreements signed by the Netherlands with some Latin American countries, but recently it has been interested in concluding separate agreements with these countries. It was reported that Indonesia would try to achieve a balanced exchange of products with some of the Latin American countries on a barter basis, but balances could be settled in dollars at the end of each year. 1/

2. Indo-China: Trade and Payments Agreements

(1) Participation in French payments agreements

Most of the foreign trade of these three States (Vietnam, Cambodia and Laos) is done in French francs, Sterling Area currencies, and the open account dollar in the case of trade with Japan. These three States participated in joint payments agreements negotiated by France on behalf of the whole French Union.

The Associated States settle their trade under the various bilateral agreements concluded by France with other countries through the French accounts. There was no need to balance their trade with various agreement countries separately. In the payments agreement between Japan and France, however, two separate clearing accounts are established, one for these three associated States and the other for France and the rest of her territories. Presumably this is just for accounting convenience as settlements are effected by combining the balance of these two accounts together.

(2) Participation in French trade agreements

From the limited information available about the agreements between France and Vietnam, Cambodia and Laos, it seems that these three States have acquired considerable freedom of action in concluding independent trade agreements in the last few years. Under the Foreign Trade Convention signed between Cambodia and France of December 1950, the Cambodian Government could initiate, negotiate and sign trade agreements relating to its particular interest. However, Cambodia did not seem to have signed any separate agreements. It has been receiving quotas under the trade agreements concluded by France with other countries. In negotiating such joint agreements, it is the practice of the French delegation to have Cambodian observers attached to it when these agreements provide for exchange products from Cambodia or for Cambodia. 2/ This arrangement is probably also true for the other two States before Vietnam started to negotiate independent trade agreements with several Western European countries in 1953.

In their imports these countries benefited from some allocations of commodities under the trade agreements entered into by France with third

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1/ Report on Indonesia, March 1954, p. 9.

2/ See statement submitted by the Office of the French High Commissioner in French Indochina to the ECAFE Secretariat on the working of Trade Agreements. E/CN 11/18 T/61 Annex A, 20 August, 1951, p. 11-12.

countries. These agreements generally provided for export quotas of tropical produce from the Associated States. However, on account of the continuous internal disturbances of the postwar years these three associated States have not been able to export much to other countries. Some rice exports took place to neighboring countries, especially Japan. France has, however, put at their disposal the foreign exchange which they required for purchases abroad. Since this constituted a burden on France, France found it necessary to apply strict control of the currency required for imports from countries outside the French Union.

(3) Independent trade agreements concluded by Vietnam

Vietnam has negotiated trade agreements with four Western European countries, namely, Belgium-Luxembourg, Italy, Western Germany and the Netherlands. 1/ In all these agreements Vietnam has committed itself to issue import licenses for commodities from these countries up to agreed quotas. No corresponding quotas were established for Vietnam exports, probably since most of these exports are now on the free lists of the OEEC countries. In any case, due to the unsettled situation Vietnam exports to these Western European countries are of minor importance.

1/ Neue Zürcher Zeitung, Nov. 27, 1953.

IV. Payments and Trade Agreements of Non-Sterling ECAFE Countries Not Associated with the EPU System

1. Japan: Trade and Payments Agreements

Starting from 1948, SCAP has negotiated trade and payments agreements on behalf of Japan with practically all the countries with which Japan has important commercial relations except the United States, Canada and the countries under the influence of the U.S.S.R. This policy was continued by the Japanese Government after the coming into force of the Peace Treaty. With minor exceptions, all the old agreements were renewed and many new ones concluded. As Japan is an important trading nation, her attitude in bilateral relations also tended to influence the commercial policies of other countries, especially those in the Far East.

The provisions of Japan's trade and payments agreements will be covered in detail in another study. 1/ However, it may be noted that Japan is the only country in the ECAFE group which is still trading with many countries in the area on a bilateral settlement basis, although her trade with the sterling members of the region is conducted in sterling. Even in her sterling trade there had been various attempts to balance trade bilaterally with Burma and Pakistan.

(1) Japan's trade and payments agreements with the open account settlement countries

Under the current system of Japanese exchange control, all transactions must be carried out in either U.S. dollars (including open account dollars) or pounds sterling. All transactions in sterling are on a cash basis. There are now fourteen countries under open account settlement and with each of them there is a separate payments agreement. 2/ With the exception of Indonesia, all these agreements provide for the establishment of a mutual swing credit. The trade agreements generally include an annual trade plan fixing the target of imports and exports on the basis of specified quantities or volumes of the items involved.

Japan's recent experiences in her trade with these countries indicates that most of these agreements have not been functioning smoothly. One reason probably is the high prices of Japanese exports as compared with the level in other competitive countries. Another reason may lie in the

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1/ Y. C. Wang - Japan's Trade and Payments Agreements.

2/ These fourteen countries are: Argentina, Brazil, Egypt, Finland, French Union, Western Germany, Indonesia, Italy, Korea (South), Netherlands, Philippines, Sweden, Taiwan, and Thailand.

fact that for structural reasons it may be impossible to balance trade with certain countries bilaterally. As mentioned elsewhere, Japan has accumulated large bilateral credit balances vis-a-vis Indonesia and South Korea. However, with most of the other countries, and especially the Western European countries, Japan has been running a deficit which necessitates frequent extra swing settlements.

In order to economize in such cash settlements, Japan has recently resorted to various triangular trade operations. Dollar exchange has been allocated to Japanese traders to buy goods from the United States and other dollar area countries for shipment to several Western European countries including Sweden, Germany, France and the Netherlands against payment under the bilateral payments agreements with those countries. These transactions permit the realization of a small dollar premium which is generally added to the cost of goods and freight. On the other hand, because of her unbalanced trade with Indonesia, the latter country has been allowed to ship dollar goods to finance partly her deficit with Japan. According to the 1952 Agreement, Indonesia can charge a minimum commission of 8 per cent.

(2) Japan's trade and payments with the Sterling Area countries

Since August 1951 Japan's payments relations with the Sterling Area have been governed by the sterling payments agreement concluded with the U.K. but applicable to the whole Sterling Area. 1/ The most important provisions in this agreement were (1) the dollar conversion clause with respect to Japan's sterling balances was abolished, (2) the U.K. committed to approve all transfers of Japan's sterling to other non-sterling and non-dollar countries upon request of Japan and subject to the agreement of the other countries concerned, and (3) should Japan's total sterling trade become unbalanced, causing either an over-accumulation or shortage of sterling balances, consultation between the two countries is to take place immediately at the initiation of either party.

Under the over-all sterling payments agreement, there is no necessity for Japanto balance trade with any single Sterling Area country, nor with the Sterling Area, when Japan's sterling trade with countries outside the Sterling Area is taken into consideration. However, there is still need to balance her sterling transactions on a world-wide basis. This has not been realized in the last few years. During 1951 and 1952, Japan was very much concerned with her excessive accumulation of sterling. The facilities offered by the so-called administrative transferability did not seem to prove very helpful in finding any substantial outlet for this surplus sterling. As a result of the tightening of import restrictions on Japanese goods by the U.K. and other Sterling Area countries, the situation was reversed.

Since the beginning of 1953 Japan has suffered from an acute shortage of sterling. Various consultations and negotiations were conducted with the United Kingdom authorities to devise measures to solve the problem.

1/ This 1951 agreement, which was extended several times, was replaced recently by a new agreement with only minor technical revisions.

They include, among others, dollar and sterling swap transactions, and partial relaxation of restrictions on imports from Japan. In spite of this, on several occasions, Japan has had to buy sterling from the International Monetary Fund.

Under the current trade agreement reached between the two countries in January 1954, the United Kingdom has relaxed her own import restrictions against Japanese goods and also notified the British Colonies that they could import all the Japanese goods they needed for local consumption or for their entrepot trade. Although the independent Sterling Area countries did not participate in these discussions, they were informed of the results of the negotiations, and many of them took measures to relax their import restrictions against Japanese products. It is hoped that in this way Japan will be able to cut down her sterling deficit to manageable proportions.

(3) Japan's trade and payments agreements with dollar settlement countries

Japan has also concluded several trade and payments agreements under which settlements are made on cash dollar basis. The agreements concluded with Belgium, Spain, Peru, Uruguay and the Ryukyu Islands belong to this category. Although sometimes there are provisions in these agreements providing for balanced trade, this objective is seldom attained.

Under the Japanese exchange control system, dollar settlement is also prescribed for transactions with all non-agreement countries. Therefore, the dollar settlement method applies to both dollar area countries and various soft currency countries which neither belong to the Sterling Area nor have an open account settlement agreement with Japan. It should be noted, however, that trade with some of these countries may also be conducted in sterling subject to the *ad hoc* authorization of the exchange control authorities of Japan and those of the other countries concerned.

2. The Philippines: Trade and Payments Agreements

(1) Experience under payments and trade agreement with Japan

The Philippines occupies a unique position in the ECAFE group of countries because its currency, the peso, is convertible into the U.S. dollar and it is therefore treated as a dollar currency country by other countries. Except with Japan, the Philippines has not concluded any payments agreements. Trade with Japan is settled through the open account procedure. However, it should be noted that her exports to Japan in 1950 accounted for 89.3 per cent of total exports to other countries in the region, while imports from Japan in the same year accounted for almost 32 per cent of total exports from the region.

The first trade and payments agreement between the Philippines and Japan was signed in June 1950. It has been extended many times with trade plans negotiated each year. From July 1, 1950, when the trade agreement with Japan was concluded, to the end of December 1952, Philippine exports

under the agreement amounted to $83 million and imports to $58 million, leaving a surplus of $26 million for the Philippines. During this period the Bank of Japan has made six transfers of U.S. dollars to settle deficits in the account in excess of the swing margin, making a total of some $17 million.[1] Recent information indicates that several similar transfers were made in 1953 during which year the Philippines acquired another large trade surplus, with imports from Japan at $23 million and exports to Japan of $52 million.

Since Japan has been prompt in making extra-swing settlements, the Philippine authorities seem to have been satisfied with the working of this agreement. Although the Philippines did not formerly practise import discrimination, there has recently been a tendency to give imports from Japan some preferential treatment.

(2) Attitude toward other payments arrangements and trade agreements

With the United States supplying about 75 per cent of the total imports of the Philippines, and absorbing 68 per cent of her exports, and Japan accounting for a large part of her trade with other countries, the Philippines has had little need to negotiate trade agreements with countries other than Japan. However, there are indications that the Philippine Government has recently been considering the re-orientation of its commercial policy in connection with the pending revision of the Bell Trade Act.

Under that Act, the United States would cease to be a duty-free market for many Philippine exports after July 3, 1954. Thenceforth, they would become subject to U.S. duties equal to 5 per cent of the basic rate, with another 5 per cent being added each year until the full rate is reached in 1974. However, the two important Philippine exports, abaca and copra, are on the U.S. free list and consequently will not be affected; certain others will continue to enter duty free, although under progressively diminishing quotas. The Philippine Government has already secured the agreement of the United States to extend the operation of the present reciprocal duty-free arrangement for another eighteen months to allow enough time for the negotiation of various desirable amendments.

The Philippines may well plan to expand her trade with the soft currency countries after the revision of the Bell Trade Act. The abolition of trading on a dollar basis may, in time, lead to the negotiation of more trade and payments agreements. According to a report in the Far East Trader of February 3, 1954, the Vice-President of the Philippines has suggested that the Philippines should create a sterling fund along with the country's dollar reserves so that the country may also trade with various Sterling Area countries on a sterling basis. It was reported in the Philippine Newsletter of March 26 and April 2, 1954 that the Vice-President, in the capacity of Secretary of Foreign Affairs, has recently furnished the Minister of South Korea with a draft of the proposed barter trade agreement between the two countries. The Philippines would supply South Korea with timber, logs and plywood, abaca and other export items. In his opinion, the conclusion of a trade pact would not only boost the economy of South Korea but also enable the Philippine importers to procure essential import items from Korea.

1/ Central Bank of the Philippines - Fourth Annual Report, 1952, page 58.

3. Thailand: Trade and Payments Agreements

(1) Thailand's payments relations with the Sterling Area

Although Thailand is not a Sterling Area country, most of its intra-regional trade is conducted with Sterling Area countries. For many years before the war, the baht was linked to sterling at 11 baht to the pound. The exchange rate policies in the postwar years were also based principally on sterling. Immediately after the war it was fixed at 60 baht per pound. In 1946 the 40 baht rate was adopted. It was revalued to 35 baht when the British devalued the pound sterling in September 1949. Among the independent non-Sterling Area countries in the Far East, Thailand was the only transferable account country before the modification of the British exchange control regulations in March 1954.

Before the war 70 to 80 per cent of Thailand's foreign trade was carried on in sterling. 1/ During the postwar period, the proportion of rice exports to the ECAFE Sterling Area countries has decreased in relative importance. A large part of her trade with the non-Sterling Area countries in the region, other than Japan, is carried on in sterling. This is probably also true for the trade with various continental European countries. Assuming that trade done with countries other than Japan, the Philippines, the United States and Canada is in sterling, the percentage of exports and imports against payment in sterling for the period 1950-1952 would amount to roughly 60 per cent.

The Sterling Area and other countries using sterling in their trade with Thailand have not, however, been able to supply corresponding amounts of imports to that country. Thailand joined the transferable area in September 1947 in the expectation that she might thus be able to make more extensive use of its sterling surplus. In spite of this, Thailand has not been very successful in reducing its sterling holdings prior to the adoption of a dear baht policy in 1952. The appreciation of the baht with respect to free market sterling and the large-scale sales of sterling by the Bank of Thailand to the commercial banks were intended to promote larger utilization of sterling for imports. Moreover, the Bank of Thailand had demanded the surrender of dollars from rice sales by private traders 2/ although the rice could only be sold to the various other Far East countries against payment in sterling. The private rice merchants were thus compelled to convert their sterling proceeds into U.S. dollars in the free market. It should also be noted that in order to increase dollar earnings all exports of tin are directed only to the dollar area.

Through these measures the Bank of Thailand had been successful in reducing sterling holdings while at the same time it increased holdings in dollars. However, the policy of appreciating the baht has caused an

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1/ The Bank of Thailand report for the year 2492 (1950), page 21, and Report of the Financial Adviser to the Ministry of Finance covering years 1941-1950, page 61.

2/ This requirement was discontinued in 1953.

adverse turn in Thailand's balance of trade which had been favorable between 1948 and 1951. The situation was aggravated by the large accumulation of unsold rice stock on the one hand and the rise of import demand due to the domestic inflation on the other. This development necessitated a change of policy. The free market rates for sterling and U.S. dollars were allowed to rise without intervention. In addition, the Bank of Thailand has restricted its sales of dollars and sterling for essential imports at preferential rates, and imposed restrictions on imports financed by the free market in order to reduce the demand for exchange in the free market.

(2) Thailand's payments and trade agreements with Japan

The first payments agreement between Thailand and Japan was signed in September 1948, and since then it has been extended many times. The trade agreement is implemented by the negotiation of annual trade plans, specifying commodities and values to be sold by each side and providing that trade generally should be in balance. The payments agreement provides that transactions are settled in open account dollars. The baht-dollar rate, announced by the Bank of Thailand once every month, is based on the average quotations prevailing in the free market during the previous month.

In 1948 and 1949 accounts were settled half-yearly. Since 1950 a mutual swing credit of US$5 million has been established,[1] any outstanding balance in excess of the swing to be paid in dollars by the debtor party at the request of the creditor.

The experience of Thailand in trading with Japan under an open account arrangement has been that, for most of the years, Thailand has been in a creditor position. According to a report which the Government of Thailand submitted to the ECAFE Secretariat, it would appear that, as a result of its creditor position, Thailand has at times been forced to assume a role of financing trade with Japan. This has exercised a rather restrictive influence on the transactions under the agreement.

However, in spite of this shortcoming, the Thailand Government has found it advantageous to continue to trade with Japan on an open account basis.[2] The policy of Thailand has always been to encourage imports from Japan. Thailand found in Japan an assured market for her rice and has recently also been able to push salt exports to Japan. In addition, Japan was a comparatively cheap source for various consumption goods, such as textiles. However, since Thailand's ability to absorb Japanese products is limited, Thailand would sometimes not agree to sell on a government-to-government basis all the rice demanded by Japan. Japan must not only remit cash dollars for extra quantities of rice purchased from private traders, but also pay higher prices. This has had the effect of preventing a greater accumulation of the bilateral credit balance.

1/ The swing credit was reduced to US$2 million in the 1952 agreement and changed back to US$5 million in the 1953 agreement.

2/ See the report on an article written by the Ministry of Finance entitled "The Thai-Japan Trade" in Foreign Radio Broadcast - December 7, 1953.

4. China (Taiwan): Trade and Payments Arrangements

(1) Payments arrangements with Sterling Area countries

Trade between Taiwan and Hong Kong, conducted in terms of dollars, is very important. During the last few years a considerable amount of sugar has also been exported against sterling. Under the previous exchange control regulations of the United Kingdom, Taiwan's sterling holdings were in a separate category of bilateral sterling which required the authorization of the Bank of England even for payments to the Sterling Area countries. In accepting sterling for its exports, the Bank of Taiwan always insisted that the sterling must be either convertible into U.S. dollars or Hong Kong dollars. Under the present U.K. regulations, this is no longer necessary since Taiwan has become a transferable sterling account country after the abolition of bilateral sterling accounts.

Taiwan has had a favorable balance in her sterling transactions. A consistent deficit, however, is noted in her trade with Hong Kong. According to the September 1953 issue of the Bi-Monthly Review of the Bank of China, Taiwan was able to use the sterling surplus to cover her deficit in Hong Kong dollars. The only other Sterling Area currency used is the Malayan dollar, but trade with Singapore and Malaya is of practically no significance. During 1952-1953, exports to Singapore, which are settled in Malayan dollars, amounted to only 1.58 per cent of total Taiwan exports. On the other hand, no imports were registered for either year. 1/ As far as other European currency besides sterling is concerned, there are some transactions in Belgian francs.

(2) Agreements with Japan and the French Union

Taiwan has three payments agreements, namely with Japan, France and the Ryukyu Islands. Of these, the agreement with Japan is the most important. It provides for the settlement of trade and other transactions in open account dollars and a swing of $10 million. Balances in excess of the swing are to be settled in U.S. dollars or other mutually acceptable currencies. In 1953, 47 per cent of exports went to Japan and 54 per cent of total imports came from Japan. No information as to payments arrangements provided in the agreement with the Ryukyu Islands is available. Taiwan's trade with the Ryukyu Islands is insignificant.

A recent agreement with France provides for exchange of goods amounting to US$10 million each way for the first trade year. Under the agreement, tea leaves accounted for 70 per cent of total Taiwan exports listed. The remaining items consist of feathers, pineapples and other canned goods. French exports were to include machinery, hardware, fertilizers and chemical products. There is a swing of 1.5 million dollars. 2/

1/ Bank of China - Bi-Monthly Economic Review: January-February, 1954, page 5.

2/ China News - May 11, 1954, page 1.

5. South Korea: Trade and Payments Agreements

(1) Trade and payments agreement with Japan

The only payments agreement concluded by Korea is the one signed with the SCAP on behalf of Japan in June 1950. This agreement provided for a settlement of transactions in clearing dollars through an "open account." 1/ Under the agreement any balance in excess of the swing margin of US$2 million would be payable on demand of the creditor. 2/

In the original trade agreement, rice exports by the Korean Government and Korean purchases with ECA funds were excluded from the settlement through the open account. The trade plan for 1950 allowed for Korean exports amounting to US$9.5 million, and Korean imports of US$15.5 million. The excess in imports was to be covered by the transfer of part of the proceeds of Korean Government exports to Japan payable against cash dollars. 3/ However, the actual trade figures were far short of the trade targets. Settlements through the open account during the period from August 1950 to March 1951 amounted to US$2.3 million for Korean exports and $2.3 million for Korean imports, leaving a small balance in favor of Korea. In 1951 a new trade plan was adopted, with estimated Korean imports at US$16 million and exports at US$32 million. The planned deficit of US$16 million was to be covered by the export surplus with other countries and some use of exchange reserves. This trade plan was prolonged without change for another year (April 1952 to March 1953).

As a result of both the devastation of a large part of the country caused by the war and the consequent inflation, Korea's total exports decreased while imports rose rapidly during the last few years. In her trade with Japan, Korea has accumulated in the open account a big debtor balance, many times the original swing margin.

(2) Negotiation of other trade agreements

The Philippines has expressed an interest in negotiating a trade pact with South Korea. In November 1953, an economic mission from Taiwan visited Korea to explore the possibilities for a commercial agreement. It was expected that if the trade pact materialized, Taiwan would be able to supply South Korea with sugar, coal and molasses to a total amount of US$5 million per year. Possible exports of South Korea to Taiwan were also studied.

1/ Prior to that, trade between the two countries was conducted on cash dollar basis under a financial agreement signed in April 1949.

2/ There were certain provisions modifying the application of this clause during the initial stage; they are, however, now obsolete.

3/ First Annual Report of the Bank of Korea for the fiscal year 1950, page 63.