

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH THE FEDERATION OF MALAYA

1. In accordance with its terms of reference, the Committee has conducted the consultation with the Federation of Malaya under Article XIV:1(g). The Committee had before it (a) a basic document prepared by the secretariat, and (b) documents supplied by the International Monetary Fund. In conducting the consultation, the Committee followed the "plan" recommended by the CONTRACTING PARTIES for consultations under Article XIV:1(g). The consultation was completed on 20 October 1959. The present report summarizes the main points in the statement made by the representative of the Federation of Malaya, and those which emerged during the discussion.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with the Federation of Malaya. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted certain documentation.¹ At the invitation of the Committee, the Fund representative made a statement as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from the first consultation with the Federation of Malaya under Article XIV of the Fund Agreement, which consultation was concluded on March 6 1959. In addition, the Fund has prepared a supplementary paper on developments in Malaya since the last Fund consultation. This supplementary paper is dated September 24 1959, and together with the material from the last consultation has been distributed to the members of the Committee."

Basis and Background for the Application of Discrimination

3. In opening the consultation, the representative of the Federation of Malaya referred to the progress which had been made by the Federation in the removal of discriminatory import restrictions since achieving independence. Following the reaffirmation by the Commonwealth countries at the Montreal Conference of their objective to achieve a multilateral trade and payments system, the Federation seriously examined its policy on dollar imports. In January 1959, as an experiment, discriminatory treatment was removed in respect of twenty-three items imported from the dollar area. With no serious ill-effects from this first major move, the Government of the Federation on 1 August 1959 removed restriction on all imports from the dollar area. However, licences are still required for the imports of vehicles, radios and watches. But this was merely a licensing formality which did not result in effective restrictions. Future circumstances permitting, it was the intention of the Government to remove this licensing formality as early as possible.

¹ See Annex I

The representative of the Federation reminded the Committee that the declarations made by the Federation during the last consultation had been made good, which bespoke of the Federation Government's earnestness in its intention to remove restrictions. He expressed the hope that future developments would permit his Government to do away with the licensing formality as early as possible.

4. Members of the Committee expressed appreciation of the record and achievements of the Government of the Federation of Malaya during their first years as a contracting party to the General Agreement. During this period, the Federation had contributed considerably to the expansion of international trade.

5. In response to a question on future movements in the Federation's balance of payments, the representative of the Federation reminded the Committee that a favourable balance of payments depended heavily on exports of rubber and tin. In the past year, because of general recessional tendencies in markets abroad, and because of abnormal exports by the Soviet Union of tin, the balance-of-payments position of the Federation was not too favourable. He felt, however, that some improvement could be expected in the current year.

6. A member of the Committee expressed interest in the factors which prevented the immediate removal of the final elements of discrimination in the import licensing system of the Federation. The representative of the Federation explained that as a newly independent country confronted with many serious problems, the Federation of Malaya considered it wise to be cautious. His Government considered it essential not only to remove discrimination but also to maintain any measures taken towards freer trade. He emphasized however that the licensing formality required for certain imports did not result in restrictions.

7. The representative of Czechoslovakia, as an observer, pointed out that his country, being a contracting party to the General Agreement, should share in the open general licensing treatment accorded other contracting parties. The representative of the Federation of Malaya confirmed that all imports from the countries of eastern Europe were subject to specific licensing treatment, but he pointed out that to date all licences for import from the area had been freely granted.

System of Discriminatory Restrictions and Their Effects

8. A member of the Committee asked about the existence of bilateral agreements which might hamper the elimination of discrimination. The representative of the Federation informed the Committee that the only bilateral trade agreement which the Federation of Malaya had entered into was the one with Australia. Under this agreement the Federation guaranteed a market for 80,000 tons of Australian flour. This guarantee did not amount to a restriction on imports, for it was only in the event that Australia's fair share of the Malayan market was threatened by unfair competition from subsidized exports from third countries, that the Federation would be obliged to take countervailing action. The representative for Australia fully supported the explanation given by the representative of the Federation regarding the bilateral agreement.

9. The representative of Japan informed the Committee of the desire of his country to see full GATT relations established between the Federation of Malaya and Japan. The representative of the Federation informed the Committee that his Government was fully aware of the desire of the Japanese Government and was confident that the trade talks which would be held shortly between the Federation and Japan would result in the conclusion of a trade agreement.

10. A member of the Committee noted that the licensing system of the Federation contained a considerable number of licensing schedules. He enquired whether the Federation authorities were considering the simplification of the system. The representative of the Federation, while appreciating that the licensing procedure might appear complex, explained that where it was possible, it was the intention of his Government to introduce simplifications.

Prospects

11. Members of the Committee noted that the action of the Federation in the removal of discrimination had been swift and almost complete. It was felt that in view of currency convertibility the remainder should be rapidly removed and that in view of the relatively small proportion of discrimination remaining in the Federation's import licensing system, its removal should not give rise to any serious problems. They pointed out that non-discrimination would permit the Federation to obtain its import requirements where it wished and on the best possible terms. The representative of the Federation assured the Committee that circumstances permitting, it was the aim and intention of his Government to remove all discriminatory treatment of imports into the Federation of Malaya at the earliest possible date.

ANNEX I: Results of Consultations between the International
Monetary Fund and the Government of Malaya
concluded on 6 March 1959

1. The Government of the Federation of Malaya has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. Production of rubber and rice increased slightly in 1958, while tin production was restricted in accordance with the International Tin Agreement. Production and national income are expected to increase in 1959. Steps have been taken to stimulate private investment, domestic and foreign, by providing appropriate incentives.
3. The deficit in the public sector in 1958, which was substantially larger than in the previous year, was met partly by long-term borrowing and partly by drawing on existing cash balances. Despite increases in tax rates, the Federal Government expects a deficit on current account in 1959. In view of financing problems, the Government has extended the period in which the development plan is to be completed. The rise in private bank credit in the Federation and the drawing down of government deposits appears to have been more than offset by the decline in the external assets. Consumer prices have declined slightly.
4. There was some deterioration in Malaya's balance of payments during 1958, owing to a fall in export earnings, which was not matched by an equivalent fall in import payments. Gross foreign exchange reserves declined moderately during 1958.
5. The Fund notes that most imports, other than those from the dollar area, are admitted without restriction and under Open General Licence. The Fund welcomes the recent relaxation of discrimination against some dollar area imports and the intention of the Federation of Malaya Government to keep the situation under review with a view to undertaking further liberalization, to simplify the remaining restrictions and to continue reducing discrimination.
6. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the Federation of Malaya.