

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/2105

19 December 1963

Limited Distribution

REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH THE UNITED ARAB REPUBLIC

1. In accordance with its terms of reference the Committee conducted the consultation with the United Arab Republic on its balance-of-payments restrictions. The Committee had before it the following documents: (a) a basic document for the consultation (BOP/32), (b) background material provided by the International Monetary Fund as noted in paragraph 3 below.
2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 7th Supplement, pages 97-98). The consultation was conducted on 10 December 1963. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. 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 this consultation with the United Arab Republic. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the United Arab Republic. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision¹ relating to the last consultation with the United Arab Republic under Article XIV of the Fund Agreement and the background material prepared in connection with that consultation.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund calls the attention of the CONTRACTING PARTIES to the Executive Board decision of June 7, 1963, taken at the conclusion of its recent consultation with the United Arab Republic and particularly to paragraphs 5 and 6 which read as follows:

¹Annex B hereto.

'5. The Fund welcomes the unification of the exchange system and notes the intention of the United Arab Republic authorities to discontinue the discriminatory tourist exchange arrangement maintained under an agreement with Lebanon. Restrictions on imports and invisible payments continue to be high. The Fund believes that export taxes and import subsidies should be reduced, and that vigorous efforts should be made to expand exports, so as to make possible eventual relaxation of restrictions.

'6. The United Arab Republic continues to maintain a large number of bilateral payments agreements. The Fund urges the United Arab Republic to take steps to terminate the agreements with Fund members. The Fund notes that discrimination in favor of bilateral partners has been reduced and that the United Arab Republic authorities state that their objective is to avoid discrimination.'

"Subsequently, on October 11, 1963, the United Arab Republic drew the equivalent of \$16 million from the Fund. The drawing was agreed by the Fund in accord with its policy for providing compensatory financial assistance to countries that experience a temporary short-fall in total export earnings due to circumstances largely beyond their control.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last Article XIV consultation with the United Arab Republic. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of the United Arab Republic

4. In his opening statement, the full text of which is annexed to this report (Annex A), the representative of the United Arab Republic said that the year 1962/63 had been a year of relative stability for the United Arab Republic economy. Both the third year's targets of the Five-Year Plan and the stabilization programme agreed upon with the Fund had been successfully implemented. The expansion of bank credit had not been excessive in 1962/63, and the stability of prices had been maintained.

5. Export earnings in 1962/63 were substantially higher than in 1961/62, mainly owing to a good cotton crop. Owing to an increase in imports the trade deficit had increased from £E112 million in 1961/62 to £E155 million in 1962/63. This increase was, however, also attributable to the application of the new exchange rate which augmented the deficit in Egyptian pound terms.

6. The representative of the United Arab Republic recalled that the most serious economic problem facing his country in the early fifties had been the deterioration in per capita income of the agricultural population and to improve their living standards. The Government had embarked on a far-reaching programme the salient features of which were: (a) an agrarian reform,

(b) an horizontal expansion in agriculture, (c) the launching of an industrialization plan, and (d) the carrying out of the preparatory work for the Assuan High Dam project. In July 1960 an overall development plan was introduced for doubling the national income between 1960 and 1970 of which industrialization and the High Dam project were the two corner-stones. In the first five years of the plan (1960-1965) total national income was expected to rise by 40 per cent from £E1,212 million to £E1,795 million.

7. The investments required in the first five-year period to implement the plan had been estimated at £E1,697 million, of which the foreign exchange content would amount to £E546 million. The share of industrial production in the gross national product would go up from 21 to 30 per cent. The value of total exports was expected to increase by 35 per cent, and the dependence on raw cotton exports would decrease. By the end of the second stage of the plan unemployment would have been virtually eliminated. The targets of the plan for 1961/62 had been unfulfilled, mainly owing to crop failures, but the development in 1962/63 had been quite satisfactory and the gross national product attained £E1,532 million, thus realizing an average annual increase of 6.4 per cent for the first three years of the plan.

8. The representative of the United Arab Republic pointed out that his country had had a persistent deficit in international payments for some years. There had been a growing import surplus, resulting inter alia from increases in imports of capital goods and raw materials for development purposes, together with large contractual payments under international agreements. At the same time exports had declined, mainly as a result of the shortfall of the 1961/62 crops. Normally the trade balance deficit would partly be compensated by a surplus on services account, whilst the balance-of-payments deficit would be financed mainly through foreign loans and credit facilities. The current account deficit in 1962 amounted to £E117.6 million (£E53.3 million in 1961) but as a result of capital inflow, the overall balance-of-payments deficit in 1962 had been confined to £E41 million, of which £E20 million was financed by the use of International Monetary Fund resources and £E21 million by drawing on foreign exchange reserves and incurring liabilities. It was expected that both the current and the overall accounts would show similar deficits in 1963.

9. The cotton selling policy adopted for 1962/63 crop had been found satisfactory and would be continued in 1963/64 to the advantage of both producers and buyers, but owing to a decline in production, the export earnings would probably decrease unless offset by a rise in prices. As the strain on the balance of payments could not be expected to diminish in the next few years, there was an urgent need for diversification of exports. In this connexion his Government hoped that the industrial countries would soon implement measures to promote the trade of the developing countries, and noted with satisfaction the progress which had been made in implementing the GATT ministerial resolutions.

Balance-of-payments position and prospects

10. A member of the Committee, referring to the statement by the representative of the United Arab Republic concerning the cotton sales prospects, asked whether the lower yields of the present crop year and the next were likely to be recurrent. The representative of the United Arab Republic said that the exceptionally low yields of the current year were considered as a temporary phenomenon, being a consequence of the catastrophic conditions of 1961/62.

11. Members of the Committee discussed with the representative of the United Arab Republic the present position and prospects of the country's reserves. The representative of the United Arab Republic said that in August 1963 there was a negative balance of net foreign exchange reserves amounting to £E13 million. From July 1962 to June 1963 there had been a current account deficit of £E104 million (against £E72 million in 1961/62) and an overall deficit of £E35 million (against £E24 million in 1961/62). The reserve situation had, however, improved somewhat between December 1962 and August 1963 owing to seasonal factors, such as improved cotton sales.

12. In reply to a question the representative of the United Arab Republic explained that the main part of the foreign expenditure for educational and cultural purposes, referred to on page 22 of the IMF background material, related to costs for the several thousand students studying abroad.

Alternative measures to restore equilibrium

13. A member of the Committee referred to paragraph 4 of the IMF Executive Board decision which urged the United Arab Republic authorities to continue the policy of reducing reliance of the government sector on the banking system, and suggested that the possibility of raising tax revenue should be further explored and that a review of the pricing policies should be made, with a view to generating additional savings for the development programme and reducing the domestic demand for goods entering into import and export trade. He asked what action had been taken along these lines since June 1963, and what had been the results. The representative of the United Arab Republic replied that careful consideration had been given to the Fund recommendation, and the reliance of the Government upon Central Bank credit had actually been reduced. The raising of taxes and the reviewing of the pricing policy were complicated problems which were somewhat difficult at present to reconcile with the aim of raising the standard of living of the population. There had been little change in the fiscal measures but steps had been taken to avoid increases in the money supply; the money supply showed a rise of only 5 per cent in 1962/63 as compared to 11 per cent in 1961/62.

14. In answer to a question, the representative of the United Arab Republic said that the majority of subsidies paid by the Government were aimed at lowering the internal price level for commodities for consumption. They were not intended to affect the imports.

15. Members of the Committee enquired about the prospects of elimination of the bilateral payments agreements, particularly those in force between the United Arab Republic and members of the International Monetary Fund. The United Arab Republic representative said that no new bilateral agreements had been concluded recently, and that the intention of his Government was ultimately to terminate the agreements with Fund members, but they were being retained merely because of swing credit facilities which could be utilized to cover temporary payments deficits resulting from the seasonal fluctuations in exports and imports.

16. In reply to questions concerning savings, the representative of the United Arab Republic stated that gross domestic capital formation in the country during the first three years of the current plan had averaged about £E250-275 million a year, or some 18-20 per cent of gross national product. One third of this was provided by external financing, including United States counterpart funds. The remaining two thirds derived largely from domestic savings and only to a limited extent from credit expansion. Consumption was expected to rise by 24 per cent between 1959/60 and 1964/65. Since gross national income would rise by 40 per cent in the same period domestic savings would thus be accumulated for investment. The Government paid particular attention to the promotion of savings and various arrangements, such as the Insurance and Pension Fund and the Social Insurance Organization, had been made to facilitate savings by various sectors of the population. The new insurance and pension legislation was expected to contribute to a further rise in savings. Savings by all employees of the Government as well as those of the public and private business sectors estimated to be collected by those two institutions were put at £E50 million in 1962/63 and at about £E64 million in the current budget year. Other measures included an increase in the interest rate on Post Office savings deposits, an increase in the interest rate paid on bank time and savings deposits, etc.

17. The representative of the United Arab Republic, in reply to a question, said that it was the expectation of his Government that the creation of new industries would lead to an expansion of exports and a reduction in trade deficits. In this connexion he expressed the hope that further efforts would be made by industrialized countries to increase imports; consequently, his Government would wish to see the discussion concerning preferences for developing countries successfully pursued.

System and methods of the restrictions

18. A member of the Committee, referring to the statement in the "basic document" (BOP/32, section 2, page 3) concerning expected availabilities of foreign loans and other credit facilities, asked whether these estimates directly affected the choice of the source of imports. The representative of the United Arab Republic replied that the restrictions were applied without discrimination, and the authorities had no way of influencing this matter. Sources of supply were determined by purely commercial considerations.

19. In reply to questions on the rôle of State-trading agencies in the foreign trade of his country, the representative of the United Arab Republic said that about 75 per cent of exports was handled by State-trading agencies and about 25 per cent by private traders. Imports were generally handled by State-trading agencies, the only exception being the permission given to factories to import directly for their own needs.

20. Members of the Committee commented on the time-limits for United Arab Republic Government tenders which in their view were usually short and would not allow exporters in distant countries to take part in the tendering. The representative of the United Arab Republic assured that full consideration would be given to this view by his Government.

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21. The Committee thanked the representative of the United Arab Republic for his clear and full replies to the questions put to him in the course of the consultations. Members expressed sympathy with the economic difficulties facing his country but expressed concern that despite external stabilization assistance there had been further balance-of-payments difficulties, thus postponing the prospects for United Arab Republic trade liberalization in accordance with GATT concepts. They welcomed the expressed intention of the Government of the United Arab Republic to reduce reliance on Central Bank credit. They also welcomed the measures taken by the United Arab Republic to reduce discrimination in the restrictive system which favoured its bilateral trade partners. They considered that these policies should be continued.

22. The representative of the United Arab Republic thanked the members of the Committee for their understanding and co-operation and said that he would bring the views and suggestions made in the course of the consultation to the attention of his Government.

ANNEX A

Opening Statement by the Representative of the
United Arab Republic

This is the first consultation undertaken by the United Arab Republic with the contracting parties after our provisional accession to the General Agreement in November 1962. At the outset I would like to express our thanks to the International Monetary Fund and to the GATT secretariat for the documentation provided on this occasion.

As far as recent economic conditions in the United Arab Republic are concerned, the year 1962/63 was a year of relative stability. It witnessed the successful implementation of the third year's targets of the five-year overall development plan. It also witnessed the implementation of the stabilization programme agreed upon with the International Monetary Fund, the central feature of which was the unification of the exchange rate structure and the elimination of multiple currency practices. Under the stand-by arrangement the full amount of \$42.5 million was drawn in various currencies, while stabilization loans amounting to \$70 million were obtained from four contracting parties viz. the United States of America, the United Kingdom, the Federal Republic of Germany and Italy. As regards credit developments the expansion of bank credit during 1962/63 was not excessive; non-inflationary methods for the financing of investment were resorted to, the expansion in money supply was moderate in relation to the increase in gross national product, and the stability of prices was maintained.

In the field of foreign trade the proceeds of exports were substantially higher than in 1961/62 owing to a good cotton crop coupled with successful policy measures taken for its disposal. However, imports continued their upward trend, reflecting larger imports of capital goods and raw materials as well as of essential consumer goods. This led to the deterioration of the adverse trade balance from £E112 million in 1961/62 to £E155 million in 1962/63, though this is partly due to the application of the new experimental rate, as a result of which the gap expressed in terms of Egyptian pounds has widened.

I now turn to our development plan which was introduced in July 1960 with the objective of doubling the national income in ten years. It is to be pointed out that up to mid 1952 agriculture used to be the mainstay of the Egyptian economy, with twenty-three million people depending on a small cultivated area of about six million acres, manifesting thereby the highest rate of population density per square mile. The growth of population being the highest in the world, together with the non-existence of new avenues for economic activities other than agriculture, culminated in the most serious economic problem facing the United Arab Republic in the early fifties. To arrest the deteriorating trend in per capita income, amounting to about \$90, which was one of the lowest in the world, a drastic action had to be taken

urgently and in a multidimensional way. Thus, since the advent of the revolution, the Government has embarked on a far-reaching programme consisting of:

- (1) Agrarian reform
- (2) Horizontal expansion in agriculture
- (3) The launching of the first industrial plan
- (4) The carrying out of the preparatory works for the High Dam project.

The latter project, intended to bring about an expansion of two million acres equal to one third of the cultivated area - together with the large-scale industrialization of the country, are the two corner-stones of the overall development plan the implementation of which started in July 1960. The first stage of the plan, covering the period 1960/65, aims at raising the national income from £E1,212 million in 1959/60 to £E1,795 million in 1964/65.

This increase of 40 per cent requires investments estimated at £E1,697 million of which the foreign exchange content amounts to £E646 million. In order to secure the balanced growth of the economy the share of national income generated in industry is scheduled to advance from 21 per cent to 30 per cent during this period. Moreover the plan aims at an increase of 35 per cent in the value of exports with less dependence on raw cotton exports as a result of the diversification of the economy. In the field of employment, to which the plan attaches great importance, it is anticipated that by the end of the second stage gainful employment will have been provided to the greater part of the unemployed labour as well as to new entrants into the labour market.

According to the preliminary results of the third year of the plan most of the targets have been achieved in contrast to the shortcomings in 1961/62 as a result mainly of crop failures. Gross national products reached £E1,532 million or over 96 per cent of the target set up for 1962/63, thus bringing about an average annual increase of 6.4 per cent which is a very gratifying result indeed.

Turning to our balance-of-payments situation and prospects it is to be pointed out that the United Arab Republic has suffered from a persistent deficit in its international accounts for the past few years. This deficit was partly due to a growing import surplus and partly to large contractual payments connected with the nationalization of the former Suez Canal Company, the financial settlement reached with the United Kingdom, and the compensation paid to the Sudan in conformity with the Nile Waters Agreement. The large import surplus was brought about by the rising level of imports and in particular capital goods and raw materials needed for the implementation of the development plan, coupled with increasing imports of basic supplies to cope with the needs of a growing population. This was aggravated by the decline in

export proceeds during the past two years and especially in 1962, as a result of the short fall in the 1961/62 cotton crop and other agricultural crops. The large adverse trade balance is usually partly offset by the net services surplus, whilst the overall deficit of the balance of payments is financed by accommodating capital inflow representing mainly the use of foreign loans and credit facilities.

According to the balance-of-payments estimates for 1962 the net deficit on current account amounted to £E117.6 million compared with £E53.3 million in the preceding year. This widening gap in current payments was attributed mainly to the higher level of imports coupled with the fall in export proceeds. As a result of the capital inflow the overall deficit of the balance of payments in 1962 was confined to some £E41 million as against nearly half that level in the preceding three years. It was financed to the extent of £E20 million by the use of the International Monetary Fund resources and by drawing down monetary reserves and incurring liabilities by some £E21 million. Preliminary indications for the first half of 1963 point to some improvement in the balance of payments due mainly to the better performance of exports as a result of the accelerated pace of cotton exports. Owing, however, to the seasonal pattern of cotton exports coupled with the upward trend in imports it is to be anticipated that the trade gap will again widen and the balance-of-payments deficit will persist for the whole of 1963 on both the current and the overall accounts.

As regards the balance-of-payments prospects I would like to mention that the sound cotton policy adopted for the disposal of the 1962/63 crop shall continue to be applied for the 1963/64 crop, thus ensuring the stability of the cotton market to the advantage of both the cultivator and the foreign spinner. Selling prices for new export engagements were announced early in the season, and cotton is offered at competitive prices in world markets without discrimination. However, owing to the decline in yield, the proceeds of cotton exports this season may not reach the previous season's level. This fact together with the continued high level of imports seem to indicate that the large overall balance-of-payments deficit shall persist in 1963/64. As far as long-term prospects are concerned, the strain on the balance of payments is not likely to diminish during the next few years owing to the burden of servicing the external debt as well as other obligations the payment of which is estimated to absorb about one quarter of export proceeds. This points to the urgent need for expanding United Arab Republic exports of agricultural products as well as of semi-processed and manufactured products. The United Arab Republic, like other developing countries, pin their hopes on the early implementation by the industrialized countries of the programme of action designed to promote the trade of developing countries as a means of furthering their economic development. The United Arab Republic delegation notes with satisfaction that some progress has been made by the CONTRACTING PARTIES as regards the implementation of the resolutions of the ministerial meeting of May this year, but hopes that further concrete measures would soon be taken.

In concluding my statement I would like to stress the fact that in acceding to the General Agreement we are looking forward to closer co-operation with the CONTRACTING PARTIES. We are also confident that the CONTRACTING PARTIES will appreciate our payments difficulties stemming from the impelling need to accelerate the tempo of our economic development and will find our restrictions justified in conformity with Article XVIII of the General Agreement.

ANNEX B

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with the United Arab Republic on 7 June 1963

1. The Government of the United Arab Republic has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. The United Arab Republic has been engaged in a stabilization program designed to rectify the balance of payments problem and involving a reduction in the rate of credit expansion. Payments difficulties were severe in 1962 because of the sharp drop in earnings from cotton and other agricultural exports and of an increase in import payments. There were drawings on the Fund and stabilization credits, and convertible currency assets of the banking system further declined. Net liabilities to bilateral partners also rose sharply. While there has been some improvement in the payments position in recent months as export earnings from cotton and rice increased, the demand for imports continues high, requiring substantial reliance on restrictions. Heavy pressures on the external position are likely to continue because of the debt service burden, the growing needs for maintenance imports, and the problem of raising export volume.
3. Total credit expansion in 1962 was approximately of the same magnitude as in 1961, but a large part of it was attributable to an increase in cotton financing necessitated by a larger crop. After allowing for cotton financing, credit expansion continued to be primarily in the government sector but at a considerably reduced rate. The rise in money and quasi-money in 1962 was of about the same magnitude as in the previous year. Prices were maintained relatively unchanged despite the exchange rate adjustment in May 1962, partly through higher subsidization of basic consumption goods through the budget and various economy measures such as standardization and concentration on utility types of some commodities.
4. The level of government expenditures rose in 1962/63, although development expenditures were at about the same level as in 1961/62. The fund urges the United Arab Republic authorities to continue the policy of reducing reliance of the government sector upon the banking system. The Fund believes that the possibility of raising tax revenue should be explored further and a review of the pricing policies should be made, with a view to generating additional savings for the development program and reducing the domestic demand for goods entering into import and export trade.

5. The Fund welcomes the unification of the exchange system and notes the intention of the United Arab Republic authorities to discontinue the discriminatory tourist exchange arrangement maintained under an agreement with Lebanon. Restrictions on imports and invisible payments continue to be high. The Fund believes that export taxes and import subsidies should be reduced, and that vigorous efforts should be made to expand exports, so as to make possible eventual relaxation of restrictions.

6. The United Arab Republic continues to maintain a large number of bilateral payments agreements. The Fund urges the United Arab Republic to take steps to terminate the agreements with Fund members. The Fund notes that discrimination in favour of bilateral partners has been reduced and that the United Arab Republic authorities state that their objective is to avoid discrimination.

7. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Arab Republic.