

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

W. 13/34

12 November 1958

Limited Distribution

CONTRACTING PARTIES  
Thirteenth Session

Working Party on Balance-of-Payments Restrictions

## DRAFT REPORT ON THE CONSULTATION WITH CEYLON

### Introduction

1. The Working Party has conducted the annual consultation for 1958 under paragraph 1(g) of Article XIV with Ceylon which, as a country invoking the provisions of Annex J, is required to consult annually with the CONTRACTING PARTIES on the retention of discrimination. The consultation was initiated by the Government of Ceylon in March.

2. In opening the consultation the representative of Ceylon described the current balance-of-payments situation and economic developments in the country. His statement is reproduced as Annex 1 to this Report. In the discussion which ensued; the Working Party broadly followed the plan which had been adopted by the CONTRACTING PARTIES for consultations under Article XIV:1(g). The present Report summarizes the main points in a statement made by the representative of Ceylon and the discussions.

### Consultation with the International Monetary Fund

3. The International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with the consultation with Ceylon and had accepted that invitation. The representative of the Fund stated that in accordance with the normal arrangement, the Fund had transmitted to the CONTRACTING PARTIES the results of the Fund's latest consultation with Ceylon (see Annex 2), together with three documents containing background material prepared in connexion with that consultation and additional background information on developments since that consultation.

### Balance-of-Payments and Monetary Reserve Situation

4. The statement of the representative of Ceylon indicated that in 1957 the economy of Ceylon was faced with further adverse conditions. The value of exports continued to decline and the terms of trade further worsened. The volume of exports declined slightly and the prices of tea and rubber fell. On the other hand, the total value of imports increased considerably, partly due to a rise in import prices and partly due to an increase in volume, principally in the capital goods sector. The favourable balance of payments in 1956 had been replaced by a large deficit in 1957. In addition to the unfavourable world market conditions, the economy was affected by adverse weather conditions, labour disputes in industry, etc. The effects of some of these, however, would not be fully reflected in the balance of payments until 1958.

5. As a consequence, Ceylon had to make heavy drawings on the foreign assets which it had previously accumulated, and these assets were expected to be further reduced. In spite of these developments and the pressures caused by economic development projects, the Government of Ceylon had continued to maintain a liberal policy in the administration of its import controls. The discrimination against dollar imports, as had been explained on previous occasions, affected only four relatively unimportant items and was therefore of nominal importance.

6. A member of the Working Party recalled that at last year's consultation the Ceylon delegation had indicated that consumer goods would continue to rise relatively sharply. On the basis of information supplied by the Fund and by the representative of Ceylon, it would appear that the increase in the volume of consumer goods had been small and that the volume of textile imports actually fell. The representative of Ceylon, acknowledging that there had been a relative increase in the import of capital goods, explained that commercial banks on a directive from the Central Bank had exercised caution in giving credit facilities for the importation of non-essential consumer goods. It should also be noted that imports of food, drink, and tobacco, had increased in 1957.

7. Reference was made to the fact that the net outflow of private capital increased substantially - from Rs. 20 million in 1956 to Rs. 38 million in 1957 - and that the gross outflow in 1957 amounted to Rs. 59 million. Invited to comment on this development, the representative of Ceylon thought that there was ground to support the view that present conditions in the country had not been such as to encourage the inflow of foreign capital. The repatriation of foreign capital had increased from Rs. 19.8 million to Rs. 43.6 million in 1957, and the inflow of capital had declined from Rs. 5.4 million to Rs. 3.3 million in the same period. In addition, companies holding assets in London had run down their sterling balances by some Rs. 6.3 million in 1957.

#### Policy of Import Restriction

8. It was noted that in a policy statement issued in May 1958, the Government of Ceylon had indicated its readiness to approve foreign investment in projects under certain circumstances, e.g. "where there will be a progressive domestic manufacture eliminating ultimately all imports to the maximum practical extent" in order to encourage foreign investment the Government would provide incentives and concessions applicable to the establishment of new industries and the expansion of existing industries in approved fields. Requested to clarify the statement the representative of Ceylon explained that there was no intention to prohibit the import of any goods with a view to reserving the internal market for domestic production. The statement referred to above was based on the consideration that as long as the country was faced with balance-of-payments difficulties, it would be entitled to restrict certain imports, and that it would be natural for the Government to restrict imports of those goods which could be supplied from domestic sources and whose production could be economically developed.

9. A member of the Working Party recalled that at the close of the consultation last year the Ceylon delegation had indicated that the Government was engaged in simplifying the licensing procedure, and enquired about the

progress that might have been made. The representative of Ceylon confirmed that a new, simplified import control system had recently been submitted for approval by the Government. Some time might, however, elapse before the new system could come into force as its adoption involved governmental procedures which could hardly be hastened.

10. Members of the Working Party, referring to observations made in last year's consultation, re-emphasized the value of simplicity in an import control system and the importance of adequate publicity being given to any system in force; simplification and publicity would appear to be not only in the interest of the exporters in foreign countries but also of the local trading community.

#### Policy of "Ceylonization"

11. The representative of the United States, referring to the statement by the representative of Ceylon that discrimination affected only four products of dollar origin, drew attention to the different import procedures which were applicable to imports from different sources and which, in his view, constituted an element of discrimination worthy of note. Although in the view of the Ceylon Government these differences were only differences in formality and procedure, they nevertheless created an added impediment to exports from certain countries. It was difficult to affirm that these distinctions in formalities had no effect on the pattern and flow of trade.

12. The United States representative also expressed concern over the effects of the "Ceylonization" programme and referred to the views expressed on this point by his delegation in the 1957 consultations with Ceylon.

13. The representative of Ceylon thereupon assured the Working Party that the "Ceylonization" measures were purely a matter of formality and that, furthermore, the policy was administered, in so far as humanly possible, in a non-discriminatory manner. That the additional formalities did not affect the flow of trade might be seen from the substantial expansion of Germany's exports to Ceylon; Germany, though one of the countries whose trade with Ceylon was subject to the "Ceylonization" procedures, was nevertheless capable of increasing its share in the Ceylon market on the strength of its competitive prices.

14. In reply to a question by the United States representative, the Ceylon representative confirmed the understanding that any product, once specified in a General Import Licence, which was applicable only to some of the "Ceylonization" countries, would give the licence holder the right to import that product from those countries without the need for obtaining an individual licence for each shipment. On the other hand, an importer had to apply for a licence each time he wished to buy similar goods in the United States.

#### General Remarks

15. The United States representative said that there were few items of interest to the United States traders that his delegation wished to discuss bilaterally.

16. Members of the Working Party expressed gratification for the general absence of discrimination and for the maintenance of the substantial relaxations made two years ago. The hope was expressed that Ceylon's future policy would continue to be in the direction of reducing restrictions and particularly in reducing the remaining elements of discrimination. The representative of Ceylon stated that his delegation would convey the views expressed at this consultation to his Government, which would undoubtedly give its careful consideration to these matters.

ANNEX 1

Statement by the representative of Ceylon

In the Eighth Annual Report of the CONTRACTING PARTIES under Article XIV:1(g), which was adopted at the Twelfth Session, the following comment appears in respect of Ceylon: "In the case of Ceylon and Pakistan, which continue to resort to the provisions of Article XIV, the discriminatory element in their restrictions has been progressively reduced to a very low level in recent years. At present, Ceylon applies discriminatory restrictions only on four items when imported from the dollar area." The place of these four items in our trade with the dollar area is insignificant, and hence we are inclined to the view that Ceylon's obligation to consult on the discriminatory application of import restrictions under the provisions of Article XIV is only a formal requirement.

However, I might take this opportunity to give the Working Party a brief account of the salient features of the economic situation in Ceylon, with particular reference to our trade and payments position.

The International Monetary Fund has already provided up-to-date documentation on the economic situation in Ceylon. In 1957 the economy of the island suffered further reverses. The decline in the value of exports and the terms of trade which started in 1956, continued throughout 1957. The value of exports declined by about 4 per cent. With a fall of 3.4 per cent in the average export price, and a rise of 5.7 per cent in the average import price, the terms of trade declined by over 9 per cent. There was some contraction in the output of certain domestic products. The small payments surplus of 1956 disappeared in 1957 when there emerged a large deficit, and external assets fell by as much as Rs. 236 million. The fall in external assets would have been even more pronounced but for the payment of the sum of Rs.59.7 million by the People's Republic of China in the third quarter of 1957, as part payment of the outstanding debt which China owes us.

The volume of exports showed a decrease of 1.7 per cent in spite of a rise of 5.1 per cent in the quantity of tea exports, and 7.4 per cent in the rubber exports. The most important reason was the steep fall of about 32 per cent in the volume of exports of the three major coconut products, namely, copra, coconut oil, and desiccated coconut. The prices of tea and rubber fell so that, despite some improvement in the price of coconut products and of certain other minor products, the average price of all exports declined. Hence, in 1957, the value of total exports was Rs.1,682 million, which was Rs.53 million below the figure for 1956.

The particularly adverse weather conditions experienced in Ceylon in 1957 affected the output of a number of commodities. For the greater part of 1957 drought conditions prevailed and were followed by devastating floods in the last month of the year. In fact, the damage done by the floods to productive capacity will be seen only in the trade figures for 1958.

The total value of imports increased from Rs.1,630 million in 1956 to Rs.1,804 million in 1957 - an increase of Rs.174 million, while the value of imports of all capital goods taken together increased by over 28 per cent.

The value of imports of consumer goods as a group rose by only 6 per cent. Roughly, half of the increase in the value of imports reflected a rise of about 5.7 per cent in the average import price. The other half represented an expansion of 5.6 per cent in import volume, reflecting mainly an increase in imports of capital goods. It is significant that while the volume of imports of consumer goods rose by less than 1 per cent in comparison with 1956, the volume of imports of capital goods increased by over 22 per cent.

Since the value of imports rose in spite of a decrease in income from exports it seems clear that the increase in expenditure on imports was financed by dis-saving, which was made possible largely through Government deficit financing. In the fiscal year 1956-57 the net cash operating deficit of the Government was Rs.196.4 million. The latest estimate of the deficit in 1957-58 is Rs.220.4. The budget for 1958-59 envisages a deficit of Rs.204 million, but this might well be substantially higher if the anticipated revenue from new taxes and funds from domestic borrowing are not realized. The Budget is likely to continue to be in substantial deficit for some time longer, especially in view of the necessity to repair damage caused by the December 1957 floods.

The balance-of-payments position on current account at the end of 1957 was as follows: with the dollar area we continued to maintain our credit position on about the same level as at the end of 1956; with the Sterling Area and OEEC we had unprecedented deficits of Rs.336.5 million and Rs.77.6 million respectively; with the rest of the world we had a small surplus of Rs.34 million. This situation resulted in an overall deficit of Rs.195.3 million.

Ceylon was able to withstand the strain imposed on her economy in 1957 only by drawing on previously accumulated foreign assets which at the end of 1957 stood at a level of Rs.943 million. This figure may be considered not too low, since it represents about 60 per cent of the value of a year's imports, but it is certainly low in relation to the position of foreign assets at the end of the two preceding years. In view of the circumstances which I have explained earlier, if the effects of the adverse tendencies are to be absorbed without some reduction of imports of both capital and consumer goods, external assets will run down further.

The difficulties of the economy have been accentuated by the interruption of exports due to labour problems in the large exporting firms and in the Port of Colombo, and the disturbances that occurred all over the island in May-June of this year.

It will be seen that the general economic situation in Ceylon presents a pretty grim picture.

Despite these difficulties and the stresses and strains caused by economic development projects, members of the Working Party will appreciate that Ceylon has been endeavouring to be extremely liberal in the administration of her import policy, and the apparent discrimination against the dollar area in a very small sector consisting of four unimportant items is of no significance.

ANNEX 2

Results of the IMF consultation with  
CEYLON, concluded on 14 April 1958

1. The Government of Ceylon has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. With the decline in export earnings and the fall in the output of rice, Ceylon's national product declined in 1956 as compared with 1955. There was no perceptible improvement in 1957.
3. Ceylon has been following sound fiscal and monetary policies and the record has been one of stability. After two years of surpluses, cash operating deficits emerged in fiscal operations in 1956-57 and have continued in 1957-58. Although there was some rise in prices in 1957 internal financial stability was generally maintained.
4. In 1956, Ceylon had a much smaller balance-of-payments surplus than in 1954 and 1955. In 1957, there was a deficit and foreign exchange reserves declined. This was mainly due to higher imports and a fall in export prices of tea and rubber, together with a slight decline in the volume of exports.
5. Since the middle of 1956, Ceylon has followed a policy of relaxing restrictions and reducing discrimination and has made considerable progress in this respect. In 1957, when there was a balance-of-payments deficit, this policy was substantially adhered to. The Fund welcomes this progress and hopes that Ceylon will relax restrictions further, including those on invisibles imposed in 1957, as the payments position improves.
6. In concluding the 1957 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Ceylon.