

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## DRAFT REPORT ON THE CONSULTATION WITH THE FEDERATION OF MALAYA

### Introduction

1. The Working Party has conducted the consultation for 1958 under paragraph 1(g) of Article XIV with the Federation of Malaya. It may be recalled that, on becoming a contracting party, the Federation acquired the rights and obligations assumed by the United Kingdom in respect of its territory, and thus was deemed to have elected to be governed by the provisions of Annex J in regard to the application of discrimination. Accordingly, the Federation Government had initiated the consultation, as required by the provisions of Article XIV:1(g), in March 1958. In opening the consultation the representative of the Federation described for the Working Party the salient features of the economy of the Federation, the difficulties with which his Government was confronted and the use of discriminatory restrictions against dollar goods. 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 the statement made by the representative of the Federation and those which emerged during the discussions.

### Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this consultation with the Federation, and had accepted the invitation. In accordance with established procedures, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the Federation's position. The Fund representative noted that the Federation of Malaya, which became a member of the International Monetary Fund on 7 March 1958, had not as yet completed a consultation with the Fund under Article XIV of the Fund Agreement. A Fund mission was visiting the Federation in the near future to commence the first consultation with that country. Therefore, the Fund was not presently in a position to supply the CONTRACTING PARTIES with the results of a consultation between the Federation and the Fund. It was expected that the results of such a consultation would be available for the use of the CONTRACTING PARTIES in their next consultation with the Federation. Meanwhile, for the present consultation the Fund had prepared a paper dated 18 September 1958, giving background information on economic developments and the restrictive system

of the Federation. The Fund had had the assistance of the authorities of the Federation in preparing this paper, and the Fund representative expressed the Fund's appreciation for this assistance.

### Economic Background and the Balance-of-Payments Situation

3. The Federation representative stated that the economy of the Federation of Malaya was largely based on the production and export of tin and rubber, which together accounted for about 90 per cent of its export earnings. The recent recession in certain countries and the deterioration in the tin and rubber markets had had adverse effects on the Federation's economy. His Government was concerned with the instability and the long-run uncertainties associated with the over-specialized character of the economy and was taking steps to encourage diversification of industries including industrial development to strengthen the economic structure of the country. In particular the Federation representative mentioned the efforts made to reduce the cost of production and to improve the quality of rubber by planting high yielding and high quality trees with a view to facing the competition of synthetic rubber.

4. The Federation representative pointed out that in discussing the import controls of the Federation, and assessing their restrictive effects on trade, account must be taken of the fact that the Federation was a low tariff country and that as a newly independent country it was faced with numerous difficulties such as shortage of skilled manpower and experienced managerial personnel. Moreover, the continuing guerilla activities constituted a persistent drain on Government finances and hampered the development of industry. Further complications arose from the fact that, before becoming independent, the Federation was not a separate customs territory nor an integral economic unit, but was for most purposes treated conjointly with the Colony of Singapore. This explained the absence of separate statistical data on, for example, national income and the balance of payments for the Federation; such data were available only for the Federation of Malaya and Singapore combined. Further, import licences issued in the Federation or in Singapore were, except for rice, valid for the import of goods into both the Federation and Singapore. As a result, when goods were imported via Singapore into the Federation, it was not possible to identify them as having been licensed by Singapore or the Federation, or as to their country of origin. However, as from 1 January 1958, separate trade figures had been collected for the Federation.

5. Members of the Working Party expressed gratification for the information supplied by the representative of the Federation. They sympathized with the Federation Government for the difficulties with which it was confronted, and expressed the hope that the Federation Government would be successful in gradually solving the problems which inevitably beset newly independent countries.

### System and Methods of the Discriminatory Restrictions

6. The Working Party took note of the system of import controls and restrictions, as described in the document prepared by the secretariat in connexion with the review of restrictions, and in the background paper supplied by the Fund. In response to various enquiries the representative of the

Federation furnished additional information on various aspects of the restrictions. He stated that import controls were minimal in character and applied almost exclusively to dollar imports. These were classified in two categories: (i) goods not ordinarily licensed, and (ii) goods the import of which was considered on a case-by-case basis depending on their essentiality and in some cases their availability from non-dollar sources. (Goods in the second category were listed in the Import and Export Guide.) Prima facie the licensing system for dollar imports might appear to be highly restrictive, but it was not in fact the case for the following two reasons: first, although dollar imports subject to licence were restricted to goods which were considered essential, a broad interpretation of "essential goods" had always been the practice; and secondly, there was no restriction at all on imports of dollar goods via Hong Kong.

7. The representative of the United States, noting that this consultation on import restrictions was the first for the Federation, and hence provided the first opportunity for the representative of the Federation to hear the views of other contracting parties on its import restrictions, presented certain general views of the United States. The United States, along with other contracting parties, had consistently emphasized the importance of utilizing monetary and fiscal measures as the means of avoiding disequilibrium in the balance of payments and resort to import restrictions. Import restrictions offered no more than temporary relief for a country's balance-of-payments difficulties; if retained for long periods, they would disrupt trade relationships and aggravate the country's difficulties, for example, by tending to increase the price of exports. They often had incidental protective effects; and the longer they were retained, the more difficult they would be to remove. They might have the effect of diverting domestic resources into the production of the very goods which were considered to be of such little importance that they were restricted at the border. Discriminatory restrictions had particularly undesirable effects. They tended to increase import costs, distort economic patterns of trade, and make a country's exports less competitive. All countries, and especially those whose requirements for foreign exchange were large in relation to their resources, could not fail to recognize the value of being able to buy their imports in the cheapest market. This could only be done under conditions of non-discrimination.

8. As regards discrimination, the United States representative referred to the recurrent and sizeable surpluses in the Federation's balance of payments with the dollar area, and wondered whether this payments situation could be said to justify the maintenance of the markedly discriminatory import controls. Even countries having dollar deficits had found it possible to eliminate or reduce discrimination against dollar imports, the high degree of de facto convertibility of non-dollar currencies having narrowed the differences between currencies.

9. The representative of the Federation pointed out the limitations which the present monetary and banking system of the Federation placed on the Government's ability to make effective use of internal monetary policies. He stated that the Malayan dollar was linked with sterling at a fixed rate, and sterling balances held in London were directly related to the monetary and credit basis of the country. There existed, as yet, no mechanism to isolate the national monetary system from external influences and, as reported in the Fund paper, "what ultimately appeared as a shortage of international exchange in most countries was felt in Malaya as a decline in public and private liquidity". The fact that the status of the Malayan currency was extremely closely related to that of the sterling explained why the Federation Government considered that it was in the Federation's interest to continue to make a reasonable contribution to the central gold and dollar reserves of the sterling area. Apart from that, the import policy of the Federation Government was determined by considerations concerning the Federation's own economic situation and balance-of-payments position. It was suggested by a member of the Working Party, and agreed to by the Federation representative, that all imports into the Federation had the same effect on its total foreign exchange reserves and its internal monetary situation, whatever the currency used for payment.

10. Commenting on the restrictive system, the representative of the United States pointed out that, even though there was little difference in effect in the treatment of a wide range of dollar and non-dollar imports, the difference in procedural requirements was a factor which, albeit of a more subtle nature, could not but affect the pattern of imports. Individual discretionary licensing was highly inconvenient from the point of view of traders because of the uncertainties it entailed. Under such conditions exporters were generally reluctant to make the necessary marketing efforts and to take the investment risks required to establish commercial relations.

11. The Working Party then discussed the present arrangement permitting the free importation of dollar goods via Hong Kong while restricting direct imports. Representatives of the dollar area countries pointed out that this would seem to add to the cost of imports and that such an additional burden clearly should be avoided as far as possible by a less developed country endeavouring to make the most economic use of its foreign exchange resources. The representative of the United States added that he was not proposing that the Hong Kong trade be interfered with, but that more liberal measures be applied to direct trade.

12. The representative of the Federation replied that his Government was aware of the need to make the most economical use of foreign exchange and of the desirability of permitting importers to acquire the goods that were needed for the maintenance and improvement of the Federation's standard of living and for the development of its economy from the most competitive markets and at the most advantageous prices. The special procedure for

imports via Hong Kong was currently under review; a study which had been made on the subject had shown that the added cost of shipment via Hong Kong amounted to approximately 3 to 5 per cent. But it was debatable, in view of Federation importers' traditional relations with Hong Kong merchants, whether there would be an appreciable change in the pattern of imports if the goods at present imported via Hong Kong were permitted to be imported direct.

13. In response to an enquiry, the Federation representative stated that dollar expenditure on imports could not be controlled without requiring individual licences for all imports payable in dollars. The licensing requirement, which also applied to the import of hard currency goods via Hong Kong, involved little delay or complications for importers.

#### Reduction of Discriminatory Restrictions

14. The Working Party noted the Federation representative's statement that substantial progress had been made during the previous year to reduce discrimination against imports from the dollar area. The joint import control policy with Singapore, which provided for the drawing up, on a pan-Malayan basis, of joint annual estimates of the anticipated expenditure on direct imports of essential goods from the dollar area, had been discontinued. Since the beginning of 1958, dollar imports had been freed from quota restrictions; the former practice of setting ceilings for dollar items was abolished. In addition, whereas before November 1957 applications to import certain essential dollar goods were subject to individual examination by an ad hoc Committee and account was taken of availability of similar goods at a competitive price from non-dollar sources, at present licences for such goods were issued without regard to their availability from soft currency sources. In the view of the Federation representative this was an important measure of relaxation of the restrictions on dollar imports. Furthermore, the term "essential goods" had been broadened to cover all commodities necessary for economic development or for maintaining the country's standard of living and included, for example, canned fish and fresh fruit.

15. Representatives of countries in the dollar area expressed gratification at the measures which the Federation had taken to remove the restrictions and to reduce discrimination. They particularly welcomed the fact that as a result of these measures imports of essential goods could again be purchased purely on price and other commercial considerations, such as delivery time and quality. As these discriminatory restrictions affected almost exclusively dollar goods, they hoped that these measures would soon be followed by further measures of liberalization. The representative of the Federation said that his Government regretted the adverse effects of the restrictions on the trade of some countries, and every effort was made to avoid unnecessary damage to the commercial and economic interests of other contracting parties. Circumstances, however, commended caution and hardly permitted the adoption of more flexible licensing techniques. But the earliest opportunity would be taken to review and adjust the Federation's

import control policy. The recent dollar liberalization measures taken by the United Kingdom and the re-affirmation by Commonwealth countries at the Montreal conference of their objective to achieve a multilateral trade and payments system could be expected to have an influence on the Federation's policy.

16. The representative of the United States urged the Federation authorities to explore the possibility of instituting quotas for the direct import of those dollar goods for which licences were not at present issued on a liberal or automatic basis. This would be in addition to the existing facilities for import via Hong King. As an interim measure towards complete liberalization, the quota system for goods still subject to import restrictions would have the advantage of permitting foreign suppliers to know their import possibilities in advance. Compared with quota restrictions, discretionary case-by-case licensing caused much more serious inconveniences to foreign suppliers. He expressed the hope that the next annual consultation would show significant progress to have taken place in the removal of discrimination in the Federation's restrictions.

17. The representative of the Federation said that he would convey these views to the attention of his Government, which would no doubt give its careful consideration and endeavour to make adjustments in so far as practicable. As to the future, progress in eliminating the controls would depend not only on the Federation's position but also on wider considerations such as the progress towards convertibility of the major currencies.