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Reports of the Working Party on Balance-of-Payments Restrictions on the consultations with Ghana, the Federation of Malaya and the United Kingdom

IV. GHANA

Introduction

1. The Working Party has conducted the consultation for 1958 under paragraph 1(g) of Article XIV with Ghana. It may be recalled that, on becoming a contracting party, Ghana 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 Government of Ghana had initiated a consultation as required by the provisions of Article XIV, in March 1958. In opening the consultation the representative of Ghana made a statement reviewing the trade and payments position of Ghana in recent years and on the developments which had taken place on the import control system. (The statement is annexed 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 the statement made by the representative of Ghana and in 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 the consultations with Ghana and had accepted that invitation. The representative of the Fund stated that Ghana, which had become a member of the International Monetary Fund on 20 September 1957, had not as yet completed a consultation with the Fund under Article XIV of the Fund Agreement. A Fund mission was visiting Ghana during the current month for discussions in connexion with the first consultation with that country. In these circumstances, the Fund was not at present in a position to supply the CONTRACTING PARTIES with the results of a consultation with Ghana. It was expected that the results of such a consultation would be available for the use of the CONTRACTING PARTIES in connexion with their next consultation with Ghana. Meanwhile, for use in the present GATT consultation, the Fund had prepared a paper dated 16 October 1958, giving background information on the economy and the restrictive system of Ghana. The Fund had had the assistance of the authorities of Ghana in preparing this paper. The Fund's representative expressed the Fund's appreciation for this assistance.

Trade and Payments Position and Trends with respect to various Currency Areas

3. In opening the consultation the representative of Ghana described the general characteristics of Ghana's trade and recent developments. It was noted that since 1953 the value of both imports and exports had increased but, whereas imports had risen steadily and were currently about one third higher than in 1953, exports had fluctuated erratically, and the total value of 1957 exports only slightly exceeded the 1953 level. Ghana's foreign trade was highly dependent on a single export crop, namely cocoa. Although the total value of exports had increased between 1956 and 1957, the value of cocoa exports in 1957 was somewhat lower than in the previous year. The quantity of cocoa exported in 1957 had been greater than in any year since 1950, but export receipts from cocoa had decreased to approximately two thirds of their 1954 level. The average f.o.b. price of cocoa per ton had changed as follows since 1954:

1954	£395
1955	£318
1956	£218
1957	£195

4. Since the end of the war, the emergence of new sources of supply and Ghana's policy of progressively relaxing licensing controls had resulted in a steady decline of the United Kingdom's share in Ghana's total imports in favour of other countries, particularly Japan. Between 1953 and 1957 the share of Japan in total imports had doubled; Japan now occupied the second place among Ghana's suppliers. In 1957 there had been little change in the proportion of imports coming from the rest of the sterling area or from the non-sterling OEEC countries. As compared with the previous year, the value of imports from the dollar countries had increased substantially in 1957 and their percentage in total imports had expanded slightly. This increase had been accounted for mainly by a rise in imports of wheaten flour and certain mineral fuels from the United States.

5. In 1957, for the second year in succession, Ghana had experienced a deficit on current account. The current account balances in the past four years were:

1954	+ £40.7 million
1955	+ £ 1.8 million
1956	- £13.3 million
1957	- £14.4 million

Between 1955 and 1956, there had only been a relatively small change in the favourable balance with the non-sterling area countries, and the overall deterioration in the current account had been largely due to the unfavourable balance with the sterling area. In 1957 Ghana's current account deficit with the sterling area and her surplus with the non-sterling area countries had both been reduced. With respect to the sterling area, higher receipts had been obtained from the exports of cocoa and gold, while payments for imports had been reduced; despite an increase in the net invisible payments, Ghana's current deficit with the sterling area had diminished in 1957. There had also been a substantial deterioration in the payments with dollar countries;

in 1957 the surplus on current account with the dollar area was only approximately half the 1956 level. In the case of the non-sterling OEEC countries the decrease in Ghana's favourable current balance had been small. In 1957, as in 1956, the deficit on Ghana's current balance of payments had been met by drawing on overseas assets rather than by increased overseas investments in Ghana.

6. The Working Party expressed appreciation for the information supplied by the representative of Ghana, which had brought out the causes and the extent of the recent deterioration in Ghana's balance of payments. As this deterioration was partly due to the decline in export prices for cocoa, the Working Party discussed at some length the prospects for the cocoa market. A member pointed out that, according to the background paper supplied by the Fund, prices for cocoa on the world market had risen during the first seven months of 1958, and that consequently, as the increase in price had more than offset a fall in Ghana's cocoa crop, a significant improvement could be expected in the balance of payments. The representative of Ghana was not certain whether the higher prices would be maintained. Indeed the present prices for cocoa were largely determined by the estimates for the 1958-59 crop, and could well decline when the bulk of the crop was delivered to the Cocoa Marketing Board between mid-October and mid-February.

7. The representative of the United States observed that Ghana had a considerable surplus on current account in its transactions with the dollar area, and that, if the exports of gold were taken into account, Ghana's current net receipts in convertible means of payment would be even more sizeable. The representative of Ceylon, referring to the fact that the surplus on current account with the dollar area had gradually declined from £13.9 million in 1954 to £5.3 million in 1957, expressed the view that, for a country which was in the early stages of economic development, such a surplus was not, in fact, considerable. Compared with the requirements arising out of the present development projects of Ghana these surpluses could hardly be regarded as significant.

8. In response to an enquiry concerning the inflow of foreign capital into Ghana and the policy of the Government in this respect, the representative of Ghana stated that statistics on capital movements were not yet available, but that a new method for estimating the capital account part of the balance of payments was being worked out. No restrictions were maintained on the entry of capital nor on the transfer of investment income. In Ministerial speeches, emphasis had repeatedly been placed on the importance of attracting foreign capital and of following policies favourable to foreign investors. The policy provided inter alia facilities to foreign investors to import equipment free of duty and tax exemptions during the initial stages of operation of new factories. The effects of these policies might be seen from the numerous new subsidiary firms and factories set up by corporations of foreign countries, notably the United States.

System and Methods of Discriminatory Restrictions

9. On the basis of the document prepared by the secretariat in connexion with the review of restrictions, the Working Party discussed the system and methods of restrictions in force in Ghana. It noted that Ghana had since 1954 maintained almost 100 per cent liberalization of trade with OEEC countries. Imports from other countries outside the dollar area and Japan were largely free from restriction. In a few cases where specific import licences were required, these were granted freely. The representative of Ghana explained that with respect to dollar imports, quantitative restrictions were imposed to safeguard the balance-of-payments position of Ghana, account being taken also of Ghana's position as a member of the sterling area.
10. Representatives of countries in the dollar area observed that a considerable range of goods which could be freely imported from most other countries, were subject to licensing requirement when imported from the dollar area; these discriminatory restrictions must have had distorting effects on Ghana's trade and economy. They reiterated the views on the effects of import restrictions which they had expressed at the consultations with the Federation of Malaya.¹ The representative of Ghana pointed out that Ghana's imports from the dollar area, particularly from the United States and Canada, had increased in recent years owing to the progressive relaxation of licensing controls. The application of restrictions on imports from the dollar area, in fact, was limited to non-essential items.
11. The representative of the United States wished to know the criteria used by the Ghana authorities in licensing essential imports from the dollar area, and asked to what extent considerations of price, quality, delivery time, servicing facilities and other similar factors were taken into account in the issue of licences for dollar goods. The representative of Ghana replied that as indicated in governmental public notices, dollar imports were admitted when "reasonable substitutes" were not available from alternative sources; in practice this meant that essential imports were permitted from the dollar area unless similar goods at comparable prices were available from non-dollar sources.
12. In response to an enquiry by the Japanese delegate concerning the more favourable treatment of imports from certain non-GATT countries than those from certain contracting parties, the representative of Ghana stated that the short time since Ghana became a contracting party had not permitted it to make all the adjustments required. Although all Japanese goods imported into Ghana were subject to licensing, licences were very liberally granted. He doubted whether Japanese imports would increase substantially if the licensing requirement were abolished. Indeed, by the end of July only 54 per cent of the licences issued to importers for the period October 1957 to September 1958 had been utilized. The licensing requirement had not yet been abolished because of the uncertainties in the balance of payments and the adverse balance of trade with Japan.

¹See, for example, paragraph 7 of the report on the consultation with the Federation of Malaya.

13. The representative of Denmark observed that according to the document prepared by the secretariat, Open General Licence No. 13 permitted refined sugar to be imported freely only from a few OEEC countries, some of which were net importers of sugar. He enquired about the reasons for maintaining this distinction and suggested that the licensing authorities examine the possibility of extending the facilities of Open General Licence No. 13 to all the OEEC countries. The representative of Ghana explained that the difference in treatment was based on considerations of traditional and established sources of supply but that the Danish request would be taken into account in the envisaged review of the licensing system in Ghana.

Reduction of Discriminatory Restrictions

14. The representative of Ghana outlined the measures which had been taken in recent years to reduce discrimination against imports from the dollar area. Until 1955, with the exception of wheaten flour which had been placed on Open General Licence in 1954, all imports from the dollar area had been subject to individual licensing, and each licence was valid only for a specified product or products. Beginning in 1956, limited dollar quotas were granted to established importers to cover the importation of less essential but desirable imports. Under the present system licences issued for this purpose were valid for the import of any goods except a few specified items.

15. In response to questions the representative of Ghana further stated that the dollar programme was drawn up annually to make provision for the importation of essential goods from the dollar area. The overall size of the dollar import allocation was determined by the actual or estimated requirements of essential capital and consumer goods. Provision was also made for a substantial amount of less essential goods considered suitable for the Ghana market by reason of competitive price and consumer acceptability. During the past five years the overall quota for imports of dollar goods had gradually been increased to meet the growing demand for dollar goods in the developing economy of Ghana. In the past three years funds had been provided for imports of less essential consumer goods. From January to October 1958 a total of \$1½ million had been licensed for imports of such goods. Increased quotas had also been provided for tractors, earth moving equipment, motor vehicles and other machinery for use in development work in communications and agriculture, and for other goods such as air conditioning units and second-hand clothing, both of which now found a ready market in Ghana.

16. Action was being taken to place imports of machinery from dollar sources on Open General Licence. The licensing authorities were considering further relaxation of the restrictions on dollar imports along the lines of the recent dollar liberalization measures taken by the United Kingdom in September. The Ghana Government hoped that as soon as circumstances permitted, it might be able further to liberalize imports from the dollar area and Japan.

17. Members of the Working Party noted with gratification that progress in the removal of the restrictions had been made in the face of a deteriorating balance-of-payments situation and at a time when Ghana was confronted with various problems following the achievement of political independence. They appreciated that the recent fall in Ghana's overseas reserves and the situation of the cocoa market commended caution but hoped that future developments would enable Ghana to continue its progress towards the complete elimination of the restrictions.

18. Representatives of countries in the dollar area welcomed the statement by the representative of Ghana that the authorities would endeavour to make further progress in the relaxation of restrictions. Noting Ghana's favourable balance of payments with the dollar area and its gold production, they urged that the discriminatory licensing requirements be relaxed as rapidly as possible, for example, by extending the application of Open General Licences to dollar imports. In the light of the encouraging remarks made at the Ministerial discussion by the representative of Ghana, they looked forward to further progress during the following year in reducing discrimination against dollar area goods.

General

19. In concluding the consultation, members of the Working Party thanked the delegation of Ghana for their co-operation and understanding. The information which had been supplied during the consultation would provide an excellent basis for further discussions of the balance-of-payments problems and the restrictions of Ghana. The representative of Ghana stated that his delegation had taken note of the views expressed by members of the Working Party. These would be reported to his Government for consideration.

ANNEX: Statement by the Representative of Ghana

1. As this is the first time that Ghana consulted with the CONTRACTING PARTIES with respect to import restrictions, Ghana having acceded to the GATT only last year, it is desired to state that we may not restrict ourselves only to the provisions of Article XIV:1(g) about the discriminatory elements in import restrictions, but also discuss in general our balance-of-payments position.

2. Expenditure on general development in Ghana during the past seven years has provided a reasonable framework of public services. Further improvement of public services will follow under the Second Development Plan due to start in July 1959. The major emphasis in the new Plan will be on new industries and new crops and expansion of existing undertakings and on encouraging private and public capital formation.

3. Since 1953 the value of both imports and exports has increased. Imports have risen steadily and now amount to some 30 per cent more than in 1953. Exports have been more erratic in value depending largely on the international price for cocoa which reached record levels in 1954. The total value of 1957 exports was only some 2 per cent above the 1953 figure.

4. Imports and exports can be divided up into the three basic groups:

- (i) livestock, foodstuffs of all kinds and drinks;
- (ii) non-foodstuffs of all kinds and fuel industries, raw materials and semi-finished products; and
- (iii) finished products.

In the case of imports it can be seen that in the past few years the percentage of finished products has remained fairly static. In exports there have been percentage decreases in livestock, and in foodstuffs which in Ghana consist virtually of cocoa only. It is worth stressing at this stage that the most distinctive feature of Ghana's foreign trade is the dependence on a single export crop i.e. cocoa. Although the total value of exports of domestic produce increased by £5 million between 1956 and 1957, the value of cocoa exports in 1957 was £190,000 lower than in the previous year. The quantity of cocoa exported in 1957 at 260,224 tons was greater than in any year since 1950; total receipts from cocoa, however, amounted to only £50,873,000 in 1957 compared with £84,599,000 in 1954. The overall f.o.b. unit value decreased to £195 per ton in 1957 compared with £395 in 1954. There was a sharp rise in the total value of imports in 1957 compared with 1956 which accounted for a marked increase in the volume of goods imported. The volume increases were particularly marked in the case of food and textiles. The fall in the volume of imports of beverages and tobacco was accounted for by the local manufacture of cigarettes and to a lesser extent by an increase in the local production of beer.

5. Since the end of the war, the emergence of alternate sources of supply and Ghana's policy of progressively relaxing licensing controls have resulted in a steady decrease of the United Kingdom share of Ghana's imports and the progressive strengthening of the position of "other countries" particularly Japan. In 1953 Japan was the fourth major supplier to Ghana accounting for about 5.4 per cent of Ghana's imports. In 1957 the value of imports from Japan amounted to £10.30 million or 10.7 per cent of total imports making Japan the second major supplier. 90 per cent of imports from Japan in 1957 consisted of manufactured goods, mainly printed and piece-dyed cotton and synthetic fibres. Imports from Japan amounted to 27 per cent of the total value of imports in this category in 1957. In that year there was little change in the proportion of imports coming from the rest of the Sterling Area or from the non-Sterling OEEC countries. The value of imports from the dollar countries, which amounted to £5 million in 1956, increased to £7.6 million in 1957 and the percentage of total imports rose from 5.6 in 1956 to 7.7 in 1957. This increase was accounted for by a rise of £1.3 million in imports from the United States of America due mainly to larger imports of wheat flour and of certain mineral fuels and a rise of £1.2 million in the value of imports from other American Account countries.

6. With this background, the specific issue of import restrictions on account of balance-of-payments reasons can be considered. In 1957, for the second year in succession, Ghana was in deficit in its current balance of payments. In 1956 there was a marked deterioration in Ghana's balance-of-payments position on current account with a deficit of £13.3 million in comparison with a surplus of £1.8 million in the previous year. In 1957 the deficit on current account increased by £1.1 million to £14.4 million. Between 1955 and 1956, there was only a relatively small change in Ghana's favourable balance with the non-Sterling Area countries; and the total deterioration of £15.1 million was largely accounted for by Ghana's unfavourable balance with the Sterling Area which increased by £17.2 million from £4.9 million in 1955 to £22.1 million in 1956. In 1957 Ghana's current deficit with the Sterling Area and her surpluses with all non-Sterling Area countries were both reduced. With respect to the Sterling Area higher receipts were obtained from the exports of cocoa and gold while payments from imports were reduced; despite, therefore, an increase in the net invisible payments Ghana's current deficit with the Sterling Area was reduced by £6.5 million from £22.1 million in 1956 to £15.6 million in 1957. There was also a large swing in the pattern of payments with dollar countries, with which Ghana had a favourable balance of £12.2 million in 1956. In 1957 cocoa earnings were substantially reduced while the cost of imports increased; and the favourable balance of current account was reduced by £5.3 million. In the case of the non-Sterling OEEC countries, cocoa earnings were likewise reduced and import costs were increased, but a rise in receipts from exports other than cocoa and gold limited the decrease in Ghana's favourable current balance to £1.6 million. The small improvement of £0.9 million in Ghana's unfavourable balance with other countries between 1956 and 1957 was mainly accounted for by a rise in the value of cocoa exports. In 1957 as in 1956 the deficit on Ghana's current balance of payments was met by a running down of Ghana's overseas assets rather than by increased overseas investment in Ghana.

7. Although all Japanese goods imported into Ghana are subject to licences, these are very liberally granted and it is doubtful whether Japanese imports into Ghana would increase substantially if the licensing procedure were abolished. It is therefore true to say that there is little discrimination against Japanese goods even though the balance of trade between the two countries is completely in Japan's favour and gives cause for concern. Ghana has not at present decided to abandon the existing controls in view of her fluctuating overall balance-of-payments position, her adverse balance of trade with Japan, and the urgent need to establish local industries.

8. The committee will note that even though our present reserves position is not as sound as it was in past years we still maintain the almost 100 per cent liberalization of trade with OEEC countries which we achieved in 1954. Imports from other countries outside the dollar area and Japan are largely free from restriction. In a few cases where specific import licences are required these are granted freely. With respect to dollar imports, quantitative restrictions for balance-of-payments reasons have been imposed on account of the need to conserve the dollar reserves of the Sterling Area of which Ghana is a member. Up to 1955 licences for dollar imports were valid only for specified classes of goods, with the exception of wheat flour which was placed on open general licence. Beginning in 1956, limited dollar quotas were granted to established importers to cover the importation of less essential but desirable imports. Further relaxations in control of imports from dollar areas are now under consideration following the announcement by the United Kingdom during the recent Commonwealth Trade and Economic Conference at Montreal.

As the Ghana buyer is not dissimilar from any other purchaser of consumer goods throughout the world in that he requires the best value for his money, we hope that as soon as our economic position permits we may be able to liberalize further trade with the dollar area and Japan.

V. 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 12 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.

VI. THE UNITED KINGDOM

1. The CONTRACTING PARTIES, at their meeting on 20 October 1958, agreed to the recommendation of the Intersessional Committee that the 1958 consultation under Article XIV:1(g) with the United Kingdom should be commenced at this Session but substantive discussions should be postponed until next spring to be combined with the Article XII:4(b) consultation to be held at that time. The Working Party agreed that at this stage it would be sufficient for the United Kingdom delegation to supply a statement to inform the CONTRACTING PARTIES of the present situation and recent developments. Any questions arising out of that statement could be taken up when substantive discussions started in 1959.
2. Accordingly, the annexed statement has been submitted by the United Kingdom delegation.

ANNEX: Statement by the United Kingdom Delegation (Original: English)

1. Measures taken by the United Kingdom in September 1957 have worked a transformation in the United Kingdom's external and internal position, without the high unemployment and major loss of production which some feared and with a continued high level of investment both at home and overseas. In this the United Kingdom has been greatly helped by the terms of trade but they alone would not have brought about the improvement. In the first half of 1958 the United Kingdom's surplus on current account amounted to £334 million which was more in six months than in any twelve months since the war. Over the year 1957-58 the surplus was £488 million comprised of a surplus with the rest of the sterling area of £527 million and a deficit of £39 million with non-sterling area countries.
2. For thirteen months in succession the United Kingdom's gold and dollar reserves have risen, even through the normal autumn pressure. Although a third of the rise of £473 million has been due to special borrowings, it has nevertheless been substantial. Sterling liabilities have fallen. Confidence in sterling is high.

3. These are the result of sound internal policies. Together with the fall in demand in export markets they have led to a moderate fall in the utilization of capacity, and, in particular, to a small rise in unemployment. On the other hand, they, together with the fall in import prices, have yielded a very close approach to price stability over the last twelve months. At the same time, the rate at which new capacity has been created, by capital investment, has remained at a very high level.

4. Because of these developments the United Kingdom has been able to make further progress with the reduction of discrimination and the liberalization of imports. By 1957 62 per cent of all dollar imports were free of restriction. Early in 1958 the United Kingdom substantially increased quotas for canned salmon, abolished discrimination against the dollar area in the licensing arrangements for apples, and gave extended commercial quotas for other dollar fruit. In July they made a further major step forward by abolishing discrimination against the dollar area in imports of industrial chemicals and allied products. Finally, during the Commonwealth Trade and Economic Conference at Montreal the President of the Board of Trade announced the Government's decision:

- (a) to make almost a clean sweep of the controls on dollar imports of industrial, agricultural and office machinery, leaving only a limited range of machinery subject to control;
- (b) entirely to free canned salmon from import control with the exception of salmon from the Soviet bloc;
- (c) to free newsprint from control.

Colonial Governments have also been invited to make relaxations of their restrictions on a wide range of dollar goods.

5. By these measures almost all raw materials, basic foodstuffs and "tools of trade" will be freed from restriction.

6. The President went on to announce that the next move would be to make a start in freeing imports of consumer goods and the remaining foodstuffs. All being well the intention is, making a start in 1959, first to remove the controls on as wide a range of consumer goods and foodstuffs as possible; second, to establish, or increase, quotas for items where the cost of total liberalization might be greater than could be afforded at that time (the next stage would be progressively to increase these quotas until the items were completely free); third, the remaining limited number of items, presenting special difficulties, would each be considered over a period of time on their merits.

7. When considering these matters it should be remembered that the extremely favourable conditions of the last year, of which United Kingdom policies enabled them to take full advantage, cannot be counted upon to recur. The figures quoted above owe much to the fall in import prices and the stability in the volume of United Kingdom imports. The surplus in the balance of payments cannot be expected to continue at the high level recently achieved. Indeed United Kingdom exports are already falling. Moreover, it is too early yet to claim that any lasting solution for the problem of maintaining price stability has been found. The United Kingdom is greatly dependent upon the position of world trade and industrial activity. This year for the first time since the war the free world has faced an actual decline in world trade. This is a serious matter because so much depends on steady economic growth based on dependable currencies. Continued caution is thus essential. It is the United Kingdom's firm determination to move forward at a rate which can be sustained. There must be no question of risking a setback.

8. Over the years since 1952 the United Kingdom has progressed steadily towards the elimination of discrimination. Even during the balance-of-payments difficulties of 1957 there was no intensification of import restrictions. The contracting parties can rest assured that this progress will be continued as rapidly as conditions permit.