

GENERAL AGREEMENT ON TARIFFS AND TRADE

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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 a balance-of-payments consultation with the United Arab Republic. The Committee had before it a basic document for the consultation (BOP/49), the Executive Board Decision taken at the conclusion of the International Monetary Fund's consultation with the United Arab Republic on 21 April 1965 (Annex I) and a background paper provided by the International Monetary Fund dated 10 March 1965.
2. In conducting the consultation, the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 28 October 1965. 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 the 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 decision and background material from the last consultation with the United Arab Republic under Article XIV of the Fund Agreement.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, the general level of restrictions of the United Arab Republic which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, and with respect to Part III, relating to system and methods of the restrictions, the Fund invites attention to the Executive Board decision of April 21, 1965 taken at the conclusion of its last Article XIV consultation with the United Arab Republic. The Fund has no further comments on these matters at this time."

Opening statement by the representative of the United Arab Republic

4. In his opening statement, the full text of which is reproduced in Annex II, the representative of the United Arab Republic reviewed his country's development plan and progress made since the last consultation in implementation of the plan. In the five-year period from 1959/60 to 1964/65 national income has expanded by 37 per cent and industrial income has increased much faster than income from agriculture so that industry now accounts for 24.5 per cent of total income rather than 20 per cent as at the beginning of the five years. Reference was also made to the stabilization programme undertaken in 1962 and supplemented by further measures instituted in 1964; this involves reduction of credit expansion, curbing of domestic consumption, increased savings, expansion of exports and reduced reliance on short-term borrowing to finance long-term development projects. In implementing this plan, the Government has scaled down expenditures and is trying to concentrate on completion of projects already under way, with priority to those having significant export potential. Total planned public expenditure in 1965/66 is put at £E1,205 million compared with £E1,184 in the preceding year, but the share of development outlay in this total is reduced from £E442 million in 1964/65 to £E345.4 million.

5. Imports have climbed rapidly in recent years so that not much progress has yet been made in closing the gap between foreign exchange earnings from goods and services and outlay for imports, despite much better crop yields and prices in 1963 and 1964, higher earnings from Suez Canal dues and increased returns from tourism. Capital inflows covered most of the difference but there was a loss of reserves in all three years. For the immediate future the prospects of progress are distinctly better, however, for two reasons. First, progress and eventual completion of the High Dam will enable increasing areas to be double-cropped and will bring new land under cultivation enabling the United Arab Republic to export significantly greater quantities of cotton, rice and other crops. Secondly, the investments under the two five-year plans should lead to a still greater expansion of output of industrial goods, some of which will be available in substitution for goods now imported and others of which will be exported.

6. In conclusion the representative of the United Arab Republic noted that his country hopes, as a result of its participation in the Trade Negotiations Committee, to complete its final accession to the GATT. He hoped that the consultation would serve to make it clear that the United Arab Republic's import and trade policies are designed to control imports only to the extent necessitated by the shortage of foreign exchange resources within the framework of the overall development plan, and that this regulation is being carried out on a non-discriminatory basis. He called particular attention to the fact that in the period since the last consultation import licensing has been abrogated and that more flexibility has been introduced into the system by releasing foreign exchange to the various authorities concerned for the use of their respective sectors, with due consideration to competitive world prices and other relevant factors.

Balance-of-payments position and prospects

7. Members of the Committee thanked the International Monetary Fund and the United Arab Republic for the material supplied and expressed sympathy for the balance-of-payments difficulties experienced by the United Arab Republic as an exporter of primary products. They recognized that, although there seemed to be an improved balance-of-payments situation in prospect for 1965, the United Arab Republic does have very low foreign exchange reserves and high short-term liabilities which explain the need for restrictions, as is brought out in the Fund material. They welcomed the progress which has been made in implementing the stabilization programme, notably in a reduced rate of expansion of credit, better budget planning, reduced reliance on short and medium-term credit, and urged the United Arab Republic to continue implementing policies necessary to improve the balance-of-payments position, relieve excessive pressures on domestic resources, establish a basis for the resumption of the upward trend of investment outlays, and provide a basis for eventual import liberalization. Notice given to all but one of the bilateral agreement partners which are members of the International Monetary Fund of the United Arab Republic's desire to terminate the bilateral payments features of its agreements was welcomed. The question was also raised whether sufficient emphasis was being placed on efforts to increase exports given the importance to the United Arab Republic of greater export earnings.

8. In reply the representative of the United Arab Republic stated that export promotion has recently been the subject of a special conference, known as a Production Conference, which had established targets for the United Arab Republic that were to serve as recommendations to be implemented by Governmental measures. First among the objectives cited was the need to restrict domestic consumption in order to make a greater proportion of total product available for export. Next, the Conference recommended special efforts to ensure that all existing capacity for production is fully utilized. Other recommendations of the Conference looked to increased productivity, a concerted effort to standardize specifications for export goods and improved quality. New commodities and processes are to be sought in order to produce goods which will sell well in export markets. The development plan is also to be examined with a view to giving higher priority to export industries, especially such as can produce with a low foreign-exchange component and employ a large labour force.

Alternative measures to restore equilibrium

9. In view of the importance attached to the problem of checking internal demand, interest was expressed in learning more of the specific measures by which the United Arab Republic hopes to check consumer spending. In reply, the representative of the United Arab Republic listed various types of measures. With respect to imports, the objective has been to curtail consumer goods imports severely with the exception of various essential supplies, though a minimum of replacement parts has proved to be urgently needed, and to try to import mainly raw materials and

capital equipment. Steps taken to discourage consumer goods purchases include the setting of higher prices for some products and a ban on some hire-purchase arrangements. Measures have also been taken to reduce the rate of expansion of the money supply, notably through a reduction in Governmental expenditures. Finally, steps are being taken to encourage saving. Under this last heading, which members of the Committee considered to be especially important, the representative of the United Arab Republic noted that high interest earnings are being offered on savings accounts and that a new form of Government obligation known as the "savings certificate" has been well received. The Committee welcomed these indications of efforts to cope with tendencies toward inflation while expressing some surprise that efforts to increase Government revenues did not figure more prominently in the stabilization programme. They also questioned whether an effort to curb spending through higher prices was consistent with an effort to increase exports, since higher prices, if applied to export goods, might restrict export possibilities; furthermore, domestic price increases might lead to demands for wage increases and so lead to higher costs in the export industries. The hope was expressed that measures taken in the stabilization programme of May 1964, particularly in the area of public sector borrowing, will be effectively implemented and, where appropriate, intensified.

10. The representative of the United Arab Republic recognized that measures addressed to one problem sometimes do interfere with the attainment of other objectives, but he felt that good progress has nevertheless been made in stabilization. In the year ended 30 June 1965 the money supply had increased by only 11 per cent as compared with a 20 per cent increase in the preceding year. The rate of expansion of domestic credit was also lower in 1964/65 than was previously the case. Net claims of the banking system on the Government had increased by only £E29 million in 1964/65 compared with an increase of £E157 million in the preceding year. Credit to the private sector did not expand, though domestic claims on the specialized banks have increased somewhat. Higher national income and wages have to some extent been the cause of increased domestic consumption, but price increases are partly the result of the rising cost of credit. The representative of the United Arab Republic stressed that such increases may be offset by increased productivity in industries producing for export. Moreover, even to the extent that export prices do increase, this may not hamper sales abroad, depending on the relationship between domestic and foreign prices. He stressed that higher interest rates to public sector institutions are having a restraining effect on unnecessary expenditure by them.

System and methods of the restrictions

11. In connexion with the matter of commercial credit, a question was asked as to whether availability of credit has any effect upon choice of country of supply for imports, or, in other words, whether trade is sometimes diverted from one source to another because of easier financial arrangements possible for purchases from one country rather than another. The representative of the United Arab Republic stated that imports are financed from earnings of exports of goods and

from invisible earnings as well as from capital receipts (both long and medium-term) and from commercial credits. It would be impossible to segregate the various financial considerations which affect choice of country of supply. He did add, however, that the United Arab Republic is making an effort to restrict reliance on short-term banking credit as a means of financing imports, in accordance with a recommendation which had been made to the United Arab Republic. One might therefore expect that credit considerations would play a rather smaller rôle in the choice of sources of supply in the future.

12. Members of the Committee also expressed concern that the United Arab Republic's bilateral agreements may affect choice of countries of supply with the result that purchases may sometimes be made not in the country which can offer the best value and terms of delivery but in the country in which credits are available under bilateral agreements. The representative of the United Arab Republic affirmed that prices are a major factor in choosing among the various sources of supply and that no distinction is made between countries in the matter of specifications and availability of goods; that is, the same requirements are set regardless of the country from which imports are to be purchased. Members of the Committee expressed concern, however, that in the difficult foreign exchange situation in which the United Arab Republic finds itself, ready availability of credit under a bilateral agreement might well override other considerations.

13. In response to a question concerning the working of the "prohibited list", which comprises about half of all imports, the representative of the United Arab Republic stated that this list dates back to 1960, when import trade was still in private hands, and that its significance is now very limited, since importation is in the hands of State-trading organizations which generally have much more discretion in the choice of needed imports, whether or not the goods are included on the prohibited list. In general it may be said that if goods are required for the local economy, they are imported to the extent needed. He also stated that restrictions are not applicable to the tariff items as a totality but mostly to certain articles which come under these items. This list might also be considered restrictive and not prohibitive.

14. It was noted by the Committee that there are various administrative anomalies in the United Arab Republic system of restrictions which it might perhaps be possible to correct without any additional burden on the United Arab Republic balance of payments. For one thing, exporters selling goods to the United Arab Republic have brought it to the attention of their governments that even when importation has been completed the guarantee deposit posted in connexion with the delivery of goods ordered by the United Arab Republic authorities is released only after a considerable delay, sometimes only after prolongation has become necessary. A similar difficulty, which inevitably works to increase the cost to the United Arab Republic of obtaining imported goods and services, is the fact that much more delay is involved in obtaining permission to transfer licence fees due to industrial enterprises on contracts in the United Arab Republic than is

involved in transferring payment for delivery of merchandise. The representative of the United Arab Republic was unable to understand how such delays and difficulties could arise, if not from the country's overall shortage of foreign exchange or from administrative formalities. He emphasized that no discrimination among countries is intended and added that he would call this matter to the attention of his authorities. The observation was made by the Committee that delays and difficulties, however caused, do increase the cost of doing business with the United Arab Republic, and so amount in practice to an additional barrier to trade.

15. One further difficulty encountered in trade with the United Arab Republic was brought to the attention of the Committee concerned equipment and apparatus imported into the United Arab Republic for assembly or use and re-export. Such goods are normally subject to duty when entered temporarily for re-export, but often the refund of duty upon exportation is so slow that the foreign supplier is obliged to charge the Egyptian enterprise with additional costs beyond what would otherwise have been necessary, with an obvious increase in costs to the Egyptian enterprise. The representative of the United Arab Republic said that free zones have been provided for processing of goods intended for re-export, and he was confident that there was no intent to cause unnecessary difficulties to firms entering merchandise into the United Arab Republic temporarily for re-export. If goods are imported for use and re-export, the customs regulations provide for their provisional duty-free entry upon payment of a deposit or upon lodging a letter of guarantee equivalent to the customs duties refundable upon re-exportation.

General

16. In relation to the United Arab Republic opening statement, it was noted that the representative of the United Arab Republic regarded this consultation as being carried out under Article XVIII of the General Agreement; the Committee noted this view, but wished to record its understanding that no formal decision had, in fact, been taken on the matter, even though it was accepted that the United Arab Republic would in practice consult every second year.

17. With respect to the substance of the consultation, members of the Committee reiterated their thanks to the delegation of the United Arab Republic and their sympathy for the difficulties confronting that country. They expressed the hope that the United Arab Republic would fully consider the possibility that an increased degree of competition from imports might help bring greater efficiency in developing local industries, and in this connexion they felt that imports could make a much greater contribution if more progress were made toward terminating bilateral agreements so that imports could be purchased strictly on the basis of commercial considerations.

ANNEX I

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with the United Arab Republic on 21 April 1965

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 gross national product of the United Arab Republic has continued to grow at a fairly high rate; both agricultural and industrial production contributed to this growth. Exports also showed a significant improvement; in part, this was due to higher prices of long-staple cotton. Nevertheless, the economy has continued to suffer from substantial imbalance with demand continuing to outpace available supply, resulting in pressures on prices, further tightening of restrictions on imports, and a worsening of the foreign exchange position.
3. In an attempt to rectify the situation, the United Arab Republic has been implementing stabilization policies since April 1964 and has made progress in cutting back the rate of credit expansion. Reliance of the Government on the banking system has been considerably reduced mainly by restraining investment expenditures. Some adjustments in prices have been made. Measures so far taken, however, have not proved sufficient and the rate of credit expansion remains excessive. The Fund believes that consideration should be given to adopting additional measures as soon as possible in order to assure that the excessive pressures on domestic resources will be abated, a basis will be established for resumption of the upward trend of investment outlays, and the balance of payments position will improve.
4. Administrative arrangements concerning the allocation of foreign exchange have been modified to increase their effectiveness, while restrictions have become more stringent. The growing distortions resulting from a heavy reliance on restrictions emphasize the need for action on financial and related policies. The United Arab Republic has informed all but one of its partners to bilateral agreements, who are Fund members, of its wish to eliminate bilateral payments features of such agreements. The Fund expects the United Arab Republic to proceed promptly with negotiations to carry out this statement of intention.
5. In concluding the 1964 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Arab Republic.

ANNEX II

Statement by the Representative of the United Arab Republic

At the outset of this consultation - the second since our accession to the General Agreement in November 1962 - I would like to convey our thanks for the documentation provided on this occasion by both the International Monetary Fund and the GATT secretariat.

In order to pave the way for a proper appraisal of recent economic developments in my country since the previous consultation, allow me to refer to a few points raised in my statement before this Committee in December 1963.

In that statement I referred to the far-reaching programme on which our Government embarked, since the advent of the revolution, to tackle economic backwardness which manifested itself in a rapidly growing population depending on a small cultivable area, while industrial activity was limited. I then laid emphasis on the Development Plan which had been introduced in July 1960 with a view to doubling the national income in ten years. The High Dam project - intended to bring about an increase of 2 million acres equal to about one third of the area now cultivated - together with the large-scale industrialization of the country were the two corner-stones of the Plan, the first stage of which aimed at raising the national income by 40 per cent. Such tasks necessitated investments totalling £1,697 million of which the foreign exchange requirement was put at £646 million. Among the main objectives of the Plan were the realization of the balanced growth of the economy by raising the relative share of income generated in industry from 21 per cent to 30 per cent; the increase of 35 per cent in export proceeds and the diversification of exports in order to reduce dependence on raw cotton exports; and the achievement of a substantial increase in employment.

I also referred to the efforts exerted to stabilize the economy and to avoid inflationary methods for the financing of investment, which were supported by a stabilization programme agreed upon with the International Monetary Fund in May 1962.

In the field of international payments I mentioned that the United Arab Republic had suffered from a persistent deficit in its balance of payments in recent years. I also reiterated that the large current and the overall deficits which had been recorded in 1962 were likely to continue in 1963, and that the strains on the balance of payments were expected to be felt in future.

Coming back to our consultation today I wish first to refer to the basic document for the consultation (BOP/49 dated 9 April 1965). Whilst the legal and administrative basis of restrictions as well as the methods used in restricting imports remain practically the same since the previous consultation, some

changes have been introduced in the import system in order to impart more flexibility in that system, entailing the abrogation of import licensing since October 1964. I need stress in this connexion that approvals for the release of foreign exchange by the respective authorities is effected in a non-discriminatory manner within the framework of the foreign exchange budget. In the meantime due consideration is given to the established practices regarding commodity priorities, competitive world prices and other relevant factors.

I now turn to recent economic developments in the United Arab Republic, starting with the results achieved during the first five years of the implementation of the overall Development Plan.

It is gratifying to state that most targets of the Plan have been realized in both the agricultural and industrial sectors as well as in the field of employment. Agricultural production has thus recorded a noticeable increase, thanks to the improvement in the average yield per acre as well as the expansion in the cultivable area as a result of extensive land reclamation.

In the field of industry remarkable progress has been achieved, as reflected in the expansion in production, coupled with its diversification as a result of the creation of a vast number of new industries, as well as the substantial expansion of oil production and refining. As a result of this progress consumption requirements of a fairly large number of products have been met by local production, whilst some manufactured goods have found access to markets abroad.

In the field of employment the number of gainfully employed persons has reached 7.3 million persons by June 1965, compared with about 6 million persons some five years ago.

Last but not least the first stage of the High Dam project has been successfully accomplished thus making possible the double cropping in the greater part of basin lands in Upper Egypt - as a result of their conversion into perennial irrigation - as well as the expansion of the area grown with rice which has acquired increasing importance as the second major export crop.

Compared with £1,285 million in 1959/60 national income recorded an increase - at constant prices - of £458 million or nearly 37 per cent to reach £1,743 million in 1964/65, as against the Plan target of £1,795 million. As an indication of the changing structure of the economy it may suffice to mention that income generated in industry has reached £423 million in 1964/65 with an increase of £167 million or 65 per cent over 1959/60, while its share in the gross national product has advanced from 20 per cent to 24.3 per cent. In the meantime the increase in agricultural income was less than 20 per cent, while its share in the gross national product has declined from 31.5 per cent in 1959/60 to about 27 per cent in 1964/65.

In order to achieve these results investments in fixed capital formation have reached about £1,497 million in the five-year period - or some 95 per cent of scheduled investments amounting to £1,577 million - of which industry has accounted for £402 million or some 27 per cent; transport and communications £271 million or 17 per cent; agriculture, irrigation and drainage £244 million or 32.4 per cent; electricity £102 million or 6.5 per cent; and the High Dam £98 million or some 4 per cent. For the fifth year of the Plan investment has amounted to about 20 per cent of gross national product.

In carrying out financial outlay of such dimensions the authorities were fully aware of the problems involved, and due care was taken to contain inflationary pressures generated by the inevitable monetary expansion associated with the growth of production and income.

It may be appropriate here to refer to the stand-by arrangement agreed upon with the International Monetary Fund in May 1964, which authorized the United Arab Republic to draw the equivalent of \$40 million over a period of twelve months. In continuation of the policy measures taken subsequent to the previous agreement of May 1962, the new stabilization programme aimed at improving the balance-of-payments situation. However, unlike the previous programme, it was designed to achieve its objectives over a period of several years without impairing the recent rate of economic growth. Reduction in the rate of domestic credit expansion; a general review of the pricing system in order to check the increase in local consumption, to promote corporate savings and encourage the export drive; as well as reduced reliance on external short-term borrowing to finance long-term projects, were among the important features of the programme. Concomitant with these arrangements our quota in the International Monetary Fund was increased from \$90 million to \$120 million, and our subscription to the International Bank for Reconstruction and Development capital was raised from \$106.6 million to \$142.1 million.

As a result of the measures taken, monetary expansion in 1964/65 was on a much reduced scale compared with the preceding year. Taking the whole Plan period, the rate of expansion may be considered reasonable compared with the growth in national income, coupled with important structural changes in the pattern of the economy.

Certain features of the 1965/66 budget estimates bear witness to the keen interest of the United Arab Republic Government to promote economic growth with stability, and to tackle some of the problems encountered in the implementation of the Plan. Among the latter, mention may be made of the balance-of-payments deficit, foreign exchange shortage, and the rather disproportionate increase in consumption which has jeopardized the efforts to raise domestic savings to the level required for financing the Plan.

In drawing up budgetary policy it has been thought fit to check unnecessary expenditure, to scale down investment outlay to the level compatible with available domestic and external financial resources, and to observe an order of priorities without however impairing the rate of economic growth. Moreover, in

carrying out investment policy it has been decided to utilize existing capacity fully, and to complete projects already started before embarking on new lines of investment, pending the improvement of the foreign exchange position. Special consideration shall also be given to projects contributing to the promotion of exports or which generate prompt yields so as to alleviate the strains on the balance of payments. Emphasis is also placed on the completion of the High Dam scheme and related projects in the fields of irrigation, drainage and electricity.

In order to check the increase in consumption and thus create an exportable surplus of certain products, it has been decided to increase the prices of certain commodities and services, as well as to put an end to the hire purchase system for a number of durable consumer goods such as cars, refrigerators and television sets. In the meantime some measures have been taken and others are contemplated in order to encourage various forms of savings, including tax exemption, the raising of interest rates and the flotation of savings certificates.

According to the 1965/66 budget estimates total net public expenditure is put at £1,205 million compared with £1,184 million in 1964/65. As regards development outlay - which is scheduled to be financed by self-financing of company investment, by institutional savings, by local borrowings and by available foreign loans and credit facilities - it has been scaled down to some £345.4 million compared with about £442 million in 1964/65.

Turning now to our balance-of-payments situation and prospects, I wish to point out that the large deficit on current account, recorded in 1962, continued in the following two years despite the remarkable recovery staged by exports. This was mainly due to the persistence of a large import surplus brought about by the higher level of imports of capital goods and raw materials for development purposes, as well as of basic supplies needed for the rapidly growing population. In fact the proceeds of exports - after the setback of 1962 when they did not exceed £145 million as a result of crop failures - recovered to about £228 million in 1963 as well as in 1964. However, imports actually went up from £294 million in 1962 to £402 million in 1963 and to £399 million in 1964, of which imports of basic supplies accounted for nearly one third. The import surplus - according to the balance-of-payments estimates - thus advanced from £149 million in 1962 to £173.8 million in 1963 and to £171.8 million in 1964. Invisible receipts in 1964 amounted to £146 million (of which Suez Canal dues £78.4 million) compared with £135 million and £71 million, respectively, in the preceding year. Invisible payments also advanced from £84 million in 1963 to £97.4 million in 1964, and the net surplus from invisible transactions thus reached £43.7 million as against £50.9 million in 1963. As a result of these developments the deficit on goods and services, which has reached £117.6 million in 1962, rose to about £123 million in 1963 as well as in 1964.

The current deficit was largely mitigated by a net capital inflow - representing mainly developmental loans, accumulation of United States counterpart funds and loans in local currency granted therefrom, as well as other capital inflow - which

amounted to nearly £94 million in 1963 and £111 million in 1964. The overall deficit which had reached nearly £37 million in 1962, thus contracted to £29 million in 1963 and to £12 million in 1964.

A few points deserve to be stressed in connexion with the growth in export proceeds and invisible earnings in the last two years. The substantial increase in exports - due partly to the rise in export proceeds of cotton which reached some £116 million in 1964 as against some £84 million in 1962 - is also attributed to the expansion in exports of other agricultural as well as industrial and mineral products thanks to the efforts made to promote and diversify exports and to lessen reliance on the exports of a major crop. In actual fact exports of foodstuffs, including rice, rose from about £23 million in 1962 to £47.5 million in 1964; exports of crude oil and products from £15 million to £21 million; and finished and semi-finished products from £27 million to £38.4 million. The larger invisible receipts are mainly attributed to the continued growth in earnings from Suez Canal dues and to the remarkable expansion in income from tourism.

As regards the prospects for 1965, these are encouraging and it is hoped to arrest the deterioration in the external payments position. In the first place it should be pointed out that the 1964/65 cotton marketing season has been successful despite the much larger supply of cotton. The expansion of some 180,000 bales in the quantity exported compared with the preceding season to exceed 1 million bales, concomitant with higher export prices, brought about a welcome gain in export earnings. Among other favourable factors mention may be made of the expectation of a large exportable surplus of rice, the continued expansion in invisible earnings especially from Suez Canal dues and tourism income, and the efforts exerted to curb unnecessary expenditure abroad and thus to improve the net surplus from services. According to the provisional estimates of the balance of payments during the 1964/65 financial year (July 1964 to June 1965) current receipts are tentatively estimated at some £400 million and current disbursements at about £500 million, leaving a deficit on goods and services account of some £100 million. In terms of dollars the deficit would thus amount to \$230 million as against \$324 million in 1963/64.

Finally, I wish to stress again that my Government is fully aware of the balance-of-payments problem. Hopes are entertained, however, that the situation will be rectified during the second Five-Year Plan which has started last July.

Such hopes are not in fact wishful thinking but based on two solid foundations, viz. the increase in agricultural production, coupled with the successful implementation of industrial projects and the diversification of production.

The completion of the High Dam scheme during the second stage will enable the conversion of the remaining part of basin lands into perennial irrigation - thus making possible the raising of more than one crop on such lands - and will contribute to the expansion of the cultivated area as adequate supplies of water

reach lands already reclaimed. The present agricultural year has already witnessed certain achievements in this respect, though the scheme will still bear more fruits in subsequent years.

With the acceleration of the tempo of industrialization, through increased investment and rational allocation of resources, coupled with the excellent prospects for the oil industry, the basis will have been laid down for the sustained and balanced growth of the economy. With the expansion of agricultural and industrial production, and the diversification of the economy, import substitution for certain products will be realized and an export surplus will be created. These developments should contribute to the future adjustment of the balance of payments.

Before concluding my statement I would like to seize this opportunity to refer to the question of the final accession of the United Arab Republic to the General Agreement on Tariffs and Trade. I would like to mention in this respect that the United Arab Republic has fully participated in the work of the Trade Negotiations Committee, with a view to the completion of our final accession within the framework of the rules laid down for the participation of the less-developed countries. Simultaneously with the present consultations the United Arab Republic has now submitted an initial offer to the Kennedy Round of Trade Negotiations. Despite the low level of our customs tariff rates (actually one quarter of our imports is duty free and another quarter is subject to rates ranging from 1 per cent to 5 per cent), the United Arab Republic has declared its readiness to make a 40 per cent cut in duties on certain items and a 50 per cent cut on certain other items indicated in the offer lists. We thereby hope that a positive and meaningful contribution to the successful outcome of the overall trade negotiations has been made. In the meantime our offer is designed also to cover the trade negotiations side of our full accession to GATT.

Another point which may be relevant to the final accession, and which at the same time is of interest to the present consultations, concerns our foreign trade systems. A full description of these systems has been given in the basic document for the present consultation (BOP/49 dated 9 April 1965). I may stress once more that in pursuing our import and trading policy we are solely guided by the need to regulate imports, on a non-discriminatory basis, in accordance with available foreign exchange resources and within the framework of the overall Development Plan. The documents presented and the discussions which took place on the occasion and in the course of the previous consultation embodied in GATT document L/2105 dated 19 December 1963 - all these would provide a complete survey of our foreign trade systems.

To conclude my statement, I trust that the CONTRACTING PARTIES - in the light of the information disclosed therein - will consider sympathetically our payments difficulties, and will find our arrangements consistent with the provisions of Article XVIII of the General Agreement.