

GENERAL AGREEMENT ON
TARIFFS AND TRADENo. 31
CP. 5/K/SECRET/12
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CONTRACTING PARTIES

WORKING PARTY "K" ON CONSULTATIONS UNDER
ARTICLE XII: 4(b)Statements by the Ceylon Representative
at the tenth and twelfth meetings of the
Working Party, held on 23 and 27 November,
respectivelyA. First Statement

I wish to make some introductory remarks before I explain the position regarding intensification of restrictions imposed by my country in the study of which this Working Party is engaged.

Like the representative from Southern Rhodesia, who was before the Working Party on the 20th, I am not a financial expert. As far as specialisation goes in our country, my special subject is the development of export trade of the country, I shall, however, attempt to answer any questions put to me and am prepared to engage in as full and frank discussion as the information available to me permits.

We ourselves received the Background Material and the Fund's report about a couple of weeks ago, and have had no opportunity of getting the statistical tables verified. However, as the statistical tables appear to have been prepared largely from our own sources, I presume they are correct. One or two statements made in the Background Material, to my mind are not correct, but they are not worth pursuing since they are not relevant to the present consultation.

I wish to congratulate the International Monetary Fund for its masterly presentation of the background material regarding Ceylon. I believe this is the first time an international body has undertaken such a task for a small country like Ceylon, and we are grateful for any opportunity to be able to see ourselves as others see us.

I think I would be failing in my duty if I do not contribute my quota of definitions and interpretations at this stage! I do so, however, not to raise any procedural difficulties for this Working Party, but by way of explaining any shortcomings on my part in answering any questions that may be put to me. We understood that the consultations in which this Working Party is engaged would be for explaining the intensification of import restrictions, particularly on goods from the dollar area, consequent on a decision of the Commonwealth Finance Ministers' meeting in July 1949, and how that intensification has affected our imports from the dollar area compared with imports in 1948. If the Working Party confined itself to the consultation as defined by me just now, I venture to think that I would not have had to add much to the paper submitted by us and which has been circulated as GATT/CP. 5/K/3. You will note from the table attached to our submission that our imports in 1949/50, i.e. from July to June, from dollar sources was only 2.37 million dollars below those of 1948.

But as the discussions of the Working Party proceeded, I noted that the consultation had become something in the nature of a charge and that Ceylon was

on trial about its import restrictions in general. The question of intensification of import restrictions and its effect had become a side issue instead of being the main issue. We then called for fresh information from Colombo, only some of which has arrived. I only hope that this information will prove sufficient for the present consultation.

Let me dispose of the question of intensification of restrictions first. The causes which led to the intensification of restrictions are admirably and fairly stated in the Fund's report and I do not wish to add anything to it. How the restrictions imposed by us then affected the imports from the dollar area are shown in the table attached to the statement submitted by us. You will note that we decided to buy with the dollars which we thought would be available to us then, more food ($7\frac{1}{2}$ million more dollars worth of food from the United States of America and Canada) and 1 million more machinery, and cut down our dollar expenditure on American textiles and other products, like refrigerators and cars.

At the same time, as we imposed restrictions against the dollar area, we put into force import restrictions against the non-dollar area.

As the balance of payments position began to improve after devaluation, we removed import restrictions on about 318 items from "soft currency" sources in April 1950. That is the general position of our import restrictions up to the end of June 1950.

I have not yet been informed by my Government what its import programme for July 1950 to June 1951 is, or the dollar constituent. All that I have been informed is that the import programme is under consideration by the Government. I think this matter is bound up with certain other negotiations which the Government, as far as I am aware, has not concluded.

I now come to the discriminatory aspect in the intensification of restrictions. In the paper we have submitted to the Contracting Parties we have stated that the Ceylon Government's policy is to build up its own independent gold and dollar reserves to strengthen its currency, and partly because of this policy, and partly because of Ceylon's membership of the sterling area, Ceylon has continued to restrict dollar imports, although its balance of payments with the dollar area has been favourable since devaluation. You may be aware that Ceylon now has an independent currency, and as stated on page 14 of the Background Material on Ceylon, provision has been made for the Central Bank to hold its own appropriate dollar and gold reserves, separate from the central reserves of the sterling area. Initially these reserves are to amount to \$ 1 million. What the Ceylon Government considers an appropriate dollar reserve, I have not yet been informed.

With regard to our membership of the sterling area, I need not take up your time by adding to what the sterling area country representatives who preceded me have stated. All that I need say is that our sterling area connection is important to us. Further, nearly all our reserves are in sterling and the solvency of sterling is a vital matter to us.

I may perhaps be allowed to add a third reason why a country like ours in an unfavourable balance of payments position - I shall argue later on my statement that although our balance of payments position with the dollar area has improved, our overall balance of payments position as at June 1950 is more or less showing a deficit - has, by force of circumstances to discriminate

against the dollar area goods in the administration of its import restrictions.

To be brief, what we earn from exports must first of all be carefully spent in **buying foodstuffs**. We import nearly 2/3rds of what we eat, and with all the care we can exercise we can still give the people only a ration of 2 lbs. of rice a week - their staple food. The balance has to be apportioned in buying the machinery needed for development and other consumer goods.

With regard to machinery required for new development work, the source of imports will depend on the particular development plan accepted by the Government and the nationality of the contracting firm to whom the job is entrusted. For instance, we have a very big irrigation project being carried out at a cost of Rs. 100 million. It is an American plan carried out by an American firm, and all the tractors and euclids required for it are imported from America. Similarly, most of the machinery required for the Colombo Harbour extension works will naturally come from France, a French firm having successfully tendered for the contract.

The balance of money we have for the importation of consumer goods is comparatively small, and we must necessarily restrict the quantity of some of them allowed to be imported, and to buy them from the cheaper sources.

So much for the intensification of restrictions and the discriminatory aspects of the intensifications. I will now go on to deal with the relaxation of all import restrictions as recommended by the International Monetary Fund. I am not now concerned with the question whether we should buy more from the dollar area or not.

The conclusion of the International Monetary Fund is based on only trade figures. They admit this fact in the first paragraph of Section IV of their statement, and I am not sure whether or not these figures are correct. I have just received a copy of the balance of payments figures for the 1st half of 1950 sent by the Central Bank to the Bank of England. They are as follows:-

Current transactions of merchandise and non-monetary gold	plus	38
Invisibles	-	<u>69</u>
Total current transactions	-	31
Errors and omissions	-	37
Movement of capital, private	-	14
Official	plus	<u>51</u>
Total, capital movement	plus	37

You will therefore see that the balance of payments position up to the end of June 1950 is not as sound as the trade figures suggest. As stated in the Fund report, the pattern of Ceylon's annual current account position has usually been that trade surpluses have consistently prevailed but deficits on invisible transactions have exceeded the size of trade surpluses. In all the post-war years, except 1947, Ceylon's exports have exceeded imports, but sizeable payments on direct investments and personal remittances more than offset the surplus on trade account.

A very important point which should be taken into consideration in considering the favourable trade balance that Ceylon is experiencing at the moment is that the surplus is due to three products, viz: desiccated coconut, tea and rubber - largely rubber.

Now, desiccated coconut is a luxury product. There has been a marked increase in the export of desiccated coconut this year, due, I think, to the fact that there have been relaxations of import restrictions in many countries for the first time after the war. It is a new food for most people and we do not expect the present abnormal and high prices for it to persist.

In the case of tea, already prices are coming down, and the opinion of those expert people who specialise in forecasting tea prices is that the price trend will be downward.

As regards rubber, which has contributed most to the trade surplus, the future course of its prices is anybody's guess. As long as the present war and rumours of war last, we might perhaps lie back comfortably (with an occasional worried glance at what the United States is doing about synthetic rubber production) and not worry about the price of rubber, at least this year. As everybody knows, the present inflated demand for rubber is largely for competitive stock-piling and not for current use. Soon, we think, a competitive stock-piling will be a thing of the past. The Organisation for European Economic Co-operation and the North Atlantic Treaty Organisation are drafting schemes for international allocation and a common policy for stock-piling key materials. We know from past experience what we can expect when these schemes start working.

Further, natural rubber production is expanding quite sharply and is expected to reach 1,750,000 tons this year and 1,825,000 next year. According to the Economist this rate of natural rubber expansion will be outpaced by synthetic rubber, the output of which has been rising at an annual rate of 460,000 tons a year, with an actual estimate for the full year of 560,000 tons. By March next year the United States expects to produce synthetic rubber at an annual rate of 950,000 tons. Production stepped up to such a rate will not be easy to curtail. And if by that time the political outlook showed convincing signs of becoming easier, manufacturers and Governments would have to look carefully at the cost of carrying stocks, and a fall in prices would be certain and sharp.

The immediate future, as far as we can see, is bleak, and the situation is one which demands extreme caution in the relaxation of import control restrictions. Our delegation would like to assure you that the Government of Ceylon does not want to maintain restrictions for **their own** sake. We have no industries to protect by maintaining them and we are aware that relaxation of restrictions could make its contribution to the solution of the present inflationary situation in the country which the Government is tackling through several means.

B. Second Statement

When last we met we were unable to conclude our consultation owing to certain differences in the statistics as given in the International Monetary Fund Report, which have been taken from our Customs Returns, and the balance of payment figures which my Government had sent me, and which I submitted to the Working Party.

I asked for a clarification of the balance of payment figures which I had, and my Government has sent me the following figures:-

(All are nett figures in million rupees)

(1)	Merchandise	..	..	..	..	+ 38.9
(2)	Non-monetary gold movement			..	..	- 1.3
(3)	Foreign travel	..	..	..	..	- 15.3
(4)	Transportation	..	..	..	..	- 21.5
(5)	Insurance	..	..	..	..	- 5.5
(6)	Investment income	..	..	..	..	- 22.9
(7)	Government, not included elsewhere	..	..	..	..	+ 9.1
(8)	Miscellaneous	..	..	..	..	+ 22.5
(9)	Donations	..	..	..	..	- 34.7
(10)	Total current transactions	..	..	..	..	- 30.6

Movements recorded in capital account are:-

(11)	Long term capital	..	..	..	..	- 14.1
(12)	Short term capital	..	..	..	..	- .2

Total deficit on current and capital accounts therefore amount to 44.9 million rupees for the first six months of 1950.

These figures, I am informed, have been furnished by the Central Bank of Ceylon, which is the Government Agency responsible for the balance of payment estimates. I have been asked to state that they are based on exchange control statistics, and visibles therefore refer to actual receipts and payments on merchandise account, which do not coincide with trade figures recorded in Customs Returns.

Mr. Chairman, I am well aware that balance of payment statistics for a consultation of this nature is solely the business of the Fund and that in submitting these figures to this Working Party, we are, in effect, submitting them to the representatives of the Fund here for examination by the Fund.

Before I conclude, I would wish to apologise to the International Monetary Fund, if I gave the impression in the statement that I made last time when we met that I was questioning the accuracy of the figures submitted by the Fund.