Statement by the Ceylon Delegate

1. In opening the consultation, the Ceylon representative referred to the background papers supplied by the Fund which comprehensively surveyed the developments in Ceylon. Consequently, instead of describing in detail the balance-of-payments position and the movement in external reserves, the Ceylon representative gave a general exposé, underlining the significance of the nature and magnitude of the changes that have occurred during the period under review. It was noted that there had been a continuous improvement in general in Ceylon's balance-of-payments position including its position with the dollar area during the past one and a half years. In 1954 Ceylon's balance-of-payments position reflected a substantial surplus as compared with the heavy deficits incurred in the previous years. The current account surplus, amounting to Rs. 300 m., mainly resulted from a very favourable trade balance, which was a little more than Rs. 450 m. In spite of increased deficits on invisibles, a sizeable overall surplus was maintained. The improvement in Ceylon's payments position was the result of larger earnings from tea exports due mainly to rising tea prices and reduced import payments mainly due to lower prices.

2. As a consequence of these developments, the foreign reserves position had shown an upward movement since January 1954. After a serious decline during 1953 reaching the low level of Rs. 605.5 m., Ceylon's external assets at the end of December 1954 had steadily risen to the level of Rs. 895 m. Apart from the fortuitous circumstances which helped to increase export earnings, the monetary and fiscal measures introduced with the 1953-1954 budget went a long way to correct the disequilibrium in the economy. The effects of these measures were beginning to be felt towards the end of 1953 and became clearly noticeable during 1954.

3. The favourable balance-of-payments position had continued in the early part of 1955. In the first quarter of 1955 the surplus on merchandise account amounted to Rs. 198 m. and the current account surplus stood at Rs. 160.5 m. But unfortunately the market for tea deteriorated and the price reached low levels that had not been experienced for a long time. By the second quarter of 1955 the balance of payments began to feel the impact of this deterioration. The favourable trend in Ceylon merchandise transactions was reversed. The very substantial trade surplus of nearly Rs. 200 m. and the current account surplus of Rs. 160 m. in the first quarter of 1955 were followed by a more Rs. 51 m. and Rs. 10 m. respectively in the second quarter. This clearly illustrated the problem faced by countries whose economies were heavily dependent on the export of a few commodities. The sudden deterioration in Ceylon's balance of payments during the second quarter of 1955 tended to
reduce the rate of increase in her external reserves. The aggregate external reserves continued to rise but at a slower pace. With the recovery in tea prices and the emergence of higher rubber prices in the world market the trade surplus showed signs of improvement during the subsequent quarter.

4. The price of tea had tended to be stabilized and had even shown increases in July and August. However, very recent reports indicated that there had again been a setback for certain types of tea and prices fell considerably at the Colombo auctions. While it was not unlikely that the average price in the second half might at least tend to get stabilized at a slightly higher level than the low prices of the second quarter, previous heights could not be expected to be reached again. The rubber market was rather unsettled. The general price trend had been rising particularly with the resumption of Russian buying in the world market. The recent successful negotiations with China had enabled a firmer outlook for rubber, and on the whole the conditions were not likely to be depressed in the months ahead. As regards the three major coconut products - copra, coconut oil and desiccated coconut - the prices had remained relatively stable in the recent past. Present indications showed that there were adequate supplies of comparable products in the world market and it would be unreasonable to expect any significant improvement at least for copra and coconut oil during the coming months. Prospects for desiccated coconut were by no means bright and there were no indications of any marked upward change in the price of this product. On the whole, there had been favourable factors during 1955, but the outcome for the whole year would ultimately depend on the price and volume of exports of tea, rubber and coconut in the coming months.

5. In keeping with the improvements in Ceylon's balance-of-payments position, the Ceylon Government had taken measures to reduce overall import restrictions and to scale down considerably the discriminatory restrictions that had hitherto been strictly enforced. For obvious reasons Ceylon could not afford on the basis of temporary and sudden improvements in the payments position completely to eliminate these discriminatory restrictions. Fully conscious of its obligations as a contracting party to GATT, Ceylon had always responded to improvements in the balance-of-payments situation by reducing its restrictions to the extent considered prudently possible. The Ceylon Government could not, however, with any degree of assurance indicate the trends of the future. For countries like Ceylon now in the process of economic development, the need was not merely to maintain balance-of-payment equilibrium but to build up adequate reserves so vital for ensuring the fulfilment of its development programme. The country had had the bitter experience in the past of finding that excessive liberalization had brought with it dangerous consequences. The Ceylon representative concluded that nevertheless it was his Government's intention, as and when conditions permitted, progressively to relax the restrictions, which in their present form were in effect of a very marginal nature.
Consultation with the International Monetary Fund

6. Pursuant to the provisions of Article XV, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with their consultation with Ceylon. As the Fund had not, by the time of the Tenth Session, held its 1955 consultations with Ceylon under Article XIV of the Fund Agreement, it referred the CONTRACTING PARTIES to the results of, and the background material from, its 1954 consultations with that Government, and in addition provided the CONTRACTING PARTIES with factual material reviewing developments since those consultations. Consequently, in conducting the present consultation, the Working Party had before it the Fund's background material dated 17 January 1955, and a supplementary paper dated 13 October 1955 showing subsequent developments, as well as the following results of the Fund's 1954 consultations:

"1. The Government of Ceylon has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

"2. There has been a marked improvement in Ceylon's economic and financial situation since the middle of 1953. Internal stability has been achieved through monetary and fiscal policies. In the second half of 1953, Ceylon's balance-of-payments position began to improve, largely as a result of rising prices for tea exports, and in 1954 the external accounts are estimated to have been in over-all surplus, including a surplus with the dollar area. There has also been a rise in Ceylon's international reserves during the past year.

"3. The Fund notes with satisfaction the determination of the Ceylon Government to maintain internal stability and co-ordinate the undertaking of investment and economic development projects with the availability of domestic and foreign resources.

"4. The Fund also notes that, during 1953 and 1954, Ceylon has responded to improvement in its position by relaxing restrictions and reducing discrimination, and the Fund will expect a continuation of this policy, especially with respect to the dollar area, if Ceylon's balance-of-payments position continues favourable.

"5. In concluding the 1954 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Ceylon."

7. At the request of the Working Party the Ceylon delegation supplied the balance of figures relating to trade for the first half of 1955. These are summarized as follows:
8. In explaining the general trends in Ceylon's trade and payments the representative of Ceylon indicated that in 1954 not only was the surplus on merchandise account substantial, but surpluses consistently accrued in every quarter of the year. In contrast to this, wide fluctuations appeared in 1955 and the surplus for the second quarter was only one-quarter the size of that in the previous quarter. Taking account of invisible items the net surplus on current account for the second quarter was Rs. 10 m. However, in view of the improvement in tea prices and the recent negotiations with China concerning rubber and rice, some improvement was likely in the second half of the year. It had been estimated that a trade surplus of about Rs. 75 to 80 m. might be achieved for the third quarter, and though this represented some improvement on the results of the second quarter, it would still be far below the high level reached in the first quarter of 1955.

9. Questions were asked in the Working Party on the level of discriminatory restrictions against the dollar imports being maintained by Ceylon in relation to the substantial surplus it was earning through transactions with the dollar area. The Ceylon representative explained that, as a member of the sterling area, Ceylon's import restrictions on dollar goods were not maintained exclusively on the basis of its own payments relations with countries in the dollar area, but had to take account of the position of the sterling area as a whole. Furthermore, a large proportion of the surpluses earned on dollar account did not accrue to the dollar reserves of Ceylon, only a part of it being retained as Ceylon's independent dollar reserves. In view of the reversal in the improvement of the general reserves position of the sterling area, Ceylon had to retain its restrictions on dollar imports and to continue to resort to the provisions of Annex J of the Agreement. The restrictions being maintained on dollar imports affected mainly those types of goods which were not essential to the Ceylon economy. Capital goods such as machinery and equipment which were needed for industrial development were freely admitted.
10. The representative of Italy referred to Ceylon's substantial surpluses with non-dollar countries, to the decline in imports into Ceylon from OEEC countries, and in particular to Italy's substantial trade deficit with Ceylon. In the light of these developments the Italian representative wished to explore with the Ceylon delegation the possibilities of expanding Italian exports to Ceylon with a view to achieving a better balance of trade between the two countries. The Ceylon representative replied that all imports into Ceylon from OEEC countries were free from restriction, and that the reductions in imports from OEEC countries only reflected a general trend of falling imports in the past year as a result of internal economic policies and the expansion of domestic production in certain fields. Consequently it was not within the power of the Ceylon Government consistently with its obligations under the Agreement to increase its imports from non-dollar countries. At the request of the Italian representative a description was given by the Ceylon representative of the trade agreement between Ceylon and China under which rice was imported from the latter country, and the Italian representative expressed the wish to have an opportunity to explore with the Ceylon Government the ways and means of exporting Italian rice to Ceylon.

11. A discussion took place on the question of the "Ceylonization" of the import trade in Ceylon. It was explained by the representative of that country that the purpose of this measure was to induce local businessmen to engage in the import business. It was purely a domestic licensing procedure, and in view of the fact that the level of trade was in no way affected by it there could be no question of it being considered as involving any restriction on imports.

12. A member of the Working Party asked whether external reserves of Ceylon, which stood at about Rs. 900 million at the end of 1954 was considered in comparison with the current level of imports, as an adequate level. The representative of Ceylon replied that the reserves had been as low as Rs. 605 million at the end of 1953 and it was only through the combined effect of internal fiscal and monetary measures and a very favourable market for some of Ceylon's export products that the external assets had reached the present level. While purely from the angle of imports this might be satisfactory the general adequacy of the external reserves depended on other factors as well.

13. A member of the Working Party referred to the "monetary ceilings" set for the licensing of certain goods from the dollar area and suggested that in the interest of the trading community these should be made public; in case it should be found difficult to publish definite figures, even an indication in terms of percentages of previous imports might be of value. The Ceylon representative stated that his delegation would be glad to convey this suggestion to his Government for consideration. The Ceylon representative added, however, that most of these ceilings had not been availed of by importers, and applications for licences fallen short of the monetary ceilings except for one commodity. With reference to a note in the Fund paper stating that special treatment was accorded as of 30 June 1955 to imports from Germany and Japan,
a member of the Working Party enquired whether this remained the situation. The Ceylon representative reaffirmed that since the second half of 1954 no restrictions had been maintained on imports from any OEEC or other non-dollar countries.

14. In answer to a question the Ceylon representative explained that the statement in the Fund paper to the effect that tinned plate was added on 6 April 1955 to the open general licence for imports from all countries except dollar area, etc., only meant that as from that date individual licensing requirement was withdrawn for that item when imported from non-dollar countries. It carried no implication that imports of that item would not be permitted under licence from the dollar area.

Nature of the discriminatory restrictions and the effects on trade

15. Some members of the Working Party pointed out that prior to the intensification of restrictions in 1952, the level of discrimination in Ceylon for import restrictions had been very moderate, and that despite successive relaxation of restrictions the earlier situation had not been restored. In view of the improvement in the balance of payments, serious consideration in their view should be given by the Ceylon Government to reduce further the level of discrimination. In this connexion they referred to paragraph 4 of the results of the Fund's 1954 consultations with Ceylon quoted in paragraph 6 above. The representative of Ceylon considered that the present margin of discrimination could not be regarded as substantial. In effect, only seventeen items of imports remained under restrictions which were discriminatory against the dollar area, namely:

- Fruits, fresh and dried
- Articles of food and drink, n.e.s.
- Tobacco, unmanufactured
- Cotton, raw
- Cotton, waste
- Glass tumblers, bottles, lamp chimneys and globes
- Clocks and watches
- Wireless goods and apparatus
- Refrigerators (domestic)
- Textiles
- Motor cars and station wagons
- Small arms and parts thereof
- Musical instruments, gramophones and records
- Vegetables, preserved or tinned
- Photographic goods
- Manufactures of paper and cardboard
- Imitation jewellery
These were the only goods for which monetary ceilings were in force for imports from the dollar area. However, as mentioned above, except for one item, namely textiles, the monetary ceilings set for the past year had not been used in full, and consequently these restrictions could not be regarded in effect as being restrictive. A further list, containing some nine items, were subject to licences issued at the discretion of the control authorities, but licences for these imports from the dollar area were issued liberally on demand. A few items subject to prohibition from the dollar area were not items which would normally be imported from that source anyway. The low level of dollar imports in the past year should be attributed to the effectiveness of the internal measures which had been taken to stabilize the economy rather than to discriminatory import restrictions. The Ceylon representative further assured the meeting that Ceylon's policy concerning import restrictions was kept constantly under review, and that the Government would not miss any opportunity of reducing the level of restrictions, discriminatory and otherwise, consequent upon any further improvement in Ceylon's balance of payments.

16. On the question of bilateral agreements, the Ceylon representative informed the Working Party that only two such agreements were in force - one with China providing for the export of rubber and imports of rice, and the other with Egypt. In the view of the Ceylon representative, neither of these agreements in any way involved discrimination or restrictions affecting imports from other countries.

17. Certain members of the Working Party expressed satisfaction over the measures of relaxation that had been taken by Ceylon in the past year and stressed the view that the removal of import restrictions, especially those of a discriminatory nature, whenever possible, would be in the essential interest of the country concerned. Among other things it would enable importers to obtain goods from the cheapest source which would be in the ultimate interest of consumers as well as of producers using imported materials.

18. The Working Party discussed with the representative of Ceylon the question of measures which might be taken by his Government to minimize the protective effects of the restrictions and to avoid unnecessary damage to the commercial and economic interests of other contracting parties. The Ceylon representative explained that the measures currently in force did not result in any unnecessary damage to the commercial or economic interests of other contracting parties nor would the Government sponsor or encourage any activity in this direction. However, due note was taken by the Ceylon representative of the views expressed by the other representatives participating in the discussion.