STATEMENT OF THE REPRESENTATIVE OF ISRAEL

The year 1965 marked a significant improvement in the balance of trade of Israel; exports of goods increased appreciably, while imports remained at the level of 1964 ($797 million as against $803 million). Commodity exports of goods increased by 15 per cent, from $349 million to $403 million. The trade gap narrowed from a deficit of $454 million to $394 million, or by 13 per cent.

On the other hand, there was a deterioration in the balance of services; the deficit increased from $116 million to $127 million, or about 10 per cent.

The total deficit on current account declined from $569 million to $521 million. This gap was closed by unilateral transfers as well as by long and medium term loans, which further increased Israel's foreign indebtedness from $1,050 million in 1964 to $1,226 million in 1965.

During the latter part of 1965, the Government of Israel undertook vigorous measures to curb inflationary pressures by halting the increase of public spending and, in particular, of building activities. The results of this policy became apparent after the spring of 1966. Economic activity slowed down. Determined efforts were made to induce the shifting of resources from building and related industries and services to export-oriented industries.

However, these structural changes cannot be effected overnight and, for the first time in a decade, they have given rise to unemployment which, by October 1966, was affecting more than 5 per cent of the labour force.

The resulting slow-down in economic activity and demand in 1966 are one of the main reasons why imports have remained stable on the whole, in fact imports of certain investment goods have even declined - while exports have continued to grow by 15 per cent as compared with 1965. However, the price paid for these desired balance-of-payments improvements is high in human terms. The medicine meted out to the economy is strong and painful.

Reserves held by the Bank of Israel started to decline in March 1966. This signified a turning point after many years of steady growth of reserves, and has given rise to apprehensions of a continuous decline in reserves in the future. Our authorities consider that as long as the annual deficit in the current account
exceeds half a billion dollars, reserve holdings must cover at least the equivalent of eight months' imports. This is of particular importance in the light of Israel's special global political situation.

As a result of factors beyond the control of the Government of Israel, personal restitution payments and private capital investments have also declined during this period. This has accentuated the need for still greater efforts towards closing the enormous gap in the balance of payments during the next few years.

Raising of further loans, and the subsequent increase of foreign indebtedness, cannot be a satisfactory answer to this problem. Israel has already reached a high level of indebtedness, which will burden the economy with very heavy repayments in the not too distant future. What then is our small developing economy to do to reach self-sustenance within a few years?

On the internal front, the Government of Israel has adopted measures to attain, first of all, stability and confidence after a long period of inflationary pressures. Taxes, which are already extremely heavy have, in general, been frozen, as a result of increases during the past few years. The practice of linking wages and salaries to the cost-of-living index has been partially suspended. At the same time, steps have been taken to extend the application of the piece-work system in industry in order to promote greater efficiency. Finally, new inducements have been offered to investors in export industries in which the country has a relative advantage; such are, for example, chemical and pharmaceutical industries based on local raw materials. Agriculture is being further intensified since there is no additional cultivable land available, and specialized export crops are grown in the off-season. Sophisticated products based on the import of raw materials converted by research capacity and special know-how, are developed. In this way, a greater productive capacity is created for exports to foreign markets.

However, difficulties of an external nature have reduced the effectiveness of these efforts. The main natural markets of Israel are the countries of Western Europe; 60 per cent of its exports have traditionally gone there. For reasons which are well known and which, therefore, I do not have to recount here, the export to both the European Economic Community and the European Free Trade Association is becoming more difficult for third countries.

Big and small countries alike have come to the inevitable conclusion that their economic growth depends on increased co-operation with, and even integration in, large economic groupings. Israel, like other nations, is seeking a closer relationship with these groupings. One result of the efforts made in this regard was the commercial agreement with the EEC, with all of whose
individual members we have close traditional trading links. However, in our statement last year, we expressed the concern that this agreement might not be sufficient to assure Israel's essential needs. This has proved to be the case. Consequently, the Israel Government decided in October to apply for association with the Community.

As the same time, we are making efforts to develop exports to EFTA countries and to North America.

As to trade with the developing countries. All of us have established and continue to establish light industries whose logical market is to be found in the industrialized countries. Trade among developing countries themselves must therefore be for the most part complementary. In this connexion, the Kennedy Round negotiations amongst the developing countries for a mutual reduction of tariffs are of the greatest importance.

The Kennedy Round talks, which are now reaching a climax, will not only help all Members of GATT to increase trade; in the case of Israel, they have a direct effect on the direction of official thinking about the reduction of tariffs and non-tariff barriers. Entirely independently of the Kennedy Round, the Government of Israel reduced tariff rates on over 300 imported items by 5 per cent to 10 per cent on 1 November this year. In our statement last year, we announced that this measure would be taken under Phase 2 of the liberalization programme, which was started after the adoption of the new economic policy in 1962. Under Phase 2, tariffs on sixty more products will be reduced in May 1967. The most important aspect of this step is the acceptance by government and industry of the principle whereby tariffs on all imported products will be reduced by 5 per cent to 10 per cent annually. The inter-relationship of the reduction of tariffs and other barriers at home, on both exports and imports, as well as abroad is fully realized. It is the view of the Government of Israel that only through increasing both exports and imports can the central problems of its balance of payments be solved, although, of course, exports must grow at a quicker pace if the wide external gap is to be bridged.