Committee on Balance-of-Payments Restrictions

OPENING STATEMENT BY THE REPRESENTATIVE OF ISRAEL

1. The main features of economic development

In contrast to the economic slow-down which prevailed during the years 1965-1967, the period 1968-1969 in Israel was characterized by accelerated economic activity. This manifested itself in an overall increase in employment, investments and exports. At the same time, a relative stability in the level of prices, wages and production costs was maintained. However, the revival of the economy, together with growing defence needs, brought about a substantial increase in imports, thereby widening the trade gap and reducing foreign exchange reserves.

Consequent on the accelerated pace of economic activity, the Gross National Product rose by 13 per cent in 1968 while industrial output rose by no less than 33 per cent. In 1969, we expect an increase of over 10 per cent in the Gross National Product and of over 20 per cent in industrial output. By the beginning of 1968, the problem of unemployment which had characterized the previous two years had been eliminated and a severe shortage of labour had developed which hampered continued economic expansion. This shortage was alleviated by the raising of productivity and the inflow and employment of immigrants and Arab workers.

The intensification of economic activity encouraged new investments in all sectors of the economy. The overall volume of investment reached 830 million dollars in 1968, 44 per cent higher than in the previous year. Of this, 470 million dollars, or about 60 per cent, was invested in industry, both in new projects and in the re-equipment of existing plants.

Simultaneously, there took place an unprecedented growth in defence needs, and these imposed a heavy burden both on the foreign exchange resources and on the Government’s local currency budget. Total expenditures on defence topped 20 per cent of the Gross National Product.

Another area of great significance for the development of the economy is immigration. During the years 1965-1967, immigration remained at a relatively low level, but during the past two years it has again increased, causing a further growth in demand, and renewed pressure on the building sector of the economy.

All these developments adversely affected the balance of payments. Although in 1968 exports of goods and services increased in a most satisfactory manner to 1.2 billion dollars (a rise of 19 per cent), imports of goods and services recorded an even bigger increase of 27 per cent and reached 1.9 billion dollars. The deficit on current account grew to 700 million dollars and has continued to grow rapidly during the present year. It is feared that in 1969 the deficit will reach almost 900 million dollars. A substantial part of this growing deficit can be attributed to direct and
indirect defence imports. A part of the deficit (about 60 per cent) was covered by unilateral transfers of capital, i.e., private transfers, donations and personal restitutions. A further part has been covered by increasing the national foreign debt, and this has now reached the amount of around 2 billion dollars, i.e., about 800 dollars per capita. Owing to the present high interest rates on the international money market, this new borrowing has imposed still heavier burdens on the economy.

However, these various types of capital imports did not prove sufficient to cover the deficit in our balance of payments. Consequently, from the beginning of 1968 to September of this year, our foreign exchange reserves have fallen by 215 million dollars and are now down to the level of 500 million dollars. This amount, which is equivalent to the value of only three months of import, is considered to be a critical level and measures are being considered by the administration aimed at bringing about a reversal of this trend.

2. Foreign trade policy

I should now like to turn to foreign trade policy, beginning with the question of imports.

During the past two years, the Israel Government has pressed ahead with its liberalization policies. These have involved both the removal of administrative restrictions, and other non-tariff barriers, and the gradual lowering of protective tariffs.

These measures are particularly appropriate in a period of high economic activity when it is far easier to expose the home industries to foreign competition. Thus import liberalization may be seen not only as a means of bringing about a reallocation of productive resources in favour of the more efficient industries, but also as a weapon in the fight against inflation. In light of the above, in 1968, we carried out the following important steps in our liberalization schemes.

In regard to import restrictions, as promised in my statement to the Balance-of-Payments Committee last year, we have brought about a complete reversal in our approach to restricted items. Whereas previously all items were considered to be restricted unless they were included in the lists of free or automatically approved imports since 1 January 1969 all items are considered to be automatically liberalised unless they are specifically included in the list of restricted items.

In the course of implementing this policy of dismantling administrative restrictions, we resorted to temporary tariff increases in order to avoid too sudden a shock to some developing industries. In so far as tariffs bound in GATT were affected (in all some forty items amounting to less than 3 per cent of our imports) we received authorization from the Contracting Parties for re-negotiation under Article XXVIII/4.
In July 1968, two fifths of the total reductions embodied in the tariff concessions granted during the Kennedy Round were implemented according to schedule.

In addition we have carried out two further rounds of autonomous tariff reductions. On 1 October 1968, a 15 per cent decrease of the customs rates of nearly 400 items came into effect to be followed on 1 January 1969 by a further reduction of 10 to 30 per cent of the existing duty on 600 products. These reductions applied to items on which the customs rates exceeded 35 per cent.

Most important of all, we have adopted a long-term, five-year plan of lowering customs rates on industrial products down to an overall level of 35 per cent, to be implemented in annual stages from 1970-1975.

These measures will bring to an end the "hot house" conditions in which Israel's infant industries were nurtured during the first stages of their development. During the coming five years these industries will have to adjust themselves gradually to the tough environment of free international competition.

Lastly, during the period under review, four of our nine bilateral payments agreements were either terminated or not renewed and trade with the countries concerned is now carried out in freely convertible currency. At the present time, only five bilateral payments agreements are still in operation.

In regard to export policy, our efforts have gone in two main directions. On the one hand we have endeavoured to increase the level of investment in our export industries, and on the other hand we have striven to improve marketing and export promotion facilities.

Turning first to the question of investments in the export-oriented industries, we have endeavoured to encourage those industries most likely to compete successfully on the world market, such as for example: science-based industries, electronics, fine chemicals, etc. In order to implement this policy we carried out the following important steps: in 1968, we convened an Economic Conference in Israel in which the principal participants were industrialists, bankers and heads of marketing concerns. They expressed their willingness to assist us in mobilizing investments for these industries and to contribute their know-how in the technology, management and marketing fields. Following the Economic Conference, various regional professional committees were set up headed by prominent industrialists and financiers abroad. These committees constitute a permanent framework within which investments are promoted, know-how is regularly supplied and the proper marketing of Israeli exports assured.

In the field of export promotion, we are trying to improve existing methods and encourage new schemes. Among the more important ones, I would like to mention the following:

Firstly, we have established in the United States a corporation for the promotion of Israeli goods in the United States market. Its staff is composed of market consultants who are acquainted with the United States market and these provide every possible assistance to Israeli manufacturers who are in search of market outlets.
Secondly, we have improved transportation facilities. In particular trade through Eilat port to East Africa and the Far East has been greatly facilitated by the expansion of regular shipping lines to those markets.

Lastly, we have intensified our participation in fairs and exhibitions throughout the world and organized "Israeli Weeks" in department stores and fashion shows in major cities of Europe and America. Being unable to compete with low-cost countries, we invest great efforts in promoting our high-quality and high-value goods.

3. Conclusion

In conclusion, I should like to make the following remarks:

Since Israel is a small developing country which has no neighbouring markets, the handicap of smallness can only be overcome if we can find the means of integrating our economy into a larger regional grouping. In pursuance of this policy, we are at present carrying out negotiations with the European Economic Community, the member countries of which constitute our major traditional trading partners. At the same time, we hope that the UNCTAD generalized scheme of preferences will come into effect and will help to improve access to our export markets.

Our import liberalization measures are based on the firm expectation that our exports will not be hampered by our trading partners. We anticipate that the industrialized countries with whom we trade will allow us free access to their markets in order to develop our exports and they in turn will benefit from the same access to our market. However, certain industrialized countries are now threatening to erect new trade barriers. It is difficult to understand how we can be expected to continue our policy of import liberalization while restrictions continue to operate against our exports. Furthermore, it is difficult to foresee how we shall be able to complete our five-year plan for the lowering of tariff protection if we are unable at the same time to give our manufacturers and exporters convincing proof that our markets abroad will be opened to them.

Last year, I concluded my statement by assuring the Committee of our firm intent to pursue further the policy of liberalization. Now I am happy to state that in spite of the severe balance-of-payments situation, we have more than fulfilled this promise. However, at this moment I must sound a more cautious note regarding the future. We, on our part, are determined not only to continue but to accelerate the process of liberalization: lowering tariffs and removing non-tariff barriers. However, we can carry this out only if, parallel to our efforts, we acquire freer access to markets for our export industries. In our traditional and natural markets, we hope to enter into arrangements that will lead our small country to becoming eventually a part of a bigger free-trade area. In other industrialized markets, we expect at least not to have to face new restrictions and limitations to our exports. We firmly believe that all the policy goals I have outlined above accord both in the letter and the spirit to the principles of the General Agreement on Tariffs and Trade.