RESTRICTED

COM.TD/G/5
September 1965

Limited Distribution

GENERAL AGREEMENT ON TARIFFS AND TRADE

Group of Experts on Trade and Aid Studies

SECRETARIAT NOTE ON THE MEETING OF THE GROUP OF EXPERTS ON TRADE AND AID STUDIES ON 5 AND 6 JULY[1]

UGANDA

1. The Committee on Trade and Development established, at its meeting in March 1965, a Group of Experts to examine the secretariat's development plan studies.[2] The Group examined the secretariat's study on Uganda on 5 and 6 July.

2. Mr. M.G. Mathur, of the secretariat, was Chairman of the meeting which was attended by experts, in addition to those of Uganda, from:

Federal Republic of Germany	Netherlands
India	Nigeria
Israel	Sweden
Japan	United Kingdom
	United States

The following organizations were also represented:

The Commission of the European Economic Community
Food and Agricultural Organization
International Bank for Reconstruction and Development
International Coffee Organization
International Monetary Fund
Organization for Economic Co-operation and Development

3. For its meeting the Group had before it the following documentation:

Study	COM.TD/G/W/3
Secretariat Note	COM.TD/G/W/5
List of topics for consideration	INT(65)385

[1] An Interim Secretariat Note was prepared for the meeting of the Committee on Trade and Development on 9 and 10 July (COM.TD/G/2). Discussion in the Committee on this meeting of the Group, including certain comments of the representative of Uganda on the Interim Secretariat Note, are reported on page 11 of COM.TD/10.

[2] See L/2410, page 6, which also contains the Group's terms of reference.

Opening statement

4. A number of the points made by the Uganda expert in his opening statement are taken up under the relevant heads below. He said that whilst his Government was not in complete agreement with every conclusion and recommendation in the GATT Study, the Study has been most welcome because it came at a time when the Uganda authorities were preparing their second Five-Year Development Plan to run from July 1966 to June 1971. The findings of the Study and those of the Group would be taken into consideration in this process of formulating the new Plan.

Capital formation and growth

5. The Uganda expert pointed out that the GATT Study contained figures for capital formation which had appeared in the 1963 revision of the present Plan. Subsequently, estimates of investment had been raised: for the Central Government from £43 million to £67 million; other public sector institutions from £30 million to £33 million, and in the private sector from £22 million to £30 million, so that total plan investment now amounted to £130 million as compared with the £95 million indicated in the GATT Study. It was considered that of the £67 million projected for the Central Government sector, £50 million would be invested during the present Plan period.

6. Questioned on the broad outlines of the second Five-Year Plan, the Uganda expert stated that calculations were still of an extremely provisional nature but that it was the intention of his Government to double per caput income by 1980 in the course of three five-year plans. In the first period, up till mid-1971, it was intended that the growth rate should rise to 8.1 per cent per annum in real terms, as compared with the rate achieved so far during the present Plan, of 5.2 per cent. By 1971 per caput income would have risen to £32. To achieve this rate of growth, it had been calculated that a total investment of £213 million would be required which meant that the rate of capital formation would on average have to be twice that achieved during the current Plan. The Expert Group noted at this point that the desired rate of growth of investment implied a substantial acceleration of imports and that, consequently, it would be vital for the success of the Plan that Uganda's foreign exchange receipts are sufficient to finance the import requirement.

Foreign aid

7. The Uganda expert stated that a number of donor countries had been generous in their aid but that generally foreign loans and grants had not been sufficient for Uganda's needs. A Uganda Government mission was currently in Europe explaining these needs to the governments of the main donor countries. One of the problems encountered by Uganda was that foreign aid was often tied to purchases from the donor country or to the offshore cost of the project. A number of promising projects had had to be foregone as a result of these requirements. The expert from the United States suggested that because of the temporary balance-of-payments

difficulties in a number of developed countries, the volume of ~~foreign aid would~~ be considerably reduced, were it not to be tied by source of imports. This problem had been discussed in the OECD with the three East African Governments. He stated that the United States, despite its own balance-of-payments problem, had made efforts to enable developing countries to use United States aid for purchases from other developing countries. The Israeli expert observed that it was a problem common to most developing countries to obtain aid for small-scale projects.

Domestic savings

8. The Uganda expert emphasized that his Government was well aware of the need to increase domestic savings and to mobilize it for development. To this end, it had created the Agricultural Credit Corporation and the Industrial Finance Corporation. The Government had also introduced a premium bond system. The expert from Israel welcomed the creation of the ACC and the IFC, which, he felt, would also serve as a means of attracting foreign capital to the country.

Private capital

9. The Uganda expert stated that his Government had taken a number of steps to encourage the inflow of foreign private capital: it had introduced a Foreign Investment Protection Act and an "Industrial Charter" in terms of which foreign entrepreneurs were guaranteed the right to repatriate profits and principal. The legal position of outside investors had not been affected by the recently introduced foreign exchange control. The Uganda Government also encouraged foreign private capital to enter into joint ventures with public institutions in Uganda. The Group noted in this connexion that the Uganda Development Corporation was an excellent instrument for promoting foreign private investment in joint ventures in Uganda.

Government revenue

10. The Group noted that the Uganda Government relied heavily for its recurrent revenue on export taxes on coffee and cotton, and that the price fluctuations experienced by these commodities induced more than proportionate variations in Government tax receipts. In this connexion, the United Kingdom expert suggested that the relatively low coffee price during 1964/65 would mean that the original estimates for export tax receipts for the fiscal year were rather optimistic. The Uganda expert emphasized that his Government was fully conscious of the dangers inherent in its reliance on export taxes and had accordingly employed an expert, through the United Nations, to investigate the problem. The expert's report had been completed and was currently being studied by the Uganda Government. Other members of the Group suggested that any reform of the tax system must be planned and undertaken in close co-ordination with measures to broaden the tax base through a further diversification of the economy.

Balance of payments

11. The Group noted that, because Uganda had hitherto been a member of the East African Currency Union, no official balance-of-payments estimates were available for that country. The Uganda expert stated that his Government had employed an expert, through the International Monetary Fund, who had undertaken a study of Uganda's balance-of-payments position. The expert's report was currently being considered by the Uganda Government. The three East African Governments had also sought the assistance of the International Monetary Fund in connexion with the establishment of a Central Bank. Following receipt of the views of the Fund, it had been decided that the most practical course to pursue would be to establish three separate Central Banks and consequently to convert the East African currency to three national currencies. In announcing the dissolution of the currency union, the Uganda Ministry of Finance had introduced an exchange control on capital movements from Uganda outside East Africa. This control seemed to be working effectively and was not having any harmful effects on East African trade.

Trade forecasts

12. The expert from the United Kingdom suggested that the forecast of exports contained in the GATT Study (Table 19) might prove to be rather conservative. He pointed out also that in accordance with the forecast in the Study, the share of investment goods in total imports would decline from its 1964 level. Indeed, the forecast indicates an absolute decline of such imports, a calculation which would seem questionable in view of the fact that capital formation in 1970 would be considerably higher than at present. The Uganda expert said that, although different methods had been employed, preliminary trade forecasts for 1971 corresponded closely to those for 1970 in the GATT Study.

Diversification of agricultural production and trade

13. Surveying the export potential on which the new Plan will have to rely so heavily, the Group noted the pronounced dependence of Uganda economy on the exports of coffee and cotton. The prices of these commodities, particularly that of coffee, were liable to sharp fluctuations in world markets over which Uganda could have little influence. There was general agreement that it would be desirable, for Uganda to diversify to the extent practicable the agricultural sector, and, in this connexion, emphasis was placed on expanding the production and introducing processing of meat, fish and poultry. The German expert pointed out that there were a number of ways that the Uganda Government could encourage this diversification and mentioned, in this connexion, pilot schemes, settlement schemes, the expansion of extension services, training centres, and co-operatives; his Government, he said, would be interested in supporting promising, well-prepared schemes in this area. The expert from Uganda said that his Government was hopeful that it would be possible to increase production of sisal, and soft fibres, rubber and citrus fruit. In conjunction with Indian interests, a rapid increase in the sugar production was anticipated.

14. The experts noted, however, that diversification in agriculture would have certain limitations. First, there was a tendency for agricultural raw material prices to move in the same direction, and, secondly, it was by no means certain that satisfactory and remunerative export outlets existed for some of the new crops suggested. With respect to tea, for example, the Group noted that the production growth expected in Uganda will be additional to the substantial output increases planned by the traditional producers of that commodity. Attention was also drawn to the fact that sugar prices were now very low. The recommendation in the Study that the Uganda and Kenya Governments should consult with a view to arranging for the physical export of Kenya sugar whilst Uganda continued to supply the Kenya domestic market was supported by the United Kingdom expert. The expert from Israel stated that the diversification of production for export should be undertaken only after a thorough study had been carried out of the world market prospects for the commodities in question. The Group noted in this context that the GATT Trade Information Centre has carried out for the Uganda Government such market analyses in respect of papain, castor-seed, sunflower seed, groundnuts and various types of beans.

Coffee marketing prospects

15. The United Kingdom expert remarked that, whatever the success of Uganda in diversifying production, coffee and cotton would remain the mainstay of the economy in the years immediately ahead. The expert from Uganda also suggested that owing to the problems of diversification it was not easy for Uganda to overcome completely its reliance on cotton and coffee; he added that the Group should also look at the comparative advantages Uganda possessed in certain fields of production.

16. The expert from the International Coffee Organization informed the Group that, according to preliminary findings of studies undertaken by his Organization, the development of the world coffee market in the near future might be even worse than had been generally thought. Coffee consumption was, it appeared, increasing at a rate of 2.6 per cent per annum as compared with 3.4 per cent previously assumed. Moreover, certain importing countries were now starting to produce coffee domestically so that an overall excess supply of 11 million bags should be expected by 1970. The demand for soluble coffee was still growing but, in the United States, at a rapidly decelerating pace. The effort to improve the quality of soluble coffee has resulted in a greater use of Arabica; this trend may be also expected to continue, with obvious adverse effects on the demand for Uganda Robustas. Whilst the removal of existing barriers to international trade in coffee would undoubtedly be of some assistance in increasing demand, it was unlikely that such action could substantially alter the discouraging marketing position he had described. No producing country, in his opinion, should expect its quota sales in 1970 to be more than 15 per cent above the present volume. The Group noted that the efforts of the Uganda Coffee Marketing Board to find markets in "non-quota" countries had met with a considerable degree of success. The Uganda expert stated that his Government was aware of the possibilities of a decline in coffee prices and was not encouraging any expansion in the production of Robusta coffees, but was attempting to increase output in Arabicas and improve the quality of her Robustas.

Surplus disposal of cotton

17. Referring to the effects on Uganda's exports of cotton to India of United States sales under Public Law No. 480, the United States expert noted that this matter was under review both in the International Cotton Advisory Committee and in the Sub-Committee on Surplus Disposal of the Committee on Commodity Problems of the FAO. The United States conformed to the FAO principles on surplus disposal. He noted that the question had already been discussed at the twenty-second session of the CONTRACTING PARTIES, and his Government was willing to discuss the matter at any time with the other parties concerned. The expert of India explained that it was his Government's policy to make purchases of Public Law No. 480 cotton from the United States subject to the condition that the level of normal imports was not disturbed. This condition had been observed and free foreign exchange had been allocated to enable purchases of cotton to a total not less than such purchases during a reference period. It was, of course, possible that Uganda's share of purchases under free foreign exchange had declined for purely commercial reasons. It could not moreover be assumed that if there were no imports under Public Law No. 480 more free foreign exchange would be allocated to cotton, since allocations as between different commodities, were carefully planned and distributed on a priority basis. At the twenty-second session of the CONTRACTING PARTIES, the Indian delegation had expressed its willingness to discuss this matter with the Uganda delegation but, hitherto, this had not proved possible. The expert from Uganda noted that his delegation had made a statement on the matter at the twenty-second session. He suggested that the relationship between United States shipments of Public Law No. 480 cotton and the decline in Uganda's exports to India was reasonably conclusively established. An analysis undertaken by the Uganda authorities themselves of India's imports had shown that Uganda was the country most likely to be adversely affected by Public Law No.480 shipments of cotton. He noted that Uganda's exports of cotton to India had risen in 1964 but were still below their level in the years before Public Law No. 480 shipments had been effected. Uganda was, however, aware of the balance-of-payments problems encountered by India. He was encouraged by the statements of the Indian and United States experts concerning the willingness of their Governments to discuss the matter and this offer would be taken up by the Uganda Government.

Manufacturing sector

18. In reply to questions, the Uganda expert outlined some of the new industries, which, it was hoped, would be established in Uganda in the near future. In terms of the Kampala Agreement, Uganda had been allocated the production of nitrogenous fertilizer and the assembly of bicycles. There were deposits of iron ore and it was hoped that it would be possible to expand the iron and steel industry, presently using scrap, on the basis of this local ore. Meat, milk and fish processing, tanning and the manufacture of soluble coffee might also be undertaken during the course of the next Plan. The Uganda Government was intending to conduct a survey of the industrial potential and would welcome outside assistance in this regard. The Israeli expert underlined the importance of small-scale industry in developing

countries and suggested that, in Uganda, it might prove feasible to establish such industries in rural areas to supply local needs and employ local raw materials. The Uganda expert stated that his Government was seeking the assistance of the United Nations in assessing the possibilities of establishing small-scale industries The Group noted that the Uganda Development Corporation had proved itself an excellent instrument in encouraging industrialization. The United States expert pointed out that Uganda industries would enjoy some degree of natural protection in that the transport element in the cost of imports was relatively high. The expert from Israel said that it would be useful to have an analysis of Uganda's imports so as to enable an assessment by the Group of the possibilities of import substitution.

19. Whilst noting that there appeared to be prospects for manufacturing a number of items presently imported, other members of the Group underlined the desirability of Uganda diversifying her external exports by increasing the proportion of processed and semi-processed products as she had done in the case of her exports to Kenya and Tanzania. They pointed out that with the high transport element and the cost of Uganda's exports, it was desirable to increase the ratio of value to weight. The Uganda expert indicated that much of the manufacturing activity in his country was undertaken by foreign firms who were often unwilling to enter into export markets supplied by the parent factory in the developed country. Uganda would welcome the advice of the Group on how best to encourage manufacturers to turn their attention from the domestic to the export market.

Trade barriers

20. The Uganda expert said that the import duties differentiating between various stages of processing of the same base commodity were also a powerful deterrent to the expansion of exports of Ugandan manufactured goods outside East Africa. The Uganda Government would welcome efforts in the GATT to remove these barriers. Uganda had notified its intention of participating in the Kennedy Round and would welcome the guidance of the experts on how best to achieve its aims. The Swedish expert pointed out that the removal of barriers, while undoubtedly of benefit to developing countries, would not in itself ensure an expansion of their export earnings. The Israeli expert suggested that developed countries should encourage their manufacturing concerns to establish themselves in the developing countries as this would give them an incentive to remove the protection they were granting to the domestic output of these concerns.

Manpower problems

21. The experts agreed that the success of the new Plan will be largely predicated on the availability of appropriately skilled manpower. The expert from Uganda stated that his Government was fully aware of the need to ensure that shortage of skilled industrial labour and administrative manpower does not become a constraint on development in his country and was seeking the services of foreign experts where

suitably qualified local personnel were not available. The Swedish expert pointed out that the operations connected with sale and shipment of export goods required highly specific skills. As Uganda attempted to export more processed goods the need for export promotion measures would increase. The Uganda expert stated that his Government was seeking outside assistance with a view to establishing an export promotion agency. The experts agreed that the important question of technical assistance for export promotion should be taken up in greater detail in the next meeting of the Group.

Trade between developing countries

22. A number of experts stressed the importance of other developing countries as outlets for Uganda's exports. The expert from the FAO commented that Uganda would seem well placed to supply food to countries in the Indian Ocean area and in particular India, whilst importing manufactured goods from the more industrialized developing countries. The United Kingdom expert drew attention to the adverse effects on the trade of other developing countries of import restrictions maintained for balance-of-payments reasons in some. These restrictions were obstructing a more rational allocation of production between the developing countries themselves. It was suggested that this was a problem which could fruitfully be considered by the CONTRACTING PARTIES. The Uganda expert emphasized the importance his Government attached to expanding its trade with other developing countries, particularly with the neighbouring States in Africa.

East African market

23. The Uganda expert pointed out that the three East African Governments were currently considering their mutual economic relationships and that it would be inappropriate for the Group, in the absence of representatives from Kenya and Tanzania, to discuss these relationships. He noted, however, that Uganda had made its commitment to the maintenance of the East African Customs Union quite clear. The problems which were confronting the three East African countries in their mutual relations were common to all regional groupings and arose from uneven levels of development, a situation which they had inherited at Independence. The German and Japanese experts stressed that the maintenance of the East African market was of importance in connexion with the attraction of private investment to Uganda.

Tourism

24. A number of experts stressed the importance of tourism as a means of increasing Uganda's foreign exchange receipts. The Uganda expert said that his Government was well aware of the need to promote tourism and had embarked upon an expansion of hotel capacity and had undertaken a campaign to educate Ugandans in the need to conserve wild life.

Conclusions

25. The Group agreed that its present examination of the Uganda Study should be regarded as being of a preliminary nature only and that it should meet again, probably in the autumn, for further discussions. It would then attempt to agree on conclusions and formulate recommendations on the basis of more up-to-date information on developments in the Uganda economy and on the character of its future Plan. Certain additional analyses, requested by experts, in connexion with world marketing prospects for new crops, and with the pattern of Uganda's imports, would also have to be prepared by the secretariat for the autumn meeting.