

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Group of Experts on Development Plan Studies

UGANDA

Note by the Secretariat

This note suggests a number of topics which, in the view of the secretariat, deserve consideration by the Expert Group. The list is of course by no means exhaustive. The note also provides additional data, particularly statistical information, which has recently become available to the secretariat. The contents of the note have not been referred to the Uganda Government and thus remain the responsibility of the secretariat.

I. INVESTMENT AND GROWTH UNDER THE PRESENT PLAN

(a) The Plan calls for development expenditure of £94 million for the five years July 1961 to June 1966. Of this amount £71.7 million is projected for the public sector, and £22.3 million for the private sector. The analysis in the study and information pertaining to 1964 which showed that the gross capital formation amounted to £24 million sterling in that year, would indicate that the Plan's total investment targets will be fulfilled. Within the generally satisfactory overall position as regards investment it must be noted that the public sector has not, so far at least, been able to invest at the rate projected in the Plan but that this short-fall has been compensated for by higher than anticipated investment in the private sector.

(b) In the terms of the Plan, and for public and private investment combined, 23 per cent of the £94 million projected total investment will take place in the agricultural sector, and 12.2 per cent in manufacturing and processing. To date the productive sectors would appear to have fared relatively better than the non-productive sectors as regards investment.

(c) The Plan postulates a growth rate of between 4.5 to 5 per cent per annum. In 1964 gross domestic growth rose, according to preliminary official calculations, by 15 per cent, largely as a result of the increase in export prices. It is likely that the Plan targets for growth will in fact be fulfilled and perhaps even exceeded.

II. FINANCING DEVELOPMENT

(a) Finance does not yet appear to have constituted a limitation to development in Uganda. Estimates for the development budget in 1964-1965 indicate that of the revenues available for capital expenditure over 50 per cent will come from recurrent account surplus, 36 per cent in the form of foreign aid (loans and grants combined), 10 per cent from Government department earnings of a non-recurrent nature and only 1.3 per cent from local borrowing.

(b) The success of the Uganda Government in transferring surpluses from recurrent account is attributable to the fact that in the last two years the recurrent revenue situation has been very satisfactory as a result of increased receipts from export taxes, particularly for coffee.

(c) Receipts from export taxes are, however, extremely volatile, particularly since they are levied on a progressive basis, and the fact that they now constitute about 30 per cent of Government total tax revenue clearly has implications for the Uganda Government budgetary position. The need for greater diversification in sources of recurrent revenue is pressing and the Government has sought expert advice on this matter.

(d) If receipts from export taxes decline, the Uganda Government would be unable to transfer surpluses from recurrent account to development account and would have to look for an alternative source of financing its own capital expenditure. In view of the very small contribution made by domestic savings, at present, such a short-fall would need to be compensated for by an increase in foreign capital inflow. In order to lessen this reliance on taxes from trade, and potentially, on aid, it would seem desirable for the Uganda Government to give further consideration to the means of fostering and mobilizing local savings for public sector development.

(e) Under the East African currency system it was not possible to calculate the inflow of foreign private capital but it is thought that, in fact, the bulk of private investment under the Plan has been financed locally. There would seem to be a need, therefore, for consideration to be given to the encouragement of a greater inflow of private foreign capital.

III. THE BALANCE OF PAYMENTS

(a) Because Uganda has in the past shared a common currency with its East African neighbours, no official balance-of-payments estimates are available. However, on 10 June of this year, it was announced that the currency union was to be dissolved.

(b) Uganda has consistently enjoyed a surplus on trade account. According to the projections in the Study this surplus will be maintained during the present decade. As a result of the past success of the Uganda Government in financing development from local sources, the country's public debt is relatively small, amounting to no more than 3.2 per cent of external exports in 1963.

(c) Although, as noted, official figures are not available, it would appear that there has been a fairly substantial outflow of private capital from Uganda in recent years. It would seem probable that this outflow will diminish in the future (the fact that Uganda will have its own currency will also enable a greater degree of control over such outflows). At the same time it would seem likely that foreign capital inflow, both in the public and private sectors, will increase so that Uganda is unlikely to be faced with a foreign exchange constraint in the years immediately ahead.

IV. TRADE

(a) The Uganda economy is markedly dependent on exports and in particular on two commodities, coffee and cotton. In 1964 one half of the marketed production was for export and coffee and cotton supplied 70 per cent of this total. According to the export forecast in the Study, these two commodities will supply about 65 per cent of the total export in 1970, on the basis of present production assumptions. Since the monetary product will grow more rapidly than substance output, the dependence of the economy on exports in general, and on coffee and cotton in particular (notably in respect of taxes), will have increased.

(b) Efforts to diversify agricultural production and exports are at present concentrated on the development of the following commodities: sugar cane, sisal, oilseeds (castor, groundnuts, sunflower), papain and several varieties of beans. All these commodities seem to be well suited to the soil and climatic conditions of Uganda. The International Trade Centre of GATT investigated for the Uganda Government the marketing methods and prospects for oilseeds, papain and beans. In all three cases the external market conditions have been found favourable to additional exports from Uganda. There are, of course, production possibilities for other, perhaps even more remunerative agricultural commodities. To discover them, however, and to develop the most suitable varieties of them, will require an extensive research effort. In this context the Group might wish to discuss the problem Uganda shares with many other less-developed countries, namely the difficulty in attracting aid for agricultural projects.

(c) The Study points out that the efforts to diversify agricultural production would be greatly facilitated by the removal of restrictions on intra-East African trade in certain foodstuffs produced in all three countries which would lead to a more rational geographic distribution of production and so accelerate the monetization of the agricultural subsistence sectors of the East-African economies.

(d) While all the secondary agricultural exports could eventually add up to a significant total, it is not likely that Uganda's exchange needs could be satisfied, on a stable basis, by agricultural exports alone. One of the important conditions of the stability of export revenue is the continued price competitiveness of the commodities offered. In this respect the export of agricultural commodities from Uganda is handicapped by its dependence on long railway transport to the nearest port. The very geographical

position of the country thus makes it urgent to develop exports of commodities which have a high ratio of value to weight or bulk, that is, semi-processed and fully manufactured commodities. As in the case of Kenya, such exports are at present expanding mainly into the other countries of the East-African customs union and need this large and sheltered trading area in order to develop that degree of competitiveness in cost and quality which is required by the external markets. In view of the fact that Uganda's manufacturing industries are still at a very early stage of development, it might be appropriate for the Expert Group to discuss in this context what types of industrial activity would be most suitable for Uganda from the point of view of resource availability, employment and income creation, and of the net earnings or savings of foreign exchange.

(e) The study notes that because her present exports outside East Africa comprise mostly raw materials and unprocessed foodstuffs, Uganda's trade is not generally restricted by the existence of trade barriers in the major importing countries. However, if Uganda is successful in her efforts to induce a greater degree of processing of her raw materials prior to exportation, barriers to trade will become a much more important limitation.

(f) The study notes the view, expressed in Uganda's cotton industry, that United States shipments of raw cotton to India under Title I of P.L. 480 had adverse effects on Uganda's exports to India, and suggests that Uganda might wish to institute consultations with the United States Government on this matter. It should be noted, in this connexion, that Uganda exports of cotton to India rose in 1964.

(g) In view of the importance of prices received for her major export commodities for Uganda both because of their impact on levels of domestic income and on government revenues, the Group may wish to take note of certain recent developments as regards price movements and to consider likely longer-term trends for these commodities:-

- (i) new arrangements have recently been introduced by the International Coffee Council in relation to the workings of the International Coffee Agreement, of which Uganda is a signatory. The new arrangements, providing for an automatic limited adjustment of coffee export quotas, based on changes in an indicator price, has been very successful in the most recent period. The main problem facing the stabilization scheme at present is the large carry-over of coffee from the current year, estimated by the United States Department of Agriculture at some 60 million bags (more than a year's consumption at present levels for all countries) combined with the large 1965-66 Brazilian crop. This is estimated at between 27 and 33 million bags while the Brazilian export quota for the next season is expected at most to be little over 18 million bags. The future prices of coffees thus depend primarily on the success of the current efforts to build up a fund sufficiently large to finance a retention of coffee in excess of the export quotas. With the United States participating in the International Coffee Council, the probability of success is decidedly greater. In 1964 the prices received for Uganda coffees were, on average, about 50 per cent higher than those

prevailing in 1963. However, the relatively high prices occurred in the first half of 1964 and subsequently there has been a fairly marked decline so that exports in 1965 are not expected to be as high. At the same time the quantity of coffee sold in 1964 was slightly lower than that of the preceding year. The Coffee Marketing Board was successful in finding "non-quota" markets for its coffee.

- (ii) export earnings from cotton at £15.8 million were, in 1964, 10 per cent up on 1963 but, in this case, the increased value was mainly attributable to a larger crop.
- (iii) Copper exports, which were valued at £3.6 million in 1963, rose to £6.2 million in 1964 as a result of a price increase of 44 per cent. Relatively high prices have been maintained in 1965.
- (iv). The price received for Uganda tea exports were slightly lower in 1964 than in the previous year. The most recent forecasts presented by the FAO at the recent conference of tea-growing countries in Ceylon foresee an approximate balance of supply and demand in 1970. This expectation however is based on two conditions, neither of which can be taken for granted, namely, that there will be no increase in the exports of tea from mainland China, and that tea production outside mainland China will fall somewhat short of the targets set up in the national development plans of the main producing countries. It should also be noted that tea consumption in the developed countries will, on the average, increase only as their population increases and that nearly three quarters of the projected growth in consumption is expected to take place in the developing countries themselves. The dependence of increases in tea consumption on the growth of income and foreign exchange availabilities of less-developed countries gives some cause for doubts about future prices