

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE
CONSULTATION WITH THE FEDERATION OF RHODESIA AND NYASALAND

1. In accordance with its terms of reference the Committee has conducted the consultation with the Federation of Rhodesia and Nyasaland under Articles XII:4(b) and XIV:1(g). The Committee had before it: (a) a basic document prepared by the secretariat on the basis of data supplied by the Government of the Federation; and (b) a document provided by the International Monetary Fund. In conducting the consultation, the Committee followed "the plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 24 October 1959. The present report summarizes the main points discussed during the consultation.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with the Federation of Rhodesia and Nyasaland. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted a background paper on economic developments and changes in the restrictive system of the Federation of Rhodesia and Nyasaland, dated 18 September 1959. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the Federation of Rhodesia and Nyasaland. This statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on economic developments and changes in the restrictive system of the Federation of Rhodesia and Nyasaland, dated September 18 1959. In preparing this paper the Fund has received the co-operation of officials of the Federation in assuring the accuracy of the data used and in supplying the latest available information. I should like to take this opportunity to express the Fund's appreciation for this assistance.

"With respect to Part I of the Plan for Consultations relating to balance-of-payments position and prospects, and also with respect to Part III, relating to system and methods of the restrictions, the Federation of Rhodesia and Nyasaland does not have separate membership in the International Monetary Fund. Attention is drawn to the Fund's statement which was made in May 1959 in connexion with the CONTRACTING PARTIES' consultations with the United Kingdom, as relevant also for their consultations with the Federation."¹

¹ For this statement, see L/1002.

Opening Statement of the Representative of the Federation of Rhodesia and Nyasaland

3. The representative of the Federation of Rhodesia and Nyasaland in his opening statement recalled previous discussions of the Federation's restrictive system and he briefly described the latest changes and developments in the economic conditions of his country. He reminded the Committee of the reduction of discrimination in the Federation's control system during the last four to five years. He noted that at the time of the last consultation about a year ago the Committee was good enough to record its appreciation of his country's action in applying internal measures to correct a chronic balance-of-payments situation in preference to taking the easier course of intensifying its controls. During the last twelve months, the Federation had been able to relax these internal measures and had, moreover, on three separate occasions announced the removal of more of the few remaining dollar restrictions. The Government had conscientiously and progressively reduced import controls even before the advent of external convertibility. As the Committee was aware, the Federation had progressively relaxed import restrictions since 1954 with the result that virtually all imports from the sterling area, the OEEC area and nine other countries had for some time not been subject to control or restrictions other than the requirement of a licence under the Open General Licence Procedures. The main residue of restrictions applied to goods originating in the dollar area. With the achievement of external convertibility of sterling at the beginning of 1959 the main balance-of-payments reason for maintaining restrictions on this basis had obviously been eliminated.

4. The representative of the Federation further explained that the Federation's balance-of-payments situation at the beginning of 1959 still contained a number of uncertainties which made it impossible for the Federal Government to consider the complete immediate removal of restrictions on all commercial imports. Nor could it be contemplated that discrimination should be removed by de-liberalizing imports from other sources. The only course open to the Federal Government, therefore, had been to remove restrictions from dollar goods progressively, and as rapidly as had been thought prudent in the light of the overall balance-of-payments circumstances. Deletions from the restricted list for dollar goods had accordingly been made on 1 January, 10 July and 11 September 1959 with the effect that the list of goods under restriction had practically been halved. The freed items included most household and domestic equipment, materials for industry, foodstuffs, firearms, and cycles (motor and non-motor). In some cases the derestriction had been preceded by the opening or enlargement of quotas. The remaining restricted items were being examined with a view to derestrictions at the end of the current licensing period after 31 December. The Federation representative was authorized to state that in any event the Federation would further liberalize substantially on 1 January 1960.

Balance-of-Payments Position and Prospects

5. The Committee thanked the representative of the Federation of Rhodesia and Nyasaland for the clear and concise and in many ways encouraging statement. A member of the Committee commented on the difficulties following the achievement of external convertibility involved in dismantling overnight discriminatory import controls which had evolved over a period of years. Some members

expressed the hope that, notwithstanding these difficulties, the envisaged elimination of discriminatory restrictions by 1 January 1960 would materialize. These members of the Committee pointed out that there was no balance-of-payments justification for the application of discriminatory restrictions now that imports from almost all sources in the last analysis had to be paid for in convertible currencies. The derestriction of a number of dollar goods on three occasions earlier this year was noted with appreciation as well as the general progress which the Federation had made in the gradual dismantling of restrictions. Appreciation was also expressed for the Rhodesian representative's statement of intent to examine the remaining discriminatory controls with a view to their elimination by the end of 1959 and in any event to liberalize substantially at the beginning of 1960. These assurances were welcomed, but the representative of the Federation was asked by some members to transmit to his Government the sense of urgency with which the need to eliminate the remaining discrimination by the end of the year was viewed.

6. Several members of the Committee congratulated the Federation on the improvement in the balance of payments in 1958 and on the apparent continuation of this favourable development into 1959. They asked whether the representative of the Federation could indicate the estimated changes in export earnings and the reserve position in 1959/60. The representative of the Federation told the Committee that the current adverse balance for the first half-year of 1959 was estimated at £9.5 million. For the second half-year provisional estimates allowed for a current adverse balance of £27.3 million. It was expected that a lower net inflow of capital would be recorded in 1959 than in 1958. Subject to the uncertainties of export prices some increase in external reserves was expected during 1959. However, these estimates were provisional. Preliminary figures issued by the Statistical Office indicated that the country's favourable balance of visible trade had sagged from £6,700,000 in July to £2,900,000 in August, as exports had decreased by £2,750,000, accompanied by a small increase in imports. The representative of the Federation explained that the current level of reserves was related to a reduced level of imports and a lower level of official and private investment during 1958/59. Capital investment had fallen from a record level of £157 million (43 per cent of gross national product) in 1957, to £128 million (36 per cent of gross national product) in 1958, and was estimated at £120 million for the financial year ending 30 June 1959. However, improvements during the first half of 1959 indicated a recovery in the rate of growth. In response to the question concerning prospective export earnings, the representative of the Federation pointed to his country's dependence upon the export of copper and tobacco. Total exports of copper in the second half of 1959 were estimated to run at about 215,000 tons, of which approximately 10,000 tons were to be exported to the United States. It was expected that copper exports to the United States would amount to only about 8,000 tons in the first half-year of 1960. No windfall exports of copper comparable to those which occurred in 1959 were expected for 1960. The prices per ton of copper were expected to be between £230-£240 for the remainder of 1959; for 1960, a decrease to an average price of £220 per ton was foreseen on the basis of current production and consumption trends. The export earnings from tobacco were expected to remain satisfactory. Exports

of zinc were expected to remain at the same level but a reduction in the export earnings from lead seemed likely. An increase in the exports of ferro-chrome and chrome was also expected. With regard to asbestos, a slight improvement in the first half of 1960 was expected following the present seasonal decline of exports.

Alternative Measures to Restore Equilibrium

7. Members of the Committee congratulated the representative of the Federation on the effective way in which his Government had used alternative internal measures to reverse an unfavourable balance of payments. In response to a question by one member of the Committee, the representative of the Federation explained that it had been possible to apply the measures in a way which did not result in induced deflationary effects. The structure of the Federation's economy had permitted the Government to control the timing in the application and withdrawal of these measures in a way which had avoided such effects.

8. One member of the Committee enquired about the expected effects of the Development Plan on the Federation's economy and the balance of payments. This member also enquired about the reasons for the recent downward revision in the amount of investment under the Development Plan and about the extent to which the development programme could be financed from domestic sources. The representative of the Federation explained that the decline in capital investment from £157 million in 1957 to £128 million in 1958 could partly be accounted for by the reduced level of capital expenditure due to the approaching completion of the Kariba Dam hydro-electric project. Concerning the sources of investment funds no exact answer could be given because of the non-availability of satisfactory information on private capital movements. Loans floated domestically had not nearly been sufficient to supply the Federation's capital requirements. In 1957 borrowing abroad had amounted to £67.3 million, compared to total domestic gross savings of £89.6 million. In 1958, foreign borrowing had amounted to £54.8 million and total gross savings to £73.5 million. Personal savings in 1958 were down £5.6 million from £27.9 million in 1957. Government surpluses over this period had also shown a decline from £30.6 million in 1957 to £20.3 million in 1958. Over the same period undistributed profits and depreciation provisions had remained substantially unchanged. In response to the question concerning the impact of the Development Plan on the Federation's economy, the representative of the Federation explained that the programme showed a heavy bias on the provision of social and basic services. Not including the Kariba Dam project some 30 per cent of capital outlays was expected to show more or less immediate productive effects, however. An increase in imports was also expected but not to the extent that additional capital imports would be needed. It was not expected that the implementation of the development programme would lead to inflationary pressures.

System and Methods of Restrictions

9. Members of the Committee expressed their concern over the long list of goods from dollar area countries which were still subject to import restrictions. The Government of the Federation was urged to eliminate these

discriminations rapidly and preferably by the end of this year. The representative of the Federation stated that the apparent length of the list of restricted imports was somewhat deceiving because it was largely composed of small tariff sub-items.

10. The representative of Japan noted that imports from Japan were not accorded the same treatment as imports from other non-sterling and non-dollar area GATT Member countries. Though Japan was appreciative of the increased import opportunities in the Federation following the increases in quotas for Japanese goods, the Government of Japan was disappointed nevertheless that normal trading relations had not yet been established between Japan and the Federation of Rhodesia and Nyasaland. The representative of Japan expressed the hope that full GATT relationship should be established between the two countries. The representative of the Federation stated that he would convey this to the attention of his Government.

11. In response to a question concerning the criteria for the determination of dollar import quotas the representative of the Federation explained the historic reasons in the formulation of import allocations. He illustrated this on the example of wheat. In the case of wheat, 20 per cent of which had to be imported, the practice to mill a mixture of four-fifths soft wheat with one fifth hard wheat had been followed for many years even before the import controls had become necessary. With regard to automobiles the size of the current quota for imports from dollar countries in the amount of £300,000 appeared to meet domestic demand because improved highways and the increased availability of less expensive European cars had eased the pressure for American-type automobiles which had existed shortly after the war.

12. A member of the Committee asked whether certain non-OEEC and non-dollar area GATT Member countries would also benefit from the envisaged elimination of discriminatory import controls. The representative of the Federation replied that imports from this group of countries namely; Brazil, Chile, Indonesia, Peru, Czechoslovakia and Uruguay were already being treated substantially in the same manner as imports from OEEC countries. In response to another question, the representative of the Federation declared that his Government was not a party to bilateral agreements which called for anything other than normal commercial practices. However, the question of bilateral trade was a matter of considerable concern to the Federation. The trade conducted under such agreements by many other countries had had unfavourable effects on the price of certain primary commodities on which the country was primarily dependent. Another member, referring back to an earlier consultation, asked whether the study of the circumstances which had led to the restriction of cement imports had been completed, and if so what the outcome of the study had been. The representative of the Federation replied that the re-examination had not yet been completed and that with the exception of certain special types no import licences for cement had been issued. A member asked whether State traded goods could also be imported without limitation from OEEC countries under Open General Licence. The representative of the Federation stated that there was no State trading in the Federation of Rhodesia and Nyasaland,

except for some agricultural products. Imports of these products were administered by the State Marketing Boards; and imports were made on the basis of commercial considerations. In general, however, only the difference between domestically available supplies and domestic consumption requirements was imported.

Effects of the Restrictions

13. One member asked whether the Federation would experience any difficulty in the abolition of controls for those goods which were still restricted from all sources, and whether these restrictions would be removed once the Federation would no longer find itself in balance-of-payments difficulties. The representative of the Federation explained that with certain exceptions restrictions of these products had not been imposed for balance-of-payments reasons, and that it was unlikely therefore that they would be eliminated in this context. Many of these restrictions had been imposed, for example, for sanitary or other obvious reasons like those limiting the import of gold, arms and ammunition. The question of wheat and cement had already been referred to, and in the case of sugar the Federation controlled imports under the Commonwealth Sugar Agreement.

General

14. In summing up, the Chairman complimented the representative of the Federation for the efficient manner in which he had explained his country's position. The Committee had been impressed with the Federation's ability to counteract an unfavourable balance-of-payments development through the use of alternative internal measures. Some members of the Committee had also noted with pleasure the Federation's abstention from discriminatory bilateral trade practices. Certain members of the Committee noted that the maintenance of discriminatory import controls was no longer justified and that the Federation should proceed with the dismantling of the remaining discriminatory restrictions at an early date. The Committee welcomed the Federation's declared intention to derestrict at the beginning of 1960.