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DRAFT REPORT ON THE CONSULTATION WITH THE FEDERATION OF RHODESIA AND NYASALAND

Introduction

1. The Working Party has conducted the consultation for 1958 under paragraph 1(g) of Article XIV with the Federation of Rhodesia and Nyasaland which, as a country invoking the provisions of Annex J, is required to consult annually with the CONTRACTING PARTIES on the retention of discrimination. The consultation was initiated by the Government of the Federation in March 1958. In opening the consultation the representative of the Federation made a statement reviewing the Federation's current balance-of-payments and monetary reserve position, describing the policies followed in the internal financial field and in controlling imports. This statement is reproduced as Annex I to the present report. In the discussion which ensued, the Working Party broadly followed the plan which had been adopted by the CONTRACTING PARTIES for consultations under Article XIV:1(g). The present report summarizes the main points in the statement made by the representative of the Federation and in the discussions.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with the consultation with the Federation and had accepted that invitation. The representative of the Fund stated that the Fund had transmitted to the CONTRACTING PARTIES a background paper on economic developments and changes in the restrictive system of the Federation, dated 15 September 1958. In preparing this paper the Fund had received the co-operation of officials of the Federation in ensuring the accuracy of the data used and in supplying the latest available information, and the Fund representative wished to take this opportunity to express the Fund's appreciation for this assistance. He also drew attention to the results of the Fund's latest consultation with the United Kingdom (see Annex II), which were pertinent to the consultation with the Federation, since the Federation of Rhodesia and Nyasaland did not have separate membership in the International Monetary Fund, but was one of the areas covered by the quota of the United Kingdom.

Balance-of-payments and monetary reserve situation

3. In opening the consultation, the representative of the Federation described the recent deterioration in the balance-of-payments situation of the Federation, both in current account transactions and in capital movements. The Federation's trade surplus had declined in 1956 and had been replaced by deficits in 1957 and in the first half of 1958, resulting in a continued rise in the deficits on current account. In 1955-57 net capital inflow had remained steady, and the deficits on current account had to be financed by drawings on the country's sterling reserves. The difficulties faced by the Federation had therefore become more severe in the past year, and the principal cause was a reduction in export earnings, coupled with an increase in the value of imports.

4. In dealing with the situation the Federation had concentrated its attention on the maintenance of development and on the reduction of expenditure by the public generally. After describing the various measures taken by the Federal Government in limiting development expenditure and in controlling credit facilities, the representative of the Federation stated that in spite of the considerable pressure which had been brought to bear on the Government, it had refused to substitute for the credit measures a general extension of import controls.

5. The representative of the Federation recalled that ever since the Federation came into being in 1953 the scope and extent of import controls had been reduced steadily and substantially each year. In the present circumstances any further relaxation measures might well aggravate the Federation's difficulties and create a situation in which more extensive import controls might become unavoidable at a later stage. The recent halt in liberalization should not be regarded as reflecting a decision to stabilize controls at their present level or a change in the policy of moving towards freer trade. The level of controls will continue to be reviewed every six months in consultation with the Chamber of Commerce and trade representatives of other governments.

6. In any case, the controls were already at a very low level; all imports from sterling area countries, and all goods from OEEC and nine other countries, are free from balance-of-payments import control. Most of the goods from dollar sources are under Open General Licence, and substantial quotas are provided for a range of other goods. Other imports are licensed on an ad hoc basis. The measure of relaxation accorded to the dollar area had been reflected in a doubling of imports from that area in the last four years. As for the prospects for further relaxation in the near future, the representative of the Federation noted that the controls would be reviewed at the end of the year. The first half of 1958 showed a trading deficit of £13.1 million and a current account deficit of £32.1 million. A strike was causing a loss of production

of copper, and export earnings from chrome had also been reduced substantially. While not in a position to forecast the Federation's 1959 import control programme, the representative of the Federation concluded his statement by reaffirming the intention of his Government to remove the residue of its restrictions as soon as permitted by its balance-of-payments position.

7. Members of the Working Party expressed appreciation of the clear and informative statement by the representative of the Federation. They were gratified that the Federation, in spite of the deterioration in the balance-of-payments situation, had maintained its policy of liberalization. It was hoped that future developments would enable the Federation to resume its progress towards still freer and multilateral trade. The reliance which had been put on internal monetary measures rather than import control indicated a clear understanding on the part of the Federal Government of the advantages of employing sound financial policies which the CONTRACTING PARTIES had been emphasizing in recent years.

8. In response to questions put forward by members of the Working Party, the representative of the Federation supplied information in the field of balance of payments, internal policy, etc., including the following data:

A. Payments in the first half of 1958

(in £ Rhodesian million)

	Credit	Debit	Net
Trade	71.3	84.0	- 12.7
Invisibles	<u>18.9</u>	<u>38.3</u>	- <u>19.4</u>
Current Account	90.2	122.3	- 32.1
Private capital
Official capital	17.9	1.1	16.8

B. The sterling resources of the Federation

(in £ million)

End of 1953	128.3
" " 1955	150.1
" " 1957	100.2
30 April 1958	100.3

9. It was noted in the IMF background paper that following the serious fall in the Federation's sterling reserves, the Central Bank had requested the trading banks to reduce the total of their bills and advances "significantly" by 30 April 1958, and rules governing hire purchase transactions had been tightened. In May 1958, these measures were found insufficient to make a sufficient impact on the country's balance-of-payments difficulties, and the banks were exhorted to make a bigger effort. In this connexion, the representatives of the Federation stated that the present situation was being carefully studied by the authorities. The Working Party also discussed on the basis of the information contained in the IMF background paper the various factors affecting the inflow of private capital.

10. The representative of a country in the dollar area referred to the relatively favourable balance of payments of the Federation with the dollar area and invited the representative of the Federation to comment on the basis for the continued application of discrimination against imports from the dollar area. In reply, the representative of the Federation referred to the requirements of economic development which generated a high demand for imports of industrial goods, plant and machinery and raw materials; in the light of this, care had to be exercised in the control of imports. Representatives of dollar area countries noted in this connexion that, while it could be said that a heavy demand for imports connected with economic development might justify the importing country's selective restriction of imports, discrimination as between sources of supply was not an aid to economic development; indeed, it could be expected to place an added burden on the balance of payments. The experience of Australia, for example, had convinced that country that to reduce discrimination might be in the interest of a more economic use of available external resources.

11. In discussing the basis for the discriminatory restrictions maintained by the Federation, the Working Party noted the provisions of Annex J. It also noted the relevance of the provisions of paragraph 3 of Article XIV.

Methods of import restriction

12. The representative of the United States noted that the description of the import control system of the Federation available to the Working Party seemed to give the impression that only a few items are treated on a discriminatory basis. He observed, however, that despite the progress made by the Federation there were over 100 tariff items or sub-items which were not ordinarily licensed for the dollar area but were readily importable from non-dollar sources. The representative of the Federation explained that although imports from the dollar area of these items were not normally permitted, there was no statutory prohibition, and the licensing department had the authority to licence any of the listed items from the dollar area, if this were justified on essentiality grounds.

Prospects for further action

13. In concluding the consultation, members of the Working Party reiterated their expressions of gratification over the determination on the part of the Federation not to take any steps of retreat from the present state of liberalization, and to place primary reliance on internal financial measures. They look forward to further progress in reducing discrimination against dollar area goods. The representative of the United States stated that his delegation wished to have an opportunity to discuss with the delegation of the Federation certain special trade problems with which exporters of his country were faced; such discussions could take place outside the Working Party.

14. The representative of Rhodesia and Nyasaland stated that his delegation had taken careful note of the views expressed by other contracting parties in the consultation. These would be reported to his Government for its consideration in the formulation of its import policy in future. He also took note of the request made by the United States representative and thanked the International Monetary Fund for its assistance and co-operation.

ANNEX IStatement by the Delegate for the Federation of
Rhodesia and Nyasaland

Before making particular comments on the 1957 balance-of-payments position, I should like to remind the Working Party that the Federation shares in the United Kingdom's quota in the International Monetary Fund, and accordingly the absence of import restrictions exercised by the Federation against the United Kingdom is based on paragraph 3 of Article XIV. The Federation is also governed by Annex J of the General Agreement.

In the past we have come to regard as normal a balance of payments made up of a surplus on trade account, together with inflows of capital on both public and private account covering a net deficit in invisibles resulting largely from payments abroad of income derived from investment in the Federation.

In 1956 that picture changed; there was a reduction of our trading surplus from £41.3 million in 1955 to £26.1 million in 1956 and an increase in the total current account deficit from £11 million to nearly £34 million. That adverse trend continued in 1957. The former surplus in trading transactions changed to a deficit of £13.8 million and there was a much greater total deficit in current account transactions. The total current account deficit increased from the £11 million of 1955 and the £34 million of 1956 to £70 million in 1957. For the first half of 1958 the trading deficit is recorded as £13 million and the total current account deficit was £32 million for the six months.

Throughout these three years net capital inflow has been steady, in fact showing a slight increase from £26.6 million in 1955 to £27.9 million in 1956 and £28 million in 1957. The deficit in current account was financed by a reduction in sterling reserves by £4 million in 1956 and £46 million in 1957.

Thus, as compared with the position a year ago when the last consultation on balance-of-payments import controls took place, we have to record that our difficulties have become more severe. The causes of this deterioration lie largely in the reduction in earnings from exports. The earnings from copper fell off in 1957 by £31 million, while the income from lead, zinc and asbestos was also slightly lower. The reduction in export earnings was coupled with an increase of about 11 per cent in the value of imports.

In dealing with this situation the Federation has taken a long-term view. It has endeavoured to maintain development, to reduce expenditure by the public generally, and to avoid any extension of import controls. As far as the Government development programme is concerned, a very close trimming has taken place to ensure that funds available are allocated to those forms of development expenditure that carry a high priority rating.

The effect is to slow down the programme and a reduction was made from £137 million to £121 million in the planned Federal Government expenditure over the current four year period to 1961. A brake was put on public expenditure generally by requesting banks to limit credit facilities and by imposing stricter terms of hire purchase contracts to require larger deposits and shorter periods of payment.

Considerable pressure was brought to bear on the Government to substitute for the credit squeeze a general extension of import controls on the grounds that such an extension of controls on importations would impede the development of industry less than credit restrictions. However, it was decided that the appropriate measure to deal with the situation was a general restriction of credit and that was the course which the Federation adopted. The nature and extent in individual cases of the limitation imposed on credit was left to the banks themselves to determine, so that commercial principles would apply and no particular form of activity would be favoured over another.

Accordingly, no extension of import controls has taken place. The Working Party may be aware that since the Federation came into being in 1953 the scope and extent of import controls has been reduced steadily and substantially each year and the present year is the first in which it has not been possible to carry this progressive relaxation still further. To have introduced further relaxation in the circumstances might well have aggravated the Federation's difficulties and created a situation in which a backward step towards more extensive import control might have become unavoidable later.

Thus, despite the worsening of the balance-of-payments, our import controls are no less and no greater than they were when they were reviewed by the CONTRACTING PARTIES a year ago. This reflects a decision to halt relaxations in import controls; it does not represent a decision to stabilize the controls at their present level. It is not looked upon as a change in the trend towards greater relaxation which the Federation has followed consistently since its inception. The existing level of controls continues to be reviewed every six months and in that review both Chamber of Commerce and trade representatives of other governments, stationed in the Federation, are consulted.

Nor is the halt at the present level of relaxation a halt at a high level of import control. Broadly speaking, we have now a situation in which all imports from sterling area countries, and all commodities from Organisation for European Economic Co-operation sources, as well as from nine other countries not members of the OEEC, are free from balance-of-payment import control.

The removal of import control on imports from dollar sources on all machinery, capital goods, newsprint and canned salmon took place some years ago. In fact, most goods from dollar sources are under Open General Licence. Substantial quotas are provided for a range of other goods, while consideration is given to the licensing ad hoc of the remainder on essentiality grounds. The measure of relaxation accorded to the dollar area is reflected in the fact that the value of imports from dollar sources has almost doubled over the last four years.

Present controls will be reviewed again at the end of the present calendar year. For the first half of 1958 we have a trading deficit of £13.3 million and a current account deficit of £32.1 million. The position by the end of the year will have been influenced by the loss of production of copper as a result of a total strike in the copper belt which has lasted several weeks and still continues. Also our export earnings from chrome have been reduced from £5.9 million in 1957 to an annual rate of £3.6 million on the basis of the figures for the first half of 1958 which can be compared pro rata, as seasonal factors do not exist.

In view of these uncertainties the Working Party would not expect me to attempt a forecast of the Federation's 1959 programme of controls. I should, however, like to close these introductory remarks by repeating that my Government has constantly affirmed its intention of removing the residue of its balance-of-payment restrictions as soon as the situation allows it to do so.

ANNEX II

Results of the last IMF consultation with
the United Kingdom, concluded on 7 March 1958

1. The Government of the United Kingdom has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. A moderate but persistent rise in wage costs and prices in the first half of 1957 indicated the continued existence of inflationary forces in the United Kingdom economy, and there were some signs of falling confidence in the value of money at home. In September the authorities intensified their efforts to control the money supply and to eliminate inflation through the use of further fiscal and monetary restraints: the Bank Rate was raised by 2 per cent to 7 per cent, steps were taken to limit current government expenditure, the money value of total public investment was to be limited in each of the years 1958/59 and 1959/60 to approximately the amount spent in 1957/58, and tighter control was imposed on bank credit to the private sector.
3. In spite of a reduction in the surplus from invisible transactions following the Suez crisis, the current account of the balance of payments produced a surplus of about £200 million in the year ended 30 June 1957. The net outflow of long-term capital amounted to about £300 million in the same period, partly as a result of increased purchases of non-sterling securities through sterling area free markets. These security transactions have now been brought under stricter control. Sterling liabilities rose by roughly £130 million in this period, while the gold and dollar reserves were at about the same level in June 1957 as they were a year earlier. The Fund drawing in December 1956 had the effect of increasing both sterling liabilities and reserves by just over £200 million.
4. During the following months the reserves declined under severe speculative pressure, this decline being accompanied by some fall in sterling holdings; this pressure was halted after the announcement of the new measures referred to above and the assurance given at the Fund's Annual Meeting that the rate for sterling would be maintained. Since October 1957 the reserves have been rising and sterling has shown considerable strength in the exchange markets. The current trading position remains good, though the rate of growth of exports has slowed down.
5. The Government of the United Kingdom has, in its economic policy, increased the emphasis placed on the attainment of price stability, and aims at creating with its present policies an economic climate in which excessive increases in money incomes can be avoided. The Fund welcomes these policies as a means of strengthening the payments position and as reflecting the United Kingdom's determination to preserve the value of sterling. It is desirable that in the pursuit of monetary stability close attention should continue to be given to the effects of the Government's own financial operations.

6. The Fund welcomes the continued adherence of the United Kingdom to a policy of freer trade and payments. In 1957 the United Kingdom, in spite of the renewed pressure on its reserves, maintained and in some cases slightly extended the progress previously made with the relaxation of restrictions and discrimination. Further substantial progress in the field of liberalization largely depends on a strengthening of the balance-of-payments position, which is also necessary because of the great importance of rebuilding the gold and dollar reserves and because of heavy demands on capital account. The Fund has confidence that the United Kingdom is pursuing policies appropriate to these objectives.

7. In concluding the 1957 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Kingdom.