

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

BOP/R/53
31 March 1971

Limited Distribution

Committee on Balance-of-Payments Restrictions

REPORT ON THE CONSULTATION UNDER
ARTICLE XVIII:12(b) WITH GHANA

1. In accordance with its terms of reference the Committee has conducted a consultation with Ghana under paragraph 12(b) of Article XVIII. The Committee noted that the previous consultation with Ghana under the same provisions had been held in September 1968. In conducting the consultation the Committee had before it a basic document (BOP/113 and Adds. 1 and 2) together with a supplementary statement on Ghana's general policy regarding the use of balance-of-payments restrictions (Spec(71)20), background papers provided by the International Monetary Fund, dated 22 September 1970 and 21 January 1971 and a decision of the Executive Board of the International Monetary Fund taken on 8 February 1971.
2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (L/3388, Annex 1). The consultation was held on 10 March 1971. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. 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 the consultation with Ghana. Upon the invitation of the Committee the representative of the International Monetary Fund made a statement, as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of February 8, 1971 taken at the conclusion of its most recent Article XIV consultation with Ghana, and particularly to paragraphs 4 and 5 which read as follows:

'4. Despite past favorable export prices of cocoa, Ghana's basic foreign exchange position remains weak. The Fund believes that a strengthening of the balance of payments position is necessary and hopes that Ghana will take additional measures toward this end.

'5. The Fund welcomes the steps that have been taken to liberalize the import regime. The Fund urges Ghana to continue efforts to reduce the level of payments arrears in current international transactions and in light of the circumstances described by the Ghanaian authorities gives approval until December 31, 1971 to the restrictions on the making of payments and transfers for current international transactions, arising from the arrears in existence on December 23, 1970.'

"At the present time the general level of restrictions of Ghana which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves."

Opening statement by the representative of Ghana

4. The consultation was opened with a general statement by the leader of the Ghana delegation, in which he outlined the evolution of the Ghanaian economy since the last consultation in 1968. There had been during this period a substantial acceleration of economic growth, a return to economic stability, and an improvement in the balance of payments. These had made possible a relaxation of the quantitative import restrictions, although this had to be accompanied by the introduction of a temporary import surcharge and some rise in import duties. Along with various measures to diversify and to promote exports, including the provision of tax advantages, export incentives and bonuses, attention had been given to the development of agricultural and industrial production. In this context the representative of Ghana described the various schemes and policies for the encouragement of production in various sectors of the economy, including those of farming, livestock, fisheries and various light industries.

5. As regards the balance of payments, however, payments for imports, as well as payments for invisibles -- mainly transfers and profits and dividends -- had risen and had resulted in a substantial deficit on current account, which was only partly compensated by a net inflow of capital in the form of official aid and debt service deferment.

6. In conclusion, the representative of Ghana expressed the hope that action could be taken by other governments which would help to relieve the burden involved for the Ghanaian people in their attempt to consolidate the development of their economy, and enumerated the measures that could be taken in this regard, viz: allowing greater freedom in the utilization of aid loans, hastening the conclusion of a cocoa agreement, trade liberalization through the removal of tariff and non-tariff barriers, and a realistic re-scheduling of debts. The full text of this opening statement is reproduced in Annex I to this report.

Balance-of-payments position and prospects

7. Members of the Committee expressed appreciation for the comprehensive documentation that had been supplied to the Committee and for the informative statement of the leader of the Ghanaian delegation. They expressed gratification at the results that had been achieved by Ghana in improving its balance of payments, in diversifying production and exports and in accelerating economic growth, and noted that in spite of these achievements Ghana's foreign exchange position still gave rise to concern, and required strengthening through additional measures. They welcomed the steps that had been taken in reducing reliance on quantitative restrictions and other administrative impediments likely to distort the pattern of imports, and hoped that future improvements in the balance of payments and consolidation of the economy would make it possible for Ghana eventually to

dispense with the remaining import restrictions as well as the import surcharges. In the meantime, they urged that consideration be given by the Ghanaian authorities to reducing or removing the 180-day import credit requirement, to allowing speedier repatriation of profits and dividends, to reducing reliance on import and export duties for public revenue, and to phasing out the remaining few bilateral trade and payments agreements.

8. Members of the Committee referred to the improvement in Ghana's balance of payments in 1970 and wished to know what in the opinion of the Ghanaian authorities would be the main problems and difficulties that must be overcome in order to continue the improvement in future years. The representative of Ghana pointed out that amelioration of the external financial situation last year had been due mainly to the rise in cocoa prices. A remunerative and stable price for this product was a prerequisite for Ghana's development and any contribution that contracting parties could make to that end would therefore be beneficial.

9. One member of the Committee remarked that while the Ghanaian practice of selling the bulk of its cocoa crop on a forward basis had had the effect of augmenting its earnings in the last two years when the world price showed a declining trend, it usually had the opposite effect when prices were rising. He wished to know whether Ghana intended to adhere to this practice or to adopt a more flexible attitude regarding the method of marketing the product. The representative of Ghana said that the matter was under consideration in Accra; Ghana was naturally interested in maximizing its earnings from this major product and the Government was aware of the drawbacks that forward selling might have in certain circumstances.

10. In discussing the prospects of export diversification, the representative of Ghana explained that the aim being pursued was to make a beginning in manufacturing and processing based on raw materials which had up to now been exported in unprocessed form. The new products for export included, notably, cocoa butter, plywood and knocked-down furniture and alumina. Attempts to export these products had, however, often met with tariff and other trade barriers. This, in the view of the Ghanaian representative, was one field in which a more liberal policy on the part of the contracting parties concerned would be helpful. In addition, Ghana had taken steps to encourage the expansion of certain exports to neighbouring African countries. A number of products such as jute bags, knocked-down furniture, textiles, could be easily exported to these countries, especially the land-locked ones such as Niger, Upper Volta and Mali. Here satisfactory responses had already been seen to the marketing efforts made, especially in Mali. Transportation and transit problems were being solved through joint efforts with those countries and negotiations to that end were in progress with Upper Volta and Mali.

11. In amplification of the information given in the documents before the Committee the Ghanaian representative explained that the export bonus scheme applied to all goods originating in Ghana with the exception of traditional exports such as timber and timber products, cocoa and cocoa products and all minerals. The bonus amounted to 25 per cent of the value of the goods and the

scheme was managed by the Bank of Ghana on behalf of the Government. The bonus scheme was expected to be useful in encouraging the surrender of foreign exchange earnings by exporters who might otherwise find it profitable to withhold part of their receipts abroad or to sell the foreign exchange in unauthorized markets. Apart from this there was also a rebate of income tax of up to 50 per cent granted to firms exporting 25 per cent of their production in any given year.

12. A member of the Committee noted that in 1970 Ghana's utilization of authorized long-term official loans greatly improved and enquired whether there would be any problems hampering further improvement in this regard. The representative of Ghana thought that this reflected the better terms of loan agreements negotiated in recent years. In the past effective utilization of funds in non-English speaking countries had also been hampered by the Ghanaian businessman's lack of acquaintance with countries outside the Commonwealth and the United States. But this handicap was being rapidly remedied as contacts increased.

13. In the course of the discussion the Ghanaian delegation supplied the Committee with up-to-date estimates of the balance-of-payments positions for 1970 and 1971, which are reproduced in Annex II to this report. These showed current account deficits of N¢ 27.4 million in 1970 and of N¢ 66.4 million in 1971.

Alternative measures to restore equilibrium

14. A member of the Committee, with reference to the Fund statement quoted in paragraph 3 above, invited the representative of Ghana to comment on the kind of "additional measures" that might be taken by Ghana to strengthen the balance-of-payments position and asked whether any such action was already envisaged. He also referred to the Fund's view that Ghana should place greater emphasis on investment, especially in agriculture, and enquired whether any concrete policies existed in this regard. The representatives of Ghana confirmed that greater emphasis was indeed given to investment in the agricultural sector. The Government was in the process of negotiating with external sources of finance for funding agricultural development on a substantial scale, but primary reliance was placed on domestic response and generous credit had been allocated to encourage the transfer of non-productive and tertiary branch workers to the agricultural sector.

15. As regards investment in the non-agricultural sectors, the Government had identified certain branches of industry in which foreign investment was welcome, if necessary, with participation of the Government. For example, there existed at present a joint project with the Swiss firm of Nestlé for the production of milk and related products. Other similar schemes were in preparation. In general, ever since 1951 various steps had been taken to facilitate and attract foreign firms to operate in Ghana, but so far the results had been less encouraging than had been hoped.

16. A member of the Committee noted that, according to the information supplied by the Fund, direct foreign investment in Ghana had been declining steadily since 1968 and invited comments from the Ghanaian delegation on the relationship between this phenomenon and the exchange control measures applied on the repatriation of profits and interests. The representative of Ghana was of the opinion that the lack of inflow of investment capital was attributable primarily to the general economic conditions in Ghana which had not become such as to make the country attractive to foreign investors, although the restraint on current payments, which was necessitated by the balance-of-payments position, must also have some discouraging and inhibitive effect. The Ghanaian authorities were not unconcerned over the inhibitive effect that restraints on such transfers might have on foreign investment, but had found it difficult to liberalize further the controls under the present balance-of-payments conditions.

17. It was suggested that less reliance might be placed by the Ghanaian Government on import and export duties, especially export levies on cocoa, as a source of budgetary revenue; cocoa export duties were an acutely unstable source of revenue, while balance-of-payments considerations restrained the growth of revenue deriving from import duties. The representative of Ghana observed that as was usually the case with developing countries, the economic structure of the country made it extremely difficult for the Government to derive sufficient revenue from direct taxation; customs receipts, together with other indirect taxes, remained the principal source of budgetary income. The Government, however, was aware of the problem and a Committee had been appointed to advise on its present taxation policy.

18. In reply to questions concerning public expenditure (whether there were any plans to curb the escalation of public expenditure and credit expansion or to curtail allocation of public funds to "non-productive" sectors) the representative of Ghana pointed out that in a new country such as Ghana, expenditure on infrastructure and public services such as education was bound to be preponderant. Outlays in these fields could hardly ever be regarded as sufficient. Consequently, the stabilization of the budget would appear to be a thing for the future. Secondly, Ghana happened to be a country where many lines of economic activity which in many other countries would have belonged to the domain of private enterprise, were operated as part of the public sector. Allocations to the "non-productive sector" might be curtailed if further progress were made in transforming public-run entities into self-sustaining corporations, such as had been done with electricity.

19. Members of the Committee commended the Ghanaian Government for its efforts to broaden the range of its exports which up to now had been confined to a few traditional products which faced pricing, tariff and other access problems in many foreign markets. They also welcomed the policy of enhancing the prospects for the basic primary commodities, which must remain an important source of income for Ghana's economic development. They expressed the hope that Ghana would be successful in solving such problems as might persist in relation to these efforts. The representative of Ghana stated that the diversification of exports proceeded

on two broad fronts: the development of new lines of primary production and the establishment of industries. On the primary products side, for example, the Government had provided assistance for an extensive planting of rubber, a part of which was destined for domestic consumption but a proportion would be available for export. There had also been extensive planting of palm, but the palm-oil produced had all been taken up in local manufacturing and for direct household consumption. Other lines of products being exploited included dehydrated cassava and cashew nuts. It was to be hoped that the problems of access to markets for some of these products would eventually find solutions so that exports could effectively be expanded. The industrial products being developed for export included cocoa butter, cocoa powder, plywood, knocked-down furniture, and alumina or eventually aluminium, all of which were based on locally available raw material. The manufacture of jute bags and cotton textiles was at present based on imported fibres, but domestic growing might soon be started. In fact production had reached a stage where avenues for export were being explored and exploited. Efforts were also being made to increase the exports of other products such as diamonds, gold and timber. Gold production, however, had become less profitable since the cost of production had risen.

20. The Ghanaian representative stressed the growing importance of intra-African trade to Ghana, especially that with neighbouring countries. Ghana was therefore deeply interested in the trade negotiations among developing countries being held under the aegis of GATT.

21. In answer to questions concerning the prospects of exports of fisheries products, the representative of Ghana described in detail the plans for the development of this industry. In his view, ample markets existed in neighbouring, land-locked countries such as Mali and Upper Volta, and the problem was one of augmenting the catch rather than of finding markets. Present production was insufficient to meet domestic demand and fish was at times imported.

22. A member of the Committee expressed the view that apart from the restraint on profit and interest repatriation mentioned above the recently adopted Ghanaian Business (Promotion) Act 1970 might also have worked against the inflow of foreign capital investment, in that it raised doubts in the minds of foreign investors as to the Ghanaian Government's intention in regard to foreign firms operating in Ghana. The Ghanaian representative explained that the measure was aimed at encouraging Ghanaians, who had a traditional inclination to enter the professions and the civil service, to engage in businesses where no special skill or qualifications were needed. There was no intention to exclude foreigners from the country and the Act specifically provided for exemptions and appeal procedures to deal with hardship cases.

System and methods of the restrictions

23. Members of the Committee noted with satisfaction the progress that had been made by Ghana in reducing the reliance on quantitative restrictions on imports. They enquired whether any further steps of this nature might be expected in the

near future, whether there was any likelihood of the open general licence treatment being further extended to durable and non-durable consumer goods, whether any such move would be accompanied by the imposition of surcharges, and whether the authorities envisaged any tightening of the issue of specific licences. The representative of Ghana stated that no modification of the import controls was planned at present. Future changes would depend on the balance-of-payments position. The whole system, including the criteria used in the issue of specific licences, was kept constantly under review by the Government.

24. In reply to questions concerning the criteria and method whereby funds were allocated for the various categories of imports covered by the open general licences (and whether this allocation of funds implied any ceiling on the total amount of goods that might be imported under each open general licence), the representative of Ghana noted that goods on the open general licences could normally be imported without limitation, the allocation would be sufficient to meet all such imports and could be supplemented if necessary. Shortage of funds would first be felt by those wishing to import goods subject to specific licences.

25. A member of the Committee said that according to information available to his Government, Ghana had, since 22 September 1970, reverted to the practice of granting open general licence facilities to commercial firms only for imports from specified countries. He pointed out that this discriminatory practice clearly contravened the GATT provisions and urged that it be eliminated at the earliest possible moment. The representative of Ghana conceded that there might be circumstances in which imports under an open general licence was made subject to some conditions in order to facilitate the utilization of aid funds. Imports from some sources might temporarily be restrained in order to increase drawings on tied loans granted by certain other countries. Such problems would not arise if all aid loans were untied.

26. In response to suggestions regarding the reduction or termination of the 180-day import credit requirement, the representative of Ghana stated that the scope of application of the 180-day import credit requirement had already been reduced. It now no longer applied to such products as rice, salmon, sardines. The matter was kept under constant review and further products might be exempted. The Government of Ghana was fully aware of the undesirable effects, particularly the limitation that it placed on the freedom of importers to make their purchases from the cheapest source of supply. Aware of the adverse sentiments of the trading community, the Government was currently giving consideration to the possibility of exempting other products from this regulation. For the time being it was unlikely that the requirement could be removed altogether, having regard to the country's foreign exchange situation.

27. A member of the Committee commented that the regulation concerning the registration of importers as described in the basic document might have the effect of impeding entry into the trade or of discriminating in favour of established traders, and wished to know whether such registration could be effected at any time and what would be the qualifications or requirements. The

representative of Ghana explained that such registration was to be made during periods specified by the Ministry. Registration was not required of importers who imported under open general licences only, and who did not intend to apply for specific licences.

28. In response to an enquiry by a member of the Committee as to whether there might be cases in which import licences were refused to some foreign firms in Ghana while freely issued to local firms, the representative of Ghana assured him that there should be no such discrimination between importers. Any lapses, if reported to the Government, would be promptly investigated.

29. The representative of Ghana agreed with members of the Committee that the wide range of the import surcharge rates might have the effect of distorting the import pattern and impeding the allocation of foreign exchange resources according to market demand. The Ministry of Finance was, therefore, authorized to abolish or suspend the application of the surcharge on particular products if this were found to be harmful or burdensome. Members of the Committee expressed the view that in so far as the surcharge was applied for balance-of-payments reasons and not for the protection of particular industries, a uniform rate would have been more desirable.

30. In reply to questions, the representative of Ghana stated that the policy of the Government was to reduce reliance on bilateral payments agreements and to increase the use of convertible currencies in the meantime. Trade agreements not including payments provisions might, however, continue to be concluded, especially with East European countries. The bilateral payments agreement with the USSR was due to expire in 1972.

31. The representative of Ghana, requested to supply information on the shares of Ghana's imports covered by bilateral trading arrangements, noted that in 1969, imports under bilateral trade agreements represented about 20 per cent of total licences issued and that the proportion should be substantially lower in 1970 and 1971, following the termination of certain agreements.

Conclusions

32. The Committee welcomed the steps that had been taken by Ghana since the last consultation in reducing its quantitative import restrictions. It expressed the hope that further consolidation of the economy and improvements in the balance of payments would make it possible for Ghana to eliminate the remaining restriction and to reduce and remove the import surcharges which were being used also partly for balance-of-payments reasons. Members of the Committee urged the Ghanaian Government to consider further reducing or removing the 180-day import credit regulation, and liberalizing the controls on profit and dividend repatriation. The Committee welcomed the progress that had been made in terminating bilateral payments agreements and its determination to let its remaining agreements expire.

ANNEX I

Opening Statement by the Representative of Ghana

At the consultations in 1968, the Ghana delegation explained to contracting parties the efforts that had been made to stabilize Ghana's economy and to lay the foundations for normal growth. As a result of the measures taken by the Government the growth rate was 3.4 per cent in 1969 as against 0.4 per cent in 1968. Through the use largely of monetary and fiscal policies, excessive demand has been restrained and the deficits on balance of payments was reduced in 1968. The indications are that the deficits for 1969 and 1970 would be greater than that of 1965 although less than that for 1967.

During the period under review considerable liberalization of the import trade was undertaken. The number of open general licences was increased from eight to ten to cover a wide variety of products essential to the consumption and capital equipment needs of the economy. The liberalization was undertaken with due regard to the run-away effect this could have on import demand. Temporary surcharges were introduced, not to stifle imports, but as a necessary element in the general liberalization of trade. These surcharges were meant to reduce the monopolistic tendencies, especially in the imported consumer goods market, to challenge domestic manufacturers to produce efficiently, to reduce the cost of living to the consumer, to save foreign exchange, to yield revenue and to reduce bureaucracy.

In addition to the import liberalization measures, the Government of Ghana has addressed itself to diversifying exports and to promoting exports by introducing new export incentives such as tax rebates and export bonus schemes. It is too early to assess the impact of these measures but they are steps in the right direction.

The Government of Ghana realizes that fiscal policies, incentives and bonus schemes are not enough. They are only measures designed to support a rehabilitation of the economy which process must be based on efficient production in the agricultural and industrial sectors.

Towards this end a number of measures have been taken in both the agricultural and industrial sectors of the economy.

For example, the Government is encouraging agricultural output by setting minimum support prices to farmers and by providing extension services (i.e. providing improved seeds, subsidizing sales of fertilizers, land clearing, crop protection and applied research). A total of ₵2800,000 has been allocated in the 1970/71 fiscal year to a Grains Development Board, newly established, to promote rice and maize production. Ghana's main export earner, cocoa, is not being neglected and rehabilitation schemes are in progress.

Encouragement of livestock production continues. Ghana is now self-sufficient in both eggs and poultry meat but relies heavily on imports of livestock. The Government of Ghana is assisting the improvement of the local livestock industry through research into and provision of finance for controlling cattle disease. The fishing industry is being encouraged to satisfy domestic demand and to export fish and fish products. The IDA in 1969 lent \$1.3 million to the Boatyard Division of the Ghana Industrial Holding Corporation to build boats suitable for operation by local fisherman. A loan of \$225,000 was given by the IDA in 1970 for feasibility studies to be undertaken on siting a new fishing port to cope with the rapidly expanding volume of fish landings. The Agricultural Development Bank and the National Investment Bank propose to make funds available to companies and co-operatives to establish cold storage facilities for the industry. Efficient production of a high proportion of the food requirements of the population should lead to further liberalization of trade.

In the industrial sector, with the liberalization of imports and the inflow of various raw materials and equipment, many manufacturing enterprises producing for the home market and for export are breaking out of their high cost production situation. These include the pharmaceutical, cotton fabric, footwear, plastic articles, household, utensils, fruit and food processing, jute bag, rubber and leather product industries.

The recent Trade Fair held in Accra showed vividly the progress achieved in the industrial sector. The further progress of this sector depends on both the home and export markets. Ghana's search for markets on both developed and developing countries is therefore considered essential, and in this context serious and urgent consideration is being given to the definition of Ghana's attitude with regard to trade negotiations among developing countries.

Despite these and other far-reaching measures, the problem of balance of payments persists. Not only have imports risen but adverse invisible transactions have also been on the increase. In 1969 due to the higher level of imports and liberalized transfer of profits and dividends invisible payments went up by N\$15.4 million and this was expected to go up higher still in 1970. Capital transactions showed a net inflow of official commercial credits which increased significantly because of increased official aid and relief given for debt payments.

In spite of this however, in 1970 balance-of-payments deficits on current account were estimated at N\$65 million. This did not take into account the N\$58 million which was expected from external financial sources.

The contracting parties have rightly decided to place these consultations on a realistic basis and to use the consultations to find out ways and means of dealing with the underlying problems. In the view of the Government of Ghana, the austerity which has been imposed upon the people has reached a maximum. The

Government is determined to continue with sound economic measures which will lead to a healthy rate of growth and liberalization in trade and fiscal policies. But there is a limit to the hardships which can be imposed upon the population in a democratic society. The Government is grateful to contracting parties which have extended to it assistance in various ways for the rehabilitation of the economy. Much however remains to be done and among the many measures which contracting parties can take to supplement the efforts of the people of Ghana, the Government of Ghana would like to include the following:

- (a) a greater liberalization in the utilization of aid loans;
 - (b) an earlier conclusion of an international cocoa agreement; and
 - (c) a reduction of tariffs and removal of non-tariff barriers;
- and lastly but by no means the least,
- (d) a realistic re-scheduling of debts.

ANNEX II

Balance-of-Payments Estimates for 1970 and 1971

(A) Provisional Estimates for 1970

| <u>Current account</u> | <u>NØ million</u> |
|----------------------------|-------------------|
| Imports (f.o.b) | -350.6 |
| Exports (f.o.b) | 430.0 |
| Services (net) | - 95.2 |
| Unrequited transfers (net) | - 11.6 |
| Net total current account | <u>- 27.4</u> |
| <u>Capital account</u> | |
| Direct investment | 20.3 |
| Trade credits (net) | 25.7 |
| Commercial credits (net) | 54.0 |
| Bilateral balances | - 34.9 |
| Others (net) | 0.9 |
| Net non-monetary sector | 66.0 |
| Commercial banks (net) | - 14.8 |
| Central Bank (net) | 1.8 |
| IMF (net) | - 25.6 |
| Net monetary sector | 38.6 |
| Net capital account | 27.4 |
| Errors and omissions | - |
| Net total capital account | <u>27.4</u> |

(B) Summary Estimates for 1971

| | <u>NØ million</u> |
|----------------------|-------------------|
| <u>Receipts</u> | 501.2 |
| (1) Exports (f.o.b.) | 385.4 |
| (2) Services | 43.6 |
| (3) Transfers | 5.2 |
| (4) Capital | 67.0 |

(B) Summary Estimates for 1971 (cont'd)

| | | <u>N¢ million</u> |
|---|-------|-------------------|
| <u>Payments</u> | | 519.3 |
| (1) Imports (c.i.f) (excluding valco) | 368.0 | |
| (2) Services (excluding freight and insurance on imports) | 112.8 | |
| (3) Transfers | 19.8 | |
| (4) Capital | 18.7 | |
| Receipts minus payments on "Basic Transactions" | | -18.1 |
| Net monetary movements | | -21.5 |
| Overall deficit | | -39.6 |