

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS
RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH
G H A N A

1. In accordance with its terms of reference, the Committee conducted the consultation with Ghana under paragraph 12(b) of Article XVIII. The Committee had before it the following documents: (a) basic document for the consultation (BOP/39), (b) IMF background material dated 21 October 1964.
2. In conducting the consultation, the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was conducted on 2 November 1964. 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. 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 Ghana. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on Ghana dated 21 October 1964. This paper represents the background material prepared in connexion with the Fund's consultation with Ghana, but it has not yet been discussed by the Executive Board.

"The Fund expects to complete, in the near future, its consultation with Ghana under Article XIV of the Fund Agreement and to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available."

Balance-of-payments position and prospects

4. In the opening statement, the text of which is annexed to this report, the representative of Ghana outlined the balance-of-payments developments since the last consultation. During the year 1962 the balance-of-payments position had improved somewhat as a result of many corrective measures adopted by the Government

during the previous year but the results were not up to expectations. With the launching of the Seven-Year Development Plan, imports of capital goods have been increasing to meet the requirements of the Plan. In 1963 the value of visible imports increased by 11.7 per cent, from £G116.7 million in 1962 to £G130.4 million in 1963. The value of the imports for the first six months of 1964 is estimated at £G55.3 million. As regards exports, cocoa remained the principal cash earning commodity, but due to the declining price in the world market, Ghana did not realize any increased earning from production increase of 3.4 per cent in the crop year of 1962-63, as compared to the previous year. In the case of other export items such as timber, diamonds and bauxite, production was relatively lower. Thus the overall decline in export earnings of £G5 million was due to the decrease in the value of principal agricultural products and in the volume of sawn timber and veneer shipments.

5. The significant decline in export earnings together with an increase in the rate of imports led to the deterioration in the balance of payments in 1963. The deficit in the balance of payments, which restrictive measures in 1962 had brought down to £G27.6 million, now increased to £G48.9 million in 1963. This deterioration sharply reduced the country's external reserves from £G75.2 million at the end of 1962 to £G47.8 million at the end of 1963.

6. The value of imports has been a decisive factor in the size of deficits. In 1961, the high imports were accompanied by a large deficit of £G52.7 million. In 1962 imports declined, resulting in a considerable improvement of the balance of payments in that year. In 1963 the increase in imports to £G130.4 million contributed to the large deficit. Moreover, it should be borne in mind that the share of imports of consumer goods has been reduced and imports of producer goods and equipment have increased. However with the tightened restrictions it is expected that the deficit for the current year will not be as high as the previous one. The exports of cocoa to Eastern Europe is expected to be a factor of strengthening export prices as well as to increase export receipts.

7. The Committee noted the present difficulties of the balance-of-payments position and complimented the representative of Ghana on his clear statement. While recognizing the problems which had led to the restrictions maintained by Ghana, the Committee hoped that the present difficulties would be soon overcome. Referring to the future prospects, especially in view of the Seven-Year Development Plan, the Committee enquired whether the delegate of Ghana could indicate the expected duration of the present import control. In reply to the question, the representative of Ghana stated that Ghana did not foresee an improvement in the system within the next three or four years, but some relaxation was envisaged towards the end of the Seven-Year Plan, depending on the improvement in the balance-of-payments position.

8. A member of the Committee, noting the sharp rise in the level of short-term foreign indebtedness of Ghana as indicated in the IMF background document, asked whether servicing of such short-term indebtedness (mainly suppliers' credits) would present any special problems to the Government. The representative of Ghana

explained that despite the apparent problem, Ghana did not in fact consider this development to be serious, since most of these credits were extended by suppliers of capital equipment which was expected to be used for producing import substitute commodities; the sale of these commodities would in turn make available resources to pay for the credits. Moreover, some of the credits were in fact for a relatively long term. The credits ranged for periods of five, ten or twelve years. It was anticipated that within this period, with the development of import substituting industries, much of the domestic demand for unsophisticated imports could be met by domestic production, leaving export receipts to pay for the suppliers' credits. A member of the Committee noted the need to relate the scope and schedule of development plans to available resources.

9. In reply to questions on the rôle of private investment, especially private foreign investment, in the development plan and prospects and the prevailing attitude of the Government towards encouraging or discouraging private foreign investments, the representative of Ghana explained that Ghana welcomed private investment and private foreign investment, but in the light of the Government's socialist policy, the Government had established various categories of industries. Thus there were some industries reserved exclusively for the Government, some industries where government and private foreign capital would both participate, and others entirely for private investors, foreign or domestic. He stated that many investors had invested under this system and so far the results were encouraging. There were even cases where the Government had itself established an industry and where it has then been arranged that foreign private companies would contribute to the share capital and operate the industry; he cited the example of a textile mill which was operated by foreign capital in participation with the Government, on the basis of a management agreement for profit sharing. He emphasized that the actions and the policy of the Government offered a healthy climate for both private domestic investment and private foreign investment.

10. In respect to the transfer of dividends it was not the policy of the Government to prevent such transfers unless it was because of lack of free reserves. Nevertheless, the Government had evolved a policy for the future, whereby the transfer of dividends could be made over a period of months in the case of a large lump sum transfer in order to avoid a sharp drain on reserves.

11. The Committee welcomed the recent enactment of legislation by the Ghana Government favourable to private foreign investment. It was noted that the attitude of a government and the administration of existing rules are important as well as legislation in creating a climate favourable to foreign investment. The members of the Committee expressed the hope that in view of the considerable contribution which private foreign investment would make towards further economic development and to an improvement of the balance-of-payments position, the sector of the Ghana economy open to foreign investors would be as wide as possible.

12. In view of the stress laid, by the Government of Ghana, on industrial development, and in particular on the establishment of import replacement industries, a member of the Committee asked if there was any emphasis on the development of export industries in the Seven-Year Development Plan. The representative of Ghana said that Ghana was looking into this aspect of the problem; preliminary action had already been taken in connexion with the processing of cocoa beans to a semi-finished stage for export purposes. It was estimated that existing plants would process 50 per cent of production into cocoa-butter, powder and paste. However, as a result of high tariffs in some industrialized countries on processed raw material, exports were not increasing to the expected extent. On other exports such as coffee they were improving production of coffee, but in view of the saturated market they expected only a marginal gain in their exports. Rubber industries were being developed, as were those for diamonds and timber. Ghana was exploiting all possibilities for increasing production, and also for exporting veneer timber. He emphasized that the Government of Ghana was not unmindful of this important side of the balance-of-payments problem, and that only when these measures bore fruit in the coming years, would the balance-of-payments problem be eased, and help to relax the import restrictions.

Alternative measures to restore equilibrium

13. The representative of Ghana, in explaining the upward trend of retail prices, stated that the factors which had caused rising prices in 1963, were having the same effects in 1964. These factors were the rise in fiscal charges and shortages in local production, the latter caused primarily by unsatisfactory distribution. He mentioned a survey which had been conducted in Ghana recently to study the price movements of many commodities. Among other factors leading to the increase in prices, the Government's resort to additional taxes to raise needed revenue was an important one. The Government of Ghana was taking measures to increase domestic production, as by spending £65 million on facilities to expand the fishing industry. They were also taking steps towards better distribution by establishing a comprehensive plan for a haulage system. A separate corporation to deal with transportation was being set up. It was expected that such measures would ease the situation somewhat, but any change in the present fiscal measures was not anticipated. He felt that with the development of the economy and additional revenue from other sources, they could envisage a reduction in purchase tax and import duties at a later stage, which would help to moderate retail prices.

14. In reply to a question on the prospects of balancing the budget in the current fiscal year and the coming years, the representative of Ghana indicated that balancing the budget was not foreseeable with the expenditure on the Volta project and other development expenditures. Later, as measures taken begin to bear fruit, they could consider balancing the budget. In addition, the servicing of loans amounting to a substantial sum would make it difficult to balance the budget, but perhaps by the end of the plan period it would be possible.

System and methods of restrictions

15. In the discussion of the system of imports control in operation in Ghana, members of the Committee enquired about the prospects for expanding the proportion of total imports and the range of products importable under Open General Licences. The representative of Ghana mentioned that imports under Open General Licences accounted for only 1 per cent of total imports and stated that the Government was not contemplating an immediate increase in the number of products under Open General Licence.
16. Under the present system, almost all imports were restricted. In cases where national production was meeting the domestic requirement, such items as plastic footwear, safety matches, aluminium utensils and roofing material, complete restriction was enforced. He explained that as a result of the purchase tax and consequent high price on non-essential consumer goods, e.g. cosmetics, large record players and some types of electrical household appliances, the demand had declined and thus the Government did not have to restrict further.
17. In reply to questions concerning the administration of the licensing system, the representative of Ghana explained that on the basis of foreign exchange availability, the authorities fixed the total amount of foreign exchange imports, and this was further broken down into various categories of goods. In granting licences to importers, the licensing authorities took into account the availability of foreign exchange, essentiality of product, the past performance of the importer and amounts which are being allocated to other categories. In the case of the Ghana Trading Corporation, past performance was the basis for the granting and renewal of licences. Licence applications by newcomers were generally granted up to a token amount (£G5,000) and subject to performance it could be increased.
18. The representative of Ghana stated that State-trading entities normally used commercial considerations as the criteria for deciding the source of imports. But there were instances, such as for cement and canned fish, where the Government was obliged to buy from certain countries, principally to balance the accounts with some bilateral partners. Commercial considerations were however usually the basis of Ghana's trade, even in trade with bilateral agreement countries, and price and quality considerations were taken into account. In trade with bilateral countries certain services such as insurance etc. were sometimes allowed to be paid for in Ghana pounds and this arrangement eased the balance-of-payments position.
19. Referring to Ghana's increase in trade under bilateral trade and payments agreements during the past year, members of the Committee hoped that Ghana would find it possible to increase trade without reliance on bilateral arrangements. The representative of Ghana stated that new trade agreements were concluded with centrally-planned countries, as a Government decision, in order to find new markets for their cocoa production and thus to maintain favourable prices in traditional markets. He added that under such arrangements, they were obliged to import specific quantities of commodities from the partner countries, but they

tried to limit such purchases to cases where the goods were competitive with the result that they had now large credit balances in these countries. The Government would be able to reduce reliance on bilateralism with the improvement in world prices for Ghana's exports. A provision was made in bilateral trade agreements to prevent deliveries of Ghana's traditional exports from being re-exported.¹

20. The members of the Committee expressed their concern over the increasing reliance on bilateral arrangements and felt that a more liberal import system would benefit Ghana in its development plans and this would ultimately ease the balance-of-payments problem. They welcomed the opening statement of the representative of Ghana in respect of non-discrimination.

Effects of restrictions

21. The Committee noted the protective effects of quantitative restrictions and the undue danger resulting from their use. In order to minimize the effect of protection on the cost structure, the Committee felt that it was desirable to limit the time during which restrictions were maintained; they felt that some competitive imports should be permitted and suggested that Ghana consider use of tariff measures rather than quantitative restrictions.

22. The representative of Ghana acknowledged the risks involved in the use of quantitative restrictions and assured the members of the Committee that every effort would be made by his Government to avoid protection or encouragement to uneconomic lines of production as a result of import controls or of trade under bilateral agreements. He indicated that he would bring the Committee's view to the attention of his Government.

General

23. The Committee thanked the representative of Ghana for the co-operative manner in which Ghana had engaged in the consultation and for the clear and detailed account of the problems in relation to Ghana's balance of payments and its foreign exchange reserves. The Committee noted the export promotion efforts of Ghana and hoped that with the improvement in the world market situation Ghana would be able to overcome her problems. The Committee hoped that the Government of Ghana would take appropriate monetary and fiscal measures which would lead to a gradual improvement in Ghana's balance-of-payments and reserves position and make it possible to revert to a liberal pattern of trade at an early date. The members of the Committee expressed the hope that import control would be administered so as to avoid disturbances in the normal pattern of trade and development.

¹In reply to one member, the representative of Ghana said that he would bring to the notice of his Government the suggestion that it was undesirable to allocate an import item totally to a bilateral trading partner to the exclusion of traditional suppliers.

24. The representative of Ghana thanked the Committee for the understanding and sympathetic manner in which the consultation had been conducted. He assured the Committee that the import controls were of a temporary nature and that Ghana, like many other developing countries, was forced to take restrictive measures to solve the balance-of-payments difficulties arising out of development of the economy. They would be relaxed as the situation improved.

ANNEX

OPENING STATEMENT BY THE REPRESENTATIVE OF GHANA

On behalf of myself and the Ghana delegation, I wish to take this opportunity in congratulating you on your election earlier this year as Chairman of this Committee. We wish you a successful term of office. We would also like through you to thank members of the Committee for the sympathy and understanding which they had shown in the past towards our problems and hope that they would continue to demonstrate their genuine desire to assist countries faced with similar economic problems.

In the background information which has been circulated as document BOP/39 dated 2 October 1964, we have tried to outline the measures we had taken since 1962 to arrest the serious deterioration of our balance-of-payments position, the results which these measures had achieved and the continued heavy drain on our foreign exchange reserves. A closer look at the periods at which new restrictions had been introduced indicates that the Government had since the last consultation kept a very close watch over trends in our trade and all possible corrective measures had been adopted but so far these have failed to yield the results that we had all expected. The same document also reveals that Ghana made every effort in the progressive relaxation of restrictions but in the face of the deteriorating situation in the field of earnings from exports, we could not go any further.

As in previous years, capital goods imports continue to dominate the import trade in order to meet the requirements of our development plans. In 1963 the volume of visible imports increased by 11.7 per cent from £G116.7 million in 1962 to £G130.4 million in 1963. The value of visible imports for the first six months of 1964 stood at £G55.3 million. About 64 per cent of the total imports in 1963 were finished consumer and producer goods. Raw materials and other semi-finished producer goods accounted for 30.3 per cent of total imports. Analysis of commodities indicates that imports of machinery and transport equipment continue to take the greatest share in capital goods.

Regarding export prospects, my former colleague informed the Committee during the 1962 consultation of the deteriorating world position regarding the cocoa industry - Ghana's economic life blood. It is needless for me to recount in detail the very discouraging events which have happened since then as I am sure members have followed closely the trends in the world cocoa trade since 1961. Even today, Mr. Chairman, the position does not present any great hopes for the future. Cocoa production for the crop year 1962-63 was 3.4 per cent higher than in the previous year but as explained earlier due to the declining prices of cocoa on the world market this increase could not be felt in real terms. Other factors which contributed to this setback were the still high internal fiscal charges,

high import duties and quantitative restrictions applied by industrialized countries against this commodity and its by-products. Other agricultural output such as logs production, our second largest export earner, was relatively lower. In spite of a small increase in gold and bauxite production, mining production was generally lower in 1963. The decrease is largely attributed to a fall in diamond production. The overall decline in export earnings was therefore due to a decrease in the value of principal agricultural products and in the volume of sawn timber and veneer shipment.

The decline in export earnings in the face of an increase in imports of goods and services led to a deterioration in the country's balance of payments in 1963. The deficit in balance of payments increased from £G28.0 million in 1962 to £G46 million in 1963 and thus reversed the downward trend which began in 1962 as a result of restrictive measures. The deterioration of the balance of payments exerted a high downward pressure on the country's external reserves. Consequently, there was a drain in the reserves to the tune of £G27.4 million during the year. At the end of 1963, the reserves stood at £G47.8 million as compared with £G75.2 million at the end of 1962.

Satisfactory progress in the field of manufacturing industry was attained during the period under review and as a result the proportion of locally manufactured commodities available on the market is steadily increasing. Practically all common soap and a considerable amount of cosmetics, beverages and other manufactured goods are now being produced locally. A special study of manufacturing production of twenty selected commodities including suitcases, textiles, beer, metal products and oils during the period 1961-1963 indicate that the value of production during the period increased by 63 per cent from £G6.2 million in 1961 to £G10.1 million in 1963. Although the value of production in 1963 was 33 per cent higher than in 1962, manufacturing still plays a minor rôle in the total production in the country. However, this sector is growing fast and moving in line with the Government's intention to industrialize and produce locally most of the technologically simple manufactured goods in order to save foreign exchange urgently needed for capital investment. The Government also holds the view that apart from helping to diversify its economy, the exportable surpluses of these manufactures would greatly help to increase its intra-African trade.

Thus, Mr. Chairman, the picture does not portray a "future" of great hopes without further tightening our belts by restricting imports and by stepping up our export promotional activities. The Government is very conscious of the trend and is constantly reviewing the situation and also making every effort to have the situation under control.

Our future plans with respect to import control have been adequately described in the document before you. However, I would stress that import restrictions have always been and would continue to be applied at a level

sufficiently high enough to discourage the importation of unessential commodities and also only necessary to meet the balance-of-payments threat. I would also wish to assure the Committee that every effort would be made to avoid discrimination in the granting of import licences to contracting parties.

Finally, Mr. Chairman, my delegation would be happy to enlighten members on any points on which they require further clarification.