1. In accordance with its terms of reference the Working Party has conducted the consultations with the Federation of Rhodesia and Nyasaland under paragraph 4(b) of Article XII and paragraph 1(g) of Article XIV.

2. The Working Party had before it:

   (a) the basic document prepared on behalf of the secretariat by the authorities of the Federation, describing the system and methods of the balance-of-payments import restrictions in operation in the Federation, and including a brief statement on the effects of the restrictions;

   (b) a document provided by the International Monetary Fund.

These documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultations the Working Party followed the "Plans" recommended by the CONTRACTING PARTIES for consultations under the two provisions. The present report summarizes the main points of the discussion during the consultations.

Consultation with the International Monetary Fund

4. 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 these consultations with the Federation. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted a background document, dated 30 September 1957, describing "Economic Developments and Changes in the Restrictive System" in the Federation. In accordance with agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the Federation. The statement made 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 30, 1957. In preparing this paper, the Fund has received the co-operation of officials of the Federation..."
in ensuring 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 Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, it is noted that 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 has been made in connexion with the CONTRACTING PARTIES' consultations with the United Kingdom as relevant also for their consultations with the Federation."

Balance-of-payments situation and prospects

5. The representative of the Federation described for the Working Party the balance-of-payments situation of the Federation, the changes which his Government had introduced in the past year in the import restrictions, and factors and problems relevant to the consideration of the present situation and the future prospects. The complete text of the statement made by the representative of the Federation is given in Annex I to this report. With reference to the documentation mentioned above, the representative of the Federation stressed the continuing need of the Federation for capital investment to sustain the high level of development which was required to enable it to achieve the most desirable utilization of its natural resources, and the Federation's dependence for its export earnings upon a few basic raw materials, including copper, tobacco, asbestos and tea. As the investment need was great the economy was much influenced by changes in the level of world economic activity and particularly by the supply and demand conditions for the few primary products on which the Federation's external income depended. Developments in the last few years had been favourable to the Federation. Its exports had been in good demand and there had been a satisfactory inflow of capital on both public and private accounts. The Federation, however, normally required a surplus on trade account in order to meet its net invisible deficit, resulting mainly from freight payments, foreign travel and payments of investment income abroad. The need for external resources of capital investment became more acute whenever there was a decline in trade surplus, and it should be noted that in 1956 the Federation experienced its largest current account deficit (approximately £33 million) and that its external reserves declined for the first time since the Federation came into being. The main factor in this had been the failure of export earnings to keep pace with the continuing rise in imports, due principally to the fall in the price of copper. The continuing fall in the value of copper exports in the first half of 1957 had been further accentuated by declines in the prices of lead and zinc. On the other hand, the fall in income from these exports had been compensated to a certain extent by the higher returns from tobacco, asbestos and chrome ore.

6. Confidence in the economic future of the Federation was shown by the fact that the development plans of the copper mining industry were not being curtailed in spite of the weakening in the market for copper, although the development of a nickel deposit in Southern Rhodesia had been arrested. The
main development projects undertaken by the Federal Government, including the improvement of the transportation system and the Kariba hydro-electric scheme, were being carried out. Although a large proportion of the capital requirement for these projects came from domestic sources the Federation continued to require capital investment from overseas. The Minister of Finance recently expressed the hope that he would be able to conclude in the near future his negotiations for a dollar loan of between $20 million and $30 million.

7. As regards quantitative import restrictions applied for balance-of-payments reasons, the representative of the Federation recalled a statement made by his delegation in the course of the consultation under Article XIV:1(g) held in October 1956, that it was the firm intention of the Government of the Federation, consistent with its obligation to make a reasonable contribution towards the reserves of the sterling area, to liberalize its trade to the utmost extent possible. Considerable progress had been made at that time in the liberalization of imports from OEEC countries and some success had been achieved in freeing imports from the dollar area. Reference had been made to the practice of introducing an unrestricted list in order to test demand as a step towards the complete freeing from control of the commodities concerned. In spite of the adverse turn in the Federation's terms of trade, further liberalization measures had been introduced since that time. All items on the unrestricted list - both dollar and OEEC - had now been transferred to Open General Licence and, with effect from 1 July 1957, all products of the OEEC countries had been placed under Open General Licence, except for a few items which were subject to control from all sources for reasons other than the balance of payments. At the same time, the list of items which might be imported from the dollar area had been extended and quotas for other items had been re-established at at least the same level as during the preceding half-year. The delegation of the Federation was therefore of the view that the undertakings which it gave a year earlier had been carried out.

8. The representative of the Federation illustrated the effect of the measures with figures showing increases in the share of the country's imports from OEEC and dollar countries. In concluding, he considered that it would be very difficult to make any definite statement on the prospects for the future, which depended both on the expansion of exports and on an adequate inflow of investment capital. Apart from other internal measures which had been taken by the Federal Government to assist in stabilizing the situation, it might be mentioned that in present circumstances the Federal Government had to apply some restrictions on the flow of immigrants into the Federation.

9. Members of the Working Party welcomed the progress that had been made by the Government of the Federation in liberalizing imports, especially in freeing dollar imports and in reducing discrimination. They considered that it was most noteworthy that the Federation was able to liberalize imports in spite of falling external income. To maintain internal stability at a time when the economy was in a process of rapid development was a problem which many countries still found it difficult to solve and the Government of the Federation should be congratulated for the constructive measures which it had taken to achieve these ends.
10. In discussing the monetary reserve situation of the Federation some members of the Working Party thought that the decline in the reserves could not be regarded as substantial and that the level of the present reserves was still relatively high in relation to the country's imports. In their view the balance-of-payments situation of the Federation could not be regarded as precarious and it was to be hoped that further progress could be made in removing restrictions and particularly in reducing discrimination. The representative of the Federation agreed that the present level of reserves was not in any way precarious and that, although the small decline during the latter part of 1956 had continued in 1957, this situation did not call for any more drastic measures than those already taken. Further prospects, however, depended largely on the prices of the Federation's principal exports, particularly copper. The Federal Government had at one stage thought that the price of copper would not go much below £240 per ton. This had subsequently been revised to £220 per ton, but the present price was in the region of £181 per ton. It should be noted that the Federation's surplus on dollar account in 1956 had been only £5 million as compared with £22 million in 1955. The Government of the Federation had hoped to remove all remaining balance-of-payments restrictions in 1957 and was still looking forward to the time when it could remove restrictions, particularly restrictions on dollar imports but its ability to do so would depend on its external earnings and the inflow of dollar investment, the prospects for which were at present uncertain.

11. The representative of the Federation agreed with members of the Working Party that the consultation held under Article XIV:1(g) in 1956 had been a factor behind the steps of liberalization taken by the Federal Government in the past year. As on that occasion, the delegation of the Federation would take note of the suggestions made at this consultation and the Government of the Federation would continue to test demand with a view to preparing for future liberalization and the eventual elimination of all restrictions.

Other questions relating to the external financial position

12. In the course of the consultation a number of questions were put by members of the Working Party which related directly or indirectly to the balance-of-payments and the monetary reserve situation of the Federation. The replies given by the representative of the Federation served to throw further light on his country's position. These are briefly noted in the following paragraphs.

13. According to the background paper supplied by the International Monetary Fund, the Federation's imports in 1956 were marked by an expansion in the value of capital equipment, which rose by £15.5 million to £69.6 million, i.e., from 39 per cent to 43 per cent of total imports. A member of the Working Party was interested in knowing to what extent the expansion in capital equipment imports reflected the expansion in governmental economic development programmes and to what extent the imports related to the private sector. The representative of the Federation stated that of the total gross investment of £133.6 million effected in 1956, private investment accounted for some £80 million and that a large proportion of the private investment consisted of expenditures on imports of capital equipment.
14. In answer to a question relating to the immigration policy of the Federation, the representative of the Federation stated that in the view of his Government an increase in population was desirable in order to expand the exploitation of the natural resources of the country and to expand production, especially production for exports. The current restraints on immigration had been prompted by the high rate of immigration in the last few years, which had put enormous strains on public services. A continuation of the high level of immigration would require greatly increased amounts of public investment which would be more than the country could afford at present.

15. The International Monetary Fund background paper showed that the Federation's net outward payments on investment income account in the three years 1954-1956 had been £29.8, £33.2 and £37.8 million respectively, whilst the trade surplus in the corresponding years had been £32, £41.3 and £25.2 million. A member of the Working Party wondered whether the principal cause of the deterioration of the Federation's balance of payments might not be the faster growth of payments to service foreign investment compared with the trade surpluses in the last three years. Invited to comment on this view, the representative of the Federation noted that transfers on investment income account represented principally dividends paid by mining companies, and that the decline in the price of copper, with the consequent fall in dividend payment, would mean that the transfers on this account would be lower in 1957.

16. Attention was called to the fact that the Federation's gross imports of capital from the dollar area fell from £7.7 million in 1955 to £4.4 million in 1956. The representative of the Federation thought that the much higher level of capital imports from the dollar area in 1955 might be explained by the fact that in that year the Federal Government had effected drawings against loans from the International Bank for Reconstruction and Development.

17. It was also noted that in 1956 while the Federation's official external holdings of cash balance and securities fell and holdings of private companies declined, the total of other holdings rose by a significant amount, mainly as a result of rises in the external balances of the commercial banks. On this point the representative of the Federation stated that a great deal of private money was held abroad by firms which had roots in the Federation, and he had no doubt that, if the need arose, such firms could draw on these holdings abroad, and to that extent, therefore, private holdings abroad could be regarded as supplementary to public reserves.

Long-term measures relating to productive and export capacity

18. In discussing the relationship between the balance of payments and the economic development problems, the Working Party noted the emphasis placed by the Government of the Federation on investment in basic facilities for economic development. Members of the Working Party were interested in knowing the aspirations and prospects for the diversification of the economy. The representative of the Federation stated that diversification of production while maintaining internal stability was a principal objective of his Government's...
economic policy. The Kariba hydro-electric project, when completed, would be a compelling factor in the development of secondary industries in the region, and its facilities would be available from 1961 onwards. In the meantime, the Government was making studies of industrial projects and taking steps to encourage interested persons to investigate possibilities of industrial investment. It was only to be hoped that adequate capital for investment would be available from abroad.

19. In discussing the policy pursued by the Government in encouraging the inflow of investment the representative of the Federation emphasized the completely free and liberal nature of the income tax and exchange control policies relating to investment. Non-residents had complete freedom not only to transfer dividends but also to repatriate capital which had been invested in legitimate approved industries in the Federation. Certain members of the Working Party thought that the Federation's policy illustrated the Government's clear understanding of the importance of international finance in the economic development of countries in need of capital. They considered that the events had borne witness to the wisdom of the Federation in carrying out economic development with due regard to the limitation of its resources and to the importance of attracting capital from abroad.

20. As a matter of interest the representative of the Federation was requested to provide information on the wage levels in particular industries in the Federation. With the qualification that it was difficult to provide figures which could be used for meaningful comparison with wage levels in other countries the representative of the Federation noted that:

(a) in copper mining, where the wage structure involved a basic wage plus a bonus related to the price of copper, the total earnings of workers were comparable to those in other countries when the copper price was high, but the fall in the price and production would mean that lower wages would be paid; and

(b) in tobacco production the wages paid in the Federation were lower than in, for example, the United States.

21. The representative of the Federation, in response to questions, also informed the Working Party that the general price level had risen by under 3 per cent in 1956 and that a small rise had been encountered in 1957. The newly-established Central Bank could play and was playing a role in combatting inflationary pressures through credit control and other measures bearing on spending.

Changes in the import restrictions and discrimination

22. The Working Party took note of the current system and methods of restrictions and recent changes described in the "basic document" prepared by the authorities of the Federation on behalf of the secretariat. It was also noted that in applying the restrictions the Federation resorted to the provisions of Annex J and paragraph 3 of Article XIV. It was recalled that previously the Federation had maintained a "prohibited list", and it appeared that under the
current system this had been replaced by a list of goods which were "not ordinarily licensed". The representative of the Federation explained that this change in name had been made principally in deference to the sensitivity shown by other countries to outright prohibitions. It should be noted that this list was subject to re-examination every six months by the authorities in consultation with the Chambers of Commerce. Inssofar as goods on that list could be licensed whenever the authorities deemed it necessary or justifiable, it would appear that the new name for the list was a more appropriate one. Products were removed from the list from time to time. For example, a number of goods had been removed in January 1957 as a result of consultations with importers and discussions between government departments concerned. Unless there should be any unfavourable developments it could be expected that more items would be removed from this list in January 1958 for the next licensing period.

23. Representatives of the countries in the dollar area pointed out that some of the items included in the restricted list appeared to be such that they could be safely derestricted without having any significant effect on the balance of payments, and expressed the hope that these items would be given early consideration. Further, a number of products which had been important in the traditional trade between the territories of the Federation and countries in the dollar area prior to 1947 were still included in the restricted list; the hope was expressed that the Government of the Federation would consider, in the context of the balance-of-payments situation, the possibility of establishing quotas for the import of such goods at least in minimum commercial quantities so as not to impede permanently the normal channels of trade. Such goods included cotton piece goods, outer garments, hosiery, other clothing, refrigerators, electrical appliances, office machines (such as duplicating and addressing machines), and cotton yarns. The provision of such quotas would be consistent with the statement made by the authorities of the Federation as recorded in paragraph 9 of the basic document that "the restrictions are designed not to cause unnecessary damage to foreign trade interests".

24. In reply, the representative of the Federation stated that, in pursuance of the policy of liberalization, his Government had already taken action along these lines. The most recent action of this nature had been the establishment of dollar quotas for such household appliances as electric stoves and washing machines. It had not been found desirable to establish a token import scheme since the administration of any such scheme would place a burden on the licensing authorities which would not be commensurate with the benefit to be derived therefrom. The general policy would be to provide for dollar and other quotas whenever possible and it is the general objective of his Government eventually to transfer all commodities on to the unrestricted list or Open General Licence.

25. The Working Party discussed the list of "Goods Requiring Import Licences Whatever the Country of Origin" annexed to the basic document. The following information was given by the representative of the Federation on the motives and reasons for keeping these commodities under licensing control:
Wheat and wheat products

These products are controlled in order to overcome certain difficulties faced by the transport system. Imports are licensed in such a way as to avoid congestion on the railways between the eastern ports and the centres of consumption.

Margarine

The controls are a legacy from the territorial legislation existing prior to the formation of the Federation and are awaiting re-examination.

Sugar

The control was introduced to enable the fulfilment of commitments under the Commonwealth Sugar Agreement.

Jute grain-bags

The control is to support the distributing arrangements made between dealers, and otherwise to promote orderly marketing.

Cement

The control of this product was originally introduced to meet certain acute transport problems. It is now considered obsolete and is being re-examined.

Gold

The import and export of gold is controlled in order to support legislations designed to prevent illicit dealings and in fulfilment of other international obligations.

Matches containing phosphorus

The control is principally for public safety reasons.

Used clothing

The control is for public health reasons.

Military uniforms, and arms and ammunition, and Radio-active elements and isotopes

These are controlled for national security and defence reasons.

26. It was noted that for those products mentioned above for which there was no longer reason to restrict imports, licences were being issued. The Working Party was gratified to learn that no protective effect was intended.
Effect of the restrictions on production and trade

27. Paragraph 9 of the basic document states that "since goods from the sterling area are imported without restriction, the protective effects on industry in the Federation of the restrictions on other imports are negligible". Members of the Working Party discussed the implications of this statement and pointed out that the restrictions on imports from sources other than the sterling area could have a protective effect especially as many products were not obtainable in the sterling area at all or at comparable terms. Furthermore, it was thought that it would be an exaggeration to say that "practically the whole of the Federation's imported goods are unrestricted from western sources", having regard to the number of commodities remaining under licensing control from the dollar countries.

28. In response to an enquiry as to which goods under restriction were also being produced locally, the representative of the Federation indicated that supplies of the following products were available from domestic production:

   Clothing
   Piece goods
   Meat products
   Blankets
   Canvas footwear

29. The representative of the Federation, however, emphasized that the Government constantly warned local producers that they could not expect protection from the import restrictions which were, for the time being, applied for balance-of-payments reasons. The Government would have no hesitation in dismantling any and all restrictions whenever the balance-of-payments position permitted it to do so. The Working Party expressed appreciation of this positive reaffirmation of the policy, which showed the intention of the Government of the Federation fully to observe the spirit and letter of the General Agreement.
1. The Working Party will have appreciated that our somewhat anomalous constitutional position requires these consultations to be regarded as in a sense supplementary to the consultations with the United Kingdom. It has also restrained the International Monetary Fund from making any comment on our restrictions or on the other measures which we have taken to control the situation. The Working Party will also no doubt have appreciated that, as we share in the United Kingdom's quota in the International Monetary Fund, the provisions of Article XIV:3 of the General Agreement cover the policy, which has been followed both by the Government of the Federation and by its constituent territories prior to Federation, of not introducing import restrictions against the United Kingdom.

2. In the economic report for 1957, which we submitted with our basic document, and in the invaluable paper prepared by the International Monetary Fund, there is a mass of statistical material which gives a reasonably adequate picture of the economic state of the Federation during the year 1956. What emerges most clearly is, firstly, our continuing need of capital investment to sustain the high level of development which is required if the Federation is not only to remain viable but also to achieve the most desirable utilization of its natural resources so as to make an adequate contribution to the world economy. Secondly, our dependence for our export earnings upon half a dozen or so basic raw materials, the principal ones being copper, tobacco, asbestos and tea. The International Monetary Fund has pointed out that imports represent from 41 - 43 per cent and exports 51 - 53 per cent of the Federation's gross domestic product at factor cost, and that our economy is therefore much influenced by changes in the level of world economic activity and, particularly, by the supply and demand conditions for the few primary products on which our external income depends.

3. The experience of the last few years has been favourable to the Federation. Our exports have been in good demand and there has been a satisfactory inflow of capital on both public and private accounts. But again it is useful to point to what the International Monetary Fund has described as the normal picture of our international transactions, namely, a surplus on trade account exceeded by a net invisible deficit, mainly resulting from freight payments, foreign travel and payments of investment income abroad. When, therefore, our trading surplus declines, our need to tap external sources of capital investment must become more acute.
4. Against this situation the Working Party should note that in 1956 the Federation experienced its largest current account deficit on record, approximately £33 million. In that year also, our external reserves declined for the first year since Federation.

5. The main factor in this has been the failure of export earnings to keep pace with the continuing rise in imports. This is due to a considerable degree to the fall in the price of copper. In spite of the fact that the tonnage exported in 1956 was over 30,000 greater than in 1955, the value of copper exports at £115 million was only £4 million greater than in 1955. The continuing downward trend has resulted in the value of copper exports for the first half of 1957 (again despite an increase in tonnage) being £5 million less than for the second half of 1956. Add to this, declines in the price of lead and zinc end in the result our favourable balance of trade for the first six months of 1957 amounted to less than £1 million, as compared with over £14 million in the same period of 1956.

6. However, the picture is not an entirely gloomy one. Other developments are satisfactory. The last season was a good one for tobacco, which realized a higher return from a lower weight and indicates a considerable improvement in quality. Exports of asbestos and chrome ore continue to give an increasing return, and the price realized for Nyasaland tea seems to have stabilized at not unsatisfactory levels.

7. The confidence in the economic future of the Federation is shown by the fact that the development plans of the copper mining industry are not being curtailed. On the other hand, the Rio Tinto company, which was developing a promising nickel deposit in Southern Rhodesia, has announced that because of the fall in the price of copper and the weakening in demand for nickel, it will not at present proceed beyond the pilot plant stage.

8. Meanwhile, we are carrying on with the main development projects undertaken by the Federal Government. The principal ones are the improvement of the transportation system and the Kariba hydro-electric scheme, and it is not out of place to point out that, of the £80 million or so required for the first stage of Kariba, the Federation is finding from its own resources 41.7 per cent; 35 per cent is coming from the United Kingdom and the balance of 23.3 per cent from other sources, notably the International Bank for Reconstruction and Development, which made to the Federation for this project the largest loan in its history.

9. We shall continue to require capital investment from overseas, and not only from the United Kingdom, and members of the Working Party may perhaps have noted the hope recently expressed by our Minister of Finance that he will be able to carry to a successful conclusion in the near future his negotiations for a dollar loan of between $20 - 30 million.
10. To come now to the immediate issue of our quantitative restrictions for balance-of-payments reasons, I stated in the course of our consultations last year that it was our firm intention, consistent with our obligation to make a reasonable contribution towards the reserves of the sterling area, to liberalize our trade to the utmost extent possible. At that stage we had gone a considerable distance on the road of liberalization towards the OEEC countries and had succeeded also in improving the position to some extent of our friends in the dollar area. I also mentioned our practice of introducing an unrestricted list in order to test the demand, as a step towards complete freeing from control of the commodities concerned.

11. In spite of the adverse turn in our terms of trade, we have managed to introduce further liberalization measures. All items on the unrestricted lists, both dollar and OEEC, have now been transferred to Open General Licence, and with effect from 1 July last we placed all the products of the OEEC countries under Open General Licence, with the exception of a few items which are subject to control from any source for reasons other than balance of payments. At the same time we extended the list of items, again under Open General Licence, which might be imported from the dollar area and re-established quotas for other items at at least the same level as during the preceding half year. We feel confident, therefore, that we have carried out our undertakings.

12. The effect of the measures which we have taken over the past three years is quite well illustrated by the fact that the non-sterling OEEC countries increased their share of trade with the Federation from 8.4 per cent to 9.5 per cent between 1954 and 1956, while the share of the dollar countries has increased from 5.8 per cent to 7.9 per cent, this during a period when the overall value of our imports rose from £125 million to £159 million. The trend has continued and during the first half of 1957 our importations from non-sterling sources were £23 million greater than during the first half of 1956. All these figures, of course, relate to experience prior to the most recent liberalization measures which became effective on 1 July 1957.

13. Prospects for the future are very hard to define. They depend both upon that expansion of exports to which we attach so much importance and upon an adequate inflow of investment capital. The basic document sets out the internal measures which have been taken by my Government to assist in stabilizing the situation, but I think it is not out of place to mention also that in present circumstances we have had to apply some restrictions on the flow of immigrants into the Federation. This represents another form of quantitative restriction, which, however, is outside the purview of the CONTRACTING PARTIES.