

RESTRICTED

29 November 1955

C O N F I D E N T I A L

Working Party 8 on Balance of Payments
Restrictions

NOTES ON THE CONSULTATION WITH THE FEDERATION
OF RHODESIA AND NYASALAND UNDER ARTICLE XIV:1(g)

1. In conducting this consultation the Working Party had before it the background paper prepared in the International Monetary Fund (dated 13 October 1955) on economic developments in and the restrictive system of the Federation of Rhodesia and Nyasaland. In view of the close connexion between the Federation and the United Kingdom, who share a common quota in the Fund, and since the financial background had been discussed in consultation with the United Kingdom, the Working Party considered it unnecessary to consider in any detail these aspects of the restrictions. The representative of the Federation, upon requests by members of the Working Party, supplied statistical data on external trade for the first half of 1955. This supplemented the data in the Fund background paper giving payments statistics up to 1954.

System and Method of Import Restrictions

2. The representative of the Federation referred to his Government's reply to the GATT questionnaire for a detailed description of the restrictions in force. It was noted that the Federal Government assumed control on 1 April 1954 over imports into the three territories of the Federation. Licences were required for all imports into the Federation from non-sterling area countries, except that goods for which an open general licence had been issued might be imported freely from any country. Imports subject to licences fell into three categories:

- I. Goods licensed freely from non-sterling countries;
- II. goods licensed freely when imported from OEEC countries and seven non-OEEC contracting parties;
- III. goods subject to quota when imported from (a) the dollar area and (b) non-dollar countries outside the sterling area.

For goods subject to quota, quotas were issued for six-month periods and distributed to importers. Goods which were of most importance to the Federation, including capital goods, were in general on open general licence, or in category I above.

3. In discussing recent changes in the system of restrictions, the representative of the Federation stated that as might be seen from the description in the Fund background paper, all the changes in the past year had been in the direction of liberalization. In the first half of 1955 a number of commodities (e.g. steel, agricultural machinery, photographic equipment, etc.) were added to the unrestricted list. The dollar allocations were about £1 million higher than the actual imports in the previous half-year. In the second half of 1955 imports from OEEC countries and seven non-OEEC contracting parties were liberalized to the extent of about 90 per cent of total trade with them; all imports from these countries except motor vehicles, certain textiles and certain types of paper were on the unrestricted list, while quotas for certain of these residue items were increased. The representative of the Netherlands expressed satisfaction over the progress made in the relaxation of non-dollar imports, and hoped that further progress could be made in the near future.

4. In the course of discussion the representative of the Federation stated that, with the extension of Schedule I permitting free imports from all sources, and with the increase in the allocations for imports from the dollar area, liberalization had covered the dollar area as well as OEEC and other countries. Movements in the Federation's own dollar current account were of limited significance to the import policy of the Federation. As the Federation was linked with the sterling area, the general position of that area as a whole should be taken into account. Consequently, it would be misleading to relate the Federation's trade liberalization policy directly to the size of its own dollar surplus. As for the main criteria used in deciding the level of restriction on various goods, the first was the essentiality to the country of the goods in question and the second the prices of supplies from different sources. On the other hand, as the Government's policy was to contribute through increased net dollar earnings to the dollar holdings of the sterling area, any serious drop in the dollar earnings consequent upon the fall in the prices of Federation's major exports, such as copper, would necessarily lead to a reconsideration of its policy of liberalizing dollar imports.

5. A discussion took place on the import controls in force in the Federation on grounds other than the safeguard of the balance of payments. These controls, as noted in the Fund paper, affected goods such as wheat, flour, cement, sugar and "motor vehicles assembled of parts manufactured in the United States and Canada". The representative of the Federation explained that these controls were applied non-discriminatorily as between sources of supply, and were maintained for such reasons as the achievement of orderly distribution of goods, marketing, etc. In the case of motor vehicles, however, considerations relating to foreign exchange were involved, as the import of such vehicles in some cases required reimbursement in dollars to the exporter for the dollar element of the goods supplied.

6. On the question to what extent price differences were taken into account in the provision of quotas for imports from different sources, the representative of the Federation explained that applications for licences were dealt with on an ad hoc basis and that no hard and fast rule or definite differentials had been established. In fixing foreign exchange import quotas, a substantial reserve was kept unallocated among the different categories of goods in order to allow the licensing of imports to meet special needs. Any cases of urgent need or hardship that might be brought to the attention of the Government could be met by resorting to these reserved sources.

7. On the question of bilateral agreements, the Federation representative noted that there was only one such agreement in force, under which the Federation undertook during 1955 to authorize imports from France up to £11,000 of specified items which were the traditional exports of that country. On the French side an undertaking was given to authorize import into the French Union of tobacco produced in the Federation. As the French products in question were of the types which were exclusively produced in France, the question of whether licences were issued or withheld for similar imports from other countries was not a practical issue. Payments between France and the Federation were effected through the EPU on sterling account.

Effects of the Restrictions

8. A member of the Working Party referred to the rising Northern Rhodesia price index for foodstuffs given in the Fund background paper, and enquired whether discriminative import restrictions had the effect of unduly limiting sources of supply to the domestic market. The representative of the Federation replied that the rising price index had probably mainly reflected the removal in Northern Rhodesia of subsidies including those on maize and flour.

9. A member of the Working Party enquired whether the discriminatory restrictions had to any extent affected the economic development of the Federation. The representative of the Federation replied that imports of capital goods required for industrialization as well as raw materials needed by the local industries, had always been more or less freely imported. Consequently there was no evidence that the economic development of the Federation had been affected by the discriminatory import restrictions.

Prospect for Elimination of the Restrictions

10. On this question the Federation representative drew attention to the fact that 88 per cent of the Federation's exports consisted of primary commodities which, with the exception of one item - namely gold, were subject to wide fluctuations on the world market. The balance of payments of the country was therefore particularly vulnerable, and it was difficult to make any forecast except for the very near future. Furthermore, not only did prospects depend on the position of the sterling area but action on the part of the Federation had to be taken in line with that of other members of the sterling area.

11. The Working Party discussed with the representative of the Federation the relationship between capital imports into that country and their effects on the balance of payments. It was pointed out by the representative of the Federation and by a member of the Working Party that, although the inflow of foreign capital would have the immediate effect of reducing pressures on the balance of payments, from the long-term point of view the question had to be viewed against the country's capacity to service the capital. However, foreign investments in approved fields were always welcome and there was no restriction on the repatriation of such capital or on the remittance of interests or dividends. Only unapproved capital inflow, mainly funds which moved about for speculative reasons, was not permitted to be repatriated within ten years.

12. Some members of the Working Party hoped that the Government of the Federation would be prepared to give sympathetic consideration to any representations that might be made by countries affected by the restrictions and that further measures of liberalization might be possible in the near future. The representative of the Federation noted that his Government normally carried out routine consultations in the Federation with overseas trade representatives regarding the administration of its import restrictions. He concluded by stating that it was his Government's policy to work towards the freedom of the Federation's external trade.