

# THE RHODESIAN JOURNAL

*of*

## ECONOMICS

*The Quarterly Journal of the Rhodesian Economics Society*

Editorial Board:

A. M. Hawkins (Editor), M. S. Brooks, M. L. Rule and P. Staub.

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# THE RHODESIAN JOURNAL OF ECONOMICS

**The Tariff Policy of Rhodesia, 1899-1963**

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# THE TARIFF POLICY OF RHODESIA, 1899-1963

R. L. COLE

The purpose of this paper is to outline, in a more convenient form than is at present available, the development of Rhodesian tariff policy from the beginning of the century to the end of the Federal period. It is hoped to publish a paper on subsequent developments at a later date.

A detailed evaluation of the policies followed is outside the deliberately limited scope of this paper, but such an evaluation would be of great value if and when the necessary information can be obtained.

## Pre-War Developments

The early development of the Southern Rhodesia customs tariff was greatly influenced by the connection with South Africa. Customs duties were first imposed in 1899, by virtue of the Customs Tariff and Management Ordinance of that year, the rates being the same as those applicable under the South African tariff.

In 1903, Southern Rhodesia joined the South African Customs Union, when the tariff then agreed upon was subjected to special provisions admitting the right of Southern Rhodesia to suspend the duties on certain items and to grant greater preference to British goods under the clause of the Order in Council<sup>4</sup> in 1898, generally known as the 'Rhodes Clause'. This Agreement was terminated in 1910, following the union of the four South African colonies and it was replaced by Customs Agreements between Southern Rhodesia and (a) the Union of South Africa; (b) Northern Rhodesia; and (c) Bechuanaland, Basutoland and Swaziland. These Agreements were further revised in 1914 and again in 1924. In 1930 a revised Agreement with the Union came into being. This reserved to the contracting parties, subject to certain provisions, freedom to frame their own customs tariffs. However, the Government of Southern Rhodesia agreed to conform, as far as possible, to the practice and procedure of the Union as regards refunds, rebates, removals in bond, etc. The free exchange of Rhodesian and South African products and manufactures was affirmed as a general principle, though duties were levied by Southern Rhodesia on a number of items, including beer, wines and spirits, cigarettes, and motor vehicles, but at rates below those charged for imports from the United Kingdom, the British Dominions and Colonies. As regards goods other than those mentioned, manufactured in either territory, a fiscal payment at agreed rates, was made by the exporting territory to the receiving territory.

This arrangement was superseded in 1935 by a trade agreement between the two countries. The effects of this was to abolish the system of fiscal payments, imports from one territory to the other being subject to an import duty at agreed rates. With certain exceptions, the rates levied in Southern Rhodesia on goods grown, produced or manufactured in the Union were based upon the rates applicable to the United Kingdom and Colonies, less rebates as agreed upon. The general rebate was 20 per cent, but rose as high as 50 per cent in the case of dried and bottled fruits, blasting compounds, cigarettes and a few other items. Provision was made for the free exchange of slaughter stock and of leaf tobacco up to an agreed quantity annually.

Following the Ottawa Conference an Agreement came into effect in 1932 under which the United Kingdom granted Rhodesian tobacco a preference of 2s. 0½d. per lb. over foreign tobacco and invited the Governments of the non-self-governing colonies and protectorates to grant Rhodesia any preference which was accorded to any other part of the Empire. Among a number of other minor concessions, the United Kingdom undertook not to reduce the 10 per cent duty, imposed on asbestos of foreign origin without the consent of Southern Rhodesia. In return, Southern Rhodesia granted specific preferences to the United Kingdom on a few items including cotton piece-goods and electrical equipment, and agreed to consider the further extension of preferences already accorded to United Kingdom goods when economic and budgetary conditions permitted. Southern Rhodesia also accorded the non-self-governing colonies, protectorates and British mandated territories preferences on a small number of commodities and further accorded to these countries any preferences accorded to the United Kingdom, if the United Kingdom so requested.

A further relevant agreement was that concluded by the governments of Northern Rhodesia and Southern Rhodesia which came into effect in 1933. The Agreement provided for a uniform tariff which should not be altered without consultation between the governments. The Agreement also provided for a free exchange of domestic produce with the exception of beer, wines and spirits, and for the payment of excise and customs duty on re-exports by the Government of the exporting country to the importing country, at the rates applicable in the importing country. In the case of goods manufactured in one country, and exported to the other, the exporting country was required to make a fiscal payment to the importing country based on the varying percentages of the free-on-rail value of different classes of goods. This Agreement did not apply to the north-eastern portion of Northern Rhodesia which fell within the conventional boundaries of the Congo basin and was subject to the Congo Basin Treaties of 1888 which forbade the granting of preferential customs tariff rates.

The pre-war tariff was designed for revenue purposes. The interests of primary industry were acknowledged in the liberal treatment accorded to plant, machinery, tools and construction goods, and those of manufacturing industry in the system of rebates of duty on raw materials and capital goods for use in manufacturing in Rhodesia which was first introduced in 1925. These concessions were, however, the limit of official assistance to industry and, despite some complaints from such manufacturing interests as there were, the Colony adhered to this policy throughout the depressed years of the 'thirties'.<sup>1</sup>

### **The Margolis Report**

The growth of manufacturing industry during World War II (the value of gross manufacturing output increased from £8.2 million in 1938 to £15.1 million in 1944) led to the appointment of an official Committee of Enquiry into the Protection of Secondary Industry which reported in December, 1946. The Report of this Committee\* appears to have had an important influence on Southern Rhodesia's tariff policy until the formation of the Federation and it is, therefore, a crucial document in terms of the Colony's post-war economic development.

The Report marks a distinct step in the direction of the protection of secondary industry, yet there can be little doubt that it was a reluctant step. The Report quoted the Commission of Enquiry into the Mining Industry in Southern Rhodesia which had published its report in 1945:

'In the opinion of your Commissioners the great importance of exports in relationship to the Rhodesian National Income and to the full employment of its people cannot be over-emphasised . . . Only through exports which could be economically produced with the unskilled labour resources of Africans under European supervision is it possible to pay for the great range of imported commodities, both capital and consumers' goods, necessary to promote modern economic production and transport in the territory and to ensure the European population a standard of living sufficiently high to attract them to the territory.

Fundamentally the Rhodesian economy, excepting the primitive sector of purely subsistence production in the Native Reserves, is an economy dependent on specialised economic relations with the world economy, and is unable to maintain its existing income standards in isolation from it.

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<sup>1</sup> This summary of developments before World War II is derived from the *Official Year Book of Southern Rhodesia* (No. 4, 1952) and the *Report of the Committee of Inquiry into the Protection of the Secondary Industries in Southern Rhodesia, 1946* (the Margolis Report).

\* Hereafter referred to as the Margolis Report. The Chairman was Mr. W. Margolis. Another member was Mr. R. Rushmere, at present Deputy Secretary to the Ministry of Commerce and Industry.

The National Income of the Rhodesian people is dependent on the successful exploitation of the comparative advantage which they obtain by concentrating their productive efforts, directly and indirectly on producing exports. In return for these they are able to import goods and services which can either not be produced in Rhodesia at all or whose production would be so expensive as to yield a very much lesser quantity of such goods for the same effort as is now devoted to the production of the exports with which to pay for the imported goods, with a consequent lowering in the standard of living of the Rhodesian people.<sup>2</sup>

The Margolis Committee specifically endorsed this expression of the classical theory of comparative advantage and went on to warn that:

'If the people of Southern Rhodesia are to maintain or raise their standard of living, then we must guard against so called "remedies" applied internally which might hamper the necessary stimulus of income which arises from our export trade.'<sup>3</sup>

Between 1924 and 1943 the ratio of exports to National Income had never been less than 43 per cent and, in 1934, had been as high as 56 per cent.<sup>4</sup> The Report acknowledged that the contribution of secondary industry to exports had increased during the war years from 8.9 per cent in 1938 to 14.9 per cent in 1944<sup>5</sup> but argued that

'the figures in respect of the later war years, though an excellent indication of the technical ability of Southern Rhodesia in the manufacturing sphere, must be regarded as largely anomalous and cannot be regarded as permanent. The products of the secondary industries of Southern Rhodesia cannot yet be regarded as falling within that category of commodities in which the territory specialises from the point of view of world economy.'<sup>6</sup>

In their evidence to the Committee the representatives of the mining and agricultural sectors had been opposed to 'artificial assistance' being given to the secondary industries:

'Whilst these primary industries were prepared to agree that the judicious development of secondary industries in Southern Rhodesia was important to the future welfare of Rhodesia; whilst they were prepared to admit that it might be advisable to protect certain infant industries for a limited period; whilst they agreed that protection against such practices as dumping was necessary, they were yet firm and unanimous in their

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2 Margolis, para. 23.

3 Ibid., para. 24.

4 Ibid., para. 23.

5 Ibid., Table III.

6 Ibid., para. 32.

opposition to any policy which would have the effect of permanently curtailing the economic development and expansion of the primary industries. In certain instances they went so far as to oppose any assistance being granted to secondary industries even if the effect upon the primary industries was of a guaranteed temporary nature. The representatives of the basic industries of Southern Rhodesia were fully alive to the significance of the costs of production as a limiting factor towards the expansion of export trade and they rightly emphasised not only the importance of export trade to the economy of this territory but also the fact that their industries were the mainstay of this export trade.<sup>7</sup>

The arguments of agriculture and mining were accepted:

'The Committee accordingly recommends that, in considering forms of assistance to be applied to any particular branch of industry, account must be taken of the effect of such action upon the costs of production of the remaining branches of industry and that for economic reasons no such action should be taken if the effects upon these costs of production is likely to be of a permanent nature. The Committee stresses in particular the serious effect upon the standard of living of both the European and native populations, as well as the capacity of Southern Rhodesia to absorb further immigration, if the branches of industry adversely affected are those producing for export without artificial assistance from the Government.'<sup>8</sup>

The operative clause in the above recommendation was, of course, 'if the effects of these costs of production is likely to be of a permanent nature'. In making this qualification the Committee was accepting the 'infant industry' argument and it went on to argue the case for what it called 'controlled assistance' which was differentiated from 'protection'. The obstacle confronting the Rhodesian industrialists were stressed with the main emphasis on 'dumping', but other difficulties were cited:

'The risk which the manufacturer takes is obviously rendered the greater by virtue of the exploratory nature of his undertaking and such risks must be paid for or the venture will not take place. It is moreover more difficult to attract the necessary capital. The technical skill required is often not available and, in order to attract it, higher wages and salaries have to be offered. In Southern Rhodesia a very marked bias exists against locally manufactured commodities . . . The industrialists in Southern Rhodesia often bases his venture on the belief that the market available to him will expand with the development of the native. This involves, in practice, a testing of the natives' future tastes. The Rhodesian market is often supplied by those producing concerns which we desire

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7 Ibid., para. 25.

8 Ibid., para. 37.



to attract to Southern Rhodesia: the result is a reluctance to take active steps to open branches in Southern Rhodesia because the market is already held by those concerns.<sup>9</sup>

The Committee held that these obstacles and the prospects of future industrial activity justified 'controlled assistance':

'the Committee is of (the) opinion that assistance over a limited period, with sufficient safeguards to the consumer, may in many cases prove a wise investment for the people of Southern Rhodesia as a whole. Such an investment will undoubtedly over a limited period of years, show a loss in the shape of an annual expenditure on locally manufactured goods in excess of the expenditure that would take place on similar imported articles. However . . . an initial loss of this nature may rightly be regarded as a capital investment which, in the not far distant future, will render returns to the people of the country sufficient to warrant the investment. This is not protection in the sense that the consumer in Southern Rhodesia will at all times be compelled to pay more for an article because it is manufactured in Southern Rhodesia. It is rather a method of ensuring that the consumers will ultimately receive locally manufactured articles at prices cheaper than would have to be paid for similar imported articles.'<sup>10</sup>

To safeguard the consumer the Committee recommended that certain conditions should be fulfilled before assistance was given to manufacturers. These included:

- (a) that it should be visualized that market conditions would ultimately permit the manufacture of the commodity concerned without the benefit of tariff assistance;
- (b) that the marketing of the commodity produced as a result of the assistance granted should be carried out under conditions of competition and that in order to ensure these competitive conditions, assistance should not be granted unless the market was thought to justify at least two competing firms, or if only one such firm was warranted, then that concern must agree to a scrutiny of its accounts.
- (c) that in order to keep down the cost structure of productive activity, assistance should be confined as far as possible to end or consumer products.<sup>11</sup>

The Committee further recommended that in administering the new policy the Minister responsible should have the services of a Tariff Advisory

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9 Ibid., para. 195.

10 Ibid., para. 197.

11 Ibid., para. 200.

Committee the membership of which should include three members of the Industrial Development Commission, one of whom should be Chairman, and representatives of the Chambers of Commerce and Industry. Thus, from the beginning, it was those who were concerned to promote industrial development who were closest to the ear of the Minister. The nearest thing to consumer representation was the spokesman from the Chamber of Commerce. Clearly the preponderance of industrial interests was not without significance for policy making.

### **Interim Customs Union With South Africa**

The return of peacetime conditions with the consequent greater availability of imported goods did nothing to reduce the dissatisfaction of Rhodesian manufacturers. The Central African market was small and the 1935 trade agreement with the Union was proving a severe handicap. The Margolis Report had served to create a climate of opinion favourable to a greater degree of protection. Moreover, international opinion had come to regard preferential arrangements such as those existing between Rhodesia and South Africa with some hostility. On the other hand the General Agreement on Tariffs and Trade gave some encouragement to the formation of customs unions and suggestions were made for re-establishing the customs union between the two countries. Negotiations were begun in 1947, an interim customs union was agreed in November, 1948, and this came into force in April, 1949.<sup>12</sup> The Agreement was to continue in force for five years and thereafter for further periods of five years, subject to six months' notice of intention to terminate it.

Although the Agreement provided only for an interim arrangement it was clearly stated in the preamble that the ultimate objective was the 'removal of all customs and other trade barriers between the two countries' and 'to re-establish a full and complete Customs Union'. The Union undertook to co-operate in a policy of fostering expansion in Southern Rhodesia and the governments agreed to consult with a view to aligning their tariffs within a reasonable period, subject to the understanding that neither party was under any obligation to modify its existing preferential margins. The extension of the Agreement of neighbouring territories was also envisaged.

The main provisions of the Agreement were as follows:

- (1) Except for wines and spirits, cigarettes, vegetable oils, manufactured tobacco and unmanufactured tobacco in excess of a minimum quota, the products of Southern Rhodesia were to enjoy duty-free entry into the Union of South Africa.

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<sup>12</sup> For a fuller discussion of this Agreement see T. H. Kelly, 'The Transition to Customs Union in Southern Africa', *South African Journal of Economics*, Volume 22, No. 3, 1954.

- (2) Exports of Rhodesian slaughter beef and cattle to South Africa were freed from quantitative restriction for a period of five years, though the flow of these products was to be regulated by the Livestock and Meat Industries Control Board of the Union in consultation with the Cold Storage Commission of Southern Rhodesia.
- (3) The list of agricultural products subject to permit before importation into either territory was slightly extended.
- (4) During the transitional period before the establishment of a full customs union Southern Rhodesia was to have the right to levy import duties on a specified list of South African products. These included revenue duties on wines, spirits and motor vehicles and protective duties on about seventy items. The purpose of the latter was clearly to give protection to Rhodesia's 'infant' secondary industries against competition from the established industries of the Union. However, the rates of duty were low—below those which applied to imports from the United Kingdom
- (5) A Customs Union Council was established to report on the working of the Agreement, to investigate any representations made by either government and generally to make recommendations on matters relating to the Agreement.

As signatories to the General Agreement on Tariffs and Trade, both South Africa and Rhodesia were obliged to satisfy the other contracting parties that the Interim Customs Union Agreement was not designed simply to perpetuate preferential arrangements between them. Accordingly, the Agreement was submitted for approval to the Conference of Contracting Parties at Annecy in 1949. The Agreement was approved but the signatories were required:

- (i) to submit to the Contracting Parties annually the report of the Customs Union Council;
- (ii) to report by not later than mid-1952 to the Contracting Parties on the progress achieved in eliminating the remaining trade barriers between the two countries and towards the application of a common tariff and regulations on imports from other Contracting Parties;
- (iii) to submit to the Contracting Parties, by not later than mid-1954 a plan and schedule for the completion of the customs union; and
- (iv) to complete the re-establishment of the customs union as early as possible and not later than 1st April, 1959.

Thus, it was anticipated that full customs union would be achieved within ten years of the coming into operation of the interim arrangement.

The Interim Agreement was followed by a rapid expansion of trade between the two countries. The Union's exports of domestic produce to Southern Rhodesia increased from approximately £10.5 million in 1948 to

£23.5 million in 1953. Exports of Southern Rhodesian domestic products to the Union increased even more rapidly, from £1.2 million in 1948 to nearly £7 million in 1953.

It would be an error to attribute the increases in the value of trade solely to the removal of trade barriers as a result of the Agreement. Allowance must be made for price changes and the higher level of economic activity which prevailed in both countries. The total foreign trade of both countries expanded considerably in these years, but it is significant that the Union's exports of domestic produce to Southern Rhodesia did not increase in the same ratio as its total merchandise exports (i.e. excluding gold), whereas the proportionate increase in the exports of Southern Rhodesia to the Union was very much greater than the growth of total exports.

There is no doubt that in the years following the Agreement the Union enjoyed a larger share of Rhodesia's foreign trade than hitherto and that the relative shares of the United Kingdom and the United States declined. However, this does not necessarily mean that the Agreement had a trade diversion effect for the Union's products did not enjoy very much freer access than they had under the 1935 Agreement while it is probable that the increase of Rhodesian exports was at the expense of South African manufacturers rather than of other imports. South African industries which were particularly affected by Rhodesian competition included those sections of the clothing industry producing low and medium priced garments, the textile industry, the rubber section of the footwear industry, the toy industry and the fibre suit-case industry.

It was alleged by the South African manufacturers that the failure to align external tariffs meant that Rhodesian clothing and textile manufacturers were able to obtain imported raw materials on more favourable terms than their Union competitors. In respect of the toy industry it was argued that differences in import restrictions enabled Rhodesian manufacturers to import the latest dies and equipment thus giving them an advantage over Union producers. Further, Union manufacturers complained that lower wage costs and less stringent industrial legislation in Southern Rhodesia placed them at a disadvantage. It may be noted that the products just mentioned were included in Annexure C of the Agreement and thus received limited protection against South African competition in Rhodesia while having duty-free access to the South African market. The complaints of the South African manufacturers are thus comprehensible.

Progress towards the alignment of external tariffs as provided for in the Agreement was slow. By 1954 agreement between the two governments had been reached in respect of a relatively small number of items, accounting for only 3.4 per cent of Southern Rhodesia's total imports from all sources in 1951 and 4.5 per cent of the Union's total imports in that year.

The difficulties which hindered the process of alignment were of two main kinds: those arising from different margins of preference for United Kingdom goods and those caused by different policies in the two countries. Preferential margins were a matter of fundamental policy especially in Rhodesia and could only be aligned after negotiation with the United Kingdom. Moreover, obligations assumed under G.A.T.T. were also involved.

In retrospect it seems clear that the full Customs Union would not have been achieved, even if Federation had not intervened. It is even possible that the authors of the Interim Agreement saw it as a device whereby certain preferential arrangements could be retained temporarily.

### **The Federal Tariff Structure**

The Federation of Rhodesia and Nyasaland formally came into being in September, 1953, and the Federal Government assumed responsibility for customs administration on 1st April, 1954; all tariffs and restrictions on the inter-territorial movement of local products were eliminated except for certain quantitative restrictions operated in Nyasaland to conserve stocks of essential foods in that territory.

During 1954 a Tariff Commission recommended a Federal tariff structure and in 1955 negotiations took place between the Federal Government and Governments of the Union of South Africa, Australia, and the High Commission Territories in order to decide on future special trading relationships. On 1st July, 1955, a Federal customs tariff and trade agreements with the countries mentioned came into force. Subsequently, agreements were negotiated with Canada, the Portuguese territories and Japan, and there was an informal agreement with Israel.

The Federation was not yet one entity from the point of view of external trade. Although uniform, and in a number of cases preferential, treatment of Federal exports in their external markets, irrespective of their Territorial origin, had been secured, imports were still subject to differential treatment in different areas of the Federation. This differentiation arose from the Congo Basin Treaties, which prohibited preferential tariff treatment of goods in an area of Africa which included the north-eastern part of Northern Rhodesia and the whole of Nyasaland. The Federal Government, with the support and assistance of the United Kingdom Government, was able, in the latter part of 1956, to persuade interested governments to agree to the application of the preferential provisions of Federal tariff and related agreements throughout the Federation.

The Federal tariff was a discriminatory four column tariff, with the highest rates being charged under Column A and the lowest under Column D. Column D applied to imports from the United Kingdom and the Colonies.

Column C applied to other Commonwealth countries. Column B applied to a number of countries entitled to most favoured nation terms and Column A applied to all other countries, including Japan.

The structure of the rates of duty varied to a considerable extent. In the case of most materials and requisites for agriculture, mining, manufacturing and other industries the general rates applied in Columns A, B, C, and D, are 10 per cent, 5 per cent, Free and Free respectively. In the case of revenue items the general rates of duty were from 5–10 per cent in Column D, 10–15 per cent in Column C, 20–25 per cent in Column B and up to 40 per cent in Column A. There were, however, rebates from these duties for materials and requisites for manufacturing industries.

The protective rates of duty varied according to the circumstances of the industry which was protected. They were rarely very high, however, varying generally from 10–20 per cent in Column D to 20–35 per cent in Column B. There were also certain specific rates of duty, e.g. in the piece goods tariff, which were applied for protective reasons. These mainly affected the cheaper lines of the categories concerned and operated as a barrier against low cost imports from other developing countries, including Commonwealth countries.

The general principle adopted in the granting of tariff preferences to particular countries was that the preferential columns of the tariff should normally be applied only to countries which 'accord similar preferences or other benefits to the Federation', and that, in the case of other countries, preference should be dependent on negotiation. The Tariff Commission agreed, nevertheless, that this principle should not be carried to the point of imposing duties of no negotiating value on capital goods, raw materials and other essential commodities of Commonwealth origin which, in the Federation's own interests, should be admitted duty free.

Column D was applied to the United Kingdom on the grounds that she had always enjoyed preferences in the tariffs of the two Rhodesias, and that she provided the largest market for the Federation's products and granted preferences to many of them. The other benefits to the Federation of her close association with the United Kingdom also weighed in favour of the granting of this concession.

Some members of the Commonwealth granted preferences to the Federation while others did not, but it was felt that the Federal tariff should not itself differentiate between Commonwealth countries. The Commission recommended that consumer goods imported from the members of the Commonwealth or Colonies should in general enter at the same rate as that applied under Column B to most favoured nations. Capital goods or raw materials of Commonwealth or Colonial origin upon which duties would not normally be

imposed to serve as a weapon in reciprocal tariff negotiations, were allowed for at rates lower than those applying to most favoured nations and in accordance with the Commission's general policy were usually free from Commonwealth, Colonial or United Kingdom sources. Column C of the tariff was framed accordingly. The only major point of policy upon which the views of the Commission were not accepted was, in fact, the scope of Column C of the tariff. Column C rates were, in fact, generally applied to the British Colonies, only in respect of certain specified items.

### Evolution of Federal Tariff Policy

After the creation of the Federal tariff there was a steady evolution in industrial tariff policy.<sup>13</sup> From a policy envisaged mainly to assist 'worthy' existing manufacturers to meet external competition, it became a policy which, though still selective, was deliberately used to encourage industrial development as a means towards development of the economy as a whole. The principle stages of this evolution are set out below.

The 1954 Tariff Commission opposed the general protection of manufacturing industry in the belief that this would increase prices and costs and that any benefits from protection would be outweighed by its disadvantages. It therefore recommended

- (a) that protection should be granted on a selective basis to industries which, after investigation, were found to merit assistance.
- (b) that in order to keep down the costs of primary and secondary production, tariff assistance should be confined so far as possible to consumer products.
- (c) that where possible local industry should have access to raw materials on terms at least as favourable as those resulting from the normal forces of supply and demand.

In assessing the merits of particular industries for assistance the Commission took into consideration such factors as 'capital employed; the source of raw materials; the strategic value of the industry; the presence or absence of competing firms in the industry requiring assistance; the ability of the industry to offer employment, to supply the Federal market and to export its products . . .'

In 1956, following the report of a working party of officials on incentives and the structure in Industrial Development, more emphasis was laid on general considerations. Account was to be taken of whether the industry would use scarce or abundant local resources, including raw materials,

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<sup>13</sup> This account of the development of Federal tariff policies is derived largely from the Report of the Secretary to the Federal Ministry of Commerce and Industry for the year 1962.

labour, power, water and transport. The attempt to confine protection to consumer goods was abandoned because cases could arise where the erection of an intermediate industry, based on local materials, would encourage the development of industries engaged in later stages of production. The absence of local competing firms did not necessarily inhibit protection, though in such cases 'it might be necessary for Government to take other steps to protect the consumer'. The idea of 'normal' competition was clarified: 'industries should be expected to compete with countries having high standards of living and transporting their products over long distances to the Federation' and the raising of further tariffs against South Africa on the expiry of the 1955 Trade Agreement was foreshadowed. Finally, the level of protection granted should not merely make the industry competitive with imports but, without actually barring importation completely, should be 'effective so that production can be planned on the lowest cost basis for the maximum number of units'.

In October 1958 tariff policy was restated in a directive to the Tariff Advisory Committee, which set out criteria for the selection of industry for protection and stated that 'these criteria must be positively applied with the objective of encouraging the development of such industries as it is in the public interest to assist'. The criteria, which were published, were designed to relate the effects of protection to the economy as a whole. The concept of 'normal' competition disappeared, but reference was made to the effect on the revenue of the Federal Government. Provision was made for the granting of protection in advance, in exceptional cases, from the preservation of margins of preference. It was clear that local intermediate products could be protected and that rebates would be withheld from new industries if necessary to afford such protection: rebates could also be granted for assembly purposes.

In 1962 following an official Committee of Inquiry into Manufacturing Industry in 1960 and an official Working Party Review of Economic Policies, carried out in consultation with Territorial Governments and organisations representative of mining, manufacturing, commerce and agriculture, a new statement of the objectives of industrial tariff policy was included in the Federal 'Principles of Economic Policy'. The basis of selection became the net addition to the national income, so far as it could be ascertained.

In the middle of 1962 it became evident that the increase in manufacturing activity which had been a feature of the Federal economy since 1953 had ceased and the index of industrial production showed that the output of manufacturing industry in May, June and July, 1962, was some 2 or 3 per cent less than in the corresponding period for 1961. Urgent action was needed to stimulate activity in manufacturing industry, particularly as the level of



employment in the economy as a whole was tending to fall and there was known to be a large number of persons seeking work.

It was decided that the most effective stimulant to manufacturing industry which would help also to stimulate economic activity in other sectors would be an increase in customs duties on a wide range of items competitive with those produced in the Federation, in order to divert consumer spending from imported to locally manufactured goods. In August 1962, a large range of new protective tariffs were applied with the deliberate intention of stimulating sales by local industries with excess capacity.

It was anticipated that the increase in customs duties would result in an increase in the gross output of manufacturing industry of approximately £5 million within twelve months, accompanied by an increase in employment. The ripple effect of the rise in output was expected to benefit the entire economy. So that industry would not take advantage of the increased tariffs to raise the prices of items locally produced a clear warning was given by the Minister of Commerce and Industry that any abuse would lead to a suspension of duty on the particular item back to the previous level.

The new tariff levels undoubtedly had a beneficial effect on the consumer goods industries in so far as imports of consumer goods fell from £44.3 million in the twelve months to August, 1962 to £39.5 million in the following twelve months.<sup>14</sup> There was also a recovery in manufacturing output and by March, 1963, the relevant index figure was higher than for the corresponding period of previous years. Taking 1959 as 100, the figures for 1962 and 1963 respectively were 107.1 and 108.1.<sup>15</sup> The recovery in output was not matched by a recovery in manufacturing employment and the monthly average of Africans employed in Southern Rhodesia fell from 73,400 in 1962 to 65,100 in 1963.<sup>16</sup>

### **The South African Trade Agreement**

The formation of the Federation necessitated the review of the trading arrangements of the Federal territories with South Africa. Under the arrangements operating before Federation local products, except excisable commodities, moved between Northern Rhodesia and South Africa free of duty, the importing country being compensated for loss of revenue by an annual fiscal transfer from the exporting country. As indicated above, Southern Rhodesia's arrangement with South Africa differed fundamentally from that of Northern Rhodesia in that, although a wide range of Southern Rhodesian goods enjoyed duty free entry into South Africa, many Southern Rhodesian manufacturers

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14 Calculated from Table 24, *Monthly Digest of Statistics*, Central Statistical Office, Salisbury, January, 1964.

15 *Monthly Digest*, January, 1964, Table 22.

16 *Monthly Digest*, August, 1964, Table 7.

were protected by tariffs and the government of Southern Rhodesia made no fiscal transfer to South Africa.

Under the agreement negotiated by the Federal Government with South Africa in 1955,<sup>17</sup> South African goods were merely to be accorded with varying preferences, which G.A.T.T. accepted as being less extensive than those hitherto prevailing. The right to free entry for South African goods to Northern Rhodesia was eliminated and the Federal tariffs were to apply throughout the Federation. Free entry to South Africa was preserved for certain Federal products, including for the first time Nyasaland agricultural produce. The provision in the 1948 agreement for duty free entry into South Africa of 2 million lb. of leaf tobacco was also retained.

In 1959 the Federal Government announced its intention to terminate the 1955 Agreement and its determination to insist on greater trading autonomy in any new Agreement. Such an Agreement was negotiated and came into force on 1st July, 1960. It was to remain in force for five years.

The terms of the Agreement substituted for the special preferences formerly enjoyed by South Africa the preferential tariff applicable to self-governing Commonwealth countries. Federal products, with the exception of a specified list, were to enjoy the most-favoured-nation rate in the Republic's tariff. The exceptions, which included certain footwear, clothing and textile items, radios, radiograms, television sets, sound-recording apparatus and cigarettes, were to enjoy various concessionary rates which, in some cases, resulted in duty-free entry into the Republic.

In the agricultural sector the Republic agreed to continue to permit the entry, free of duty, of an annual quota of 2 million lb. of Federal flue-cured Virginia-type tobacco. The Agreement further provided that neither party should apply import controls to the produce of the other except in the case of a list of items, mainly agricultural, appearing in an annexure to the Agreement.

The 1960 Agreement provided for a much narrower range of tariff concessions on both sides than the 1955 Agreement which had accorded to most South African goods the lowest rates in the Federal tariff. Thus, in this respect, the 1960 Agreement was more in consonance with the industrial development aspirations of the Federal Government, since South African industries were the Federation's most direct competitor over almost the whole range of manufacturing. In terms of the 1960 Agreement the departure of South Africa from the Commonwealth in 1961 involved no change in the tariff treatment of South African goods imported into the Federation.

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<sup>17</sup> For a South African view of this Agreement see G. F. D. Palmer, 'A Note on the Trade Agreement Between the Union and the Federation of Rhodesia and Nyasaland', *South African Journal of Economics*, Volume 23, No. 3, 1955.

The new Agreement proved to be double-edged for although many Rhodesian manufactures now enjoyed greater protection in the Federal market one of the effects of the Agreement was to place certain industries, including textiles, clothing and footwear, which had built up substantial export markets in the Republic with the assistance of the preferential tariff provided in the 1955 Agreement, in considerable if temporary difficulty.

The formation of the Federation also necessitated the revision of the trading arrangements between the Federal territories and the then High Commission territories. A Customs Agreement between the three territories and the Federation came into effect in 1956. It provided that trade between the Federation and Basutoland and Swaziland should be subject to the same conditions as trade between the Federation and South Africa. In respect of Bechuanaland however, the Agreement created virtually a free trade area and allowed the movement of goods produced in either country, with a few exceptions, notably potable spirits, free of duty or restriction into the territory of the other.

The Agreement also recognised the substantial entrepot trade between the Federation and the Protectorate and, in the case of re-exports, provided for payment by the government of the exporting country to the government of the receiving country the duties collected on first importation. Special provisions were made for motor-spirit, motor vehicles and goods subject to excise duties. The Agreement was of indefinite duration, but terminable on six month's notice by either side.

### **The Japanese Trading Arrangement**

In view of subsequent developments, one other bilateral arrangement—that with Japan—may be regarded as being of particular significance.

Until 1959, trade between the Federation and Japan was comparatively small in both directions.<sup>18</sup> No formal trading relationship between the two countries existed and, as the Federation had invoked Article XXXV of the General Agreement on Tariffs and Trade at the time of Japan's accession to the G.A.T.T. in 1955, there was no obligation on the part of either country to accord most-favoured-nation treatment to the goods of the other, either in respect of customs duties or import controls.

However, the growth of Federal domestic manufacturing industry, particularly the clothing industry, created a demand in the Federation for Japanese textiles and other materials for further manufacture, while Japan's own industrial expansion provided a large potential market for a number of the Federation's important export products.

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<sup>18</sup> This account of the development of trading relations with Japan is derived from the Reports of the Secretary to the Federal Ministry of Commerce and Industry for 1962 and 1963.

Against the background of these developments, and as a result of a visit to Japan by officials, a trading arrangement with Japan with a life of one year was entered into early in 1960. It set out as the ultimate objective of policy the achievement of full most-favoured-nation treatment but provided that, whilst the movement towards this objective should be progressive, it should be made without undue haste. It provided, in broad terms, for the reciprocal removal of tariff discrimination, with the Federation's applying its most-favoured-nation tariff to Japanese goods and Japan's undertaking to apply its own most-favoured-nation tariff to Federal goods. As regards import control the Federation would grant import facilities for a limited range of Japanese products, mainly capital goods or other goods for industrial use and, in return, Japan would accord import licensing facilities for eighteen important Federal exports, most of which were primary agricultural or mineral products.

In April 1961 a new arrangement, of indefinite duration, was negotiated. Like the earlier one, it declared full most-favoured-nation treatment to be the ultimate objective of both Governments, but recognised that this would not be practicable in the short term. It included lists of products for which import facilities were to be granted and it provided for an annual review of the administrative measures taken to implement the arrangement. Simultaneously, administrative measures taken by the Federation freed a further substantial range of Japanese goods from discriminatory restrictions but left the majority of items still subject to import controls. On the other hand, virtually all, actual or potential, Federal exports to Japan enjoyed non-discriminatory import licensing, even where balance of payments restrictions were in force in that country.

Subsequently, the Japanese Government indicated through G.A.T.T. that it intended to remove, by October 1962, the greater part of its balance-of-payments import controls, including those affecting, among other major Federal exports, copper and tobacco. Japan made it clear that it would not undertake to extend its own liberalization automatically to those countries which continued to apply a substantial discrimination against Japanese exports and that retaliatory discrimination was a possibility.

In these circumstances, when officials of the Ministry met representatives of the Japanese Government in Salisbury, during October and November 1961, to review the administrative measures to be applied during 1962, a fresh approach was adopted and the Federation decided to remove discrimination against Japan in all fields where imports from Japan were unlikely to damage the Federation's domestic industries. This change in the structure of the import licensing offered Japan the opportunity of developing its trade in the fields outside the textile market where it had formerly been concentrated and where Federal industry was most sensitive.

The Federation announced at the 20th session of G.A.T.T. that it had agreed in principle to the disinvocation of Article XXXV of the General Agreement against Japan—and, therefore, the ending of discriminatory import controls—provided that satisfactory safeguards for Rhodesian industry could be negotiated. Subsequent discussions resulted in a new agreement between the Federation and Japan which came into effect in August, 1963, and Article XXXV was disinvoked at the same time.

Under the new agreement the respective governments agreed to accord the products of the other country most-favoured-nation treatment. Only a very limited list of Japanese goods remained subject to import control on entry into the Federation.

The development of formal trading relationships with Japan was accompanied by a rapid expansion of trade.<sup>19</sup> Imports grew from £591,000 in 1956 to £4,865,000 in 1963. From the Rhodesian point of view export trends were even more favourable. Exports increased from £326,000 in 1956 to over £13 million in 1963 in which year Japan was the Federation's fourth largest market, coming after the United Kingdom, West Germany and South Africa. The main imports were cotton and rayon fabrics which in 1963 together accounted £2.9 million while the main export was copper which was valued at £7.7 million in the same year. Pig iron and unmanufactured tobacco were the other principal exports.

Perhaps, however, it is by the trading links forged, rather than by the volume of imports and exports in these years, that the arrangements negotiated in the Federal period should be judged.

### Conclusion

It is difficult to assess, even in the broadest terms, the contribution of Federal tariff policy to the development of the Rhodesian economy. The official index of industrial production (1959=100) shows an increase from 70.7 in 1955 to 115.2 in 1963.<sup>20</sup> The net output of manufacturing industry in Southern Rhodesia alone has been calculated to have increased from £35.4 million in 1956 to £62.5 million in 1963,<sup>21</sup> though these figures are accompanied by a warning that they are not strictly comparable.

In more general terms it may be shown that nearly two-thirds of the non-durable consumer goods consumed in the Federation in 1962 were of local manufacture and that local factories were able to supply nearly one-

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19 Federation of Rhodesia and Nyasaland, *Annual Statement of External Trade*, 1963.

20 *Monthly Digest of Statistics*, March, 1964, Table 32.

21 *Monthly Digest*, August, 1964, Table 34.

third of the materials, plant and equipment required by local manufacturers. Production of this order meant a considerable relief for the Federal balance of payments which also benefited in 1962 from exports valued at £16.3 million.<sup>22</sup>

It would, of course, be a serious mistake to seek to attribute the growth of manufacturing industry solely to the protective policies followed by the Federal Government. For example, it is probable that the rapid growth in the early years of Federation owed something to the boom conditions in the Northern Rhodesian copper industry as well as to the general euphoria which accompanied the formation of the Federation that was also reflected in the building boom.

Nevertheless the claim of the Federal Government in its Economic Report for 1958 that 'the much wider market afforded by Federation, coupled with the new Federal tariff, and related trade agreements . . . (had) encouraged the establishment of new industries at a much accelerated tempo' was probably legitimate.

The tariff changes that came with Federation widened the market in two ways. First, the increase in import duties over those previously prevailing widened the market by making Southern Rhodesian manufactures more competitive in all three territories than they were before. It should be noted that the removal of inter-territorial duties, without an increase in the external tariff, would not have achieved this effect, for there were no duties on Southern Rhodesian manufactures in Northern Rhodesia before Federation and the Southern Rhodesian market would likewise have been unaffected. Second, the market was widened to the extent that purchases in Nyasaland and the north-eastern part of Northern Rhodesia were switched from imports to Southern Rhodesian manufactures. While the Congo Basin Treaties covered Nyasaland it had often been cheaper for that country to obtain its imports from overseas, but the formation of the customs union with the other Federal territories opened the Nyasaland market to Rhodesian industry. The benefit of this development for Rhodesian industry should not be exaggerated since the total imports of Nyasaland in 1963 were only £7.6 million, but the burden of higher cost Rhodesian products on the Nyasaland consumer may have been considerable.<sup>23</sup>

There is one final point which must be considered—the effect upon

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22 Report to the Secretary to the Federal Ministry of Commerce and Industry, 1963.

23 For discussions of the effect of Federal tariff arrangements on Nyasaland, see Arthur Hazlewood and P. D. Henderson, *Nyasaland: The Economics of Federation* (Basil Blackwell) 1960, and Arthur Hazlewood (Editor), *African Integration and Disintegration*, (O.U.P.) 1967.

labour.<sup>24</sup> The growth of manufacturing output was not accompanied by anything approaching a proportionate increase in the industrial labour force. The number of Europeans, Asians and Coloureds employed in manufacturing in Southern Rhodesia increased from 10,990 in 1954 to a peak of 15,810 in 1962, but the percentage increase in African employment was much smaller, from 62,500 to 73,400.<sup>25</sup> Thus, whatever the other benefits of tariff protection, the provision of additional employment opportunities can hardly rank high. It must be said, however, that average earnings in manufacturing increased rapidly, particularly for the African employees. Whilst the average wage for Europeans, Asians and Coloureds increased from £973 in 1954 to £1,297 in 1962, that for Africans increased from £65 to £164 in the same period.

It is also interesting to note that earnings continued to rise even after the decline in the numbers employed which occurred in 1963 and 1964. Average African earnings in manufacturing industry were almost identical to the average for the money economy as a whole in 1954—£65 for manufacturing as against £64 for the whole economy—but by 1962 they had far outstripped the national average and this relatively faster growth continued into 1963 and 1964 so that in the latter year, average African earnings in manufacturing were £198 as against £121 overall.<sup>26</sup>

Thus it is clear that a small fraction of the African population has benefited considerably from the growth of manufacturing in Rhodesia and probably from the tariff policies of the Federal Government and its predecessors, though against this it must be remembered that the purchasing power of the mass of Africans in all three Federal territories was almost certainly adversely affected by the increased prices of imported goods or the need to purchase higher price Rhodesian products, sometimes of inferior quality.

The validity of this last point may be a matter for argument. The point which is abundantly clear is that the expansion of manufacturing industry, even when assisted by an intelligently applied tariff and trade policy, cannot possibly solve Rhodesia's gravest economic problem, that of its labour surplus.

## Salisbury.

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<sup>24</sup> On this point see the interesting article by D. S. Pearson, 'Employment Trends in a Developing Economy: The Case of Southern Rhodesia', *East African Economic Review*, June, 1964.

<sup>25</sup> Monthly Digest of Statistics, August, 1964, Table 7.

<sup>26</sup> Monthly Digest, January 1966, Table 10.



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