PRIVATE ENTERPRISE FOUNDATION

IMPACT STUDY OF THE SPECIAL TAX ON CERTAIN IMPORTED ITEMS

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Introduction

This study is part of a number of studies being conducted by the Private Enterprise Foundation (PEF) under the Private Sector Promotion Programme (PSPP) funded by the United Nations Development Programme (UNDP). The Programme is aimed at strengthening the technical and institutional capacity of the private sector in Ghana to undertake productive investments in order to accelerate the growth of the sector.

As an advocacy organization, PEF is undertaking the studies with the view to using the research findings to effectively dialogue with the government for the necessary improvements in the macro-economic policies, regulations and legal framework affecting the private sector.

The broad objective of the study is to assess the impact of the Special Import Tax on the local manufacturing industry. The study is being conducted only a year after the introduction of the tax and may therefore not uncover its full impact. This notwithstanding, it is expected that at least the short-term effects would be captured and provide some relevant findings for future policy direction.

The study report is presented as follows;

- Section 1 provides a background of the policy. The background covers the new economic strategy and its related reforms as well as their impact on the economy in general and local production in particular.

- Section 2 presents the policy formulation and its objective and reviews literature on trade tax. The section also mentions the tax rate and coverage, as well as the amendment to the special tax. Local substitutes to the affected by imported items are identified in the section.

- Section 3 deals with the survey. It presents the methodology, limitations and coverage.

- Section 4 outlines the findings of the survey

- Section 5 presents policy recommendations based on the findings

Policy Background

1.1 *Economic Developments and Policy Background*

Ghana, like most other newly independent countries after the 2nd World War, thought that the colonial economy was both a cause and consequence of its economic underdevelopment. Consequently, political independence was regarded as mere rhetoric without economic restructuring that would accelerate the process of industrialisation with full political control as a sine qua non of the process of self-determination. Thus industrialization became the preoccupation of the First Republic in the early 1960s. In tune with the then perceived wisdom, import substitution industrialisation with active state participation was regarded as the way to achieving economic development at an unprecedented tempo. Elaborate development plans were drawn and interventionist policies were pursued, as it were, with the market/price mechanism playing a subsidiary role in resource allocation.

Unfortunately, however, by 1983, the economy was in a crisis. The causes of the economic crisis or poor economic performance were both external and internal. The external causes, dubbed exogenous shocks, included severe droughts in 1975-77 and
1981-83; adverse shifts in the country's terms of trade; oil shocks of the 1970s; high and increasing rates of interest on external debts following adjustments in the developed market economies to curb inflation; and falling volume of exports as Ghanaian exports as a proportion of world imports declined to 0.05 percent by 1981 compared to 0.15 percent in 1970. Cocoa exports particularly, which accounted for over 60 percent of foreign exchange earnings, dropped from a high of 557,000 tons in the 1964/65 crop year to 185,000 in 1980/81, representing some 67 percent reduction in total export volume. In fact, Ghana’s share of world cocoa export fell from 33 to 17 percent between 1970 and 1980.

The internal or endogenous shocks were mainly inappropriate domestic policies that distorted relative prices and Ghana's comparative advantage in the production of tradable and non-tradable goods. Among these policies included expansionary fiscal deficits financed by borrowing from the banking system, especially the Bank of Ghana,

And the fixing of the exchange rate for a considerable number of years without regard to the deteriorating economic circumstances leading to a grossly overvalued exchange rate that in effect provided a subsidy to imports and constituted a tax on exports. Other inappropriate policies were reflected in commodity price and distribution controls that changed relative prices, leading to activities, which although they consumed real resources and offered pecuniary advantage nevertheless contributed nothing to output.

In particular, Ghana had in place a high tariff regime that was meant to protect the country's infant industries, which were mainly state-owned. An import licensing system was introduced during the period to control imports.[1] The protection enjoyed by Ghanaian enterprises rather contributed to their inefficiency, as they became complacent about the local market. Furthermore, the performance of manufacturing enterprises was undermined by the poor macro-economic conditions. In particular, the over valuation of the local currency spurred demand for imports and put a lot of pressure on the import licensing system. This led to the corruption of the system. Shortages became prevalent and parallel markets developed for foreign exchange as well as imported items. As the country experienced inadequate foreign exchange, the situation worsened further and resulted in high inflation and low economic growth.

More significantly, the manufacturing sector persistently declined in terms of both its relative share in GDP and overall growth, having recorded a negative growth rate of 36.3% on the eve of the inception of the Economic Recovery Programme (ERP) in 1983. From a high 14% of GDP in 1975, manufacturing value-added fell persistently until it reached a record low level of 3% in 1983.

The consequence of both exogenous and endogenous shocks was that by 1983, the economy of Ghana was in a desperate position. It was against this background of poor economic performance in the 1970s and 80s that the ERP was initiated by the P.N.D.C

Government in 1983. The main components of the ERP included IMF stabilization

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[1] . It is worth-noting that during the early 1970s, there was an attempt to liberalize trade, but this was short-lived due to the overthrow of the government at that time.

Policies and policies of World Bank Structural Adjustment Lending and/or Sectorial Adjustment Lending (SAL/SECAL) to "get the prices right".

1.2 Trade Policy Reform and Developments in Ghana's International Trade

Of particular significance in the policy package was liberalization of both domestic and foreign trade. The former entailed removal of price and distribution controls by franchise, as well as less state intervention in economic activity with policies of deregulation and divestiture of state-owned enterprises. Foreign trade liberalization entailed removal of trade barriers and easing of exchange controls to ensure international competitiveness of local production. Trade liberalization was particularly emphasized as the framework within which Ghana's comparative advantage would emerge with firms becoming very competitive, efficient, thus leading to sustained economic growth. It was also expected that Liberalisation would usher in product improvement, technological changes, foreign direct investment and foreign capital inflows to support domestic production for overall economic growth and development. Consequently, as part of the comprehensive economic reform programme, Ghana pursued a far-reaching trade policy reform that was to enable the country to fully take part in international trade and enhance economic growth.

The impact of the economic reforms on Ghana's external trade has been significant, especially the reforms in trade and payments liberalisation, removal of controls on prices of goods and service, and the introduction of a flexible exchange rate.

Export business has been made attractive with the re-alignment of the exchange rate, the removal of exchange controls on export proceeds and the introduction of various programmes to support the export sector such as the Private Enterprise and Export Development (PEED) Fund. On the import side, the decontrol of prices of goods has allowed importers to recover their cost by setting their own prices freely without any Government interference.

Thus, since the inception of the ERP, Ghana's export earnings have shown considerable improvement over the years. For example, between 1984-1990, earnings increased from $388 million to $897 million representing an annual average growth rate of 19%. By 1995, export earnings had risen to $1465 million, increasing further to $2,012 million in 1999 whilst recording a downward trend in 2001 having fallen to $1940.5 million. Table 1 shows import trends and export earnings for selected years between 1982 and 2000.

Table 1: Trends in Import and Export Earnings For selected years (US$ Million)

	1982	1985	1988	1991	1994	1997	2000
Imports	588.7	668.7	993.4	1318.7	1,579.9	2,128.2	2832.4
Export Earnings which include	607.0	632.4	881.0	997.7	1,237.7	1,489.9	1940.5
- Cocoa	------	412	495.4	346.6	320.4	470	436.8
- Minerals	------	107.8	159.4	352.6	588.2	613	775.95
- Timber	------	27.3	89.8	124.2	165.4	172	175.24
- Non-traditional	------	16.9	27.9	58.1	86.6	157.7	264

Source: Various issues of Bank of Ghana Annual Financial Reports

Non-traditional exports (NTEs) including pineapples, canned fish, aluminum products, wood products and handicrafts showed a tremendous increase in earnings. It rose from a low of US $16.9 million in 1985 to US $58.1 million in 1991. In 1997, the earnings reached US $157.7 million and increased further to US $264 in 2000. Apparently, it was to promote further growth and competitiveness of some of these exports, notably aluminum and wood products, that the special Import Tax was put in place. In spite of the high growth of the NTEs, however, traditional exports i.e. Cocoa, gold and timber continue to contribute a large share of the total export earnings.

Imports also experienced a high growth rate during the same period. The value of imports rose from US $588.7 million in 1982 to US $1318.7 million in 1991 and further to US$ 2128.2 million in 1995. By 2000, it had reached US $2832.4 million as shown in. Table 1 above. It may be noteworthy that this increase in imports was notwithstanding, precipitated the introduction of the Special Import Tax which was ostensibly designed to

Curb imports and to promote exports, as we examine subsequently. In any case, the growth in imports created the necessary base for increased revenue mobilization from trade taxes.

1.3 Performance {the /Manufacturing, sector

The impact of the economic reforms on the manufacturing sector was mixed. The abolition of the import licensing system, the lowering of import tariffs, the relaxation of exchange controls and the decontrol of prices all stimulated the manufacturing industry. Subsequently, existing firms took advantage of the prevailing excess capacity to increase output. Not surprisingly, manufacturing performance improved. For example, between

1984 and 1988, the manufacturing sector grew by an annual average rate of 12.6%. After 1988, although manufacturing performance still exhibited positive trend, it did so at a considerable decreasing rate. For example between 1989 and 1996, the growth of the manufacturing sector averaged only 2.7% and between 1992 and 2000, the annual average growth rate was 3.13. Table 2 shows the growth rates of Industry and its sub-sectors between 1982 and 2000. The relatively poor performance of the manufacturing sector is of particular concern if we note that VISION 2020, Ghana's Blue Print for economic development, envisaged that by the year 2020, "Ghana will have achieved a balanced economy and a middle-income country status and standard of living, with a level of development close to the present level in Singapore" with the manufacturing sector growing at annual average rate of 9.49%. The present annual average growth rate of 3.13% is therefore greatly inadequate if Ghana's vision is to be realized. Naturally, this has become the concern of both policy makers and industrialist

Table 2: Growth Rates of Industry and Sub-sectors (%), 1982-2000

Year	Industry	Manuf.	Min. & Quar.	Elect. & Water	Construction
1982	-22.89	-36.31	-7.90	-16.60	35.10
1983	-14.24	-11.17	-14.36	-38.91	-14.49
1984	11.94	12.90	13.49	42.96	2.33
1985	17.60	24.32	6.45	20.73	2.81
1986	7.56	10.95	-3.03	18.03	-2.66
1987	11.49	10.01	7.89	18.73	5.86

1988	7.25	5.06	17.84	12.86	8.38
1989	2.63	0.59	9.96	7.73	4.17
1990	6.93	5.88	6.35	14.61	7.31
1991	3.19	1.05	6.75	6.59	7.03
1992	5.80	2.70	10.36	12.02	10.10
1993	4.30	2.21	9.11	8.19	6.25
1994	1.30	1.50	5.08	5.30	4.20
1995	3.30	1.80	5.50	6.00	5.20
1996	4.20	3.00	4.20	6.50	6.10
1997	6.40	5.40	5.60	4.80	4.40
1998	2.50	3.00	4.00	-10.0	5.50
1999	4.90	4.80	3.00	7.80	5.00
2000	3.8	3.8	1.5	4.5	5.10
Average annual growth rates [2]					
1982-1991	3.15	2.33	4.34	8.67	5.58
1992-2000	4.06	3.13	5.37	5.01	5.76

Source: ISSER State of the Ghanaian Economy, Various issues

While the liberalized trade regime appeared to be yielding some positive results various stakeholders have expressed concern about the surge in imports, especially consumer goods. In response, the government introduced a super tax ranging from 75% to 100% on imports in 1993. Later in 1994, the range was changed to 10% - 100% and was finally replaced in 1995 by the sales tax on comparable locally manufactured goods. Presently, in addition to import duties, imports attract a 12 ½ %VAT which also pertains to locally produced goods.

Although the current low growth of the manufacturing sector has been attributed to a number of problems ranging from macroeconomic instability to poor public services, Government was of the view that "even though some concrete measures were implemented to support local industry in 1999, the onslaught of global trade liberalisation continues to undermine the competitiveness of some key local manufacturing industries". With this diagnosis from the Presidential address to the Parliament in 2000, it was not surprising therefore that the envisaged therapy was that, "in pursuit of our commitment to support local industry, a further tariff review exercise has been initiated in addition to other policy measures to ensure a fair level playing field for local manufacturers". As a consequence of this perceptive diagnosis was born the SPECIAL IMPORT TAX.

The Introduction of the Special Trade Tax

2.1 The Policy Framework for the Special Import Tax

Following the withdrawal of the super tax meant to support local manufacturers in the face of the influx of imported goods as a result of the liberalisation of trade, the Association of Ghana Industries (AGI), which groups local manufacturers, resumed its persistent complaints about the negative impact that the trade liberalisation was having on their business. Industrialists argued that if local manufacturing was to contribute to the overall vision of Ghana so that the economy would become a middle-income country by 2020, then the manufacturing sector required firm assistance from Government, possibly in the form of tariff protection.

Consequently, Government requested the Ministry of Trade and Industry to present a proposal for the acceleration of industrial and export development in Ghana. This proposal was duly presented to the Office of the Vice-President (Head of Economic Management Team) in November 1999. The proposal recommended, among others, a further rationalization and re-alignment of the operational tariff levels. The Ministry also recommended safeguard measures that could be implemented within the rules and regulations of the WTO given the limits of the country's ceiling tariff binding obligations and dispensation of developing countries (see appendix 2).

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[2] The periods are so grouped to coincide with the non-constitutional and constitutional eras. It is expected that with less arbitrariness in decision making under the constitutional era, growth rate on the average would be higher for both the manufacturing and the industrial sector.

In substance, industrialists argued that Ghana has latent competitive advantage in some manufacturing outputs and given the necessary support, these enterprises would realize their full international competitiveness. Notable among these enterprises are those in the following categories.

a) Firms in the selected priority sectors of:

Food and fish processing

Textiles and Garment

Wood and wood processing

Packaging

b) Manufacturing firms, which generate high levels of revenue for government from excise duty and other domestic taxes.

c) Firms/Sub-sectors suffering from obvious distortions in the tax system which are impacting negatively on their operations.

The Ministry of Trade and Industries further recommended that certain imported items including edible oil, soap, aluminum cookware, furniture and computer forms should attract a maximum import duty of **"40% to provide a level playing field for both local and foreign manufacturers".**

The Ministry again recommended that certain goods, such as grapes, apples and mineral water, described as luxury goods, should attract the maximum import duty of 40% **to raise more revenue for the government.** Hence, the Ministry presented a list of 40 items that should attract the maximum import duty of 40% as compared to an existing maximum of 25%. After deliberations, a government sub-committee recommended the implementation of the tariff measures.

Consequently, in its 2000 Budget Statement and Economic Policy a month after the Presidential Address to Parliament, Government reiterated the fact that it "is also committed to supporting local industry through policies that will raise the competitiveness of local manufacturers. In pursuit of the above objectives, the initiatives to be adopted will include targeted tax concessions, modifications to the customs tariff regime, public sector procurement of locally manufactured goods, and support for

Sectors producing inputs for the local manufacturing sector". Indeed, from the Budget Statement, what has informed Government to take these measures is the fact that "there are indications that some foreign companies are engaged in unfair trade practices that are undermining the competitive capacity of some Ghanaian manufactured products, and Government has assessed the impact of these activities and will soon introduce legislation in this House not only **"to stop the practice but also to protect local industry"** (emphasis ours; 2000 Budget Statement P.69, Para. 279).

Against this background, Government introduced the Customs and Excise -Duties And Other Taxes Amendment Bill with the following Memorandum:

> "The object of this Bill is to rationalize the Import Duty and Special Tax Regimes under the Customs Tariff and Harmonization Commodity Code. In this regard Import Duty rate on specified goods under the Customs Tariff has been reduced from the existing rate of 25 per centum to 20 per centum. Special Tax has been imposed on selected Commodities. Excise Duty rates have been reduced on some selected commodities. The Bill therefore seeks to harmonize the Import Duty rate with those applicable in countries of the West African Sub-Region to meet the intendment of the ECOWAS trade objectives. The Bill also seeks to encourage the maximization of value-added in domestic natural resource utilization. Additionally this Bill seeks to encourage the expansion of local industries with both proven and potential international competitiveness".

Subsequently, the Bill was passed amending the maximum import duty of 25% to 20%, while a Special Import Tax of 20% was introduced on 32 imported items (see appendix). These tariff amendments took effect from April 2000.

2.2 *Amendment to the Special Import Tax*

Soon after the Special Import Tax was introduced, local importers of the affected goods and local entrepreneurs whose businesses have been affected by the tax started to express concern about the tax. The concerns of these groups of people heightened as Ghana's terms of trade deteriorated with falling prices of cocoa and gold vis-a-vis rising

Oil prices. Foreign exchange shortage became acute with persistent and high rates of the depreciation of the Cedi against major trading currencies. Pressures were brought to bear on Government from all angles, but more importantly the Ghana Union of Traders Association (GUTA), whose members were losing business embarked on industrial action, by closing their shops. GUTA's position was that taxes on imports had become too high resulting in the payments of large duties, which they found unbearable, since, the situation posed serious cash flow problems to them. This was not surprising if we note the ad valorem character of the tax regime in relation to the persistent and appreciable depreciation of the Cedi. For example, the Cedi/US$ rate which was 2346 Cedis to the US Dollar by the end of 1998 depreciated persistently to close at about 3500 in 1999. This depreciating rate was worsened by the unfavorable terms of trade so that by December 2000, the exchange rate was over 7000 Cedis to the US Dollar. Consequently, GUTA members found out that they had to raise about twice as much Cedi amount to pay their taxes, especially the Special Import Tax. Moreover, they pointed out that they were effectively paying 22% Special Import Tax instead of the nominal 20% as a result of the method used in calculating the tax. They also realized that their working capital was being eroding very fast.

Furthermore, the International Monetary Fund (IMF), the WfO and Japanese Government expressed concerns about the level of the taxes. In their view, Ghana's tariff regime was restricting trade and this would distort free trade; by her action, Ghana was backtracking on the progress she has made so far in the area of economic reforms, especially in the area of trade liberalisation, to remove distortions in international trade.

In response to the complaints and protests, a committee was set up to review the tax. The committee realized that some affected imported items were indeed inputs in manufacturing e.g. Powdered milk used by Nestle and Fan Milk. Thus, increasing the costs of local productions of some firms.

In November, 2000, the government directed the Customs, Excise and Preventive Services (CEPS) to defer the special tax on some of the items including used clothing, powdered milk, pet performs and paint, pending the amendment of the tax.

In March 2001, parliament passed a Bill to amend the special import tax from 20% to 10%. Used clothing, paint, pet performs and powdered milk were removed from the list.

As stated above, the imposition of the Special Import Tax did not go down well with the IMF, WTO and some other bilateral partners of Ghana. Therefore, there is mounting international pressure on Ghana to remove the tax. In the light of the new developments, the government has declared its intention to replace the special import tax with an Anti-dumping Tax to check the unfair trade practices cited by Government as basis for the introduction of the Special Import Tax. Although this appears to be the more informed policy option, it will require substantial amounts of hard evidence to prove the existence of dumping and the injury it is causing to local import competing firms. Also, there is a chain of complex procedures to go through before a country can take advantage of the opportunities offered under the escape clause (See Appendix 2).

However, until the anti-dumping legislation comes through, the special import tax rules the waves. It is for this reason that it has become necessary to examine the impact of the Special Import Tax so far, especially if it has been able to achieve its core objective of **creating a level playing field for local industries.** To achieve this, we first put tariff regimes in analytical perspective, what its theoretical advantages and disadvantages are.

2.3 Brief Literature Review

The theory of free trade postulates that a country stands to gain substantially from engaging in international trade devoid of any trade restrictions. Analytically, import substitution industrialisation was diagnosed as inward looking with severe allocative distortions. Hence, there is the need for a more liberal external trade regime with outward looking policies. Reduction in and or abolition of trade barriers, tariffs and import quotas, tend to foster an adjustment in relative prices that would lead to a reallocation of resources toward the exportable sector, expansion of exportable commodities, and a contraction of import-competing industries and a simultaneous transfer of resources from the non-tradable to the tradable sectors of the economy. Not only will improvement in resource allocation lead to static gains but more importantly, There will be dynamic games due to technological spillovers from the removal of trade barriers. In other words, trade restrictions in the form of quantitative restrictions and tariffs on imports and exports tend to deprive a country of the full benefits of increased efficiency and optimum welfare for its citizenry.

Despite the obvious advantages of free trade, some countries have gone ahead to impose restrictions on free trade for several reasons. Notable among these reasons is the prime objective of protecting domestic production in the spirit of the infant industry doctrine. By protection, we are concerned with the whole range of trade taxes and subsidies, direct subsidies and taxes on the consumption or production of traded goods, multiple exchange rates, and indeed all interventions affecting trade, including quantitative restrictions (Carden, 1971). Analytically, protection has mixed effect on various segments of the economy. It has effects on production, consumption, balance of payments, and revenue and income redistribution. Protection would lead to a rise in domestic output and customs revenue, a reduction in consumption and imports and finally a redistribution of income. Whichever of these that a country finds itself saddled with depends on the various response mechanisms in the economy. We intend to examine these effects for Ghana with the imposition of the Special Import Tax after the necessary survey is carried out.

In as much as protection may stimulate competing industries at home, it also has the potential to promote inefficiencies. This may result due to the absence of strong competition to force the best out of the domestic competing industries. The tendency is there for these favored firms to produce shoddy and sub-standard goods which do not meet international standards, thus inhibiting their ability to grow and enter into the international market. Their growth would be stunted and their cost levels would also be high. They may, therefore, have to call for more protection just to hide their inefficiencies and to ensure their survival.

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Protection also leads to a situation where the favored industries absorb more than twice as any domestic resources in the production of goods than would be necessary in the absence of such a highly intervened trade regime. Under this circumstance, as

espoused under the classical model, it is the export sector that suffers, and thus affecting the volume of trade negatively.

Related to the above is the fact that protection of domestic industries has the tendency to divert its impact on unintended targets. In that case, the cumulative effect of the trade restriction applied would more than out-weigh its direct effect. Using the concept of effective protection can better elucidate this fact. Effective protection shows that tariffs on intermediate products increase the domestic prices of products to domestic users and the buildu p of manufacturing costs and thus denying the manufacturers the expected increasing effect on their final products. In other words it captures the entire incentive structure inherent in any trade restriction policy enjoyed by producers and manufacturers in an economy. Thus the concept of effective protection can be defined as the increment in domestic value-added made possible by the tariff structure as a proportion of value-added under free trade.

Protection to import competing firms is also a form of an implicit subsidy offered to them. But the question is who pays for the subsidy? Actually, consumers are being compelled to subsidize the output of the import competing firms. If there had been no tariff but instead output had been subsidized by government to an extent designed to result in the same amount of protection, the cost of this subsidy would have been equal to what consumers would be paying. The consumer is also taxed to yield customs revenue to the government through the tariff imposed. All these affect the consumption possibilities of the consumer, resulting in decline in the consumer's welfare.

In spite of these negative concerns raised about the use of measures to restrict free trade, it is believed that the import competing firms protected can respond positively by making use of any excess capacity or expand their plant side to enjoy the benefits of economies of scales. In the long run, the economy in general and consumers in particular stand to gain from increased output at minimum cost.

Thus, an objective assessment of protection offered to import competing firms must address itself to the net effects of the trade policy on resource reallocation and consumption pattern; and which industries have been expanded or contracted as a result of the trade policy. It is against this analytical framework that the survey to assess the impact of the Special Import Tax on the targeted firms, their resource allocation and output expansion, consumers and their range of choices, and revenue for government was undertaken. Hopefully, it will be important to generate the relevant data to explain the performance of the Special import tax against the target of achieving its intended theoretical objective.

The Survey

3.1. Purpose of Survey

The survey is basically to assess the impact of the imposition of the Special Import Tax on the demand of the affected imported items and their local substitutes as well as the consequent effect on the production of the local items. In detail, the survey is expected to gather quantitative and qualitative information on the following:

- Demand trends
- Import levels of the affected items
- Trends in the production of substitutes
- Constraints to local production
- Implications

3.2 Methodology

The survey is based on direct interview of business units. Two groups of interviewees were identified as follows:

- Wholesalers/retailers
- Producers

Different questionnaires were designed for each group to gather the relevant information for the policy analysis (see appendix 3)

- The selection of the respondents was purposefully done to reflect the different categories of wholesalers and retailers in the categories of goods targeted by the Special Import Tax. Similarly, we selected from among manufacturers that were

Targeted to be protected by the Special Import Tax regime. Those interviewed were from both large scale and smaller scale enterprises in the manufacturing industry.

3.3 *Limitations*

Business people in Ghana are sensitive to questions concerning their business operations. Although we have explained the purposes of the survey to them, we nevertheless know that some of them may not provide accurate information. In this regard, the survey may not reflect the true views of the interviewees.

3.4 *CtJJ'erage*

In view or the limited time given to undertake the study, the following were selected for consideration: Mineral water. Beer. Soap, Toilet & Tissue Paper, Flour. Edible oil, Beach Sandals. Gas Cylinder, Steel Cabinets. Poultry Products. Cocoa Beverage, Chocolate, Fruit Juice and Biscuits. Grapes and apples were not considered. As they are not produced

1n the country. Since most of the manufacturing firms in Ghana are in the Accra-Tema Metropolitan Area, the interviews were conducted in this locality.

Findings

In this section, we shall look at the impact of the Special Import Tax on the demand and supply of both the domestic import competing goods and the imports of items affected by the tax. We shall use both survey and secondary data to undertake this inquiry. The aim is to establish whether the imposition of the special tax had any significant impact on both the demand and supply of the domestic import competing goods to justify its continuation or otherwise.

4.1 *Demand Shifts*

From the traditional theory of demand, the effects of a change in the price of a commodity can be separated into income and substitution effects. The income effect is a reduction in the purchasing power of the consumer as a result of an increase in the

Price of the commodity. If the commodity in question is a normal/superior good, we will expect a decrease in the quantity demanded of that commodity. For the substitution effect, an increase in the price of a commodity, all other things held constant, makes other goods relatively cheaper. Since the price of the commodity, which has experienced an increase, has now become expensive relative to its substitutes to the consumer, we should expect a shift in the consumer's demand to its substitutes. The total effect of a price increase of a commodity, therefore is a reduction in the quantity demanded of that particular commodity. In fact in all cases the reverse is the same for a decrease in the price of a commodity.

This is the context within which the Special Import Tax was levied on some selected import items, which have domestic substitutes. The idea is that the imposition of the special tax would make the selected imported items more expensive relative to their domestic substitutes.

A survey was conducted on some major wholesalers and retailers who are in touch with the consumers of the affected imported items. Since they are conversant with the preference patterns of the consumers, their views would go a long way to help us ascertain whether there has been a significant shift in the consumption pattern of consumers as a result of the special tax.

More than 90% of the respondents were aware of the existence of such a Special Import Tax on some selected imported items. The role of the media in this respect was commonly shared by all. They also realized that the imposition of the Special Import Tax has widened the gap between the prices of the imported items and their domestic substitutes. However, the widening of the gap between imported items and their substitutes could not be solely attributed to the imposition of the Special Import Tax. This is because around the same time, Ghana experienced a drastic depreciation of the Cedi as a result of external shocks, huge increases in crude oil prices and decrease in Cocoa and gold prices. The depreciation of the Cedi led to an increase in the costs of imports in domestic currency terms and hence, the domestic prices of imported items surged up.

The doctrine of demand as espoused above applies to Ghana, to the extent that the difference between the prices of import substitutes and the imported items is substantial. In other words, consumers' demand for imported goods is apparently fairly inelastic; therefore, a significant increase in price is required to evoke the desired curtailment in consumers' demand. This assertion is true for almost all the imported items under the study.

From the survey, it could be inferred from the response of the retailers that for most consumers in Ghana, their demand is not only a function of the price of the product in question, but most importantly the quality of the product. According to the respondents, consumers are generally interested in the imported products, because they are assured of a better quality in terms of packaging and content. Consumers normally lament the poor quality of some of the domestically manufactured substitutes and their lack of proper standardization.

Related to the above is the issue that, even in situations where the local manufacturers have made some improvement in the quality of their products, the fact still remains that they are not able to maintain that performance on a sustainable basis. Since consumers cannot be assured of stable and reliable supply of the products as well as maintenance of its quality, they refuse to patronize the products. Regrettably, the idea that the consumer is supreme is not consciously taken into account by most of the domestic manufacturers in the course of production.

Consumers also take the durability of products into consideration. The consumers have realized that the imported items (such as Beach Sandals, Garments, etc.) Are more durable than their domestic substitutes. Therefore, they buy the imported products in spite of the relatively cheaper domestic beach sandals, for example. Variety they say is the spice of life, and for the Ghanaian consumer, this assertion is very relevant. The consumers also prefer the imported items to the domestic products because for the imported items they have a wide range of varieties to meet their choice. In the case of the domestic products there is not enough variety to suit the taste of the consumer.

Therefore, the imposition of the Special Import Tax in this respect has not discouraged consumers from purchasing the imported beach sandals.

On the whole the impact of the 20% Special Import Tax on the import competing items has been mixed from the demand side. For clarification of this point we shall classify the import competing items according to the degree of foreign competition.

Low Degree of Foreign Competition

Firstly, we consider those import competing items with low competition from imported items. The items, which fall under this category, are the following: mineral water, toilet and tissue papers, flour, computer forms, cocoa beverage, plastic products and furniture. For these items, there is already a high demand for the locally manufactured ones because, their prices are relatively cheaper and their quality too is almost the same as the imported ones. It could possibly be that these items are essentials that is why there is a high demand for them. For instance, in the case of mineral water, the survey revealed that, there is a wide gap between the prices of imported mineral water and the locally produced ones. For example, locally produced Voltic Mineral Water was selling at 3000 Cedis compared to the imported Perrier Mineral Water which was going for 13,000 Cedis, both being 1.5 litre sizes. Therefore, many Ghanaians go for the domestically manufactured mineral water. It must be emphasized that there is still some demand for the imported mineral water by the expatriates.

Also, for products such as toilet and tissue papers, because the quality is just like you can find for any imported substitute, there has not been many problems with the Domestic supply and demand. On the whole, the share of these types of import competing items in the domestic market could be estimated to be about 95%. For these items, they appear to hold their own against imported substitutes. Consequently, imposing a special tax on such imports is quite superfluous. The tax only further widens the price differentials between the locally produced ones and imported items, without changing the existing demand structure.

Medium Degree of Foreign Competition

Secondly, we can also look at the import competing items with medium degree of foreign competition. Under this category we can make mention of the following items: edible oil, ice cream, chocolate and beer. For some of the commodities such as edible oil, there were some signs of increase in demand for the domestically produced ones as a result of the special import tax, which increased the price of the imported ones. In the case of ice cream demand declined due to the increase in its price. This was as a result of an increase in the import cost of one of its intermediate inputs, milk powder, which attracted the special import tax. For beer, it appears demand for the local ones has not changed much. The quality of local beer is highly comparable to imported brands, even of reputed names worldwide. Furthermore, the price of local beer is very competitive so that one particular brand sells at a premium.

High Degree of Foreign Competition

Last but not the least, we can also talk about the import competing items with high degree of foreign competition. Items to be considered under this category are the following: Poultry products, biscuits, fruit juice, personal care products, hair product, soap, garments, beach sandals, steel cabinets, gas cylinders, and paints. For most of these commodities, there have not been any significant increases in demand for the domestically manufactured ones. This is because consumers consider the imported items to be much more durable and of higher quality.

There are also varieties of the imported items to meet the fancy of consumers. For instance, in the case of beach sandals, consumers complain that the domestically manufactured ones are expensive relative to the ones from China and Nigeria. Meanwhile, the local beach sandals have some few colors, which are not popular. It is the black colored type, which is quite popular and is mainly worn for funerals. Also, the local beach sandal is too heavy and does not make for easy wear as in the case of Beach sandals from China and Nigeria. All these have affected the demand of the local Beach sandals negatively and imposition of the Special Import Tax has not reversed the trend.

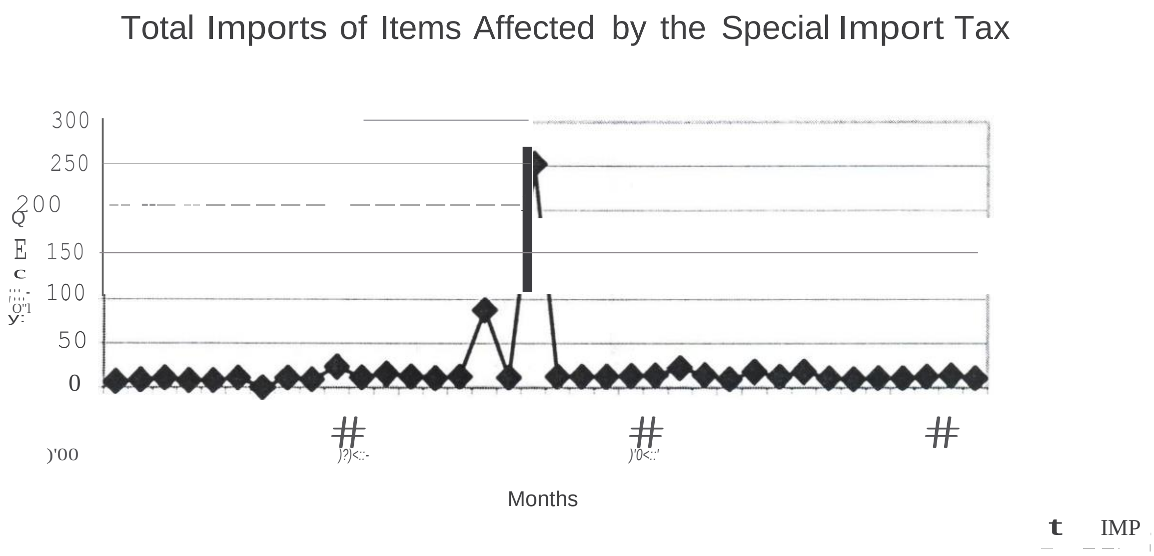
Though, there are some modicum of increase in demand for some of these items such as fruit juices, the concern of some of the wholesalers was that of the inability of the local manufacturers to meet domestic demand. However, the manufacturers attribute the situation to the inability of some of the wholesalers and retailers to fulfil their debt credit facility when they are due. Therefore, they do not get enough funds on time to meet demand for their products. Some of the retailers also lamented that whilst the low patronage of the import competing items could be attributed to poor packaging, they also believe that consumers are conditioned to accept anything foreign as superior. This to them may be some of the relics of the colonial mentality which seriously undermine any effort towards promoting the consumption of made in Ghana goods.

However, for most of the imported items, about 92% of the respondents claim that they have not realized any perceptible change, by way of a decrease in the consumers' demand pattern. According to them what the policy has succeeded to accomplish is to hurt consumers by increasing the prices of these imported items. Furthermore, this has not translated into significant increases in demand for the domestic substitutes; thus yielding some corresponding benefits to domestic manufacturers, what the policy achieved may be an increase in indirect taxes to the government. For instance, indirect taxes increased to 11.05% of GDP in 2000, from 10.73% of GDP in 1999. According the BOG Quarterly Economic Bulletin for April-June 2001, the tax revenue accrued from the Special Import Tax, increased from 00.1 billion in the first quarter of the year 2000 to 00.3billion in the last quarter of the same year. During the first quarter of the year 2001 tax revenue accrued from the Special Import Tax increased further to 014.5billion.

4.2 *Imports*

To explore further the impact of the 20% Special Import Tax on domestic production, we also observed the trend of imports for the items affected by the Special Import Tax over the period 1998-2000. It is believe that any downward trend in imports of these items is met with increased domestic production.

Figure 1



It can be observed from Figure 1 above that on monthly basis the pattern of imports for the items affected by the Special Import Tax has not changed much. The only exceptions were for April and June of 1999 where there were significant increases in the imports of paints and edible oil respectively. It is not particularly clear why these large increases in imports occurred. In fact a close observation of the period July 1999 to December 2000, reveals that there have not been any significant deviation from the pattern of imports of the items. This may suggest that the purpose of the Special Import Tax, which was to reduce the importation of these items, so as to promote domestic production of these could not be achieved.

In similar fashion the imported items were divided according to the classification adopted in analyzing demand for the import competing goods above.

For imported items with seemingly lower domestic demand, we were expecting a significant reduction in the volume of imports as a result of the Special Import Tax. However, the total volume of imports of these items as depicted by figure 2 (see appendix 4) indicates that there were increases for some months within the effective period of the Special Import Tax. Yet one would also realise that some of the individual

Items such as flour, cocoa beverage and mineral water, in fact experienced significant decline in the volume of imports, throughout the effective period of the special import tax.

The next class of imported items described as posing medium degree of competition to local substitutes is considered. As indicated by the trend on figure 3 (see appendix 4), the volume of imports was fairly constant over the effective period of the special import tax. In fact no significant change in the pattern of imports was observed.

Lastly, we consider the pattern of imported items with high degree of local patronage thus posing serious threat to local substitutes. The trend depicted by figure 4 (see appendix 4) for the effective period of the special tax, clearly shows that the volume of imports over the effective period of the special import tax did not change much. In fact, as expected, a close observation reveals that some periods even witness some slight increase in the volume of imports. Thus the special import tax did not succeed to reduce the importation of these items.

It is clear from these revelations that the Special Import Tax imposed to boost industrial development within the Ghanaian economy could not yield the desired result because domestic demand for most of the import competing goods is not encouraging. Besides, measures such as improving on the quality of the locally manufactured goods and aggressive sales promotion among others, to be implemented, to stimulate domestic demand for these local goods have not been given the serious thought. This calls for a review of the whole idea of using the Special Import Tax as a policy to promote industrial development in Ghana. This is because if the Special Import Tax rather succeeded in improving revenue, instead of promoting industrial development, then we stand the chance of falling into the trap of Tinbergen's Rule, where one instrument cannot be used to achieve two targets.

4.3 Local Production

A questionnaire was administered during the survey to elicit views from some producers of substitutes to these imported items as to whether they have experienced some perceptible changes in the demand for their products as well as a transformation in their production levels.

It was quite encouraging to find out that about 75% of the respondents were aware of the presence of the tax, although less than 30% of this number had knowledge about the essence of the Special Import Tax. This was due to the fact that just about 15% of the manufacturers were involved at the advocacy stage, which is quite disturbing. Since it would be expected that for such a major trade policy aimed at encouraging manufacturers to boost their production, they would be involved in the whole process of the coming into being of the Special Import Tax, right from its very inception to its final implementation. This would engender consensus building, which would be mutually beneficial. More so for being part of the process, they would adequately prepare to meet any expected shift in demand.

It was not surprising then, that about 60% of the manufacturers claimed they were not satisfied with the rate imposed. To them maintaining the Special Import Tax rate above 20% would be good for them. Though some were concerned about the issue of smuggling in the face of high import tariff, yet it was their conviction that effective monitoring of our ports of entry could help stem that tide. Thus, the role of CEPS in this direction, i.e. to efficiently monitor the activities at the country's port of entry, in order to make the Special Import Tax effective is very crucial. Others were also concerned about retaliatory measures from our major trading partners if proper care was not taken. The impact of the Special Import Tax on the demand of the import competing products was mixed. Whilst some manufacturers have not witnessed any change in demand towards the items they produce, others were of the view that though they experienced an initial increase in the demand that was just short-lived. To explain the statement above further, we shall look at some selected products in the various categories of imported items on individual basis.

BISCUITS

There was no clear answer as to whether the demand for biscuits has increased or declined, however, the producers believed that the imposition of Special Import Tax was to them an incentive to increase production. They complained that because they lack the technology to improve on their packaging, local demand for their products seems not to be encouraging. They called for an aggressive promotion of made-in-Ghana goods. They also called on the Ghana Standards Board to level the playing field for both the locally produced ones and the imported ones by applying the same standards required of the domestic manufacturers to imported items. Since, according to them if the stringent quality standards required of them by the Ghana Standards Board were also applied to imported ones, then most of them would be out of the market.

Another issue which came out of the survey was the fact that the biscuit industry was made up of eight firms, with only two of them owned by Ghanaian manufacturers. The others who are foreigners have formed a cartel with manufacturers of packaging materials, thus receiving better business deals, which are not available to the local manufacturers. There is also no co-operation between the local manufacturers. They therefore called for assistance and support from the government to compete favorably.

FRUIT JUICES

Producers felt that demand for their products did not change and attribute it to the harsh economic conditions prevailing at the time the Special Import Tax was introduced. Some of the manufacturers complained that most of their customers (retailers) do not meet their debt obligation on schedule. Instead of relying on the banks for credit, these retailers lock up producers' capital by delaying the payment of their debt when they are due. Some producers are therefore cash strapped and lack the motivation to increase production as well as improve on the quality of their products. More so the inability of most of the local producers to embark on effective marketing of their products has also hampered their progress. This can be contrasted with the importers who with the

Support of foreign suppliers are more aggressive in advertising their products to capture the domestic market or improve their market shares.

COCOA BEVERAGE

The manufacturers of cocoa beverage were of the view that though the Special Import Tax could enhance the sales of their products, some were however concerned about a retaliatory measure, more especially from the Francophone West African countries. They believed that their industry could compete favourably within the ECOWAS sub-region if there were no such taxes in the sub-region. According to them, even prior to the imposition of the Special Import Tax the local demand for the product was very substantial. This is due to the international brand name and the quality of their products, such as Milo and Bournvita. In fact the local manufacturers hold about 95% or more of the local market. As far as they are concerned there has not been any perceptible shift in their market shares, which could be attributed to the imposition of the Special Import Tax. They believed that the harsh economic conditions that were prevailing around the time of the imposition of the Special Import Tax eroded the real income of many consumers, as a result their purchasing power was significantly reduced. Thus, there was no way demand for their products around the time could experience any noticeable change.

Interestingly, some of the producers also contend that they produce superior quality products comparable to imported substitutes, but since consumers are misinformed about the superiority of imported products, they go for that. Therefore, they called for aggressive and progressive promotion of the consumption of local cocoa beverage in schools, hospitals, offices and conferences. Even if possible during workshops, seminars and conferences 'coffee breaks' should be replaced with 'cocoa breaks' to support the expansion of the cocoa industry.

ICE CREAM

The introduction of the Special Import Tax brought in its wake varying impacts on the production of ice cream. The Special Import Tax initially resulted in an upward

Adjustment of the price of milk powder, which was one of the major intermediate inputs for the production of ice cream. Thus, the inclusion of milk powder in the list affected cost of production. Demand for ice cream started picking up initially whilst there were some old stock of milk powder, but started plummeting thereafter, when prices were increased to reflect the increase in the cost of production. Yet the manufacturers support the idea that local manufacturers should be encouraged with such a Special Import Tax, therefore they advocated that policy makers should revert to the previous level of 20% or more.

SOAP AND HAIR PRODUCTS

The producers were content with the initial Special Import Tax rate of 20%, but not 10%. This is because they realized that when the 20% tax rate was in place they experienced a surge in demand for their products, but with the reduction of the tax rate to 10%, demand has started declining. They also maintained that they have become less competitive because of the devaluation of the currency of Turkey where most of the products they compete against come from.

GAS CYLINDER

The local market for gas cylinders is shared by imported used cylinders and locally manufactured ones from two manufacturers who are Ghana Cylinder Manufacturing Company and Sigma Company. The imported ones, although used, are preferred by some customers as they believe that they are more durable and cheaper, selling at 0140, 000 for a standard size. Occasionally, purchasers of the used ones need to change the valve when it is not compatible with the local standard and also to ensure that it is safe to use.

The locally manufactured ones sell at between 0160000-0170000 for the standard size and therefore, more expensive. In addition, some are not durable as customers complain about the lightness of the metal used as well as the light spray on them, which accelerates the rusting of the cylinders. Some of the locally produced ones are said to be

Of good quality and except for their higher price, would sell well on the market. One

Complaint by retailers is that the supply of the locally manufactured ones is unreliable and therefore provides the opportunity for the imported ones to be bought.

The impact of the Special Import Tax is insignificant on imported prices because the imports are used items and are, therefore, very cheap on the onset. To promote the locally manufactured cylinders, there is the need to ban the import of used cylinders on the ground of its long usage abroad and its resultant poor safety.

PLASTIC PRODUCTS

Interviews with retailers and consumers of plastic products indicate that there has been a significant improvement in the variety design and quality of locally manufactured plastic products and as a result the share of the locally manufactured products in the market has increased considerably in the five years. The most frequently mentioned local companies associated with quality are KGM Ltd and Decor last Ltd.

According to a couple of large scale importer, the introduction of the Special Import Tax and other taxes together with the rapid depreciation of the Cedi in 2000, have discouraged them from importing as the cost of clearing one container load of items has increased considerably. Indications are that these problems have affected other importers of plastic products. Consequently, the amount of imported plastic products on the market has reduced over the last few years. Those currently on the market come mainly from Thailand and China.

Although the price differential between the imported and locally produced ones is not significant, many customers prefer the locally produced items because of improved design and quality as well as the increased variety. The removal of the Special Import Tax may pose a harm for the manufacturers of the products at a time that they are trying to consolidate their new position in the local market.

HUMN HAIR

Human hair is not manufactured in the country. However, its imports compete with the locally produced synthetic hair. The major manufacturer in the country is Ninash Ghana

Ltd. According to the local producer, some importers of human as well as synthetic hair present themselves as manufacturers and therefore avoid paying high taxes on their imports. They add virtually no value to their imports before selling them on the market and thus, compete favourably with the local manufactures. The Special Import Tax has, therefore, been ineffective because importers misinform CEPS about their business.

What the survey findings generally indicate is that, the manufacturing sector in Ghana is faced with some key constraints that undermine its ability to grow and become competitive despite tariffs to offer protection against "unfair trading practices" These constraints can be observed at the firm, industry and macro levels. At the firm level, mention can be made of these constraints,

- Obsolete machinery and equipment
- Weak technological base
- Weak management capacity

The constraints identified at the industry level are the following,

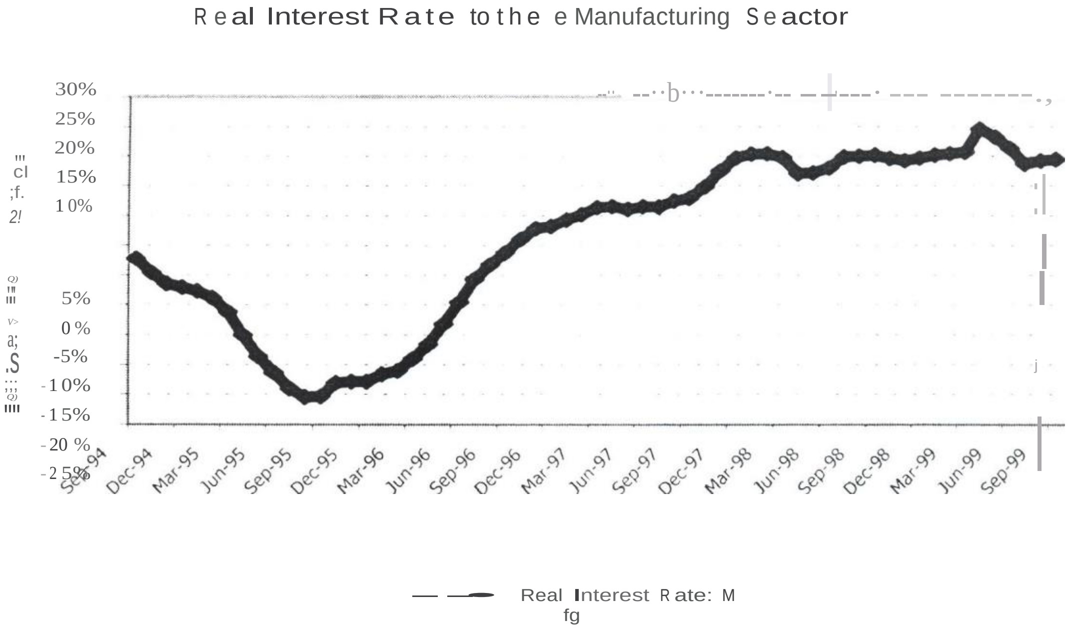
- Unfair tariff structure
- High cost of utilities
- Inadequate infrastructure
- Weak local raw material supply
- Weak institutional capacity (public and private)

Finally the macro level constraints are manifested in the form of

- High interest rate
- High inflation
- Absence of medium to long term investment capital
- Absence of effective linkages

The macroeconomic environment has been characterized by a high rate of inflation, high interest rates as well as the rapid depreciation of the Cedi. Manufacturing firms also find it difficult to assess credit. Poor services at the ports and unreliable supply of electricity, water and other services all add to the high cost of doing business in the country. Beside the above-mentioned problems, the manufacturing firms face strong competition from imported goods that are produced by foreign firms with more efficient technologies among others.

Figure 5



These macro level constraints have translated themselves into high cost of credit and thus made it difficult for firms to go in for short and medium term loans to finance their activities. As can be seen from Figure 5, the real cost of capital for the manufacturing sector as reflected by the real interest rate moved from -20% in Sept., 1995 to 25% in June, 1999.

The combined effects of these constraints, (firm, industry and macro level constraints), have created an environment that has made it difficult for the manufacturing sector to grow. Worse still, the Special Import Tax has increased the operational costs of some of the manufacturing firms that rely heavily on imported inputs and other raw materials Consequently, many manufacturers are managing to stay in business by adopting survival strategies including importing finished products from their multinational networks for sale instead of manufacturing them locally. There abound on the local market such imported soap and detergents such as LUX and OMO. The Special Import Tax has accordingly failed to achieve its main objective. Rather, it has improved the tax revenue from imports.

In the light of the foregoing analysis, it was not surprising that the manufacturers were unanimous in their call for improvement in infrastructure notably electricity and water facilities, reduction in interest rate, fiscal restraint on the part of the government and maintaining higher tariffs on the imported items to make them competitive in the domestic market.

Conclusion

Analytically, the Special Import Tax smacks of the conventional temporary tariff for protecting infant industry with growth potentials. Sequitur, this would help create diversified industries more immune to risk and promote output growth with increased employment. Abstracting from this argument, the Special Import Tax presumes that Ghana has manufacturing industries with latent competitive advantage so that once these industries are given some protection, they would become competitive in the medium to longer term. Typically, as these manufacturing industries are confronted with imported competitive products, it becomes extremely difficult for them to weather the initial period of experimentation, financial stress superior brand names, and may be "dumping".

A tariff will tend to raise price, lower the amounts imported and consumed, and raise domestic production. Hence, given a breathing space, these local industries could be expected to develop and internalize economies of mass production and the technological efficiency distinctive of many modern production processes. Although protection may initially raise the prices to the consumers because of short term comparative inefficiencies, once the industry grows up with all the trappings of modern production process, firms may become so efficient that cost and prices would literally fall, output increased and employment levels raised. Consequently, there is the need for a tariff along the lines of the Special Import Tax to insulate identifiable domestic manufacturing Industries from unbridled liberalized trade practices.

It is true that the theoretical underpinnings of tariff regimes are sound, and indeed certain historical instances have turned up some genuine cases of infant industries that grew up to stand on their own feet. However, this study has shown that if care is not taken and other support mechanisms devised to rid the industries of other over-riding constraints, some of these industries would become *perpetual or adult infants* that would require more and heavier doses of tariff support to be able to break even. Ghanaian manufacturing industries require support but what the studies have revealed is that a blanket tariff regime is not the appropriate support required.

It is important to emphasize the fact that tariff protection for industries as a stop gap measure to enable local industries mature to internalize the advantages of economies of scale and to develop competitive practices that does not contradict the principle of comparative advantage. Indeed, on the contrary, tariff for protection of nascent domestic industries is predicated on the presumption of an induced dynamic shift of the production frontier outward and in the direction of a new comparative advantage that requires temporary protection. In this case, such industries must necessarily exhibit the capacity for efficient production as some firms surveyed in this study have shown. Notable among these budding firms are those in the beverages and aluminum products industries.

The survey results have further revealed that tariffs in the form of the Special Import Tax may not necessarily offer the protection to industries to become competitive, increase output and raise employment levels and opportunities. Analytically, without tariffs to offer protection, workers would be displaced by imports, either by directly competing out local firms that would be forced to shut down or by affecting the demand for the products so that some level of employment would have to be shed. Again, despite the validity of the professed principles of this argument, survey findings have shown that the operational effects are in sharp contrast to anticipated results of the implementation of the Special Import Tax. This was the case because there are firm and industry level constraints that over-ride competition from imports. Notable among these firm and industry level constraints are managerial weaknesses as well as obsolete Equipment/machinery, and lack of adequate infrastructure and poor but high cost utility Services. Even if the Tariffs were extremely high as to prohibit imports and therefore give the market to local firms, some of the local firms could not produce to meet local demand as their costs of production are found to be extremely high because of the

Above problems, among others. Thus, the prices of their products are not even internally competitive. Further still, the plight of local industries have been made worse by domestic fiscal and monetary imbalances that have engendered macroeconomic instability with high intractable inflationary pressures and persistent exchange rate depreciation. The cumulative effects of macroeconomic instability are:

- Distortions in relative prices of goods leading to incentives for investments in short term activities;
- distortions in interest rates structure with real lending rates for manufacturing averaging as high some 20% between 1996 and 2000 making it extremely difficult for industries to borrow and still be able to maintain a competitive edge over imports;
- overvalued exchange rates that tend to serve as a tax on exports and a subsidy on imports.

In fact, with fiscal recklessness and equally accommodating monetary policies and active government interventions in the foreign exchange market using the exchange rate as a nominal anchor of inflation, the foreign exchange rate is a disequilibrium one. The Cedi parity thus represents an overvalued rate that makes exports uncompetitive internationally and imports very attractive to Ghanaian residents, as they become cheaper with hidden subsidies. True, a tariff may work somewhat to offset such an overvaluation of import prices but may still not correct for the hidden tax on exports. Worst still, even when the import parity prices are affected by the Special Import Tax, the competitiveness of local products still depends on firm level and industry level constraints. Consequently, rational choice requires macroeconomic management that employs tools of fiscal and monetary policy to create favourably environment for stability and economic growth. Stability with single digit inflation rates would lead to acceptable interest rate structures and stable exchange rates that would ensure competitiveness of local products. In this vein, macroeconomic stability with prudent exchange rate policies are more efficient and effective than tariffs, or even quota and exchange controls in promoting industrial growth. If support is needed for manufacturing industries, such port should not be a blanket one to cover inefficiencies of local industries in general. Selective support at industry level would be preferred, especially in the direction of enhancing technological and managerial efficiencies of the companies. Luckily, Ghana has umbrella institutions such as AGIand PEF that are in a position to devise objective criteria to evaluate industries for selection to benefit from technological, managerial and other assistance on performance contract basis, for example. As the Special Import Tax stands now, it only helps in increased revenue mobilization rather than promoting industrial growth.

Furthermore, Government must take adequate measures to ensure the reliable and uninterrupted supply of utilities to industries. If we note that Ghana's neighbors, especially Cote d'Ivoire appears to have the edge over Ghana in utilities, then it is not surprising to find that the multilateral corporations in both countries tend to use Ghana as the final market with Cote d'Ivoire as the production base. In such a case, Ghana would tend to lose on employment, income, tax revenue etc. especially if we note that manufacturing is characterized be increasing returns to scale.

Also, to the extent that the imposition of the Special Import Tax could not curtail the importation of the items considered as posing serious threat to local production but rather succeeded to improve on the tax revenue of the government, the government should consider using the revenue accrued from the Special Import Tax to provide support for local firms that the policy sought to protect.

Finally, Ghana can avail itself of anti-dumping laws so that local industries will be given the fair level playing field. On this, it is heartening to note that Government intends to replace the Special import Tax with anti-dumping measures that are consistent with WTO rules. Consequently, as a first step, the top rate for the Special import Tax was reduced from: 20% to 10% in the 2001 Budget, and the tax was removed completely for a number of products. It is hoped that the Special Import Tax will be eliminated altogether in the 2002 Budget if its only purpose is to give protection to local industries to become competitive. The passing of the antidumping laws though desirable would require the government to train people to gain the expertise to establish a case for dumping, which is causing injury to local firms.

Appendix 1

LIST OF IMPORTED ITEMS AFFECTED BY THE SPECIAL TAX

ITEM	HS CODE
Poultry Products	020711000-0207270000
Fish Roes	302700000, 0303800000, 0305200000
Milk	0401100000-0402990000
Human Hair	0501000000,6703000000,6704110000-6704900000
Potatoes	701900000
Grapes	806100000-0806200000
Apples	0808100000, 0813300000
Flour	1101000000
Edible Oil	1504100000-1516200000
Cocoa beverage	1805001000-1805009000
Chocolate	1806100000' 1806909000
Biscuits, etc.	1905100000- 1905900000
Potato Chips	2005200000
Peanuts	2008119000
Fruit Juices	2009110000-2009900000
Soups & Broths	2104101000-2104200000
Ice Cream	2105000000
Mineral Waters	2201100000-2201900000
Beer	2203001000-2203009000
Paints	3208-3210
Personal Care Products	3304100000-3304990000, 3307100000-3307300000
Hair Products	3305
Soap	340111000-3402900000
Plastic Products	3923, 3924 & 3926
Toilet & Tissue Paper	4803000000-4818100000
Computer Forms	4823510000, 4823590000
Garments (Articles of Clothing)	6101100000-6117900000, 6201110000-6212900000,6214100000-6217900000
Used clothing	6309000000
Beach Sandals (Charlie Wote)	6402990009
Gas Cylinders	7311000000
Steel Cabinets	8304000000
Furniture	9401300000-9401900000, 9403100000-9403900000

Appendix 2: WTO Agreements on Anti-dumping, Subsidies, Safeguards: Contingencies, etc.

Binding tariffs, and applying them equally to all trading partners (MFN) are key to the smooth flow of trade in goods. The WTO agreements uphold the principles, but they also allow exceptions — in some circumstances. Three issues are important:

Actions taken against dumping (selling at an unfairly low price)
Subsidies and special "countervailing" duties to offset the subsidies
Emergency measures to limit imports temporarily, design to "safeguard" domestic industries.

Anti-dumping actions

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be "dumping" the product. Is this unfair competition/ Opinions differ, but many governments take action against dumping in order to defend their domestic industries. The WTO agreement does not pass judgment. Its focus is on how governments can or cannot react to dumping — it disciplines anti-dumping actions, and it is often called the "Anti-Dumping Agreement". (This focus only on the reaction to dumping contrasts with the approach of the Subsidies and Countervailing Measures Agreement.)

The legal definitions are more precise, but broadly speaking the WTO agreement allows governments to act against dumping where there is genuine ("material") injury to the competing domestic industry. In order to do that the government has to be able to show that dumping is taking place, calculate the extent of dumping (how much lower the export price is compared to the exporter's home market price), and show that the dumping is causing injury.

GATT (Article 6) allows countries to take action against dumping. The Anti-Dumping Agreement clarifies and expands Article 6, and the two operate together. They allow countries to act in a way that would normally break the GATT principles of binding a tariff and not discriminating between trading partners — typically anti-dumping action means charging extra import duty on the particular product from the particular exporting country in order to bring its price closer to the "normal value" or to remove the injury to domestic industry in the importing country.

There are many different ways of calculating whether a particular product is being dumped heavily or only lightly. The agreement narrows down the range of possible options. It provides three methods to calculate a product's "normal value". The main one is based on the price in the exporter's domestic market. When this cannot be used, two alternatives are available — the price charged by the exporter in another country, or a calculation based on the combination of the exporter's production costs, other expenses and normal profit margins. And the agreement also edifies how a fair comparison can be made between the export price and what would be a normal price.

Calculating the extent of dumping on a product is not enough. Anti-dumping measures can only be applied if the dumping is hurting the industry in the importing country. Therefore, a detailed investigation has to be conducted according to specified rules first. The investigation must evaluate all relevant economic factors that have a bearing on the state of the industry in question. If the investigation shows dumping is taking place and domestic industry is being hurt, the exporting company can undertake to raise its price to an agreed level in order to avoid anti-dumping import duty.

The present rules revise the Tokyo Round (1973-79) code on anti-dumping measures and are a result of the Uruguay Round (1986-94) negotiations. The Tokyo Round code was not signed by all GATI members; the Uruguay Round version is part of the WTO agreement and applies to all members.

The WTO Anti-Dumping Agreement introduced these modifications:

More detailed rules for calculating the amount of dumping
More detailed procedures for initiating and conducting anti-dumping investigations
Rules on the implementation and duration (normally five years) of anti-dumping measures
Particular standards for dispute settlement panels to apply in anti-dumping disputes.

Detailed procedures are set out on how anti-dumping cases are to be initiated, how the investigations are to be conducted, and the conditions for ensuring that all interested parties are given an opportunity to present evidence. Anti-dumping measures must expire five years after the date of imposition, unless an investigation shows that ending the measure would lead to injury.

Anti-dumping investigations are to end immediately in cases where the authorities determine that the margin of dumping is insignificantly small (defined as less than 2% of the export price of the product). Other conditions are also set. For example, the investigations also have to end if the volume of dumped imports is negligible (i.e. If the volume from one country is less than
3% of total imports of that product - although investigations can proceed if several countries,
Each supplying less than 3% of the imports, together account for7% or more of total imports).

The agreement says member countries must inform the Committee on Anti-Dumping Practices about all preliminary and final anti-dumping actions, promptly and in detail. They must also report on all investigations twice a year. When differences arise, members are encouraged to consult each other. They can also use the WTO's dispute settlement procedure.

Safeguards: emergency protection from imports

A WTO member may restrict imports of a product temporarily (take "safeguard" actions) if its domestic industry is injured or threatened with injury caused by a surge in imports. Here, the injury has to be serious. Safeguard measures were always available under GATI (Article 19). However, they were infrequently used, some governments preferring to protect their domestic industries through "grey area" measures — using bilateral negotiations outside GATI's auspices they persuaded exporting countries to restrain exports "voluntarily" or to agree to other means of sharing markets. Agreements of this kind were reached for a wide range of products: automobiles, steel, and semiconductors, for example.

The WTO agreement broke new ground. It prohibits "grey area" measures, and it sets time limits (a "sunset clause") on all safeguard actions. The agreement says members must not seek, take or maintain any voluntary export restraints, orderly marketing arrangements or any other similar measures on the export or the import side. These bilateral measures have to be modified so that they conform to the agreement, or else they have to be phased out by the end of 1998. Countries are allowed to keep one of these measures until the end of 1999 — the only case where this has happened is the European Union's restrictions on imports of cars from Japan. Safeguard measures already taken before the WTO came into being — under Article 19 of GATT 1947- must end eight years after the date on which they were first applied or by the end of 1999, whichever comes later.

An import "surge" justifying safeguard action can be a real increase in imports (an absolute increase); or it can be an increase in the imports' share of a shrinking market, even if the import quantity has not increased (relative increase).

Industries or companies may request safeguard action by their government. The wro agreement sets out requirements for safeguard investigations by national authorities. The emphasis is on transparency and on following established rules and practices — avoiding arbitrary methods. The authorities conducting investigations have to announce publicly when hearings are to take place and provide other appropriate means for interested parties to present evidence. The evidence must include arguments on whether a measure is in the public interest.

The agreement sets out criteria for assessing whether "serious injury" is being caused or threatened, and the factors which must be considered in determining the impact of imports on the domestic industry. When imposed, a safeguard measure should be applied only to the extent necessary to prevent or remedy serious injury and to help the industry concerned to adjust. Where quantitative restrictions (quotas) are imposed, they normally should not reduce the quantities of imports below the annual average for the last three representative years for which statistics are available, unless clear justification is given that a different level is necessary to prevent or remedy serious injury.

In principle, safeguard measures cannot be targeted at imports from a particular country. However, the agreement does describe how quotas can be allocated among supplying countries, including in the exceptional circumstance where imports from certain countries have increased disproportionately quickly. A safeguard measure should not last more than four years, although this can be extended up to eight years, subject to a determination by competent national authorities that the measure is needed and that there is evidence the industry is adjusting. Measures imposed for more than a year must be progressively liberalized.

When a country restricts imports in order to safeguard its domestic producers, in principle it must give something in return. The agreement says the exporting country (or exporting countries) can seek compensation through consultations. If no agreement is reached the exporting country can retaliate by taking equivalent action — for instance, it can raise tariffs on exports from the country that is enforcing the safeguard measure. In some circumstances, the exporting country has to wait for three years after the safeguard measure was introduced before it can retaliate in this way — i.e. if the measure conforms with the provisions of the agreement and if it is taken as a result of an absolute increase in the quantity of imports from the exporting country.

To some extent developing countries' exports are shielded from safeguard actions. An importing country can only apply a safeguard measure to a product from a developing country if the developing country is supplying more than 3% of the imports of the that product, or if developing country members with less than 3% import share collectively account for more than 9% of total imports of the product concerned.

The *WfO's Safeguards* Committee oversees the operation of the agreement and is responsible for the surveillance of members' commitments. Governments have to report each phase of a safeguard investigation and related decision-making, and the committee reviews these reports.

Appendix 3

PRIVATE ENTERPRISE FONDATION

SURVEY QUESTIONAIRE ON THE Impact OF THE SPECIAL TAX ON CERTAIN IMPORTED ITEMS

(FOR IMPORTERS AND WHOLESALERS)

PART A: General Information

Name of Enterprise
Contact Person
Position
Contact Address/ telephone/ Fax/E-mail

Product Imported (i) (ii) (iii)
(iv) (v) (vi)

PART B: Awareness of the tax

Is your enterprise aware of the tax? Yes No…… ……….….. …..

If yes, how was the company informed.

Business association
Another company
Media
Ministry of Trade and Finance
CEPS
Others

List Local substitutes of your import items
(i)
(ii)
(iii)
(iv)

PART C: Impact of the Tax

Has your enterprise observed any impact of the tax on its imports? Yes. No

If yes. In what form?

Do you observe significant differentials in prizes of imports and local substitutes?

What is the margin?

0% -9% 10%-19% 20%-29%
30%-39% 40%-49% >50%

PART D: Outlook

Do you think the imposition of the tax is worthwhile? Yes. ………. No……….. ….. ……

If No, wllat are your reasons?

What advice would you offer to promote local manufactured goods?

Thank you for your cooperation.

PRIVATE ENTERPRISE FONDATION

SURVEY QUESTIONAIRE ON THE IMPACT OF THE SPECIAL TAX ON IMPOSED CERTAIN

IMPORTED ITEMS

(FOR IMPORTERS AND WHOLESALERS)

PART A: GENERAL INFORMATION ON THE FIRM

Name of firm:

Contact Person: Position.................Contact AdcJressrelephone/Fax/E-mail

No. of employees: 0-29 30-40 50-99 >100

Products Manufactured (i)

(ii)

(iii)

(iv)

(v)

(vi)

PART B: AWARENESS OF THE TAX

Is your company awaree of the special tax? Yes.................. No.......

If Yes, How was the company informed?

If yes, how was the company informed.

Business association
Another company
Media

Ministry of Trade and Finance
CEPS
Others

Does the company know what the tax is meant to achieve? Yes........... .. No.

Was the company involved in advocacy for the tax? Yes. .... No..................

If yes, in what way

Is your company content with the tax rate imposed? Yes_ No... ....…

If no what rate would have been preferred?

10%-19% 20%-29% 30%-39% 40%-49% <50%

What is your basis for your choice?

PART C: IMPACT OF THE TAX

Has your company observed any positive change in the demand for its products due to the imposition of the tax?

Yes. No....

If yes, to what extent? 0%-9% 10%-19% 20%-29%

30%-39% 4m;-49% >50%

What 1s the basis for your choice?

Does the company observe any changes in the price differential (1e prices between its products and those of its imported equivalent) Yes..... No.

If yes. Whatt is the margin before and after the imposition?

Before tax:	0% -9%	10'} o-19%	20%-29%
	30%-39%	40°, 0-49%	>50%
After tax:	0%-9%	10%-19%	20%-29%
	30%-39%	40%-49%	>50%

Has the company been able to meet the surge in demand? Yes .... No.

If yes, whatt has been the increase in production?

0% -9S'o	10%-19%	20%-29%
30%-39'}(,	40%-49%	>50%

Has the company employed more people to meet the new demand? Yes No.............

If yes, how much has been the increase?

0%-9%	10%-19%	20%-29%
30%-39%	40%-49%	>50%

If the company has not been able to meet the new demand what have been the constraints in order of importacne

What is the company capacity utilization?

PART D: OUTLOOK

Do you think the tax must be maintained and at what rate?

How long do you think the tax should be maintained?

What do you think should be done to make your company compete favourably with foreign goods?

Thank you very much for your co-operation.

Appendix 4

Imported Items Posing Low Degree of Competition to Local Substitutes

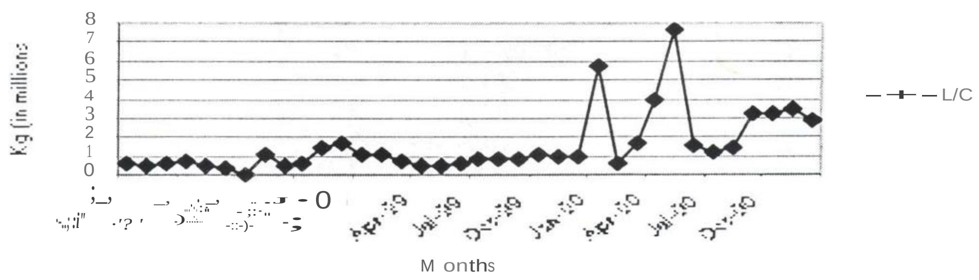


Figure 3

Imported Items Posing Medium Degree of Competitions to Local Substitutes

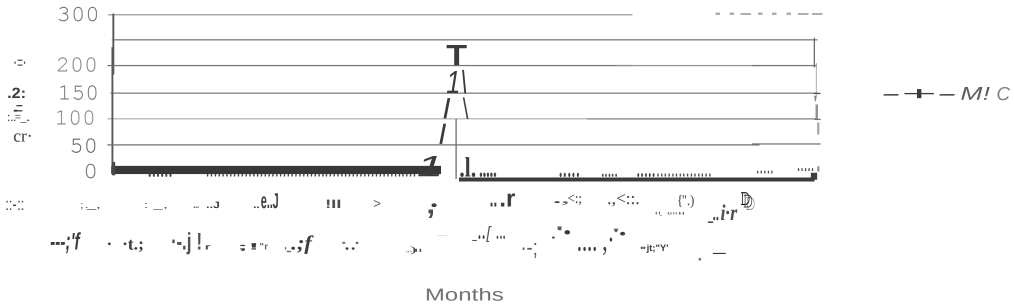
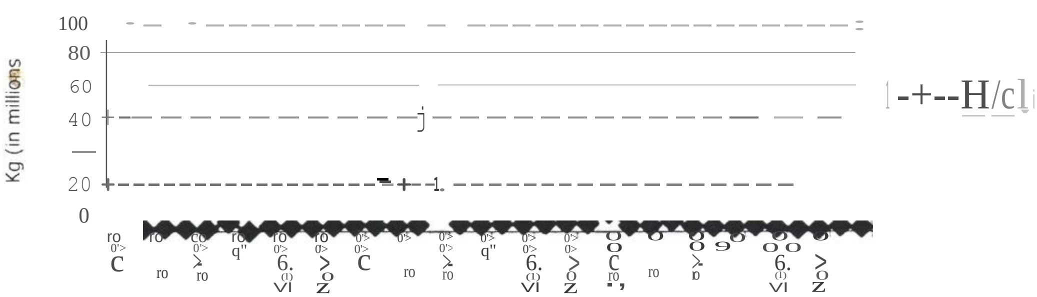


Figure 4

Imported Items Posing High Degree of Competition to Domestic Substitutes



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