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Establishment of an African Common Market

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ECONOMIC CO-OPERATION AMONG AFRICAN COUNTRIES AND EXPANSION OF
INTRA-AFRICAN TRADE WITH A VIEW TO THE ESTABLISHMENT OF AN
AFRICAN COMMON MARKET

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Introduction

1. The unsuitability of the present international economic relations to foster economic development in developing countries has given rise to the various resolutions on the Establishment of a new international economic order. The vertical economic relationship between the developing and the developed countries has not only relegated the former into mere suppliers of primary products for economic prosperity of the latter but it has also diverted attention from the basic factors for development and measures for promoting development such as technology, development of indigenous capability, basing production on local resources and institutions, diverting tastes and demand to local products and substituting local for foreign products. The new international economic order and the restructuring of economic relations require that these factors and measures be given prominence in development policy and that, in order to promote them, special and increased effort be made to foster economic co-operation among the developing countries and, in particular, among African countries.
2. The fourth session of the Conference of African Ministers of Trade held in Algiers in November 1975, rightly laid emphasis on increased economic co-operation among African countries with a view to eventually establishing an African Common Market. The Conference adopted a Declaration and Plan of Action on African Economic Co-operation which, inter alia, after noting the steady relative decline in intra-African trade over the past few years and the obstacles to the promotion of economic co-operation among African countries, recommended that OAU, ECA, ADB, AACB, IDEP and bilateral subregional organizations undertake studies for the establishment of an African Common Market.
3. The present paper is not intended to be a part of this study. It is, rather, intended to highlight some of the major issues that need to be looked into and taken into account in the promotion of economic co-operation and expansion of intra-African trade with a view to establishing an "African Common Market".

An African Common Market

4. The theories and concepts of economic co-operation and economic grouping which have been developed in the West need to be appraised and adapted to the realities of African development. In such an appraisal, the objective, conditioning factors and even the operative (as distinct from facilitative) instruments need to be defined. Past experiences in economic co-operation in Africa and experiences in other developing regions, especially in South America, can provide the background and the guideline for the formulation of the forms and the modalities for promoting economic co-operation as a means for fostering the general economic development of the African region.
5. Economic grouping could take one of several forms. For instance, African countries could decide to set up a free trade area. It is a necessary pre-requisite of this form of economic co-operation that tariff and quantitative restrictions on commodity movements be abolished within the specified area. Within this arrangement provision is made for each member country to retain its own tariff structure in respect of trade with outsiders or third parties.

6. Alternatively, the African countries could choose to set up a Customs Union with all its ramifications. This form presupposes the abolition of discrimination in the field of commodity movements within the union. It also provides for a unified customs duties on transactions with non-member states or third parties to the Union.

7. Economic grouping among the African countries could also take the form of a Common Market. This is a rather more advanced form than the other two above. It contains all the main elements of both the free trade area and the customs union. An additional element is that it involves the lifting of restrictions on the movement of factors of production (i.e. capital and labour).

8. There are possibilities also that developing African countries could aspire to higher forms of economic integration like the setting-up of an economic union. This form of economic integration presupposes the free movement of commodities, factors of production and the equalisation of duties on trade with the outside world. In addition, provision is made within the economic union for the participating states to harmonize their respective economic policies.

9. A fifth category, which by no means exhausts the list of options open to the African region, is total economic integration. This is the highest option and involves an entire spectrum of unified monetary, fiscal, economic and social policies. It also requires the establishment of a supra-national authority for taking final decisions in all these spheres of economic policy.

10. Experience both in Africa and in Latin America has shown that a free trade area and a customs union are not adequate for ensuring a balance of interests of both the more advanced and the less advanced partners of an economic grouping; neither do they provide a sufficient basis for the promotion of economic development in countries whose economies are characterized by low level of production capabilities, especially with regard to technology, entrepreneurship and skilled manpower, and by foreign investment which often favours the more advanced countries and helps to perpetuate the disparity in the levels of development. It is now obvious that harmonization or co-ordination of production policies should be an essential part of any arrangement for an effective economic grouping.

11. It is precisely in this respect that the basic problem of economic co-operation in Africa lies. How far should a partner state in an economic grouping surrender her economic nationalism in order to facilitate co-operation? How far should it forego its bilateral relationship with third parties, especially the developed countries that supply investment capital, provide the investors and grant both financial and technical assistance? Will the prospective gains from co-operation cover these sacrifices? What are the trade-offs? How will the prospective gains be shared and how can each partner state ensure that it gets a fair share? These are questions that sometimes appear to have no satisfactory answers and which, therefore, militate against the manifested political will to co-operate.

12. Any attempt to find suitable answers to the questions will need to take the questions as a group of inter-related and mutually dependent questions: they all relate to the strategy for economic development and the strategy for economic co-operation. Even the orthodox principles of sharing the gains from co-operation do not provide an appropriate answer, even if the principle be equity, whether this means the narrowing of income gap between the more developed and the less developed partner States or an equal or proportional distribution of new industries among the partner States, or assisting the less developed to catch up with the more developed partner States.

13. In Africa where foreign investment looms large and, consequently, a high-proportion of the income generated is exported in the form of repatriated profits and income, interest payments and loan repayments and where local capacities are little developed, the gains or benefits from economic co-operation should not be looked at in terms of output or number of industries established. The benefits should rather be assessed in terms of the extent to which co-operation has helped to promote self-reliance and the installation, within the partner States individually or collectively, of the components of a self-sustaining engine of growth and diversification. Put in another form, the benefits are the additional contributions which co-operation makes for the fostering of economic development of individual partner States. Economic co-operation, therefore, become beneficial to each individual country once it provides the facilities and opportunities for accelerated economic development which the country would not have got without co-operation. Such facilities relate especially to transfer and development of technology, finance, development of manpower and entrepreneurship and establishment of capital goods and other inevitably large-scale industries.

14. Economic co-operation in Africa should, therefore, not be concerned with merely providing the framework for free movement of goods and services and of factors of production. It should necessarily be extended to policies and institutions for the development of local capabilities, particularly entrepreneurship and high and middle level manpower and local financial resources, the selection, adaptation, installation, development and dissemination of technology, natural resource exploration for inter-country exploitation for both national and multinational industries and the establishment of basic industries, especially the capital goods industries, for multinational markets. Co-operation thus provides a central mechanism for facilitating national development policies and for providing facilities and services that are too costly for each individual country or too large for national markets or for efficient utilization on national basis in addition to providing the mechanism for exploiting the complementarities in natural resource endowment.

15. Co-operation also facilitates the expansion of trade. It needs to be emphasized that the low level of intra-African trade is not just due to the vertical trade relations with the metropolitan countries. It is rather that the colonial policy had both promoted production for the metropolitan markets, conditioned tastes for the metropolitan products and also directed development policies to the promotion of foreign investment and acquisition of foreign capital goods.

16. The last two, which require foreign exchange for the purchase of the capital goods and consumption products, for loan repayment and interest payment and for servicing the repatriation of profits and income, in turn, further promote production for the metropolitan markets in order to acquire the foreign exchange. It is, therefore, not enough to establish and improve the facilities for the promotion of intra-African trade. Re-orientation of development policies to collective self-reliance and re-conditioning of tastes in favour of local products are pre-requisites for considerable expansion of intra-African trade.

17. Intra-African trade necessarily involves the diversion of import trade from the developed to African countries and providing additional markets for the expansion of production from national and multinational industries, including agricultural industries.

18. In order to ensure that the benefits of such a large market accrue to each and every country, it will be necessary to link the policies on trade liberalization to policies for the exchange or transfer and dissemination of technology and the building up of local production capacities. In other words, trade liberalization should be accompanied with the creation of institutions and arrangements which will facilitate the transformation of production and the building up of linkages both in production and in the supply of factor inputs.

19. All these make it inevitable that the co-operation arrangement most suitable for the promotion of economic development in Africa may not fit any of the orthodox forms of economic grouping. Both a free trade area and a customs union, as already indicated, are inadequate. On the other hand, an economic union and an economic integration are too advanced for the African countries at present since most of them have only recently achieved independence and are not ready to sacrifice too much of national economic independence. A common market appears a most suitable form, but it needs to be adapted as indicated above. It has to include the development of indigenous capabilities and local production capacities, including the importation, development and dissemination of technologies. It has also to include the promotion of collective self-reliance, the exploitation of complementarity in natural resource endowment and the establishment of basic industries on multinational basis in addition to the liberalization of trade and a common external trade policy.

20. A common market also normally includes free movement of factors of production for optimisation of resource allocation and of production. This principle, however, hardly exists in practice in view of rigidities which are now more the rule than the exception. Free movement of factors of production should be accompanied with flexibility in returns to the factors in order to optimize both resource allocation and production, but wages and salaries are now generally rigid and are determined not so much by the supply of labour as by the powers of Trade Unions, government policy with regard to minimum wage and the opportunity which industries that are monopolies or near monopolies have to recoup the cost of high wages both from consumers and from concessions wrung from the government. In addition, the desirability of stable exchange rates and the general acceptance of financial management as a basic financial policy, both militate against flexibility in returns on capital. Free movement of factors of production cannot, therefore, lead to optimization of resource allocation and of production in an economic grouping.

21. All the same, liberalization of the movement of factors of production may have some effects in promoting the optimization of production, but this may have greater disbenefits than benefits. It may promote polarization of development, and experience shows that the spread effect is not great. A few favoured countries may, therefore, develop fast at the expense of other less favoured countries, brain-drain in the grouping may be promoted and some of the countries may even experience retardation. Moreover, in view of the rigidity in wages and salaries, unemployment in some favoured cities may increase and social problems magnified. Free movement of labour may help some foreign investors to obtain relatively cheap labour and thereby reap high profits but it is not particularly necessary for the development of local capacities and expansion of production and it may also create much social and development problems. Consequently, an African Common Market should not specifically include provision for free movement of factors of production even though it may not prohibit it. The objective should not be only to maximise production on regional level but, also, to promote the processes of self-sustaining growth and diversification in each country.

Economic Co-operation among African countries for the establishment of an African Commc Market

22. An African Common Market may not readily be achieved all at once and it may be prudent to proceed in stages. There are already some economic groupings in Africa, although these have not been sufficiently effective for promoting the economic development of member countries. The objectives and the operative instruments of these groupings need to be reviewed with a view to making them more relevant to the development aspirations of the countries concerned. In such a review, the emphasis should be given not merely to the harmonisation of customs policy and the siting of industries but to central policies that support and facilitate national development policies of the member States, in particular, policies that promote the exploitation of natural resource complementarities and the building up of national industrial and agricultural production capacities, and policies that generate additional local financial resources and develop indigenous capabilities especially with regard to the acquisition of technological knowledge.

23. In addition to re-organized and re-vitalized subregional economic groupings, co-operation in specific key areas may be undertaken on both subregional and African regional basis. This should include co-operation on technology and co-operation for the establishment of capital goods and similar large-scale industries.

24. The economic development policies of African countries have not given sufficient attention to the role of technology in economic development. It can, in fact, be said that the main difference in the state of the economies of the developed and the developing countries lies in the levels of technology acquired by the indigenous population and that the low level of such technology is one of the main reasons for under-development. Re-orientation of development policies strongly to the acquisition of technology is not only very necessary but also very urgent. This does not relate to the importation of technology by foreign companies; it is rather the importation and dissemination of technology to the indigenous population involved in production.

25. While such a measure can be undertaken on national basis, very few countries can afford the high cost of importation, adaptation and development of technology and its dissemination to producers. An African Centre on Transfer and Development of Technology has been recommended by UNCTAD IV and preparatory work for the establishment of the Centre is already under way. The Centre will be concerned with all aspects of technology transfer and with the development of indigenous technology. It should also be concerned with manpower training and with the dissemination of technology to the producers through advisory services. The activities of the Centre will be made effective only if the participating African countries establish national technology centres as a focal point both for implementing the programmes in the field and for feeding back national requirements to the African Centre.

26. A parallel institution is a centre for the dissemination of agricultural technology which could be established on subregional basis. The subregional centres should undertake studies with a view to formulating policies for upgrading the production technology of the mass of small farmers and promote the dissemination of technology packages to the farmers through national centres.

The centres could also undertake studies on integrated rural development and promote activities in this field. An essential component of the activities of the centres should be the training of personnel for formulating and executing the national programmes.

27. Capital goods and similar large-scale industries require not only large capital investment but also large market for the products. They are thus projects that are better undertaken on multinational basis. Of paramount importance for African economic development are iron and steel and petro-chemical industries. While the industries could be established on group country basis, a central focal point either on subregional or an African regional basis will be required for co-ordinating the establishment of the industries, for selecting, importing, adapting and promoting the utilization of suitable technologies, for providing technical advice in the operation of the industries and for promoting inter-country and inter-sectoral linkages.

Intra-African Trade Expansion for the establishment of an African Common Market

28. Registered intra-African trade increased by about only 50 per cent between 1964 - 1965 and 1973, whereas total African exports about tripled within the same period. The share of intra-African trade out of Africa's total trade has therefore been decreasing since the middle of the last decade and now stands at about 5 per cent. Even though unregistered intra-African trade is high, it will not alter the declining share of intra-African trade out of total trade over these years.

29. As already indicated, substantial expansion of intra-African trade requires re-orientation of production and development policies and consumption patterns. At the same time, significant trade expansion can be achieved through the improvement and expansion of transportation and communications facilities, improvement of trade information, establishing direct trade relations in place of triangular trade relations through the metropolitan countries and establishment of national trade structures, in addition to the lessening or removal of customs tariff and similar trade barriers and undertaking trade promotion activities.

30. In addition to these, multilateral payments arrangements have very important role to play in promoting intra-African trade in view of the existence of different national currencies which are not convertible. Already a West African Clearing House has been established. Similar arrangement needs to be established in the other subregions and all of them co-ordinated in order to facilitate inter-subregional trade.

31. With regard to the establishment of an African Common Market, special consideration needs to be given to rules of origin in order to ensure that the common market actually leads to the utilization of local resources, the development of national production capacities and the promotion of self-reliance and self-sustaining economic growth. The rules of origin should not be limited to defining the country of production but should be extended to defining the commodities that should benefit from the trade liberalization and from the common external tariff. Such commodities should be those in the production of which much resources have been utilized. This could be ensured through including in

the rules of origin stipulation of a certain percentage of local value added in the production of the commodities that can benefit from the common market and, alternatively or in addition, stipulation of the percentage of local resources out of total resources utilized in the production of the commodities.

32. By this provision, the products of transnational corporations that utilize imported raw material inputs and capital goods and foreign personnel will be excluded; alternatively, such corporations will be forced to utilize local raw material inputs, capital goods and labour and thereby promote linkages and assist in the development of local capacities. By this provision also the development of indigenous entrepreneurship will be promoted through protecting the products of small-scale industries against the lower cost products of the establishments that utilize largely imported inputs. The provision can also be utilized to promote labour-intensive industries in order to help solve the unemployment problem.

33. Equally important for the common market is the exchange or transfer of technology as a means of developing the production capacities particularly of the less developed countries. The common market arrangement should include a provision for transfer of technology along with the purchase of capital goods and equipment. In other words, there should be free transfer of technology along with free movement of commodities within the common market.

The Lomé Convention and an African Common Market

34. The establishment of an African Common Market will inevitably affect African countries' relations with third parties. This conflict of interests should not be looked at in terms of trade-offs; rather, African countries should endeavour to integrate their relations with third parties with the provisions of the common market in realization of the fact that their prosperity under the common market will both directly and indirectly affect the third parties favourably.

35. The ACP-EEC Convention of Lomé provides a guideline with regard to the problems and how the integration can be achieved. Two aspects of its provisions need to be singled out. The first is that while the Convention grants non-reciprocal free access for most of the export products of the African, Caribbean and Pacific (ACP) States to the EEC market, provision is also made that the commodities imported from the EEC by the ACP countries shall receive most-favoured nation treatment. In addition, it is also provided in the Convention that any participation by third countries in contracts financed by EEC, including supply of goods or services, must be of an exceptional nature and be authorized case by case by the competent EEC body. These provisions present a major problem so long as there are African countries that will be party to the African Common Market but not to the Convention. A second problem is that these provisions militate against granting special treatment for the products of the Third World countries which may be more suitable or which may be purchased at better terms than similar products from the EEC. This relates, in particular, to capital goods from the Third World countries which may be more suitable to African conditions and which may be supplied along with the technical know-how.

36. The second aspect of the Convention that needs to be singled out is that, while provision is made for the expansion of industrial production in the ACP States, this is in free competition with EEC industrialists who are to be encouraged to participate in the industrial development of the ACP States. The possible conflict of interests is obvious, especially when this is combined with the provisions already referred to above.

37. While this type of problems do exist in relations with third parties, the EEC solved a similar problem affecting its common agricultural policy by ensuring that the policy is fully safeguarded in the Convention. The free access of the products of ACP countries into EEC is subject to its not being in conflict with the provisions of the common agricultural policy. Moreover, the Convention stipulates that any modification of the common agricultural policy should be reflected in the Convention. Such safeguards are even more essential in relations between African countries and third party developed countries.

Conclusion

38. This paper has not discussed all aspects of the proposed African Common Market. It has, instead, concentrated on indicating some of the essential elements of the market. If the market is to provide additional stimulus and facility for accelerated development of African economies, its definition should not conform to the orthodox definition of a common market. In particular, it should not be limited to free movement of goods and services and a common external tariff, neither should it specifically include free movement of factors of production. It should rather place emphasis on policies and facilities for the development of national production capacities, improvement of indigenous capabilities and promotion of self-reliance and of self-sustaining economic growth.

39. This it can achieve through, inter alia, promoting the exploitation of natural resource complementarities; providing for free transfer of exchange of technology within the Common Market; providing central machinery for the importation, adaptation and development of technology and its dissemination to the producers both in industry and in agriculture as well as the training of personnel in this field; defining the rules of origin for the commodities that should benefit from the common market in such a manner as to promote the utilization of local raw material inputs, local capital goods and local personnel and also favour the products of indigenous entrepreneurs; and establishment or promotion of the establishment of capital goods and similar key industries and promotion of inter-country and inter-sectoral linkages for them. On the same basis, the existing economic groupings need to be re-organized and re-vitalized as a step to the establishment of the Common Market.

40. Similarly, the expansion of intra-African trade should not be limited to the improvement of transportation and trade facilities. It should, also, include re-orientation of development policies to the promotion of self-reliance and re-conditioning of tastes to local products, both agricultural and manufactured products and the progressive diversion of some of the present trade flows with developed countries import to other African countries.