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THE AFRICAN APPROACH TO THE SECOND UNCTAD CONFERENCE
(ADJOURNMENT)
A. COMMODITY AGREEMENTS ONCE MORE

1. The purport of the main part of this paper is to suggest that, on the basis of available evidence, the safest generalization concerning the possible relationships between trade and economic growth in Africa is that, all things considered, export earnings are insufficient to finance the volume of imports required to sustain respectable rates of economic growth. In the circumstances the basic policy problem of most African countries—on the assumption that they have adumbrated economically viable plans for using their resources—is to finance their consequent development. This policy problem may evidently be solved in a number of ways; and the various solutions are by no means mutually exclusive. Broadly speaking, since the first UNCTAD Conference in Geneva much attention has focussed on three possibilities: that of increasing export earnings; that of protecting developing countries against unexpected shortfalls in their export earnings due to circumstances beyond their control; and that of increasing the public and private flow of funds from the developed to the developing countries.

2. The concern here is with the possibility of increasing export earnings. More particularly, since there are again a range of possibilities, the concern is with the contribution commodity agreements can make to increasing export earnings. Commodity agreements are extensively discussed in the Relevance of UNCTAD to Africa's Trade Problems.1/ It is not the intention here to repeat the earlier discussion—which is still highly relevant. The present discussion has two objectives: to examine some fundamental changes which have taken place in the aims suggested for commodity agreements; and to consider the recent attempts to conclude a Cocoa Agreement, and the implications of such an agreement.

The Aims of Commodity Agreements

3. As may be seen from the earlier discussion, commodity agreements have a long history. Until recently, however, their consistent, ostensible purpose was price stabilization. The Havana Charter of 1948 laid

1/ See pp. 10-16 of the paper and pp. 1-21 of the addendum.
it down that one of the main objectives of international commodity agreements is "to prevent or moderate pronounced fluctuations in the price of a primary commodity, with a view to achieving a reasonable degree of stability on the basis of such prices as are fair to consumers, and provide a reasonable return to producers, having regard to the desirability of securing long term equilibrium between the forces of supply and demand". It is true that pressures for agreements to be concluded were greatest when prices were falling. It is, nevertheless, also true that price stabilization is an activity that may be undertaken in principle in face of a rising, falling, or constant trend. And the main purpose of price stabilization is to make the processes of economic adjustment somewhat easier by reducing fluctuations about the trend.

4. In recent years there have been some important changes in the thinking about the nature and purposes of commodity agreements. Originally concerned to stabilize prices to the advantages of the direct producers and consumers of the commodity covered by the agreement, emphasis has shifted to price stabilization for the benefit of developing economies and ultimately to the prospect of stabilization at a level and in a manner which will assure the developing countries of steadier and larger foreign incomes. The 1964 UNCTAD Conference gave fresh impetus to this change in emphasis. Thus the Conference recommended that, in certain circumstances, commodity arrangements should be made "with a basic objective of stimulating a dynamic and steady growth and ensuring reasonable predictability in the real export earnings of the developing coun-

1/ See Article 57 (c)

2/ For discussion of the changes in emphasis, see, for example, Lowe, Primary Commodities in International Trade, Cambridge 1965, pp.212-217 and UN, International Organization of Commodity Trade (TD/B/C.1/PSC/5).
tries so as to provide them with expanding resources for their economic and social development, while taking into account the interests of consumers in importing countries, through remunerative, equitable and stable prices for primary commodities, having due regard to their import purchasing power, assured satisfactory access and increased imports and consumption, as well as coordination of production and marketing policies.\(^1\)

The position of UNCTAD, however, was predicated on the assumption of a dynamic expanding world economy which gives logical force to this redefinition of the objective of commodity agreements.

In paragraph 3, section I, of the preamble to the Final Act, it is recalled that the General Assembly in endorsing the decision to convene the first UNCTAD Conference was motivated by the following basic considerations that:

\[(a)\] Economic and social progress throughout the world depends on a large measure on a steady expansion of international trade;

\[(b)\] the extensive development of equitable and mutually advantageous international trade ... promotes higher living standards and more rapid economic progress in all countries of the world;

\[(c)\] the accelerated economic development of the developing countries depends largely on a substantial increase in their share in international trade.\(^1\) (Underlining supplied by EGA)

The statement quoted above may be contrasted with earlier statements of objectives of existing commodity agreements; and even, the latest of these, the Coffee Agreement of 1962, does not relate so strongly or in such an explicit fashion commodity agreements, the export earnings and the import purchasing power of the developing countries. This new emphasis, to some extent, expands rather than supercedes the older objectives; and it should be clear that argument may still be independently made in favour of price stabilization. The main presumption in

\[1/\] See UNCTAD Final Act, Vol.1, p.12.
favour of price stabilization is that the greater certainty it brings should greatly ease the process of economic adjustment or reduce the chances of economic decline.

5. It should be noted at the outset that if commodity agreements are to be useful for the present purposes of developing countries, this change in emphasis is entirely reasonable. To repeat, the basic problem of most African countries is that, given their present economic structure, the economic transformation they require will involve them, for some lengthy initial period, in a greatly increased volume of imports which, on present trends, will have to be bought at higher-than-current prices. In the circumstances, what the African countries wish to sustain is their purchasing power over imports; and, in so far as commodity agreements are a means of doing so, it is necessary to relate the trend of export earnings to the relevant import volumes and prices. To recognize this is not necessarily to endorse commodity agreements as a desirable means of solving, or more modestly contributing to a solution of, the basic policy problem. Indeed it may be argued that commodity agreements are a complex, uncertain means of solving anything; and that the main justification for their pursuit is the fact that in a distinctly unfavourable economic environment African and other developing countries must seek advantage at many points in order to achieve their basic purposes. It still must be accepted, however, that commodity agreements have their difficulties and disadvantages; and it is as well to be as fully aware of these as possible.

6. In order to examine some of the difficulties attending commodity agreements (in their new role)1/ it may be useful to consider a hypothetical limiting case. Suppose a developing country, A, produces and exports a single tropical commodity to a developed country, B. A is a temperate country and the imported tropical commodity has consequently no close substitute in B's markets. On the other hand, the income

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1/ The special character of the present discussion bears emphasis. It does not deal with price stabilization.
elasticity of demand for the tropical product is extremely low and the rate of growth of demand is little higher than the rate of growth population. A has a well-formulated development plan by means of which it hopes substantially to transform its economy over a specified period of time, and thus, inter alia, to lessen its dependence on its tropical export. For the purposes of the argument it may be assumed that both the volume of imports necessary to achieve the desired transformation and their prices are known at various stages throughout the plan period. The policy problem confronting A is to secure the necessary purchasing power as and when required.

7. At any point in time, the import purchasing power \(^1\) of A may be given by the expression:

\[
\frac{E_p E_q + S}{M_p} = \frac{E_p E_q + S}{M_p}
\]

where \(M_p\) represents import prices, \(E_p\) and \(E_q\) export prices and quantities respectively, and \(S\) represents all other funds available to finance imports (i.e. the algebraic sum of the balance on the rest of the current account and that part of capital inflow not required for debt repayment). Suppose that the balance on the invisible part of the current account is zero and that A has not received in the past and does not now receive any capital inflows. In these circumstances, the prospects for economic transformation depend on the relationships between \(E_p E_q\) and \(M_p\). From the specification of the problem it may be assumed that, in the absence of interference with normal market forces, this will not normally be such as to provide an adequate volume of imports. If, therefore, the required rate of growth in A is to be achieved a commodity agreement between A and E will be necessary. It is convenient now to consider the problems such an agreement would confront.

\(^{1/}\) For a further discussion of this concept see the UNCTAD document, International Organization of Commodity Trade (TD/B/0.1/PSC/5)
8. Much will depend, of course, on the initial demand and supply situation. As a matter of recent experience, it would be unreasonable to suppose this to be in equilibrium. Since production of the tropical good is the main form of economic activity in A, and since, by dint of fertilizers and other improvements, productivity has probably been increasing, the supply of the tropical good has probably also been increasing—perhaps considerably. On the other hand, demand for the product in B has most likely been growing very slowly. And the most reasonable initial assumption is that supply is outpacing demand at reigning prices and that consequently there is already downward pressure on price.

9. In these circumstances it is reasonable to envisage that the commodity agreement will seek to establish a higher price than that operating in the period of negotiations. Insofar as the demand for the tropical good is inelastic this would no doubt result in higher export earnings. It would not necessarily or easily, however, solve the policy problem. In the first place, the exact level at which the price would be set would depend on the bargaining strength and attitudes of countries A and B. In this respect the natural interests of the two countries diverge. As a producing country A is keen to have the price as high as possible; as a consuming country B's interest lies in having the price as low as possible. And there is no reason to expect that the agreed price will be such as to provide the export revenues required by A. It would be more reasonable to assume that although export earnings may be increased as a consequence of a commodity agreement they will still fall short of the amount required to finance imports.

10. The adversaries of commodity agreements usually also raise a fundamental quasi-economic objection to them. The argument runs as follows. The efficient allocation of economic resources requires that the price

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1/ There is an implicit assumption here that the volume of resources devoted to production of A has been increasing. This does not seem unreasonable.

2/ It will almost certainly be inelastic in the short-run. In the long-run it may be much less so.
any product may fetch on the market should be related to its cost of production. If the price is such that receipts exceed costs of production then output should be expanded; if receipts fail to cover costs, output should be reduced and the resources thus released used for more effective employment elsewhere. The difficulty of such a commodity agreement, as the kind now being considered, it is claimed, is that it relates the price of the product not to its own production costs but to the cost of importing a quite different set of imported goods. There is, for example, no obvious relationship between the costs of importing capital equipment for the purposes of industrialization and the costs of production of a tropical primary product.

The above position is based on very simplistic economic analysis which neglects to probe the determinants of costs and the conditions under which costs are determined — whether in a closed or open economy, whether under conditions of competition or of varying degrees of monopoly. Quite apart from this, the fundamental weakness of this position lies in that it denies any relationship between export prices and the terms of trade. It is now generally recognized that industrialization requires an agricultural transformation or improvement either as a prelude or a concomitant. For this, the importation of agricultural implements, fertilizers, insecticides and know-how, etc. is usually required. The cost of production of primary products must, therefore, be influenced by the cost of imports of various kinds. Failure to accept that there is a direct relationship between the cost of exports and the terms of trade lies at the heart of the argument. And it is the desire to see commodity agreements as a means for remedying the decline in the terms of trade of the developing countries which has led to the revival of so much faith being put on such agreements in the post-war era.

In addition to the difficulties discussed thus far two further problems deserve consideration. The first turns on recognition of the

fact that the additional export earnings which accrue from the operation of the commodity agreement are intended, at least to a large extent, to finance economic development and not to stimulate further production of the tropical product. It follows from this that the government in country A must interpose itself between its domestic producers and their foreign markets. The usual device for doing this is, of course, the marketing board. The operation of actual marketing boards has been a matter of controversy. There is, however, no reason in principle why they should not simultaneously serve the purposes of economic development and safeguard the reasonable interests of the producers. This is somewhat of a red herring and it is not an economic but a quasi-political argument. Once a commodity agreement succeeds in bringing in increased export earnings, whatever methods are employed by the Government to make this contribute to increased capital formation create problems which are only of internal import.

13. The final problem to be considered turns on the characterization of the additional export earnings resulting from a commodity agreement. If, as a result of an agreement between A and B, the value of A's export earnings are deliberately increased specifically to promote economic growth in A, then argument may be made that the increase is a form of economic aid from B to A. Thus regarded, the question that arises is as to the incidence of the aid burden in B. If B makes a straightforward transfer from public funds to A, the incidence of this transfer will fall generally on the entire tax-paying population of B according to the accepted tax procedures of B. On the other hand, if B concludes a commodity agreement with A the burden of the transfer will fall exclusively on persons who consume (directly or indirectly) the product covered by the agreement. There is no evident reason why this should be regarded as an equitable arrangement. Indeed, it is not difficult to imagine a situation in which it would be thoroughly inequitable. The first consumers of tropical products are manufacturers. If, however, as is usually the case, the cost of the tropical product is but a small part of total costs, it is not inconceivable that the manufacturer will be able to pass on his increase in costs. In which case
it is, in principle, possible that the burden of the transfer may rest on sections of the community in B - such as low-income groups or large families - which normally, as a matter of domestic policy, are relatively favoured by the tax system. This argument is also one-sided. It assumes a fantastic limiting case where trade is only in one direction. If, as is assumed in the original example, there were only two countries A and B, it is fair to assume that the export earnings of A will be employed to purchase increase imports from B; and if we are concerned with the incidence of increased export earnings in A on B, it is also fair to consider the incidence of the increased import earnings in B. This again is a naive economic objection.

14. The purpose of this examination of a hypothetical, limiting case has been to delineate in a strong fashion some of the difficulties which surround the attempt to finance economic development by means of international commodity agreements alone. The results of the examination may not be used to condemn commodity agreements out of hand. It has, above all, to be recognized that, in the present circumstances of the developing countries assistance has to be taken where it may be found. And if commodity agreements are politically more palatable to the developed countries than the necessary increases in aid, then the developing countries should certainly pursue commodity agreements with vigour. What, however, the above analysis does suggest is that increased aid might be a more direct, economically more rational and more easily managed alternative to commodity agreements; and that the burden of assisting the developing countries might be more equitably distributed in the developed countries by direct income transfers than by commodity agreements. It is thus at least necessary to ponder the relative desirability of the alternatives and it is permissible to wonder if, in the long run, the developed countries might not find it politically more reasonable greatly to increase their flow of aid.

15. This is predicated upon the assumption that the main purpose or emphasis of commodity agreements is "to secure steadier and larger
foreign income" to the developing countries. In the context of a dynamic growing world economy this is compatible with the original objective conceived for commodity agreements which in the words of the Havana Charter is, "to prevent or moderate pronounced fluctuations in the price of a primary commodity, with a view to achieving a reasonable degree of stability on the basis of such prices as are fair to consumer, and provide a reasonable return to producers, having regard to the desirability of securing long term equilibrium between the forces of supply and demand". This stabilizing function is as much valid today as ever; if for nothing else for the greater certainty which it gives to planners and to governments. This is still, therefore, a justification for commodity agreements even as a complement to other arrangements to obtain aid and development financing.

The Cocoa Agreement

16. Cocoa is one of Africa's leading commodity exports and Ghana, Nigeria, Ivory Coast, Cameroon and Togo are all significant cocoa exporters. In 1964, Africa provided 77 per cent by volume, of the total world exports of cocoa.\(^1\) It follows from all this that Africa has considerable stake in the world market conditions for cocoa and particular interest in attempts to conclude an international commodity agreement regulating the marketing of cocoa. The UN Cocoa Conference met in New York during the months of May and June (1966) to discuss a cocoa agreement. This was the latest in a series of meetings and, in the event, it was no more successful in producing an agreement than its predecessors. The meeting was adjourned with the negotiating parties deadlocked.\(^2\) There

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\(^1\) Calculated from Gill & Duffus, *Cocoa Market Report*, No. 194.

\(^2\) The reason for the deadlock was disagreement as to the floor price to be established. The producing countries sought US 21 cents the lb. The British and French were willing to accept 20 cents; the United States stuck at 18 cents.
is, however, some evidence that agreement is nearer now than it has
been in the past; and there is certainly evidence on the part of both
producers and consumers of determination to go on trying to reach agree-
ment. In the circumstances it is of interest to consider the main points
which form the subject of the present negotiations and to examine briefly
the implications of the successful conclusion of an agreement.

17. The basis for discussion in New York was a draft agreement prepared
by the UNCTAD Secretariat (but based on the draft agreement existing
at the time of the adjournment of the 1963 Cocoa Conference). It is
worth quoting in full the draft agreement's specification of the object-
ives of an international cocoa agreement. These are:

"(a) to alleviate serious economic difficulties which would persist
if adjustment between the production and consumption of
cocoa cannot be effected by normal market forces alone as
rapidly as circumstances require;

(b) to prevent excessive fluctuations in the price of cocoa
which affect adversely the long-term interest of both
producers and consumers;

(c) to protect the foreign exchange earnings of producing
countries whose economies are largely dependent upon the
export of cocoa;

(d) to assure adequate supplies and reasonable prices, equit-
able to producers and consumers;

(e) to facilitate expansion of consumption and if necessary,
and in so far as possible, an adjustment of production,
so as to secure an equilibrium in the long term between
supply and demands".

18. What is of particular interest in this specification of objectives
is the fact that the conjunction of clauses (b) and (c) suggests that

1/ Draft International Cocoa Agreement - Consolidated Text (TD/COCOA.1/4).
the cocoa agreement is aiming simultaneously at price stabilization and at making a contribution to the economic development of the cocoa producing countries. Assuming that stabilization in principle is possible, if stabilization were all that mattered the level at which prices should be stabilized could be related directly to the cost of production. If, on the other hand, a contribution to economic development is also required, the price level must, as was shown above, be related to the cost of essential imports. There is reason to believe that the second price level would necessarily be higher than the first. The different parties to the negotiation may weigh the importance of the two objectives differently; and there is some ground for thinking that part of the difficulty in reaching agreement was due to explicit or implicit differences in emphasis of this kind. Thus, for example, the United States representative, in his opening statement to the Conference, remarked on the need "to assure that cocoa makes its proper contribution to economic development". He also, however, showed a strong penchant for market forces and remarked that, "the cocoa market has shown a remarkable ability to increase the consumption of cocoa over the long term. It is on the contingency of the unusual year — the year in which production greatly exceeds consumption — and on the problem of short-term fluctuations within any one year that we must concentrate our attention". This suggests a basic pre-occupation with price stabilization.

19. Whatever the differences of detail and emphasis, there seems a general agreement on a number of important points. The first of these is simply that, as yet, there is no deep-seated structural problem of an over-supply of cocoa. The second is on the mechanism by which


3/ To some extent this may be credited to the operation of the West African Marketing Boards.
an international cocoa agreement should be operated. It is accepted that the price of cocoa should be kept within an agreed range and that, to this end, a system of sales quotas should be established, that a buffer stock should be introduced and that the diversion of cocoa to traditional uses should be regulated. Apart from the obvious differences of opinion as to what should constitute the agreed price range, there are a number of other points on which agreement will have to be reached before the general consensus stretches to matters of detail.

20. The possibility of achieving agreement would no doubt be enhanced if the producing and exporting countries were prepared to lower their estimates of the price range to be maintained by means of the agreement. This, however, they could only reasonably be expected to do if they were sure of compensating increases in their other sources of foreign exchange — by, for example, an increase in foreign aid. More generally, whether developing countries should continue to press vigorously for commodity agreements designed, at least in part, to sustain their import purchasing power should depend on their estimate of the political feasibility of such agreements as compared to the political feasibility of obtaining the requisite increases in aid. On present evidence it looks as if an international cocoa agreement might yet be negotiated. There is, however, no evidence to suggest that it will necessarily be such as to guarantee the import purchasing power of economies in which cocoa accounts for a very large proportion of total exports. It might, if all goes well, help in this direction; but it will be required to be supplemented.

21. Even should an agreement very favourable to the producing countries result when negotiations are resumed, it should be evident that not all the economic, nor even all the cocoa, problems of the African cocoa-producing countries would be solved. Every African country is under the continuing obligation to use its economic resources effectively. And the conclusion of a cocoa agreement would not relieve the African producers of the responsibility of assessing what proportion of its resources should be devoted to cocoa production. It will
still be necessary for each country to make some estimate of the future prospects for cocoa exports, some estimate of the likely rate of return to investment in cocoa, and some comparison between this and the like rates of return on alternative projects. Cocoa producers rightly wish, in any case, to diversify their economy. If, at present, a high proportion of the resources, notably perhaps the labour force, are at present engaged in cocoa production, their diversification necessarily implies a transfer of resources from cocoa to other activities. In the circumstances it will be necessary for the African countries to have some clear notion, all things considered, as to the volume of cocoa they wish to produce, as to the means of its production and as to the extent and manner of the transfer of resources.
B. EXPORTS OF MANUFACTURED GOODS AND THE PROBLEM OF PREFERENCES

22. In The Relevance of UNCTAD to Africa's Trade Problems, a review of the statistics of imports of manufactured goods from developing areas by selected industrialized countries focused attention on a number of findings, and these are summarized below. In the first place, purchases of manufactured goods from developing countries have hitherto represented only a small share of the developed countries' total imports of such goods (7.5 per cent in 1963). In 1963 Africa's share was the lowest as compared with other developing areas, i.e. 0.6 per cent for Africa as against 3.3 per cent for America and 3.6 per cent for Asia. It was also observed that only a small proportion of the total exports of developing areas covered manufactured goods. Here again, Africa was in a less favourable position than countries in America and Asia. Manufactures represented only 5 per cent of Africa's total exports to industrialized countries, whereas Asian and American exports accounted for 14 and 15 per cent respectively.

23. Three further findings were made regarding the composition of African exports of manufactured goods. In the first place, the range of the goods is very limited. Thus, in 1963, the five leading manufactures accounted for 40 per cent, and the first ten manufactures for 67 per cent of the total value of African exports of manufactured goods. Secondly, it was observed that most of the exports went to a very few countries (59 per cent to France and the United Kingdom, 71 per cent to these two countries plus the United States of America; Europe received 83 per cent, more than 75 per cent of which was absorbed by the EEC countries and the United Kingdom). Lastly, in terms of SITC sections, it was noted that African exports of manufactured products consisted mainly of slightly processed articles.
24. This indicates how far African exports of manufactured goods lag behind, owing to the fact that Africa is still at an early stage of industrial development. Nevertheless, the fact that a great effort to industrialize has been made by most African countries is borne out by the numerous development schemes drawn up by African countries since their independence, as well as by the export statistics. Thus, from 1960 to 1964, Africa's total exports, at the prices prevailing in 1960, increased at an annual compound rate of about 8 per cent. The most spectacular rise was noted in petroleum exports (71 per cent), followed by manufactures (SITC sections 5, 6, 7 and 8) 7 per cent, as against 5 per cent for food, beverages and tobacco (SITC sections 0 and 1), and 1 per cent for raw materials (SITC sections 2 and 4). It is vital that the countries should industrialize in as rational and speedy a manner as possible, in order to induce employment and income growth and ensure that prices are competitive with those of other suppliers of the world markets.

25. The Relevance of UNCTAD to Africa's Trade Problems gives a brief outline of the main problems relating to increased exports of manufactured goods. Special stress must be laid on the fact that African countries should not base industrialization solely on the national production of goods to substitute imports. The policy of import-substitution requires a market sufficiently wide and rich to allow large-scale production as a source of scale economies. The smallness of markets in most African countries therefore argues in favour of regional or sub-regional industrialization, as a means of combining scale economies with the advantages of international specialization. Moreover, it is in the interest of African

1/ See The Relevance of UNCTAD to Africa's Trade Problems, E/CN.14/WP.1/4/Add. 1, Appendix C.
countries to adopt an industrialization policy that will enable them to export manufactured goods to developed countries.

26. The industries that show the most dynamic growth are obviously those operating with advanced methods and new techniques. As a rule, developing countries which seek to establish industries on this basis experience difficulties. They propose to attain the highest possible per capita income and at the same time to raise the level of employment. These industries, however, require skilled labour and a great deal of capital. The active population of the developing countries is mainly composed of unskilled workers and, if the most advanced methods of technology are used, employment may not keep pace with production. It may, of course, be pointed out that workers employed in modern industries will tend to spend more money on services, and that unemployed workers might secure work in the tertiary sector. Thus industrialization in developing countries might simultaneously succeed in raising the national income through the multiplier effect of expenditure by industrial workers and, by the same token, increase the level of employment because of the development of the tertiary sector.

1/ In a situation where the use of technology and the quality of labour must be reconciled, one of two things is necessary: either to take labour as given and seek the appropriate technology, or to adopt completely modern technological methods and train workers to fit the requirements. In the former case, production costs must be sufficiently low to allow the sale of goods in the world market.

2/ For a more comprehensive study of the question, see Baer and Hervé, Employment and Industrialization in Developing Countries, Quarterly Journal of Economics, February 1966, vol. LXXI, No. 1. It is doubtful, however, whether any expenditure by the secondary sector will create enough employment in the tertiary sector to absorb the entire labour surplus.

3/ It might be pointed out that workers may also tend to consume more imported goods, which would produce a leakage effect.
27. In the preceding paragraph, reference was made to the fact that the more dynamic industries required skilled labour and a great deal of capital. These two elements are rarely met with in developing countries, particularly in Africa. The level of savings is extremely low and cannot supply capital for industrialization. The developing countries therefore need foreign capital to be in a position to import the capital equipment and intermediate goods necessary for their development. In addition to liquid capital, developing countries require aid that will put technology within their reach. Developed countries could assist developing countries by sending technicians and providing manufacturing processes and techniques such as favourable terms of production and export rights derived from the use of patents and licences.¹/ Training programmes should be established for unskilled labour. The experience of selected African countries might be extended to others, and an agreement could be reached whereby each industrial undertaking would provide courses and practical training for its African workers and senior staff. In addition, African countries could apply for fellowships for the training of their workers abroad, within the framework of cultural co-operation with developed countries.

28. Simultaneously with an effort to solve the internal problems of industrialization, favourable conditions should be sought for exports of industrial products by developing countries. Owing to their concern about exports, the developing countries protested against the tariff or non-tariff barriers applied by developed countries.²/ The Final Act of the

¹/ See UNCTAD Final Act, Recommendation A.III.6.

²/ The irrational nature of these barriers is described in The Relevance of UNCTAD to Africa's Trade Problems, Add.1, Annex C.
United Nations Conference on Trade and Development contains a number of recommendations, addressed more particularly to developed market-economy countries, that they should apply to fresh barriers, consider the possibility of lowering the existing barriers, and set up a system of preferences for developing countries without requiring reciprocity.

29. In regard to manufactured goods, UNCTAD has so far concentrated on the question of preferences. A Special Committee was set up to consider the different aspects of the matter and devise a means of reconciling the positions of the different countries in regard to the two systems suggested, i.e. general preferences and selective preferences. Work is going ahead in an endeavour to analyse all the aspects involved in a system of preferences. Developing countries have declared themselves in favour of the general system. Although the positions of the developed countries differ, some headway has been made since the first UNCTAD Conference. All developed countries accept the principle of preferences, sometimes subject to further review, and some of them have made concrete proposals or taken definite steps to grant preferences for developing countries' exports of manufactures. First, Australia decided to seek a waiver from GATT provisions relating to preferences, so as to provide tariff preferences unilaterally to developing countries (Group of 77) in respect to selected imports of about sixty industrial products. Then Denmark proposed to its EFTA partners that developing countries should receive tariff preferences for a large number of manufactures, within the framework of GATT and UNCTAD. As in the case of Australia, protective measures would ensure that selected products such as textiles would be excluded from the preferences, lest any marked disruption should ensue in developed countries.

1/ See UNCTAD Final Act, Annexes A.III.3 to A.III.6 and A.III.7, for recommendations to centrally-planned economy countries.
30. The problem of preferences is necessarily linked with that of the competitiveness of industry in developing countries. Products in respect of which those countries are already competitive in the world markets will naturally receive no preference. As far as other goods are concerned, it should be ascertained whether the margin of preference, bearing production costs in mind, is adequate in order that the effect on prices may benefit the developing countries receiving preferences. The level of tariffs in developed countries should be considered with a view to determining whether the margin of preference is adequate. According to a table submitted to the Special Committee on Preferences by the United States of America, customs duties applied to imports of manufactured goods, before the inception of the Kennedy Round by OECD member countries usually ranged from 5 to 25 per cent. Lower duties were levied on slightly processed goods, while those levied on manufactured goods such as selected vehicle parts, plastic articles, manufactured jewellery, etc. ranged from 24 to 55 per cent. In this context, it might be mentioned that such customs duties are actually more restrictive than the nominal rates might suggest. The duty levied on raw materials entering developed countries is, generally speaking, nil, and it is therefore the value added part of manufactured goods which is dutiable. Let us assume that a developing country exports a manufactured product which contains 50 dollars' worth of raw material and the value added of which is also 50 dollars. The total value of the article is thus 100 dollars. Now let us assume that, in a developed country, the customs duty on the article is 10 per cent ad valorem. No duty is, in fact, levied on the raw material, since, had it alone been exported, it would not have been dutiable. Thus the 10 per cent

1/ See Report of Special Committee on Preferences, Appendices (Document TD/B/C.2/1/Add.1, pp. 28-33).
duty applies not to the total value, i.e. 100 dollars, but solely to the value added, i.e. 50 dollars; and the duty is therefore effectively 20 per cent.

31. Preferential tariffs for developing countries would therefore have a more favourable effect on the growth of their industrial exports than would appear at first sight, and should enable countries which had reached a certain degree of competitiveness to produce sufficient quantities of export goods to confront producers in developed countries. Particular emphasis should be placed on the fact that preferences offer but one possibility and might not bring about an automatic increase in exports of manufactures from developing countries. Apart from prices, consumers are influenced by a number of factors such as the practice of buying a given brand or quality, the attraction exercised by an article because of the way it is displayed and advertised, etc. Developing countries should therefore be in a position to conduct a far-reaching campaign in developed countries and thus promote their industrial exports.

32. This also applies to countries which have reached a certain degree of competitiveness, and is especially important in view of the fact that the preferential margin may be reduced if the Kennedy Round leads to a lowering of customs duties. At the present time, only a small number of developing countries can be regarded as sufficiently competitive in the production of selected manufactures (certain Latin American countries and India, for instance), and they would immediately benefit under the preferential system. In this situation, the danger exists that only a few countries may be able to increase their exports of manufactured goods and, with their export earnings, accelerate industrialization and widen the gap between themselves and such developing countries as have as yet no manufactures to sell. This effect would be contrary to UNCTAD's purpose.

1/ The danger also exists that, once the countries are established in developing markets, access to those markets may become more difficult for further producers of the same type of goods that may meanwhile have reached the necessary degree of competitiveness.
which is to bridge the gap between members of the international community. Simultaneously with the creation of a system of preferences, an attempt should be made to devise the means of rendering adequate aid in financing speedy and rational industrialization in less advanced developing countries.

33. Out of solidarity with other developing areas, Africa may come out in favour of the system of general preferences. If it were established, this system might encourage industrialization because of the prospects of easy access to the world markets once African countries had sufficient quantities of manufactured goods to offer at competitive prices. Meanwhile, Africa should in fact be able to industrialize and, as the least developed area, receive a larger measure of financial and technical assistance, at more favourable terms. UNCTAD might consider the possibility of financial aid "weighted" according to the degree of underdevelopment of such countries, so that the less developed countries might receive more than others.

34. Another aspect of general preferences is of particular importance to Africa. Most African countries receive preferential treatment in the markets of OECD countries and in the United Kingdom, by virtue of a Convention of Association or as members of the Commonwealth, respectively. A system of general preferences would mean that Africa would have to share the benefits of preferences received for a restricted number of industrial products with other developing areas which are often more competitive. Provision should therefore be made for compensatory arrangements, in accordance with the transitional provisions of recommendation A.II.1, in order that African countries may have advantages at least equivalent to
those they already enjoy. The international measures designed to substitute those advantages are hard to evaluate. They will certainly cover increased financial assistance such as that provided by the European Development Fund, so as to enable African countries to diversify their economy and obtain adequate technical assistance, and include further measures of a commercial nature to ensure their access to the markets of developed countries. African countries can ask for the inclusion on the agenda of the Second UNCTAD Conference of a review and evaluation of the advantages to be provided for the least developed countries and for countries which would forfeit the benefit of the preferences already enjoyed.

35. Any accurate appraisal of the position of African countries will require more comprehensive studies than have so far been possible, owing to shortage of time and the lack of facilities. A detailed comparative review should be made of the composition of experts of industrial articles from Africa, Latin America and Asia; the production costs of African industries should be studied and consideration should be given to the prospects of selected industries, such as the wood and cocoa industries, which are likely to expand fairly rapidly. Another question which requires attention is whether all recent projects for sub-regional industrialization are likely to be competitive with production in developed countries and in other developing countries. Lastly, it is necessary to ascertain the precise impact of customs duties levied by developed countries on African manufactures, as well as the possible effects of the Kennedy Round, should it produce concrete results.

1/ The provisions read as follows: "Preferential arrangements between developed countries and developing countries which involve discrimination against other developing countries, and which are essential for the maintenance and growth of the export earnings and for the economic advancement of the less developed countries at present benefiting therefrom, should be abolished pari passu with the effective application of international measures providing at least equivalent advantages for the said countries."
C. SHIPPING, INSURANCE AND TOURISM

36. The main document drew attention to the fact that the improvement in the balance of trade of a number of African countries, between 1960 and 1964, should be considered, not separately, but in the context of the aggregate balance of payments of those countries. It pointed out that an improvement in the trade position could be partly counteracted by an unfavourable trend in some of the components of the balance of payments. By way of illustration, one element was selected as one of the most important items in the net balance of services, i.e. investment income.

37. A study of the balance of services supports the above statement. Table 1 contains data on 1960 and 1964 for sixteen African countries.\(^1\)

It has often been pointed out that it is important to be cautious in interpreting data covering a very brief period and a limited number of countries; yet fragmentary and limited data are better than none. Column (3) of the table shows the percentage changes in the balance of payments from 1960 to 1964. A negative sign indicates a deterioration in the net balance of services, i.e. a larger deficit in 1964 than in 1960, a smaller surplus in 1964, or a change from a surplus in 1960 to a deficit in 1964. Ten of the sixteen countries in question experienced a deterioration in their balance of services. In six out of the ten, the negative changes ranged from 113 to 397 per cent; in two others, it was between 44 and 52 per cent, and in the last two, between 1.6 and 10 per cent. Of the countries which experienced positive changes, one recorded a 65 per cent improvement. In three, the improvement ranged from 14 to 34 per cent, and in the last two, from 3 to 6 per cent.

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\(^1\) There are actually twenty-nine, but some of them are grouped together as members of monetary unions.
### TABLE 1
THE NET SERVICES ACCOUNT FOR SELECTED AFRICAN COUNTRIES
1960-1964

<table>
<thead>
<tr>
<th>Country</th>
<th>Currency</th>
<th>Total net services</th>
<th>Freight and Insurance</th>
<th>Travel</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1960 (1)</td>
<td>1964 (2)</td>
<td>1960 (7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Percentage change</td>
<td></td>
<td>Percentage change</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1960-1964 (3)</td>
<td></td>
<td>1960-1964 (9)</td>
</tr>
<tr>
<td>Morocco</td>
<td>m. dirhams</td>
<td>+ 208.0</td>
<td>- 26.0</td>
<td>- 112.5</td>
</tr>
<tr>
<td>Tunisie</td>
<td>m. tun. dinars</td>
<td>+ 3.0</td>
<td>- 8.9</td>
<td>- 39.1</td>
</tr>
<tr>
<td>Libya</td>
<td>m. lari</td>
<td>+ 49.6</td>
<td>- 122.8</td>
<td>- 347.6</td>
</tr>
<tr>
<td>U.A.E.</td>
<td>m. US $</td>
<td>+ 65.2</td>
<td>+ 109.4</td>
<td>+ 24.0</td>
</tr>
<tr>
<td>Sudan</td>
<td>m. nile £</td>
<td>- 3.9</td>
<td>- 12.4</td>
<td>- 217.9</td>
</tr>
<tr>
<td>U.K.O.A.</td>
<td>m. US £</td>
<td>- 186.8</td>
<td>- 160.6£</td>
<td>+ 14.0</td>
</tr>
<tr>
<td>Ghana</td>
<td>m. Gh. £</td>
<td>- 28.8</td>
<td>- 28.0£</td>
<td>+ 2.8</td>
</tr>
<tr>
<td>Nigeria</td>
<td>m. Nig. £</td>
<td>- 23.3</td>
<td>- 55.1</td>
<td>- 136.5</td>
</tr>
<tr>
<td>U.N.A.</td>
<td>m. US £</td>
<td>- 36.9</td>
<td>- 95.1£</td>
<td>- 151.7</td>
</tr>
<tr>
<td>Cameroon</td>
<td>m. US $</td>
<td>- 48.7</td>
<td>- 32.5£</td>
<td>+ 34.1</td>
</tr>
<tr>
<td>Congo (Kinshasa)</td>
<td>m. US $</td>
<td>- 287.7€</td>
<td>+ 100.0</td>
<td>+ 65.2</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>m. Sh. £</td>
<td>- 86.1</td>
<td>- 89.5£</td>
<td>+ 4.6</td>
</tr>
<tr>
<td>Malawi</td>
<td>m. £</td>
<td>- 12.9</td>
<td>- 19.7</td>
<td>- 52.3</td>
</tr>
<tr>
<td>Tanzania</td>
<td>m. £</td>
<td>- 12.9</td>
<td>- 19.7</td>
<td>- 52.3</td>
</tr>
<tr>
<td>Uganda</td>
<td>m. £</td>
<td>- 12.9</td>
<td>- 19.7</td>
<td>- 52.3</td>
</tr>
<tr>
<td>Kenya</td>
<td>m. £</td>
<td>- 12.9</td>
<td>- 19.7</td>
<td>- 52.3</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>m. birr. £</td>
<td>- 33.2</td>
<td>- 36.5</td>
<td>- 9.3</td>
</tr>
<tr>
<td>Somalia</td>
<td>m. Som. Shl.</td>
<td>- 34.0</td>
<td>- 49.0</td>
<td>- 44.1</td>
</tr>
<tr>
<td>Madagascar</td>
<td>m. US $</td>
<td>- 22.5</td>
<td>- 21.1£</td>
<td>+ 6.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Currency</th>
<th>Percentage change</th>
<th></th>
<th></th>
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<tr>
<td></td>
<td></td>
<td>1960-1964 (3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morocco</td>
<td>m. dirhams</td>
<td>- 112.5</td>
<td></td>
<td>+ 871.4</td>
</tr>
<tr>
<td>Tunisie</td>
<td>m. tun. dinars</td>
<td>- 39.1</td>
<td></td>
<td>+ 106.7</td>
</tr>
<tr>
<td>Libya</td>
<td>m. lari</td>
<td>- 136.5</td>
<td></td>
<td>+ 55.3</td>
</tr>
<tr>
<td>U.A.E.</td>
<td>m. US $</td>
<td>+ 24.0</td>
<td></td>
<td>+ 130.5</td>
</tr>
<tr>
<td>Sudan</td>
<td>m. nile £</td>
<td>- 217.9</td>
<td></td>
<td>+ 285.7</td>
</tr>
<tr>
<td>U.K.O.A.</td>
<td>m. US £</td>
<td>+ 14.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>m. Gh. £</td>
<td>- 21.1</td>
<td></td>
<td>+ 55.3</td>
</tr>
<tr>
<td>Nigeria</td>
<td>m. Nig. £</td>
<td>+ 2.8</td>
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<tr>
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<td>m. US £</td>
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<td>m. birr. £</td>
<td>- 9.3</td>
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<tr>
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<tr>
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<td>m. US $</td>
<td>+ 6.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Sources:** IMF: Balance of payments Yearbook (various issues); Annual Reports of Central Banks and other National Publications.

/1/ For these countries specific details on freight and insurance were not available. It was, therefore, necessary to use figures relating to the more general category: transportation.

/2/ Estimate

/3/ 1963

/4/ 1961

/5/ 1959
38. Table 1 also contains data on important components of the net balance of services other than investment income. These relate to the transport, insurance and tourism accounts, from 1960 to 1964.

Shipping and Insurance

39. In many African countries, payments for freight and insurance connected with foreign trade are the second largest item in the net balance of services. Shipping and insurance are among the services traditionally established in industrialized countries, and African countries are almost entirely dependent on those countries for these services. Hence, the payments made on this account by many African countries exceed their earnings. Columns (4) and (5) of table 1 show that, of the eleven countries for which figures are available, ten ran a deficit in their freight and insurance account in 1960 and nine in 1964. The position would, however, appear to have improved in many of these countries between the two years. Column (6) shows freight and insurance account changes between 1960 and 1964. Again, as in the case of the net service balances, a negative sign indicates deterioration in 1964 as compared with 1960. A positive change took place in five of the eleven countries considered, while in one country the position was virtually unchanged. There was an improvement of more than 450 per cent in one country, and in two others the change ranged from 68 to 72 per cent. In the case of the last two, the positive change ranged from 2.6 to 24 per cent. The position seriously deteriorated in one country, which in 1964 ran a deficit nearly seven times as large as in 1960. In three others, the deficit increased by 60 to 80 per cent, and in the last country, by 23 per cent.

40. As already mentioned, it is hazardous to draw any conclusions from a study of these figures. All that can be said is that the situation is disquieting for countries seeking additional resources with a view to supplementing their export earnings and financing the imports necessary for economic growth.
41. It would be useful to make a detailed study of the factors that have influenced the development of the freight and insurance accounts of African countries. Although this calls for a great deal of information which is not available, a few elements can nevertheless be outlined. Owing, above all, to revenue from the Suez Canal, the UAR had increasing surpluses in its transport and insurance account between 1960 and 1964. After running a deficit in 1960, Nigeria's freight and insurance account showed a favourable balance as from 1961, and the surplus has steadily increased, owing in particular to the growing activities of the Nigerian Shipping Line founded in 1959. In Ghana's case, the combined effect of lower imports and the development of the Black Star Line probably explains the decrease in the deficit of that country's account. In Congo (Kinshasa), the appreciable reduction of imports in 1964, as compared with 1959, must have contributed largely to the favourable trend of the freight and insurance account.

42. In the case of countries whose development has been negative, it can be asserted that the growing deficit in the freight and insurance account is due to increased imports and a rise in freight and insurance rates. Freight and insurance costs are generally borne by the importer and may be expected to rise as imports increase. Further, there has been a general increase in freight rates. According to the figures published by the International Monetary Fund, indexes of freight rates applied by different

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1/ There is reason to believe that some African countries have been obliged to some extent to bear freight and insurance costs in respect of exports, even though there is no definite evidence to that effect. Since exports have increased, it follows that freight must also have gone up.

2/ Table 1, in the main document, shows the growth of imports.
countries, according to the type of freighting used, increased from 10 to 39 per cent between 1953 and 1964. In addition, many developing countries have complained about the discriminatory practices of shipping companies, which make them pay rates above those normally charged. These complaints, like those of other shippers, may be based on the suspicions roused by shipping conferences at which freight rates are changed in an arbitrary manner, tariffs kept secret, and different types of rebate adopted.

43. In fixing freight rates, shipping companies take into account factors such as the nature and size of the cargo, the route, lay days and handling costs. The last two items relate to port facilities. The argument most frequently adduced for the maintenance of high rates is that port facilities in developing countries are poor. The costs incurred during a vessel's stay in port, one of the main items in the overall cost of operating most lines, thus tend to be very high, and shipping companies cover that expenditure by increasing freight rates.

44. African countries should therefore improve their port facilities and ensure the availability of adequately trained labour. Efforts are, in fact, being made in this direction. Africa already has some modern ports such as Dakar, Djibouti and others, while new ports with modern facilities have been constructed (Tema and Cotonou), or are to be constructed (Port-Étienne). The investment which this work demands is too heavy a burden to be borne by individual African countries alone, and the rational approach to this problem would be cooperation on a sub-regional basis. In the first place, some African countries have a very short coastline, and it would not be advisable to have a proliferation of ports over a small area. Several adjoining countries might be served by a single port, the main towns being linked by rail. The pooling of the necessary funds would offer

the advantage of reducing costs for each country. A further advantage would be that land-locked countries, of which there are a fair number in Africa, would be able to participate in the construction or improvement of port facilities and thereby acquire an outlet to the sea.

45. Since African countries' resources for financing their economic growth are limited, it would be a good thing if they could receive financial and technical aid in undertaking port extension and improvement. This aid should be given on favourable terms, so as not to aggravate the problem of foreign indebtedness.

46. Greater participation by African carriers in African sea-borne trade is certainly one of the most vital conditions for the improvement, not of the freight and insurance account alone, but of the overall balance of invisible trade. In this connexion, reference may be made to the valuable contribution which the Black Star Line of Ghana and the National Shipping Line of Nigeria made towards improving the freight and insurance account of those two countries.

A number of other African companies have tried, or are trying, to establish shipping lines of their own. It must be pointed out that the matter should not be regarded from the standpoint of prestige. The example of countries which have succeeded is certainly encouraging, but all the economic aspects of the problem should be considered.

47. "Investment in shipping is one of the most costly, measured in per capita of employee. The risks are many and the returns are open to wide fluctuations since they are mostly beyond the direct influence of the single operator. The African countries have no shipbuilding and servicing industry of their own, and would therefore be entirely dependent upon each country's foreign currency resources for initial investment and the upkeep of the fleet...To this must be added the unavoidable expenditure in foreign
currency for fuel, insurance, port and cargo expenses in foreign ports, supplies, repairs, part of crewages, agency fees... Competition from the firmly established services run by developed countries would also have to be contended with. Moreover, adequately trained staff would have to be available, from the ship's crew and officers all the way up to the management.

48. The advantages of a national fleet, apart from bringing about an improvement in the trend of the balance of payments in the long run, are, inter alia, the possibility of setting up connected industries (servicing, repairs and even shipbuilding), and, if African shipping companies become full members of shipping conferences, of improving relations between conferences and users.

49. The difficulties and advantages of the undertaking should therefore be weighed, and a decision taken as to whether it is worth while allocating to the scheme forthwith a large part of the resources needed for economic growth. Here again, it would be advisable to deal with the matter on a sub-regional basis, because, in addition to the difficulties already mentioned, many African countries individually lack the base tonnage that might warrant the creation of a national shipping industry. Foreign aid would again be necessary.

50. The realization of the importance of shipping to the economic growth of developing countries resulted in the setting up of a committee distinct from the Committee on Invisibles, within the Trade and Development Board of the UNCTAD. Discussions have been held, and a number of studies have been or are to be, carried out in an attempt to encompass all the aspects of a subject about which relatively little is known. Pending the outcome of these activities, consultation machinery should be established between

1/ Quotation from Preliminary Survey of Factors Contributing to the Level of Freight Rates in the Seaborne Trade of Africa, ECA document E/CN.14/TRANS/27, part of paragraph 246.
shippers and conferences, to settle any conflicts and, inter alia, consider matters such as the publication by conferences of their tariffs and regulations, the effective representation of conferences in major ports of developing countries, the terms of dual rate and deferred rebate agreements, and the participation in conferences by merchant marines in developing countries as full members. These measures were embodied in a recommendation\(^1\), which, despite a few reservations, was adopted without dissent, thus making for hopeful prospects for its implementation.

51. This section on freight and insurance may, in the absence of a detailed discussion of insurance problems, close with a quotation from a document submitted by ECA to the First UNCTAD Conference\(^2\), relating to insurance: "The establishment of domestic insurance industries and regional re-insurance schemes also merits serious consideration. Similar schemes are already in existence in other developing areas, especially in some of the larger Latin American republics. This example could be followed and a legal framework worked out, ensuring that profits accruing from foreign insurance business in the developing countries are not transferred wholly abroad but are reinvested or lent locally through the national private banking systems."

Tourism

52. As a source of foreign currency earnings, tourism is destined to play an important part in the economic growth of African countries, in many of which those earnings have to a large extent contributed to reducing the deficit in the balance of payments. Table 1 fails to convey

\(^1\) Common Measure of Understanding on Shipping Questions, UNCTAD Final Act, Annex A.IV.22.

\(^2\) Activities of the Economic Commission for Africa related to the UNCTAD Conference, E/CONF.46/82.
the full importance of tourism, since the only figures generally available are for the travel account as a whole. Besides tourist expenditure proper, this account covers travel by persons going to meetings, on official missions or on business trips, the cost of official representation abroad, and expenditure by students abroad. The total of these expenditures is sometimes higher than the earnings derived from tourism. That is why countries known to have large earnings on tourism and to have experienced appreciable development of tourism over the past few years, nevertheless show a deficit in the travel account. This applies, for instance, to the three East African countries - Tanzania, Uganda and Kenya, to the former Federation of Rhodesia and Nyasaland and to Ethiopia. The improvement in the travel account between 1960 and 1964 (see table 1) may, however, be largely ascribed to the growth of tourism. This applies especially to Morocco, since one of the objectives of that country's development plan is known to be increased earnings from tourism.

53. One of the prime conditions for tourism is the existence of tourist attractions, and from this viewpoint Africa is endowed with vast possibilities, some of them unique in the world: an abundance of historical and geological sites, as well as wildlife. In view of the spectacular growth of international travel over the past few years, African countries should exploit their "natural resources" and organize themselves so as to attract tourists from developed countries. Apart from the fact that

1/ There have been several definitions of the word "tourist" and there is no standard rule. For our purpose, we consider a tourist to be anyone visiting a country, for his own pleasure, during a definite period.

2/ Thus, in 1961 earnings on tourism represented 5 per cent of the total export earnings (including tourism) of the East African countries.

3/ It would be interesting to ascertain the world increase in travel in recent years and the changes which have taken place in the geographical distribution of tourist visits.
expenditure by tourists improves the balance of payments, it has a multi-
plier effect on the country’s economy; it stimulates the development
do transportation by air, sea, railway and road; the expansion of the hotel 
trade; and the development of handicrafts for the production of souvenirs, 
etc.

54. In order to be able to enjoy those advantages, however, African coun-
tries must be prepared to make some outlay on the construction or improve-
ment of hotels and other types of accommodation, and on transport facili-
ties; they must organize excursion services, train hotel staff, create a 
travel organization, and launch an advertising campaign in developed coun-
tries. Fortunately, a number of African countries are equipped with very 
satisfactory facilities and institutions which only need to be developed.
In the case of countries wishing to make a start, however, the favourable 
or adverse impact of such expenditure on their economic growth will, as 
already mentioned, have to be considered. A solution for beginners would 
be to use any available funds for developing a few centres of definite 
interest. Again, co-operation among a number of African countries would 
offer the advantage of reducing each country’s expenditure. It would, 
moreover, greatly contribute to simplifying formalities connected with 
travel, a further inducement to tourists, who would thus be able to visit 
several countries and see as many tourist sites as possible without having 
to worry about frontiers.

1/ The multiplier effect may be reduced by "leakages" such as the remit-
tance of funds home by expatriate staff.
55. Developed countries could make an enormous contribution to the development of tourism by rendering African countries technical aid in setting up their services and training the necessary staff. The tourist sector offers foreign public and private investment great possibilities. Lastly, the holding of international conferences and other such large gatherings should be encouraged in African countries.
D. SOME NOTES ON DEVELOPMENT ASSISTANCE

56. If the earlier argument of this paper is accepted and it is agreed that the prospects for achieving rapid economic growth in Africa are constrained - at least in most countries - by a shortage of foreign exchange, it follows that overcoming this shortage represents a major policy problem. It is not, of course, the only policy problem. An adequate supply of foreign exchange is a necessary but not sufficient condition for the attainment of a satisfactory rate of growth; and it is important to remember that any country's prospects for growth depend ultimately on its ability to achieve all the changes in its economic and social structure necessary to permit the optimum use of investible funds. With this continually in mind, it is permissible separately to consider the problem of ensuring an adequate supply of foreign exchange.

57. In principle there are many ways in which the African countries could increase the availability of their foreign exchange. As far as visible trade is concerned they might simultaneously attempt to increase export earnings and curtail import expenditures, although the latter attempt would be constrained to some extent by what might be called the import component of growth. On the invisible account the development of tourism, the development of national (or multi-national) shipping lines, and softer terms for public and private loans from abroad would all help in the long-run although they would create some embarrassments in the short-run. So, too, would an increase in the flow of funds from the developed to the developing countries. Within UNCTAD questions concerning the invisible account have not been neglected. Much of the debate which began in Geneva in 1964 has focussed, however, on questions of visible trade and aid. On the trade side the concern has been to expand export earnings - mainly, as far as manufactures are concerned, by seeking to make the terms on which developing countries may sell their products in the developed countries more favourable, and, as far as primary products are concerned, by
the search for commodity agreements. As far as financing is concerned, much attention has, rightly, been devoted to the question of supplementary financing. Efforts have also been made to increase exports to and aid from the Centrally Planned Economies.

58. From an African point of view, argument may be made that what is most required is an improvement in the terms and magnitude of foreign aid. This is partly because Africa, as the poorest of the developing regions, requires most assistance to achieve the necessary economic transformation; and partly because any realistic assessment of likely progress in other directions must be pessimistic. It is true, as is made clear elsewhere in this addendum, that there are some encouraging signs that the developed countries are willing to arrange easier access to their markets for at least certain manufactured goods coming from the developing countries; and it is true, as is also made clear, that African countries should, in a spirit of solidarity, support any initiatives in this direction. It has, nevertheless, to be accepted that, given the present low levels of industrialization, it will be some considerable time before most African countries can expect any direct benefit from such initiatives.

59. The last international commodity agreement to be concluded was the Coffee Agreement of 1962. The UNCTAD, in this field, still awaits its first success. It is entirely possible that this will come, sooner or later, with the conclusion of a cocoa agreement. The importance of this success, if and when it comes, should be neither over- nor under-estimated. In particular, it has to be remembered that success was slow in coming; and that when it came, it still left a large number of African commodities not covered by commodity agreements. Indeed, on 1962 figures, the successful conclusion of a cocoa agreement would - even if petroleum and copper are excluded - still leave 60 per cent of Africa's primary exports uncovered. This 60 per cent comprises upwards of forty commodities, and, on the basis
of recent experience, only excessive optimism would lead to a belief that commodity agreements on anything like this scale may be readily achieved.\(^1\)

It has also to be remembered that although commodity agreements, if they work smoothly, may result in higher export earnings than would accrue in their absence, the higher earnings may fall considerably short of the level required to finance economic development.

60. Present discussion on supplementary financing turns on a study by the International Bank for Reconstruction and Development. This study in turn had its origin in a resolution jointly sponsored by the United Kingdom and Sweden at the first UNCTAD Conference.\(^2\) The drift of present proposals is that developing countries, confronted, for reasons beyond their control, with an unexpected shortfall in their export earnings which proves to be of a nature or duration not amenable to short-term balance of payments support, may expect to receive international compensation for such a shortfall, in order that their development plans need not be compromised.

Part of the World Bank's proposal is that the developing countries should agree with the administering authority of the scheme beforehand on policy packages for their future development over a specified period of time. The maintenance of the agreed policies would be a condition of obtaining assistance in case of need. It is further suggested that compensation should only be forthcoming after all possible domestic adjustments have been made (short of compromising development) and other sources of funds are fully exhausted.

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1/ See *The Relevance of UNCTAD to Africa's Trade Problems*, Table 1-5, Appendix A, p. 7.

2/ For a more exhaustive discussion of supplementary financing, see *The Relevance of UNCTAD to Africa's Trade Problems*, Addendum, pp. 22-30.
61. Notwithstanding certain questionable features, the World Bank proposal - or something like it - should be welcomed as a step in the right direction. There are some grounds for believing that some African countries would have benefitted from the operation of such a scheme in the past; and, in the future, if there are African countries which find themselves threatened by unexpected shortfalls in their export earnings it is undoubtedly better that they have some external assistance than none at all. The question which, however, remains is as to the extent to which such a scheme for compensatory financing will promote economic development. And the crux of the matter is that the compensation is related not to overall development needs but to a deviation from the expected trend of exports, whatever that expected trend may be. To make a strong case of it, suppose that a developing country is highly dependent on the export of a particular commodity, not covered by a commodity agreement. Suppose further that the country predicts - correctly - that export earnings from this commodity will decline over the next five years. In these circumstances the developing country will receive no supplementary assistance even if access to additional foreign exchange would mean a higher rate of economic growth. In a more favourable case, where the increase in export earnings is less than had been expected, all that supplementary finance will do at most is to maintain the rate of growth at the level which had previously been anticipated. There is, however, all things considered, no reason why this should be the optimum rate of growth. It is important to make clear that the point of these comments is not to accuse the proposals for supplementary financing of failing to meet a need that, explicitly, is no part of their purpose. The fact, however, that supplementary financing is not directly related to overall development needs necessarily limits the contribution it can make to meeting the needs. In recent years the Centrally Planned Economies have accounted for between 6 and 7 per cent of African exports. There is reason to hope that exports
to these countries will grow rapidly. Even a markedly high rate of growth from present levels of this trade would still, however, require a long time before it was reflected in any great increase in total African exports. To illustrate this point, reference may be made to a calculation published by Mr. Nicholas Kaldor.\(^1\) On the assumption that exports to the developed market economies are growing at a rate of 3 per cent per annum, Mr. Kaldor calculates that even if exports to the Centrally Planned Economies increase at a rate of 9 per cent per annum, it would be 1980 before the rate of growth of total exports reached 3.8 per cent and 1990 before the figure was as high as 4.4 per cent. The obvious inference of these figures is that, for some considerable time to come, export trade with the Centrally Planned Economies may alleviate but certainly not solve the trade and growth problems of most African countries.\(^2\)

62. It follows from all that has been said, that foreign aid is a matter of significant importance to African countries. At very least, aid will be required for some time to come to make good some of the gap in Africa's foreign exchange supplies. At most an adequate and national supply of aid, directly relevant to development needs could greatly smooth the much-needed economic transformation in Africa. Foreign aid, as Professor Arthur Lewis makes clear in a humorous passage in a recent book,\(^3\) is an extremely

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2/ If visible trade were now balanced and an overall rate of growth of 5 per cent required imports to increase by 6 per cent, it follows that, on these assumptions, the required rate of imports could not be sustained by exports even by 1990. It should be remembered that particular countries may benefit more than most from exports to the Centrally Planned Economies.

complex matter. It is also a controversial one; and among the matters that are subject to debate are the principles which should govern aid-giving, the manner and mechanism of distribution and the extent to which donor countries should control the uses to which aid is put.1 From the point of view of developing countries what currently gives cause for concern is the fact that, after a rapid increase in the late 1950s, the level of aid has been tending to stagnate in the early 1960s - when the need has been greater. Further concern arises from the fact that the terms of aid had not softened and that, consequently, with the passage of time the burden of debt repayment becomes increasingly heavy.

63. It is hoped before the second UNCTAD Conference to examine all these matters in much greater detail.2 In the meantime it may be suggested that if commodity prospects are doubtful and if it may reasonably be assumed that private investment and other methods of obtaining foreign exchange may be welcome palliatives rather than thoroughgoing cures, the time may have come to re-examine the whole modus vivendi of foreign aid. In an earlier paper some argument was adduced in favour of an international tax system.3 This argument still stands. It may even be suggested that


2/ Also to be examined are the Horowitz Proposal and the problems of international liquidity. It should be recognized that a marked increase of private funds on more favourable terms than those ruling at present would, generally speaking, be welcome. And it is evident that, apart from any direct interest African countries have in an increase in international liquidity, such an increase, in so far as it would improve the balance of payments situation of certain developed countries, could lead to an increase in the amount and an improvement in the terms of foreign aid.

the establishment of an international tax system would be but an extension of present thinking on supplementary financing. It would certainly, as a matter of economics, be possible to design an extension of the World Bank scheme which would relate aid in an international fashion to overall development needs. What might be in issue would be the political feasibility of such a scheme. Perhaps, however, the only way to determine the state of political feasibility is to test it; and African countries should certainly give serious thought to putting the question of an international fiscal system on the next UNCTAD Agenda.