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LONG-TERM TRADE AND PAYMENTS ARRANGEMENTS IN AFRICA

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Preface

Like the note on state trading (E/CN.14/STC/13), this note is also of an exploratory character. Its purpose is essentially to throw some light on various economic, legal and policy aspects of modern tendencies in the field of trade and payments agreements. Since a great number of the agreements referred to have been concluded with the Centrally Planned Economies, this note should be read in conjunction with that on African Trade with the Centrally Planned Economies (E/CN.14/STC/5).

Introduction

Long-term trade and payments agreements are an old-established practice between trading nations. If "long-term" is defined as having a duration of not less than two years, practically all the treaties of friendship, commerce and navigation would fall into this category. These treaties are useful in so far as they create the legal basis for establishing new trade relations. They frequently incorporate the most-favoured-nation clause. It is not astonishing therefore that after having achieved independence, a number of African countries have concluded such agreements with prospective trading partners. It should be noted, that the GATT is in itslef a long-term trade agreement embodying also most features of the traditional commerce and navigation treaties. Accordingly, African GATT members did not and do not need to conclude such treaties with other GATT members.

If "trade agreement" is taken in the broadest possible sense, i.e. as any legal instrument concluded between governments and directly concerned with the flow of goods, Africa has a rich experience of long-term trade agreements.

In the first place, international commodity agreements would clearly fall into this category, despite their distinctive features, such as very wide geographical and very narrow commodity coverage[1].

1/ Cf. E/CN.14/64

Second, long-term contracts limited to two parties[1] and a single commodity were widely used in Africa, particularly the British bulk purchase contracts during and after second world war. To a certain extent, the Franc Zone arrangements[2] on some commodities (particularly groundnuts and coffee) are essentially of a similar nature.

Third, the more recent surplus commodtiy agreements (particularly disposal of US food surplus under P.L. 480) also contain some trading arrangements although the counterpart funds are generally used either as grants or as long-term soft loans.

The Nature of bilateral trade agreements

Whereas the arrangement enumerated above are essentially long-term, bilateral trade agreements of the modern type can be either short or long-term and very frequently it is impossible to draw a dividing line between the two.

The modern bilateral trade agreements are essentially the consequence of the quantitative restrictions introduced in world trade since the 30's and of their most extreme form, namely state trading. Their most important feature is that they contain explicitly or implicitly the undertaking to issue import licences on demand, in the case of a market economy, or to buy actually, in the case of a planned economy. This commitment refering to the total value of trade, may be fixed for several years in order to give a broad framework of the expected flows, but the lists specifying the commodities to which the commitment applies (in value and sometimes in quantity) are generally agreed upon annually, in order to provide some flexibility. It is precisely because of the need for renegotiating the lists annually, that many of the bilateral trade agreements are formally concluded only for one year but subsequently extended to several years. Such agreements are frequently more "long-term" in substance than the ones concluded for five years.

1/ Although one purchaser may enter into contract with several sellers simultaneously.

2/ Cf. E/CN.14/72

Another feature of the bilateral trade agreements is the frequent incorporation of payments agreements, when one or both parties have inconvertible currencies. Such payments agreements, establishing clearing accounts with swing credits and possibly the ways of settling outstanding balances, can of course be signed for relatively long durations.

A mojor reason for the increasing use of genuinely long-term bilateral trade agreements is the fact that long-term credits are frequently linked with trade agreements, either because the repayment is foreseen in commodities or because the credit was exchanged against commercial concessions by the other party.

Review of long-term trade and payments agreements concluded by African countries

A relatively comprehensive list of such agreements for the last four years can be found in Appendix Table IV of E/CN.14/STC/5 and in the first two issues of the Foreign Trade Newsletter.

The most important category of these agreements includes those concluded with the centrally planned economies. Since they were described in detail in the quoted document, only a few characterisitcs will be indicated here. First, most if not all agreements are linked with long-term credits and occasionally grants. Second, only few contain firm commitments concerning licences and purchases (Morocco, UAR, Guinea, Sudan, Ghana) and in most cases these commitments are short-term and fixed in yearly protocols[1]. Third, prices seem to be also negotiated as a rule annualy.

It should be noted that in the past a number of Franc Zone countries participated in the trade agreements concluded between France and the centrally planned economies as a going concern. Some of them have now trade agreements of their own (e.g. Tunisia), complemented by special payments arrangements.

1/ An exception is the Soviet Union's commitment to buy cocoa from Ghana in increasing quantities over five years.

The second group of agreements links African countries with other, generally underdeveloped, countries applying severe trade restrictions. These are typically quota agreements with clearing arrangements, generally of a short duration.

The third group of agreements is between African countries having quantitative restrictions and industrialized market economies with relatively liberal trading practices. In such cases (e.g. Tunisia and Morocco with Switzerland, the UK, etc.) the commitment to issue import licences is mostly limited to the African trading partner, since imports to the other partner enter anyhow free (with a few exceptions). Consequently the qui pro quo consists of long-term credits, most-favoured-nation treatment, application of the OEEC liberalization measures to the African partner or a combination thereof. Generally, there are no payment agreements.

Finally there have been a few long-term agreements concluded between African countries. Those between neighbours (e.g. Sudan, UAR, South Africa and Rhodesia) include elements of preferntial tariff treatment sometimes combined with quotas. Other agreements are basically the same as those of the second group (e.g. UAR and Morocco with a number of African partners). Finally there have been also some general agreements of the traditional type. This is the case of the treaty between Ghana and Upper Volta, concluded shortly after the special agreement on the suppression of customs boundaries.

The significance of long-term trade agreements for Africa

With the exception of the UAR, Sudan and possibly Morocco, the experience of bilateral long-term trade agreements in Africa is too recent and too scattered to allow for any well assessed conclusion. Moreover, the lack of published critical appraisals by the governments themselves makes it difficult for the secretariat to proceed to such a task.

Obviously, bilateral trade agreements are the mutually most acceptable framework for trading with centrally planned or very strictly controlled economies. Since these markets are of great potential if not actual

importance to the exports of most African countries, the number and scope of bilateral trade agreements of the type described above is bound to increase further in the future.

If this is the case, there are strong arguments in favour of long-term agreements. Such agreements, if they contain firm commitments to purchase primary products is given quantities, may improve substantially both the level and the stability of their export earnings while partly eliminating the need for painful yearly re-negotiations. They can also make economic planning somewhat less of a guessing exercise.

Similar arrangements with the industrialized market economies do not necessarily call for bilateral trade agreements, but could be also achieved by commodity stabilization agreements, preferably on a world-wide basis.

There are two problems raised by primary exports under long-term bilateral trade agreements. The first is that the primary exporters have to make it sure that the increase in their respective exports corresponds to a genuine increase in total net imports by the importing countries. If it is only a geographical shift from one supplier to another, and even more, if part of the goods are subsequently re-exported to the traditional markets, then the gain achieved at the expense of another exporter will turn out to be self-defeating in the long run.

The second problem is pricing. Fixing prices for a long period in advance is taking a gamble on world market prices. Even if the gamble succeeds (i.e. the world market prices decrease below the contract price), the seller may become too dependent on a single market. It would seem preferable, in the absence of a world commodity stabilization, to rely on commitments on quantities rather than on price.

On the import side, the price issue becomes all important. To a large extent, this problem of bilateral trading can be solved by highly qualified personnel (particularly in state trading agencies) able to assess and differentiate prices for ten thousands of goods of different quality in order to ensure that the gain on the export side is not annihilated by

price and/or quality differences. Besides this purely technical issue, there is also a deeper economic one, due to the very nature of bilateralism, where the primary exporter can be faced with the choice between three alternatives: accumulating an inconvertible export balance, accepting overpriced or otherwise unsuitable goods, or cutting down exports[1].

Should the STC decide to pursue the study of long-term trade and payments agreements in Africa, more detailed information and extensive exchange of experience in this field would be necessary.

1/ This problem does not arise, of course, in the existing long-term agreements with the centrally planned economies, which practically all include large development credits granted to the African countries.