UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.: LIMITED

E/ECA/TRADE/91/28
29 November 1991

ENGLISH
Original: FRENCH

ECONOMIC COMMISSION FOR AFRICA

Meeting of the Inter-Governmental Group of Experts of the Conference of African Ministers of Finance

Addis Ababa, Ethiopia, 13-15 December 1991

ECONOMIC COMMISSION FOR AFRICA

Conference of African Ministers of Finance

Addis Ababa, Ethiopia, 17-18 December 1991

IMPACT OF DEVELOPMENTS IN THE EUROPEAN MONETARY SYSTEM (EMS) ON THE MONETARY AND FINANCIAL ARRANGEMENTS OF A GROUP OF AFRICAN NON-ENGLISH SPEAKING COUNTRIES NOT MEMBERS OF THE FRANC ZONE

INTRODUCTION

1. In considering the impact of Europe 1992 on the monetary and financial regimes of African countries, one needs to address the question of the future of and developments in the European Monetary System (EMS). To date, however, the implications of the proposed EMS can hardly be known for sure and certain because they will be the results of decisions that the EEC will be obliged to take and objectives it will set for itself.

2. While it may be presumed that from 1992 onwards, EEC monetary and financial measures will change the nature of the Rome Treaty Provisions that used to govern cooperation between the EEC and African countries, it is by no means easy to grasp the issues that will emerge after 1992 in Africa's monetary and financial policies.

3. If there are any doubts of the future of EEC/ACP Conventions, the magnitude of such doubts will depend on the implementation of new financial and monetary policies that the single European market will introduce in the pursuit of public finance policies.

4. But as the future EMS will have to institute monetary and financial instruments and policies aimed at strengthening the economic and financial cohesion of the European countries, it might be wondered what impact these new structures will have on African monetary and financial regimes. Should the impact be positive, the proposed EMS would be an engine of growth for African economies. Should it, on the contrary, be negative, African countries will see an erosion of their vital interests.

5. This report seeks to map out the future of the EMS in monetary and financial terms and the impact that its development could have on the monetary and financial regimes of those non-English speaking African countries that do not belong to the CFA franc zone.

6. Those countries, in accordance with their exchange regulations, are classified into six groups following the manner in which their exchange rate is established.

(a) Countries whose exchange rate is established with reference to the US dollar: Angola and Djibouti;

(b) With reference to special drawing rights (SDRs): Burundi, Rwanda and Seychelles;

(c) With reference to a basket of other currencies: Algeria, Morocco and Sao Tomé and Principe;

(d) Adjustment to a group of indicators: Madagascar and Mozambique;

(e) Controlled floating regime: Guinea, Guinea Bissau, Mauritania and Tunisia;

(f) Free floating rates: Zaire.

7. The report comes in three chapters:

<u>Chapter I</u>: Contains possible eventual developments in the proposed European Monetary System; <u>Chapter II</u>: The impact such developments could have on the monetary and financial arrangements of selected African countries; and <u>Chapter III</u>: proposals on how African countries can respond to the monetary and financial arrangements of Europe 1992.

CHAPTER I

EVENTUAL DEVELOPMENTS IN THE PROPOSED EMS

8. The proposed EMS will introduce, within the context of the single European market, new monetary and financial policies aimed at securing the monetary and financial integration of member countries. The major unknown factor will then become the future of monetary, financial and trade relations between Europe and the African countries. This is a capital issue since African countries are directly or indirectly linked to one EEC country or another in monetary and financial terms. These links are what subject African monetary and financial arrangements to developments in the EMS.

9. To date, the links were based on bilateral agreements. Now, with the single European market, it may be wondered how Europe will behave towards an Africa which has become unattractive to EEC economic transactors. It may equally be wondered whether the new financial policies dictated by the needs of the European market will not worsen the debt situation of African countries.

10. With particular reference to monetary and financial policy, the changes to come are closely linked to other structural developments that will be mainly undergirded by[1] financial deregulation. This would involve, among other things:

(a) Dismantling interest rate regulations;

(b) Abolishing exchange controls and replacing them with indirect methods based on interest rate variations;

(c) Geographical and functional despecialization which will blur the historical distinctions between commercial banks and investment banks in all EEC countries.

11. These issues will become even more acute as the current political resolve translates into economic and monetary union with the ECU becoming the single European currency. This policy will be pursued with a view to guaranteeing the free movement of capital, the free supply of financial services and tax harmonization.

12. The programme which EEC countries have already adopted would be built around a centralized monetary authority using a single community currency. The monetary policy will be administered by an independent community institution organized along the lines that EEC countries have already adopted. It will centre around a monetary authority using a single currency. Regulation will be organized under a federal structure within the European system of central banks. From the information available to date, no time-table or target date has been set for the achievement of these objectives. The only fact known is that the first stage began in July 1990 and that the final stage will go into effect by December 1992 at the latest[2].

13. This course of action had to be chosen because in monetary and financial matters, the objective of the Single European Act of 1992 is to institute much closer monetary and financial co-

---

[1] Patrick Arthus: <u>La processus d'innovation financière dans les pays industrialisés et ses conséquences</u>. In <u>Epargne sans frontière</u>, no. 20, september 1990, pp. 18-25.

[2] See R.V. Louis : <u>Du SME à l'union monétaire</u>. EEC document, 1990.

operation among EEC member States with a view to creating a zone of stability and solidarity in Europe. Such an economic space would rest on three main pillars, namely:

(i) Institutional integration;

(ii) The establishment of an European central bank with the ECU as the common currency;

(iii) The establishment of a common exchange and reserve mechanism.

In all the strategies formulated to date, the ECU is being accorded particular importance as national monetary policies are gradually phased out.

The role of the ECU

14. Although it did not initially have the functions of an EMS currency, the ECU is acquiring, through its use on the market, all the characteristics of a currency. Banking regulations and measures have gradually been built up to set the framework of contractual obligations governing the use of the ECU and the practice has been gaining ground among EEC and, much later, world economic transactors.

15. Indeed, the use of the ECU developed very fast from 1981 onwards, particularly for financial transactions[3]. Although in existence for no more than two years, the ECU has evolved from a simple unit of account into a currency used both to grant loans and to invest, not to mention for billing transactions.

16. The ECU money market has expanded considerably in recent years. The current dollar value of bank holdings denominated in ECUs (virtually non-existent in 1980) exceeded $ US 61 billion in 1986[4]. For this reason, the percentage of ECU holdings relative to the total amount of Euro-money holdings, other than dollars, rose from less than 2 per cent in December 1982 to 9.1 per cent in late March 1986.

17. Similarly, the issuance on the market of bonds in ECU has been highly sustained. From $US 5 billion in 1984, the figure rose to $US 14.1 billion in late 1990 (table II). In addition to the issuance of conventional fixed rate (for variable rate) bonds in ECU, there are now on the bond market ECU denominated bonds that enable businesses to improve their financial standing. Furthermore, more and more international banking loans are being negotiated in ECU as can be seen in table III. According to users, the advantage of using the ECU is that it reduces exchange risks in cases where it becomes desirable to hedge against the risks from exchange rate fluctuation.

18. With regard to African countries as a whole (more than half of whose exports go to EEC countries), the importance of the ECU in their future relations with those countries that will be adopting it as a currency is understandable (table IV).

19. Even though, the ECU itself is a hedge against exchange and interest risks, compared to other currencies of the EEC, there is a need for protection from the fluctuation of such third

---

[3] See Amadou Kane: "L'ECU Européen devient une monnaie", in Jeune Afrique Economie, No. 97, May 1987.

[4] A. Kane, op. cit.

currencies as the dollar. Accordingly, fixed-term dollar/ECU contracts have been instituted in New York and Chicago and dollar/ECU options set up in Amsterdam, the Netherlands and Philadelphia. These options and contracts allow EEC economic transactors to convert their dollar risks into a more controllable ECU risk.

20. Other measures currently underway such as the development of multi-currency credits including ECU tranches will further expand the scope of the ECU.

21. With Europe 1992, an ECU currency having all the attributes will be issued as such by the proposed European bank.

22. Even before that date, however, the ECU is today a reserve asset and an instrument for settling accounts among the central banks of EEC member countries. Furthermore, the EEC institutions are using the ECU to evaluate the amount of aid granted under the Lomé Convention and it is slowly gaining ground as a billing and borrowing instrument for these institutions.

CHAPTER II

IMPACT OF SUCH DEVELOPMENTS ON THE MONETARY AND FINANCIAL ARRANGEMENTS OF SELECTED AFRICAN COUNTRIES

(a) General approach

23. The impact of the proposed EMS on African economies will vary so widely that it is virtually impossible to anticipate. However, looking at the draft single act for creating a single currency, the impact will be of varying magnitude depending on the degree of economic and financial linkage between any one African country and the EEC or member States thereof.

24. In theory, it can be demonstrated that for two countries having sustained economic and trade relations, their monetary and financial relationship will be in direct correlation with the pattern of exchange rate fluctuations as a function of the direct or indirect parity of the two currencies[5]. In the case of African countries, there are today as many exchange rates as there are countries trading. In the case of EEC countries, there will be a reduction in such rates with the adoption of the ECU as a currency replacing the current national currencies of the EEC member States. Africa will, therefore, have several partners billing it in the same currency. In that event, the implications of the new currency will depend on the manner in which it will behave relative to other world currencies and also the way in which its parity will be determined from the outset.

25. Until today, the behaviour pattern of the ECU has depended on the movement of the currencies of which it is composed[6]. Should the Deutsch mark which enters the ECU basket at

---

[5] Wickman P: The choice of exchange rate regime in developing countries in IMF staff paper of June 1985. Jacques Henri David: La monnaie et la politique monétaire, Economica second edition. 1986.

[6] See European Investment Bank. Annual report 1989: to calculate the daily value of the ECU, the central bank of each member State communicates a representative price of its currency on the market expressed in US $ terms. The United States dollar was selected because it allows for determining the most significant prices on all the financial exchanges of the world.

34.4 per cent undergo a substantial fluctuation, the effects will be more significant than if the shock came from the Danish kronor (DKr) which enters the ECU at 2.8 per cent.

26. With regard to third countries, the evaluation of the ECU's impact on their transactions will depend on their economic and financial relations with countries using the ECU as a currency. given the relative monetary independence of the African countries, considered relative to that of the 12 member EEC, the EMS will affect their financial and trading relations more than it will their monetary policy.

27. A country like Algeria which secures 24 per cent of its imports from France or like Zaire which sends 43 per cent of its exports to Belgium as well as other African countries whose bulk of trade flows are with EEC countries, will feel more or less directly the effects of the adoption by their partners of the ECU as a billing currency (table I).

28. One question which deserves to be considered in detail however has to do with the adjustments that must be made from time to time to compensate for loss of competitiveness or to adapt to a change in the trading structure of a country or to put a stop to domestic inflation which is increasing at a much faster rate in Africa than the rate of its trading partners[7].

(b) The case of non-English speaking countries that do not belong to the CFA franc zone

29. This group of African countries account for a sufficiently substantial volume of trade to be considered as an important economic partner. It should, however, be noted that they have nothing in common when taken as a whole. Of the 18 countries considered, three (Algeria, Morocco and Tunisia) belong to North Africa; three (Angola, Djibouti and Mozambique) belong to Eastern and Southern Africa; three (Comoros, Madagascar and the Seychelles) are Indian Ocean Islands; four (Guinea, Guinea Bissau, Mauritania and Sao Tomé and Principe) belong to the West African subregion and remain in contact with the countries of the CFA franc zone. Finally, the group includes three of the former Belgian colonies (Burundi, Rwanda and Zaire).

30. In terms of monetary policy (table I), two of the countries (Angola and Djibouti) have pegged their currencies to the US dollar; Burundi, Rwanda and the Seychelles are three others which have pegged their currencies to Special Drawing Right(SDRs); five countries namely Tunisia, Zaire, Guinea, Guinea Bissau and Mauritania leave their currencies to float; two countries (Madagascar and Mozambique) index their currency to a set of indicators. Finally, there are three countries (Algeria, Morocco and Sao Tomé and Principe) which have pegged their currency to a basket of currencies.

31. It should be also noted that the various countries belong to such subregional economic groupings as the Arab Maghreb Union (AMU) for North Africa, the PTA for Eastern and Southern African countries while two (Rwanda and Burundi) were former Belgian colonies.

32. Finally, the four countries of West Africa all belong to the Economic Community of West African States (ECOWAS) and all the countries, except for those of North Africa are members of the African-Caribbean and Pacific/European Economic Community (ACP/EEC) group.

---

[7] See F. Hirsch,: "Fluctuating exchange rates and developing countries " UNCTAD, Doc TD/B/555/Add.1, July 1975.

(c) EEC trade with the countries considered

33. From the available data, The European Economic Community trade with African countries up to 1989 can be studied. Tables I and IV provide for analysis of the volume of imports and exports between EEC and African countries.

34. In table IV, it can be noted that, on the whole, EEC exports to African countries rose from $US 28,142 million in 1985 to $US 35,923 million in 1989 making for a mean annual growth rate of 6.3 per cent.

35. Over the same period, the share of EEC exports to the countries considered rose from $US 11,990 million in 1985 to $US 15,181 million in 1989 which meant a mean annual growth rate of 6.1 per cent. EEC exports to the countries considered accounted in 1985 for 42.6 per cent and, apart from a slight drop in 1988, the level has been hovering around 42 per cent. This means to say that this group of countries together constitute a significant export market for the EEC countries.

36. It should be noted, however, that three countries of North Africa practically share more than 70 per cent of EEC exports. In 1989 alone, 74.6 per cent of EEC exports went to those three countries. This is normal since the same countries imported 33.5 per cent of EEC exports to Africa in 1989. It can therefore be said that for the three countries, EEC exports far exceeded the overall average for the group.

37. With regard to imports of the countries considered from the EEC, it should be noted that the import percentages are nearly identical to those of exports. They hover around 43 per cent with a clear advantage to the EEC countries. A permanent trade deficit characterizes trade between the EEC and the countries in question. Only one oil-exporting country, Algeria, has a positive trade balance with the EEC countries taken as a group. As for Zaire, its positive balance is due to an import reduction for lack of resources.

38. Table I shows the preponderance of the specific origin and destination of each country's imports and exports. Particular note should be taken of the place that France occupies in trade with the countries considered.

39. It may be concluded that there are substantial market potentials in the countries concerned. Nevertheless, trade between the EEC and African States might suffer from restrictive practices given the changes which are going to take place on the single European market. As an illustration, the implementation of the free trade policy and the freedom of European partners to set exchange rates will do away with the contraction in trade arising from the application of duties and quotas among EEC countries. In contrast, there could be some discrimination against such African products as North African agricultural produce.

40. Since the single market is sufficiently strong and self-reliant, there is the risk of discriminatory protectionism emerging[8]. African countries will then be effectively marginalized. Indeed, given the fact that a perfect mobility of resources will be established within EEC, there is going to be a trade flow and a new division of labour both of which might work to Africa's disadvantage. Africa will need a long period to adapt and integrate itself into the new structures.

---

[8] See ECA: The African payments union, doc. E/CN.14/WP.2/4.

41. For Africa to be able to penetrate these structures speedily, it would need to reinforce its positions within the ACP group and abandon bilateral arrangements which can weaken African countries taken individually.

42. Indeed, if it is accepted by definition that a bilateral agreement should secure sustained expansion of trade between the participating countries[9], it is least likely that African countries can take advantage of the positive provisions when the single market comes into force. At that time, no bilateral agreements will have any worth.

43. All the EEC countries risk denouncing their bilateral agreements and renegotiating a prototype trading agreement. Considering the attraction that the single market will exert on its partners, the scope of commercial constraints will depend on the specific links that each individual country will have with the leading EEC countries, specifically those who carry more clout in the ECU basket of currencies.

(d) Impact of the ECU trade flows

44. Depending on the volume of trade that a country has with the EEC, the effects of the EMS and more particularly of the ECU on trade flows will be identical to any effect arising from fluctuations in a billing currency[10]. As the single monetary authority takes adjustment measures and changes its monetary and financial policy because of domestic demand management considerations, African countries will be at the receiving end.

45. Given the fact that EEC countries have the advantage in trade, the impact of fluctuations combined with deteriorating terms of trade will worsen the trade balance between African countries and those of the EEC. The effects would be more acutely felt in an inflationary situation. Indeed, the initial high inflation rates which will come with the establishment of the single market will be reflected in considerable increases in the prices of goods supplied by the EEC to the African market. This would in itself worsen the trade deficit of those African economies principally dependent on the export of primary products[11].

46. In the African countries, these disturbances, by their variability and regularity, will further impede the pursuit of current development strategies.

47. The regularity and scope of the fluctuations will also raise problems about the management of reserves and of national debt in the African countries which keep their reserve holdings in currencies other than the ECU.

48. For those countries which are going to convert their holdings into ECU, the obligation to be constantly taking decisions required to manage fluctuating currencies will be waived. Furthermore, such a move ensures that transactions denominated in ECUs will be effected on the basis of a stable exchange rate.

49. It is, however, possible for the EEC countries to abandon exchange rates as a monetary policy instrument in favour of interest rates which, through competition to attract capital or to

[9] Ibid.

[10] See ECA: The impact of fluctuations in exchange rate of the major intervention currencies on African economies. Doc. E/ECA/TRADE/9.

[11] See Lomé Convention IV, art. 69.

finance budget deficits will be exerting a negative pull on African capital. This is a hypothesis that should not be ruled out in the long term.

50. These issues are complex enough in themselves to underscore both the difficulty of considering the impact that Europe 1992 will have on African economies and the need to go into further detail.

(e) Effects on trade balance and on price levels

51. In spite of its stability, the ECU will not be spared fluctuations. While the ECU is a basket of independent national currencies, regular adjustments will need to be made because of the variances in independent national monetary policies or exogenous factors. In contrast, should the ECU be a European currency issued by a central bank, its effect on trade balance and price levels will be those of any other regulation or reserve currency.

52. Under the circumstances, the effects of ECU fluctuation will depend on the movement of relative prices (the maintenance of export prices and the variation of import prices). In the short term, any variation in the ECU exchange rate will have an adverse impact on the trade balances of countries by worsening the trade deficit of those countries whose currency will depreciate relative to the ECU but have a positive impact for those countries whose unit of account will appreciate. For the latter, trade surpluses will certainly rise. This theoretically quantifiable phenomenon will not in the short term change the volume of trade since there is a certain built-in inertia[12]. This is understandable since the majority of the African countries considered happen to be exporters of products having a very low level of elasticity. With regard to manufactures imported from EEC countries, their prices will continue to react as desired by the billing currency.

53. Any rise in the worth of the ECU as a billing currency will worsen the deficit of the African countries. However, its decline, while promoting massive imports, will not in any way improve the trade balance of the African countries since their exports will not be revalued in the same proportions as the devaluation. Indeed, the foreign contracts of African countries are expressed in foreign currencies and in nearly every African country economic transactors rarely, if ever, use the facilities offered by the futures exchange market.

54. Moreover, since African countries do not manufacture capital goods, the increase in the capital formation rate will always be reflected in an increase in import demand for capital goods and equipment. As long as Africa has to import such goods from EEC member countries, any fluctuation will provoke changes in import prices expressed in national currency.

(f) Effects on the volume of export earnings

55. The adoption of the ECU as a single currency may also exert an adverse influence on export earnings and thereby damage the economy of African exporting countries in several ways. First of all, the financial flows resulting from exports may follow the following pattern: By substituting national currencies in which African exports were billed, new real exchange rates will be formed. As the ECU fluctuates relative to other currencies, export earnings will fluctuate in volume and purchasing power under the combined effect of real exchange rates of the ECU and inflation rates. Should the purchasing power of export earnings dwindle, the trade balance and terms of trade will deteriorate, leading to crises. The corollary will be a loss of real income and a reduction of

[12] ECA, Doc. E/ECA/TRADE/9, op. cit.

productive resources that would have served to achieve further capital formation[13]. This will make the fluctuation of the ECU, by reason of the special relationship between African and the EEC, risk affecting the economic policies of African countries and make African adjustment measures difficult to pursue. These difficulties might be further compounded by the fact that the value of foreign exchange holdings in various European currencies will be directly affected by the changing parity of national currencies within the EEC.

(g) Effects on reserve holdings

56. Historically, the structure of African reserve holdings has essentially been the product of political relationship with former colonial powers: Zaire keeps its reserve holdings essentially in Belgian francs; Algeria, Tunisia and Morocco in French francs while Angola does the same in escudo. Following the financial deregulation that will come with the adoption of the ECU as a European currency and the establishment of new structures, African monetary authorities will be facing problems with the fluctuation of their reserve holdings. Principally because Africa's holdings formerly denominated in the currencies of the former colonial powers will be converted into the ECU equivalent. Furthermore, European central banks can readjust their currencies before the adoption of the ECU as a single currency in order to become competitive internationally, in such circumstances, African countries may lose at the exchange.

(h) Effect on African debt

57. In late 1990, the total debt of Africa was estimated at $US 271.9 billion. Depending on the country, however, this debt is owed in French francs, pounds sterling, Deutsch marks or Belgian francs as well as other reserve currencies. In other words, it is held in several currencies in various EEC member countries. Depending on the relationships between the ECU and the former currencies, this debt will undergo an impact which will be difficult to quantify relative to the total stock. As the African debt figures are expressed by convention in US dollars but denominated in various currencies (about 50 per cent in US dollars, less than 12 per cent in Deutsch mark) and about 4 per cent in Japanese yen)[14], the impact of the ECU will have complex repercussions on the outstanding debt and the cost of debt servicing.

58. It will therefore be prudent to institute policies and to set up institutions at the national subregional, regional and international levels with a view to securing a degree of monetary and financial stability for the African countries.

CHAPTER III

AFRICAN PROPOSALS FOR DEALING WITH EMS DEVELOPMENTS AND THE MONETARY AND FINANCIAL ARRANGEMENTS OF EUROPE 1992

59. As the ECU emerges as the currency of A Europe becoming the first economic and financial power of the world, there will be an alignment of exchange rates to the new monetary unit mainly because of monetary policies that the main competitors of the EEC (Japan and the United States) will pursue.

---

[13] United Nations, Department of International Economic and Social Affairs: Commodity trade and economic development, doc. E/2519, p.19.

[14] OECD: 1973 study, page 81.

60. Because of the attraction that the ECU will exert on other currencies, financial flows to Europe will promote the absorbtion of inflationary shocks and remedy balance-of-payments difficulties.

61. With the removal of the exchange transaction costs which existed among European currencies, the ECU will become the reserve currency of preference to the dollar and the Yen.

62. As policy of competition is instituted among EEC banks, it is to be wondered whether African countries will become more eligible for the credit and investment resources of the EMS. This is most doubtful. From the way that the imminence of the single market is precipitating disinvestment by European banks and enterprises, it can be said that Europe is withdrawing from Africa and, faced with these realities, the question now is how Africa should act.

63. Undeniably, the emergence of the ECU as a single currency will affect international trade and might disrupt the monetary and financial policies of African economies. However, the induced effects will be so many and varied that if Africa wants to protect itself from the adverse consequences of European economic and monetary integration, it should begin forthwith by identifying and denouncing all those monetary and financial arrangements and agreements which would have the effect of making Africa lose the expected benefits of successive Lomé Conventions concluded between the EEC and ACP countries. To do this, African countries should adopt a set of measures that would promote and/or strengthen monetary and financial cooperation by concluding payments and clearing agreements on the one hand and, on the other, instituting a financial resource mobilization policy for the purpose of intra-regional investment and trade financing.

A. Monetary and financial cooperation

(a) Payments and clearing agreements

64. Payments and clearing agreements have been concluded among African countries[15] with a view to, among other things: (a) using national currencies in reciprocal transactions; (b) liberalizing trade between the contracting states; (c) stimulating cooperation and monetary consultations among the countries participating in such payments and clearing arrangements.

65. In recent years, these objectives have been compromised particularly by the general decline in the economic performance of African countries which has led to a worsening of their debt situation and wide-spread disequilibrium in the balance of payments.

66. Along with others, these considerations show that intensive efforts must be made to rationalize, restructure and adapt existing mechanisms at the national, regional and international levels.

67. Already, African countries should be organizing themselves to speed up the establishment of an African Monetary Fund whose objectives will be:

(a) To promote financial and monetary cooperation among member countries with a view to facilitating the achievement of economic integration and socio-economic development;

---

[15] The Central African Clearing House, the West African Clearing House and the PTA Clearing House.

(b) To provide balance-of-payments assistance in such a manner as would promote the development of intra-African trade;

(c) To assist member States in formulating long-term programmes for economic stabilization and transformation.

68. In a way, the establishment of the African Monetary Fund will be the answer to the question that many African countries have been asking themselves concerning the future of African currencies vis-à-vis the vast European market of 1992.

69. The structural weakness of individual African economies and the lop-sided trading relationship between Africa and the EEC both plead in favour of giving a new lease of life to intra-African monetary and financial cooperation in the areas of payments mechanisms or trade financing[16].

(b) Payments and clearing mechanisms

70. The 1980s which were marked by a shortage of resources and the implementation of structural adjustment programmes largely affected the efficacy and scope of payments and clearing arrangements in Africa.

71. The frenzied search for foreign exchange to service a growing external debt compelled African countries to restrict intra-regional imports and to demand the settlement of accounts in convertible currencies. The direct result of such practices was a decline in transactions effected through the clearing houses and, consequently, of a decline in intra-Africa trade.

72. African countries should now consider the constraints which kept the payments and clearing mechanisms from becoming operational.

73. There is no need to conclude new agreements. What would be desirable is to strengthen monetary cooperation and subregional payments agreements within the context of the Association of African Central Banks.

74. This strategy will enable African countries to provide as much as they can against the fallout of Europe's monetary and financial withdrawal as the 12-member countries of that community turn towards the former socialist countries of Central and Eastern Europe.

75. In light of the relations among the various subregional payments agreements, a linkage with their counterparts in other developing regions should be envisaged. Using recent international trade statistics and considering the destination of trade flows with certain member countries, the following associations might be encouraged:

(i) The West African Clearing House and the payments and settlements system of the Latin America Integration Association (ALADI)[17];

---

[16] See ECA: Alternative mechanisms and structures for monetary and financial cooperation among developing countries E/ECA/TRADE/89/31 para. 52-56.

[17] The ALADI system comprises Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Dominican Republic, Uruguay and Venezuela.

(ii) The West African Clearing House and the multilateral clearing facility of the Carribean community (CARICOM) countries[18];

(iii) The PTA Clearing House and the Asian Clearing Union[19].

76. Along with the aforementioned measures, there should be a network of subregional agreements and an African Payments Union established within the context of the African Economic Community. This union would gradually assume responsibility for external relations and negotiate on behalf of Africa as a whole the establishment of links among payments agreements with other regional groupings.

77. This approach will be in conformity with para. 253 (c) of the Lagos Plan of Action and Final Act of Lagos which stipulates that:

> "Following the establishment of institutional clearing and payments arrangements in all subregions, member countries should embark on negotiations for linking up such arrangements to form an African Payments Union[20].

(c) <u>Trade financing</u>

78. The African continent has inherited from its long common history with Europe, production structures in disequilibrium. The bulk of exports from the region is made up of little diversified and vulnerable commodities and there is practically no manufacture of capital goods or production of equipment. Trade accounts for a substantial share of GDP and is far more concentrated than it is with Africa's trading partners. The result is high external dependence.

79. With the proposed monetary and financial arrangements of Europe 1992, Africa risks facing chronic deficits in its balance-of-payments with Europe. The question is whether Africa could so structurally transform its external trade sector as to become less dependent on the outside world and more competitive on the European market.

80. Experience has shown that in the past, many well-designed strategies have not been implemented for lack of financing and so among the major problems to be addressed are[21]:

(i) Specialized financial institutions should be established to provide short- and medium-term finance to the trade sector, including export credit financing and export insurance. To this end, the efforts of the African Development Bank to establish an African Export-Import Bank are indeed welcome, and so are the efforts by some African countries to establish national Export-Import Banks;

---

[18] The members of CARICOM are the Monetary Authority of the Eastern Carribean, Barbados, Belize, Guyana, Jamaica and Trinidad and Tobago.

[19] The members of the Asian Clearing Union are Burma, India, Iran, Nepal, Pakistan and Sri Lanka.

[20] See OAU: Lagos Plan of Action.

[21] See ECA: Strategies for the Revitalization, Recovery and Growth of African Trade in the 1990s and Beyond, para 42, doc.E/ECA/TRADE/89/25 Rev.5.

(ii) Transnational banks and local commercial banks should be encouraged to allocate more financial resources to support indigenous entrepreneurs and traders, particularly small- and medium-scale businesses engaged in trade promotion activities;

(iii) Governments should allocate increased resources to support the trade sector within the framework of their annual budgets; they should also establish export guarantee schemes which are an important element of a modernized trade sector;

(iv) More foreign exchange should be made available to the trade sector, particularly to processing for exports in order to increase marketable and exportable output. This can be achieved inter-alia by significant reductions in allocation of foreign exchange for conspicuous consumption and non-productive investments.

81. The pursuit of these strategies will require that the market mechanism at various levels should be comprehensively studied with a view to devising adequate techniques in response to the grand design of the 1992 European market.

CONCLUSIONS

82. Foreseeing the impact of developments in the EMS on the monetary and financial regimes of African countries is no easy task particularly because such developments raise a set of problems that cannot be solved today since they depend on choices that Europe will make but which still remain options.

83. What can be said is that the establishment of institutional machinery that will lead to the great single market is causing European economic transactors to pull back and withdraw from Africa.

84. With a new Europe, the characteristics and performance of those African countries considered in the study will undergo shocks created by European monetary and financial integration. The effects will be particularly felt at the level of trade flows, international reserves and the African debt.

85. In order to survive these shocks, African countries will need to rethink their entire payments and international trade financing policy. The dilemma is that the payments deficit with Europe might well worsen if African export earnings do not increase.

86. The main conclusion that emerges from the study is that primarily the interdependence between Europe and Africa will be more of a facade. The gains that Africa expected from the ACP/EEC Lomé Convention will continue to dwindle. For Africa to consolidate its small gains, it should institute clearing and payments agreements in order to transform its traditional financing circuits radically.

87. These transformations should be accompanied by major modifications in the Europe-Africa dialogue. African countries should show greater firmness and use a more vigorous language as they present a united front to express their displeasure with the new European economic order now taking shape. This must be done because the European countries are not prepared to grant the concessions that Africa could rightly claim.

88. There is no conflict yet but divergent interests. This reality must be recognized, otherwise, they can be no future for cooperation between Europe and Africa.

Annex I

Table I: Exchange rate policies of African countries as of 31 December 1989 and major Trading Partners

	Imports		Exports	
Countries and currencies whose exchange rate is established relative to	Major Sources	% Share	Major destinations	% Share
1. The US dollar				
Angola	Portugal	23.6	USA	60.0
Djibouti	France	17.4	Yemen	47.6
2. SDRs				
Burundi	Belgium	15.8	Germany	30.1
Rwanda	Belgium	15.0	Kenya	66.9
Seychelles	Canada	40.1	Italy	30.3
3. Basket of other currencies				
Algeria	France	24.0	France	13.0
Morocco	France	23.0	France	26.0
Sao Tome and Principe	Italy	35.3	Germany	40.5
4. A set of incidators				
Madagascar	France	27.3	France	29.6
Mozambique	Italy	22.4	Singapore	16.1
5. Controlled floating				
Guinea	France	31.7	U.S.A	25.4
Guinea Bissau	Italy	27.0	Portugal	34.5
Mauritania	France	29.9	Japan	26.3
Tunisia	France	26.0	France	24.0
6. Free floating				
Zaire	Belgium	24.3	Belgium	43.3

4. Set of indicators										
Madagascar	170	185	199	212	214	156	180	201	179	174
Mozambique	151	160	284	281	281	30	21	55	70	70
5. Controlled floating										
Guinea	190	230	269	278	283	272	273	322	266	328
Guinea Bissau	37	30	40	55	76	5	5	5	7	5
Mauritania	215	281	293	304	310	157	194	194	201	283
Tunisia	1747	1946	2073	2345	2770	1181	1268	1268	1784	2194
6. Free floating										
Zaire	624	772	790	856	864	785	903	812	926	1232
7. Total Africa	28147	29474	31204	34326	35923	33778	26771	28314	28510	31397
8. Total countries considered	11990	12225	12524	13268	15181	14626	10973	12384	12182	13596
9. Percentage of (8) to (7)	42.6	41.5	40.1	38.7	42.3	43.3	41.0	43.3	42.7	43.3

Source: IMF IFS, March 1991
IMF DOT 1990.

Annex II

Table II: International Eurobord issues in ECU
(in billions)

	1984	1985	1986	1987	1988	1989	1990
European Communities	3.8	8.1	5.8	5.4	5.3	6.2	9.9
Outside the Communities	1.2	4.1	2.7	2.7	4.2	5.2	4.2
Total	5.0	12.2	8.5	8.1	9.5	11.4	14.1

Source: OECD Eurostat No. 2, 1989 and
Financial market trends June 1991.

Table III: Percentage distribution of International bank loans by currency

	1988	1989	1990	1991(1)
US Dollar	64.2	70.0	58.4	74.0
Pound Sterling	17.4	11.3	16.4	41.4
ECU	3.3	4.9	9.4	3.6
Deutsch Mark	2.8	3.5	6.9	4.2
Japanese Yen	6.1	5.3	1.9	2.5
Swiss Franc	0.3	0.4	0.1	0.2
Others	5.9	4.6	6.9	10.6
Total	100	100	100	100
Total In $US (billions)	129.3	126.8	120.6	21.6

Source: OECD: Financial market trends - June 1991.
(1) January - April 1991.

Annex III

Table IV:

EEC Exports and Imports to and from African Countries
(in $US millions)

Country whose exchange rate is established relative to:	EXPORTS 1985	1986	1987	1988	1989	IMPORTS 1985	1986	1987	1988	1989
. The US dollar										
Angola	689	535	586	728	904	743	566	584	793	541
Djibouti	138	111	117	113	105	2	3	2	4	3
. SDRs										
Burundi	73	93	110	98	85	47	105	70	123	62
Rwanda	84	104	123	116	105	120	156	9	8	29
Seychelles	39	47	52	48	51	1	2	4	33	55
. Basket of other currencies										
Algeria	5519	5131	4501	4295	5066	9500	5374	6026	5038	5908
Marocco	2049	2247	2625	3026	3494	1277	1408	1720	1953	1946
Sao Tome and Principe	9	7	12	22	32	5	6	4	10	8