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UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.
LIMITED
E/CN.14/WP.1/139
16 February 1981
Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA
ORGANIZATION OF AFRICAN UNITY

First meeting of the Ministerial Follow-up Committee
on International Trade and Finance for African
Development

Addis Ababa, 9-11 March 1981

REVIEW AND APPRAISAL OF DEVELOPMENTS IN THE FIELD OF
TRADE AND FINANCE SINCE THE SIXTH SESSION OF THE CONFERENCE
OF AFRICAN TRADE MINISTERS

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I. INTRODUCTION

1. The Ministerial Follow-up Committee on International Trade and Finance for African Development has been given the task of "co-ordinating, harmonizing and preparing the African position on issues relating to international trade and finance for development; reviewing from time to time progress made in the implementation of multilateral agreements between African countries and the outside world in the field of international trade and finance including the second ACP-EEC Lomé Convention and UNCTAD's Integrated Programme for Commodities". ^{1/}

2. This paper aims at assisting the Ministerial Committee in fulfilling its mandate by reviewing and appraising the major developments in the fields of trade and finance since the sixth session of the Conference of African Ministers of Trade and making appropriate suggestions.

II. SECOND EXTRA-ORDINARY ASSEMBLY OF OAU HEADS OF STATE AND GOVERNMENT, DEVOTED TO ECONOMIC MATTERS

3. In April 1980, for the Assembly of Heads of State and Government of OAU held an extraordinary session on economic problems. They undertook to establish an African Economic Community by the year 2000 and, for that purpose, as the first stage, to establish an African Common Market. They also adopted the Lagos Plan of Action, which specified the measures to be taken to implement the Monrovia Strategy; this is based on the principle of initiating self-reliant and self-sustaining economic growth, both nationally and multinationally, and collective subregional and regional self-reliance. Provision is made in the Lagos Plan of Action for a whole range of measures to be applied over the period 1980-1985 with a view to improving without delay the food situation and developing agriculture in Africa, establishing an African Energy Commission, implementing the programme of the United Nations Transport and Communications Decade in Africa and, finally, achieving self-sustained subregional and regional industrial development.

4. As far as trade and finance are concerned, the Lagos Plan of Action repeats the proposals made at the sixth session of the Conference of African Ministers of Trade in March 1980. A report on the implementation of these proposals has also been submitted to the Ministerial Committee for consideration.

III. THE COMMON FUND AND COMMODITY NEGOTIATIONS

A. The Common Fund Negotiations

5. The United Nations General Assembly, at its sixth special session, adopted the Programme of Action for the Establishment of the New International Economic Order. Follow-up work within UNCTAD led to the adoption of resolution 93 (IV)

^{1/} See the Report of the sixth session of the Conference of African Ministers of Trade, Addis Ababa, 17-20 March 1980 (E/CN.14/776-E/CN.14/WP.1/125).

in Nairobi in 1976 on the Integrated Programme for Commodities including the establishment of a Common Fund which it was hoped would assist in stabilizing markets and promote the conclusion of commodity agreements by making resources available for buffer stocks. In addition a Common Fund backed by the entire world community would benefit from a wide range of potentials including the acquisition of capital and its distribution in a complementary and self-reinforcing manner among commodities.

6. After four years of negotiations, the Common Fund agreement was finally concluded in June 1980. The agreement provides for two accounts. The First Account deals with the financing of a buffer stock. The Second Account is intended to finance commodity development measures aiming at improving the structural conditions in markets and enhancing the long-term competitiveness and prospects of particular commodities. These measures include research and development, productivity improvements, marketing and measures designed to assist, as a rule by means of joint financing or through technical assistance, vertical diversification, whether undertaken alone as in the case of perishable commodities and other commodities whose problems cannot be adequately solved by stocking, or in addition to and in support of stocking activities. 2/

7. The Fund agreement stipulates that measures to be financed by the Second Account will have to be sponsored and followed by producers within the framework of international commodity bodies meeting specific criteria. These bodies need not be necessarily fully-fledged international commodity agreements with their own organizations. In the negotiations it was understood that spending creation of autonomous organizations such as intergovernmental groups as those of FAO should serve as commodity bodies. These cover jute, bananas, oilseeds and oils, hard fibres, tea and meat. Moreover international commodity agreements exist for cocoa, natural rubber, sugar and tin. The International Agreement on Olive Oil does not provide for action for price stabilization but could however be considered as commodity bodies for the purposes of the Second Account financing.

8. The financial structure of the Fund as agreed on, is very much different from that originally proposed of \$US6 billion. The directly contributed capital of \$US400 million for the first account gives the impression of a serious under achievement. In the financial structure of the Fund as now agreed there is still a provision for one-third of the total requirements of ICOs to be contributed in cash and for the remaining two-thirds to be borrowed against guaranteed capital will be provided by the participants in ICOs as and when they associate themselves with the Fund and not initially by the members of the Fund. It thus follows that resources will be built over a period of time and up to the desired levels while the same time the credit rating of the Fund shall be building as the backing of international community is strengthened through full participation as envisaged in the agreement.

B. Commodity negotiations

9. It was envisaged in the 1976 Conference Resolution 93(IV) on the Integrated Programme for Commodities that negotiations on the 18 selected commodities would proceed speedily. This has not been so. Only one new international commodity agreement has since Nairobi been concluded; the International Natural Rubber Agreement of 1979. The International Cocoa Agreement which had entered into operation before the adoption of the IPC expired 31 March 1980 and because it was not possible to agree on remunerative and equitable minimum prices it was not renewed. Furthermore, some of the other existing International Commodity Agreements which were in existence before adoption of IPC have not been functioning properly and those which have since been the subject of re-negotiation have not been improved to take in the main elements of Resolution 93(IV) inter alia price revisions, the principle of mandatory joint financing by producers and consumers and many of these elements of interest to the second account of the Common Fund Agreement.

10. A number of preparatory meetings for the 18 selected commodities not covered already by International Commodity Agreements have taken place or are planned. Progress has been slow, as so many problems have been or still have to be overcome. The need for price stabilization remains one of the major questions, as many developed countries are willing to accept buffer stocking only. As regards measures for which the second account can be utilized, a limited range of elements is acceptable to the developed countries while the need to take measures aimed at promoting local processing and greater participation by developing countries in the marketing of their commodities is simply rejected. Other areas identified for second account financing such as research are often dismissed by developed countries as being of a domestic nature. Consequently it is only for hard fibres (henequen, coir, sisal and abaca), jute and cotton that some significant progress has been made in the negotiations; and somewhat meaningful work is under way for bananas, tropical timber, meat and vegetable and vegetable oils.

11. The interrelationship between the Common Fund Agreement and the agreements on the 18 selected commodities is beyond question. However the financial structure of the Fund as agreed on is substantially below that which was envisaged in Nairobi under the UNCTAD resolution 93(IV). There is however room for borrowing up to two-thirds of the required capital by ICO's against guarantee capital which will be provided by the participants in ICO as and when they associate themselves with the Fund. Thus the capital of the Fund will grow depending on ICO's participation and it is not limited to that initially contributed by the members of the Fund.

21. There can be no doubt that the type of Common Fund which has emerged from the negotiations falls short of the expectations and needs of developing countries generally and African countries in particular. This makes it all the more necessary that African countries should be vigilant about its implementation in order to extract maximum advantages. Particular attention will need to be paid to the second account which is more suited to the requirements and levels of development of the great majority of developing member States.

13. Some studies^{3/} were done on the implications of the Common Fund for African countries, but that was at a time when negotiations on the Fund had barely started. Now that the Fund is about to come into being, in the form it has finally emerged from the protracted negotiations, the Ministerial Follow-up Committee might wish to request the OAU and ECA secretariats to conduct an in-depth study for submission at the second meeting of the Ministerial Follow-up Committee on the prospects and problems likely to arise for African countries from the implementation of the Common Fund Agreement and ways and means of overcoming them.

14. There is also need for member States to participate effectively and in a co-ordinated manner in the on-going integrated programme negotiations on the 18 selected commodities as well as in the renegotiation of existing commodity agreements so as to ensure that the interests of the African Group in all these negotiations are fully safeguarded. To this end, the Ministerial Follow-up Committee might wish to request the Chairman of the African Group in Geneva or his representative to make a full report on the stage reached in these negotiations, the problems facing the African Group therein and optimum strategies to be followed to ensure better results.

^{3/} See establishment of a Common Fund to finance commodity stocks: some possible consequences for African countries (E/CN.14/MP.1/107) and African position on a Common Fund under the integrated programme for commodities (E/CN.14/MP.1/108-ECA/UNCTAD/IPC/CF/1).

IV. ELEVENTH SPECIAL SESSION OF THE UNITED NATIONS GENERAL ASSEMBLY ON THE NEW INTERNATIONAL DEVELOPMENT STRATEGY

15. On 19 December 1977 the United Nations General Assembly adopted resolution 32/174 calling for a special session of the General Assembly to be held in 1980 in order to assess the progress made in the various United Nations fora in the implementation of the new international economic order and, on the basis of that assessment, to adopt a new international development strategy.

16. The General Assembly also decided, in resolution 33/193 of 29 January 1979, to set up a preparatory committee for the new international development strategy; this would be open to all Member States.

17. Finally, under resolution 34/138 of 14 December 1979, the General Assembly agreed to the opening of a series of global negotiations on the major problems of international co-operation for development.

18. In accordance with these three resolutions, the United Nations General Assembly held a special session on development in August-September 1980. At this session, a consensus was reached as to the need to adopt a new international development strategy; there was no agreement, however, on the agenda or on procedural matters relating to the global negotiations. The General Assembly therefore decided to postpone discussion of all such matters to its thirty-fifth ordinary session. At that session, however, there was still deadlock on organizational matters relating to the global negotiations.

V. DEVELOPMENTS IN THE FINANCIAL AND MONETARY FIELD

(i) Debt problems

19. Based on available data for 39 developing African countries^{4/}, the overall debt of these countries, including undisbursed amounts rose from 13 billion dollars in 1970 to \$24 billion in 1973, \$40 billion in 1976 and to over \$97 billion in 1979. Their disbursed debt grew from \$8.6 billion in 1970 to \$15 billion in 1973, \$31 billion in 1976 and to \$66 billion in 1979 while debt service rose from \$0.8 billion to \$9.9 billion during the same period. For the non-oil-exporting African countries, the total disbursed debt rose from \$7 billion in 1970 to \$11 billion in 1973, \$23 billion in 1976 and \$46 billion in 1979. The figures represent an average annual growth rate of approximately 26 per cent of disbursed debt during the period 1973-1979. The corresponding rate for debt service was 13.5 per cent.

20. As for those oil-exporting countries for which data are available (Algeria, Gabon and Nigeria), total disbursed debt increased at an average annual rate of approximately 30 per cent, rising from \$4 billion in 1973 to \$20 billion in 1979, whereas their debt service rose from \$0.5 billion to \$3.3 billion during the same period, which represents an average rate of 37 per cent.

^{4/} World Bank, External Debt Division, Economic Analysis and Projection Department, world debt tables, Vol. II - EC 157/80 31 October 1980.

(ii) The last annual meeting of IMF/IBRD^{5/}

21. The thirty-fifth annual meeting of the International Monetary Fund and the World Bank were held in Washington from 30 September to 30 October 1980. The highlight ^{6/} of these meetings were as follows.

22. The Fund decided to unify as of January 1981 the currency baskets that determine the value of SDR on the one hand and the interest rate of SDR on the other, by adopting for both the five currencies, namely the United States dollar, the Deutsch mark, the French franc, the Japanese yen, and the pound sterling which until then had composed the basket used to determine only the interest on SDRs. In other words, in so far as the composition of the currency basket used for the valuation of the SDR is concerned, this decision has resulted in a sharp reduction in the number of the currencies used from 16 to 5. This naturally entailed very significant changes in the new percentage weights of the five currencies that have been retained out of the previous 16, with the percentage weight applicable to the United States dollar rising from 33 under the old valuation system to 42 under the present one. While the need to unify and simplify the currency baskets may be justified, it is hoped that such a move, in the manner it has been effected, will not lead to some measure of instability in the SDR system which could be detrimental to the interests of developing countries in general and African countries in particular.

23. Agreement was reached on the need for the Fund to play a larger role in the adjustment and financing of prospective payments imbalances than has been the case hitherto. To this end, resources will be made available in larger amounts and over longer periods. This will call for additional resources which the Fund may secure through borrowing from various potential sources of financing, including private markets, should this prove necessary. The Group of 24 among others laid stress, however, on the fact that the Fund should rely primarily on substantial increases in quotas as a source of financing its operations.

24. The Executive Board of the Fund had decided to establish a subsidy account aimed at decreasing the cost of using the supplementary financing facility. This account is now expected to be financed partly through repayment of loans granted by the Trust Fund and partly through voluntary contributions or loans. In this connexion, the Group of 24 stressed the need for the continuation of the Trust Fund and the augmentation of its resources. In other words, they were of the view that the establishment of the subsidy account should not lead to the liquidation of the Trust Fund.

^{5/} As has been the tradition for a number of years, the Working Party of African Governors of IMF/IBRD met in Addis Ababa from 28 July to 1 August 1980 to prepare the draft statement of the African spokesman at the joint Annual IMF/IBRD meetings.

^{6/} The main source of reference for this review of the highlights of the IMF/IBRD annual meetings has been the IMF Survey, 13 October 1980 issue.

25. Another important topic discussed at the last annual meetings of the Fund and the Bank was the establishment of an energy affiliate to the World Bank whose main objective would be to expand investment in energy development in non-oil-producing developing countries. According to Mr. MacNamara, such an affiliate would serve both as a direct source of finance itself and as a catalyst for other public and private funds. While welcoming the Bank's efforts to expand its programmes in this direction, the Group of 24 emphasized the need to evaluate energy proposals in the context of a global and strategic approach, taking into account other initiatives that are being discussed in other fora.

26. The Executive Board of the Fund was urged to give prompt consideration to the establishment of an arrangement whereby the Fund could extend temporary financial assistance to low-income member countries when such countries are adversely affected by a crop failure or a sharp increase in the world price of food items, especially cereals.

General

27. From the standpoint of developing countries generally and of African countries in particular there is no doubt that some measure of progress has been made with respect to a number of issues including these relating to the decisions reached on the need to have the Fund play a larger role in the adjustment and financing of prospective balance-of-payments imbalances and on the need for a food facility as well as for the establishment of an energy affiliate.

28. On the other hand, no real progress has been made either on the question of the international monetary reform or on that of the possible link between allocations of SDRS and development finance except for the fact that IMF has decided that a more comprehensive study will be carried out on this matter. As was noted by the Minister of Planning and Economic Affairs of Liberia, Mr. Togba-Ilah Tipoteh speaking on behalf of the African Governors of the Fund and the Bank, African countries continue to face serious difficulties arising out of the problems created by widely fluctuating exchange rates. It is noteworthy also that no serious attempt has been made to come to grips with debt problems which, as was shown earlier, are of increasing concern to the African region. It also remains to be seen to what extent the increased flows of assistance which it is hoped will result from the larger role to be played by IMF in the adjustment and financing of prospective payments imbalances will meet the more and more pressing needs of member States in this regard.

VI. AFRICA AND ECONOMIC CO-OPERATION AMONG DEVELOPING COUNTRIES

29. Africa's trade with other developing regions continued to increase but on a rather an unbalanced scale mainly because Africa's principal exports were of a primary nature while imports consisted of capital and manufactured goods. Noticeable also during the period under review was the fact that the African region carried a constant deficit in its balance of trade with the other developing regions of Latin America, Asia and Western Asia, amounting in 1979 to \$US155 million, \$US1.9 billion and \$US1.8 billion respectively.

30. It is against this background that Africa's participation in ECDC activities should be viewed. Since the African Regional Meeting held in Addis Ababa in December 1979 and the fifth session of UNCTAD, African delegations have participated in a series of ECDC meetings held under the auspices of UNCTAD in Geneva. Twenty-three African delegations participated in a Preparatory Meeting of Governmental Experts of Developing Countries on Economic Co-operation among Developing Countries held in Geneva from 17 March to 8 April 1980. The meeting was jointly serviced by the ECA and OAU secretariats. It represented the first practical attempt at finding ways and means of implementing the ECDC regional perspectives enunciated at the Addis Ababa, Montevideo and in Manila meetings. Attention was thus focussed on (a) co-operation among State trading organizations of developing countries, (b) the establishment of multi-national marketing enterprises among developing countries and (c) the establishment of a global system of trade preferences among developing countries (GSTP). In so far as co-operation among State trading organizations is concerned, it is worth noting that the secretariats of OAU, ECA and UNCTAD have scheduled a regional meeting of executive Heads of African State trading organizations, which will be called upon to consider inter alia a draft for the establishment of an association of African State trading organizations.

31. A number of these issues were also considered during the first special session of the Committee on Economic Co-operation among Developing Countries held in Geneva from 23 June to 2 July 1980. However, the work of the Committee was hampered also by a procedural interpretation of UNCTAD resolution 127(V) with respect to the need to avoid any overlap or duplication with similar activities in the United Nations system in the context of the limited approved UNCTAD budget. Issues on which African countries have yet to take a stand include (a) the selection of African products which can form part of the interregional list for the envisaged Multinational marketing enterprises and (b) when and how to start participating in the proposed GSTP Committee.

32. With regard to GSTP, the first session of the Meeting of Governmental Experts of Developing Countries on ECDC was held in private in Geneva from 3 to 14 November 1980. The meeting had been called to prepare the ground work for the possible establishment of a global system of trade preferences among developing countries (GSTP). Thus, it examined various related negotiation issues not just in terms of trade, liberalization but also as part of a larger effort involving co-operation among developing countries on a variety of fronts.

Factors of particular interest to the African economies still remain to be analysed. For instance, while emphasis is placed on questions of tariff and non-tariff measures as a necessary condition for the GSTP, much less attention is given to the situation of the least developed countries in the suggested framework. This aspect is of particular concern to the African region which has the largest number of least developed countries.

33. Against this background, it will be in Africa's own interest to take account of the work being undertaken in the various subregions and to ensure that in the on-going ECDC negotiations including those on the GSTP due recognition is given to existing regional and subregional preferential trading arrangements as well as those being currently worked out. Similarly, it would be necessary for the region to review the proposed principles for the extension of preferences resulting from negotiations among developing countries. The Ministerial Follow-Up Committee might therefore wish to recommend the convening of an African preparatory meeting in Geneva serviced by OAU and ECA prior to the second session of the meeting of Government Experts of Developing Countries on ECDC scheduled for 11 to 22 May 1981.

34. Financial and monetary co-operation among developing countries are essential elements which cannot be separated from any strategies and mechanisms for the promotion of interregional trade among developing countries. In this connexion, mention should be made of the continued participation of such African payments and monetary co-operation institutions in the current activities of the Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries as the West African Clearing House, the Economic Community of the Great Lakes Countries, the Banque des Etats de l'Afrique Centrale, Banque Centrale des Etats de l'Afrique de l'Ouest and the African Centre for Monetary Studies.

35. The third meeting of the Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries was convened in Abu Dhabi in November 1980. Participants at the meeting examined a number of possibilities for payment linkages and credit arrangements between developing countries. Some of the issues considered in respect of possible payment linkages related to the adoption of some uniformity in regard to the unit of account, settlement period, eligible transactions, interim credit lines, interest rates, etc. The Committee took care to avoid having the envisaged arrangements interfere with the autonomy and the specific characteristics of individual arrangements such as the protocol on clearing and payments arrangements under the proposed Treaty for the Establishment of a Preferential Trade Area (PTA) for Eastern and Southern African States.

General

36. As the ECDC negotiations are being stepped up, it is of paramount importance for the African region to avoid being put in a position where the least developed States of the region as a whole compared to the other developing regions and other characteristics are not fully taken into account or where the relationship between the African region and the other developing regions could be patterned after the traditional vertical type relationships that now exist between developed countries and herself. It is equally important to ensure that progress in the field of ECDC, while quite desirable in itself is not made at the expense of economic co-operation at the intra-subregional and regional African levels, as was duly emphasized in the Lagos Plan of Action and the Final Act of Lagos.

VII. THIRD ALL AFRICA TRADE FAIR

37. The Third All-Africa Trade Fair took place in Khartoum, the Sudan, from 3 to 17 November 1980. Twenty-one countries participated in the Fair as well as the secretariats of ECA and OAU. A detailed report on the above Fair is submitted separately for the consideration of the Ministerial Follow-up Committee.

VIII. CONCLUSION

38. What perhaps emerges most clearly from this appraisal especially of the various negotiations that have been taking place over the last ten months or so is the urgent need for better co-ordination of African positions in negotiations, a deeper awareness of the interrelated nature of the negotiations and of their real impact or lack of impact on the development process at home, as well as a greater determination to make full use of the region's bargaining power to secure more substantial gains.

39. It is hoped that the Ministerial Follow-up Committee will be able, in pursuance of its mandate, not only to monitor developments in the fields of trade and finance, but also effectively to co-ordinate African participation in international negotiations in such a way as to assist the region as a whole in meeting the over-all socio-economic objectives set out in the Lagos Plan of Action.
