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ECONOMIC COMMISSION FOR AFRICA

DEVELOPMENT AND ECONOMIC CO-OPERATION 1/

Proposals for consideration by African Governments

CONTENTS

1/ This paper will be circulated to the members of the Economic Commission for Africa attending the special session of the General Assembly devoted to development and international economic co-operation, to be held from 1 to 12 September 1975, and also at the OAU Council of Ministers and Assembly of Heads of State and Government, Kampala, 18 July to 3 August 1975.

INTRODUCTION

The launching in 1970 by the General Assembly of the United Nations of the International Development Strategy for the Second Development Decade was acclaimed as the international community's single most concerted, comprehensive and creative engagement on the development issue. It soon became apparent, however, that the objectives of the Strategy, which were formulated within the context of the old international economic order, were not being achieved and the development issue was again discussed in various international forums, as early as the Fourth Conference of Heads of State or Government of Non-Aligned Countries at Algiers in September 1973.

In 1974, the concern of the developing countries led them to take the initiative in convening the sixth special session of the General Assembly of the United Nations which adopted a Declaration and Programme of Action on the Establishment of a New International Economic order which represented a fundamental revision of the relationships prevailing between the developed and the developing countries. Subsequently, the need for a new international economic order has been reaffirmed in such international forums as the Conference of Developing Countries on Raw Materials held at Dakar in February 1975; the meeting of the Council of Ministers of the Organization of African Unity held at Addis Ababa in February 1975; the second Ministerial Meeting of the Group of 77 held at Algiers in February 1975; the Conference of Ministers of the United Nations Economic Commission for Africa held at Nairobi in February 1975; and the Second General Conference of the United Nations Industrial Development Organization held at Lima in March 1975.

It is in the light of the decisions and recommendations of the above mentioned meetings that the present paper has been prepared by the ECA secretariat, and more specifically in response to resolution 256(XII) of the Conference of Ministers of ECA and the OAU Council of Ministers decision concerning a study on raw materials. It is intended as a breifing document in the efforts to harmonize the African stand on development and international co-operation at the seventh special session of the General Assembly to be held in September 1975.

The presentation of this paper basically follows that used in the report on development and international economic co-operation prepared by the Secretary-General for the Preparatory Committee for the Special Session of the General Assembly,* as regards the order in which the various issues are covered. Part I of the paper contains proposals for consideration by African Governments. Part II provides arguments, sector by sector, in support of these proposals.

* Document E/AC.62/8, 5 May 1975.

PART I: PROPOSALS FOR CONSIDERATION BY AFRICAN GOVERNMENTS

A. Agricultural development (see paragraphs 1-15 in Part II)

1. African Governments should give greater priority to the development of their agricultural sectors, with a greater percentage of available development resources being channelled into such areas as (a) the establishment of credit, extension, and marketing services; (b) the building up of infrastructural facilities such as feeder roads and medium-scale storage facilities; and (c) the supply of vital inputs such as fertilizers.
The international community should provide capital for the establishment of new fertilizer plants in Africa in order to ensure supplies at cheaper prices (paragraphs 5-7).

2. African Governments should attempt to reform the institutional structure and organization of African agriculture, including systems of land tenure, as a means of raising land productivity and bringing about a more appropriate factor mix in the agricultural sector of African economies (paragraphes 8-10).

3. In co-operation with appropriate international agencies and independent research institutes, African Governments should expand agricultural research in Africa with special attention to training a greater number of qualified African staff and to generating profitable agricultural innovations (paragraph 11).

4. African Governments should pursue realistic producer pricing policies as an incentive to greater agricultural production (paragraph 12).

5. With respect to the recent drought in the Sudano-Sahelian regions of Africa, African Governments, appropriate international institutions, and developed countries should work together both to alleviate short-term economic hardships and to plan long-term measures such as water resource development, land reclamation, and population resettlement (paragraph 13).

6. African Governments, through the African Ministerial Committee on Food, should take measures, in conjunction with the international community and the newly established World Food Council, to ensure a much higher degree of food security to countries most vulnerable to drought and similar disasters. Special consideration should be given to the possibility of setting up internationally-financed food storage facilities in African countries (paragraph 14).

7. African Governments should urge developed countries to remove non-tariff barriers to trade in agricultural commodities in the interests of a better distribution of world agricultural resources (paragraph 15).

B. Industrial development (see paragraphs 16-33 in Part II)

8. In line with the Lima Declaration and Programme of Action, African Governments should co-operate in the pursuit of a dual strategy of export promotion and multinational industrialization based on the processing of African raw materials in line with projects that have been identified by ECA. In the global redistribution of productive facilities, African Governments should intensify efforts to ensure that Africa does not remain a raw materials supplying region. Special consideration should be given to intra-African co-operation through the establishment of regional economic groupings (paragraphs 26-32).

9. With respect to the participation of foreign investors in the establishment of multinational industrial projects, African Governments should co-operate, e.g. by means of a regional centre for investment promotion and transfer of technology under the auspices of ECA and UNIDO, so as to enhance their negotiating position vis-à-vis foreign investors in order to acquire industrial technology and foreign resources on the best possible terms (paragraph 33).

C. Commodities and trade (see paragraphs 34-70 in Part II)

(i) Instability in primary commodity trade

10. African Governments should lend qualified support to UNCTAD's scheme of international commodity stocks pending a study by UNCTAD illustrating more precisely the costs and benefits to be expected from their scheme. African Governments should also endeavour to persuade the World Bank, IMF, and the oil exporting countries to finance the scheme at the lowest possible cost (paragraphs 45-47).

11. African Governments should attempt to negotiate compensatory financing schemes at least as good as the EEC compensatory financing scheme with other major trading partners in the developed world. They should press for larger commodity coverage and higher ceilings on financial transfers (paragraphs 48 and 49).

12. African Governments should request IMF to broaden the scope of its compensatory financing facility to compensate not only for a fall in export earnings but also for a rise in import prices and a fall in the terms of trade. Compensation should be made available irrespective of whether the country is in overall balance-of-payments difficulties, unrestricted by IMF quotas, and not subject to repayment in its entirety in the relatively short period of five years (paragraphs 50 and 51).

13. African Governments should request UNCTAD in conjunction with other United Nations institutions to study ways and means of assuring just and remunerative prices for primary producers with particular attention being paid to the possibility of including a system of indexation in an integrated scheme of commodity stabilization (paragraphs 52-54).

(ii) Dependence on commodity exports

14. African Governments should attempt to negotiate preferential trade agreements with their major trading partners at least as good as the Lomé Convention as a means of promoting industrial development in Africa. They should work towards greater product coverage, higher ceilings, larger degrees of preference, and expanded preferential tariff quotas for their industrial exports (paragraph 56).

15. African Governments should press for a substantial improvement in the trading conditions for developing countries, including the relaxation of tariff and non-tariff barriers, in the multilateral trade negotiations under GATT (paragraph 57).

(iii) The pattern of trade

16. African Governments should try to expand intra-African trade by utilizing as fully as possible the resources of the Africa Trade Centre, liberalizing trade within Africa, and exploring possibilities of economic integration (paragraphs 59 and 60).

17. African Governments should also pay special attention to expanded Afro-Arab trade, e.g. by means of a triangular relationship between the Arab countries' capital, the human and natural resources of African countries, and the technological resources of developed countries (paragraph 61).

(iv) Marketing and distribution

18. African Governments should explore ways and means of increasing their control over the marketing and distribution of their own commodities, in particular, expanded co-operation and exchange of information among African Governments so as to enhance their bargaining power vis-à-vis transnational corporations (paragraph 62-66).

(v) Producers' associations

19. In continuation of efforts which have already begun, African Governments should work towards the establishment of more associations of primary producing countries in pursuance of developing countries' objectives in the field of commodities and trade (paragraphs 67-70).

D. Transfer of resources (see paragraphs 71-95 in Part II)

(i) Short-term measures

20. African Governments should support the continuation of the IMF oil facility on an expanded basis. They should support the proposal to set up a special account in the Fund in order to reduce the burden of interest charged for the most seriously affected countries. Such provision should take into account the circumstances of the countries concerned, such as differences in export performance, degrees of import dependence, and import structures (paragraphs 77-79).

21. African Governments should urge that the rescheduling and even cancellation of public debts contracted on hard commercial terms by those countries most seriously affected by the current economic situation should be sympathetically reconsidered by the developed countries (paragraph 80).

(ii) Long-term measures

22. African Governments should continue to call on developed countries to transfer to developing countries a net volume of resources equivalent to one per cent of their GNP annually, with official development assistance (ODA) reaching a minimum of 0.7 per cent of GNP, of which the outright grant element should be around 80 per cent (paragraphs 82 and 83).

23. African Governments should support a classification scheme for development assistance with countries divided into three groups according to their level of GNP and their ability to pay for their imports. Special measures favouring the least developed countries should continue and be reinforced. In addition, middle-level countries should give up their claims on resources transferred on concessional terms in favour of the least developed countries. Middle-level countries should have access to aid through a "third window" on terms between those of IBRD and IDA. They should also have access to developed countries' capital markets at subsidized interest rates, financed out of contributions made by developed countries and by the revaluation of the IMF gold holdings (paragraph 88).

24. In light of the increasing efficiency and effectiveness of multilateral institutions such as the World Bank, African Governments should urge that more resources should be channelled through them. African Governments should support the Bank's efforts to redirect its assistance to rural areas in developing countries, they should request that the paid-in capital of the Bank be increased, and they should ask that the criteria of population, per capita income, and per capita aid flow used by the Bank for differentiating between developing countries be reformulated in order to take into account more accurately the economic conditions in developing countries (paragraphs 89-92).

25. African Governments should urge that a more liberal policy should be adopted towards local cost financing including for national experts (paragraph 94).

26. African Governments should support any mechanisms to combine the surplus funds of the oil producers and the technology of the industrialized countries for the development of non-oil-producing developing countries, e.g.

(a) by the rich countries or institutions in the rich countries borrowing from the oil producers at commercial rates and lending to the poor at subsidized rates; or

(b) by interest rate subsidies financed either by the profits or revaluation of the gold holdings of the IMF, or by the combined direct contributions from industrialized nations and oil producers (paragraph 95).

E. The international monetary system (see paragraphs 96-110 in Part II)

(i) The adjustment process

27. African Governments should support the recommendation of the Committee of 20 that proposals to reform the international monetary system should be based upon stable but adjustable par values, and acceptance of the need to avoid competitive devaluations ordirect restrictions on trade (paragraphs 97-100).

28. African Governments should support the continued operation and possible expansion of the IMF oil facility, the OECD Financial Support Fund, and other multilateral and bilateral arrangements with oil producers both as a means of avoiding widespread restrictions in capital movements and/or deflation in developed countries, and as a means of assisting developing countries in adjusting to changed world economic conditions (paragraph 101).

(ii) The question of convertibility

29. African Governments should support the proposal to make SDRs the standard international currency with a basket of currencies adopted as the basis of its valuation. They should also support the proposal of the Interim Committee to make more attractive the value and yield of SDRs (paragraph 102).

(iii) International liquidity

30. African Governments should support the proposal that the creation of SDRs should be linked to the development needs of developing countries (paragraph 103).

31. African Governments should support the proposal that the gold holdings of IMF be revalued at prevailing market prices and the profits used for long-term loans to developing countries and/or subsidizing interest on loans to them (paragraph 104).

32. African Governments should support the efforts of the Interim Committee to invest global control of liquidity in the whole international community acting through IMF in order to avoid uncontrolled liquidity creation (paragraph 105).

(iv) The role of the International Monetary Fund

33. African Governments should support proposals to amend the Articles of Agreement of IMF to ensure more effective participation of developing countries in the international decision-making process in monetary and financial fields. In particular, they should support proposals to amend the Articles of Agreement so that the quotas can be increased and the shares of the major oil exporters doubled, and so that the 25 per cent gold requirements in quotas no longer be obligatory (paragraph 107).

34. African Governments should support the recommendation that the Interim Committee should be transformed into a permanent council responsible for the management of the affairs of the Fund (paragraph 108).

35. African Governments, through the Group of African governors, should support the efforts of the Interim Committee to increase IMF resources by 70 to 100 per cent in order to meet the needs of deficit countries and guarantee that any quota increases thus made necessary and the resources so raised are put at the disposal of all members through effective participation in decision-making, and the calculation of quotas adapted to the new economic and political realities reflecting the importance of developing countries (paragraphs 109 and 110).

F. Transfer of technology (see paragraphs 111-118 in Part II)

36. African Governments should formulate and pursue effective technological policies, including the development of domestic technological capabilities, in order to reduce the capital bias in industrial development. Aid and trade policies pursued by developed countries should be re-examined with the object of promoting the import of labour-intensive products from developing countries (paragraph 112).

37. African Governments should support the activities of UNCTAD in conjunction with other international agencies to formulate and implement an international code of conduct for the transfer of technology, including the following principles:

(a) that suppliers should treat all receivers of technology equally;

(b) that problems with respect to factor intensity should be corrected by guaranteeing to receivers the suitability of the technology transferred, a continued supply of information on improvements in the technology concerned during the period of the agreement, and provision of assistance in developing local technological capacity;

(c) that monopoly rights granted to a patent holder to restrict the export of goods to other markets where the patent holder has similar operations should be waived;

(d) that adequate training should be provided with a view to taking over management at the end of the agreement period (paragraphs 113-114).

38. African Governments should co-operate in order to increase their capacity to absorb and make meaningful use of science and technology, especially in areas where significant economies can be realized, e.g. higher education and research facilities (paragraphs 115-118).

G. Transnational corporations (see paragraphs 119-124)

39. African Governments should support the work of the Economic and Social Council through the Information Centre on Transnational Corporations to formulate and implement an international code of corporate conduct for transnational corporations, including the following principles:

(a) noninterference in the internal affairs of host countries;

(b) elimination of restrictive business practices;

(c) conformity to the national development plans and objectives of host countries;

(d) the transfer of technology and management skills to host countries on equitable and favourable terms;

(e) respect for the socio-cultural identity of the host country (paragraph 124).

PART II: ARGUMENTS IN SUPPORT OF PROPOSALS IN PART I

A. AGRICULTURAL DEVELOPMENT

1. Agriculture is the mainstay of most developing countries' economies. In Africa, agriculture provides 76 per cent of the total employment and contributes about 30 per cent of GDP. It is also the most important source of foreign exchange and supplies most of the raw materials required for export and industrial development. Agriculture, more than any other sector, can absorb a good part of the present and potential labour force for productive employment.

2. Yet agriculture has been relatively neglected. Despite the efforts made in recent years, productivity has remained relatively low. During the four-year period 1970-1974, total agricultural production in developing African countries increased at an annual compound rate of 0.5 per cent at constant factor cost, which is far below the 4 per cent envisaged for the Second Development Decade and the minimum level required to cope with population growth and the projected increase in per capita income at fairly stable prices. The situation in food production is even worse. Taking into account the 2.8 per cent annual increase in Africa's population, food production per capita declined by 1.2 per cent annually for the period 1970-1974.

3. Consequently, developing African countries have to rely more heavily on food imports at a time when food prices are skyrocketing. In the period 1972-1974 alone, grain prices increased threefold. Since these food imports have gone mainly to the urban areas because of better transport facilities and purchasing power, it is likely that there has been a decrease in food consumption in the rural areas and a soaring increase in the cost of living for the low income groups in these areas. In many places, deficits in food supplies have reached famine proportions causing many deaths, particularly in the Sahelian region. This has occurred notwithstanding the rapid increase in cereal imports. 1/

4. Such dramatic changes in the fortunes of Africa's agriculture have been partly attributed to unfavourable climatic conditions. During the two-year period 1972-1973, the Sudano-Sahelian region was afflicted by a series of severe droughts. However, these unfavourable climatic conditions revealed the long-term weaknesses of African agriculture which include the failure to adapt African husbandry to needs, the failure to organize on a sufficiently expanding scale the supply of agricultural inputs, credit and marketing services, inertia regarding the introduction of modern technology and long-pending structural and comprehensive land reforms and the lack of sufficient investment in agricultural infrastructure.

5. Government budgets and development plans have typically devoted a small percentage of available resources to agriculture. Certainly important portions of any allocation must go to the opening up of new land and natural resources and to other sectors. Expenditures for the exploration of natural resources may in many cases be most effective in promoting economic development in general and indirectly stimulating all sectors. But there would appear to be little doubt that allocation for public services (extension, credit and input supplies) and specific infrastructural improvements such as feeder roads and medium-scale storage facilities have been relatively small in both ordinary and development budgets.

1/ The figures from FAO Trade Yearbook 1972 show that Africa's cereal import grew at an annual compound rate of 8.1 per cent in the period 1970-1972.

6. In past years, the rising cost and physical shortages of some of the inputs, especially fertilizers, pesticides and propagated seeds had serious consequences on development efforts. The sharp rise in the prices of these inputs in 1974 caused downwards revisions in the plans of African Governments to expand their service projects. The prices of staple agricultural products in most of Africa have risen proportionately less than the prices of these inputs. Within a broader framework of international accounting, there is no doubt that the marginal return on the use of fertilizers in peasant farming in Asia and Africa (of the order of 8 to 12 extra quintals of grain for a quintal of fertilizer nutrient per hectare) is substantially larger than on the use of fertilizers in Europe or North America (around 4 to 5 extra quintals per hectare is a liberal estimate). Private accounting cannot reflect this international benefit because of the economic weakness in purchasing power of African farmers and their consumers.

7. To guarantee a continually expanding supply of modern inputs to African users will require a very substantial change in international economic relations. The old and traditional international economic order is geared to established producing and trading interests. With all the goodwill possible it cannot enhance the development of African agriculture including that of the other developing countries unless there is serious intervention to earmark supplies, often with some degree of subsidy, for the economically weaker interests of Third World economies. The design and implementation of new arrangements will tax the institutions of international economic co-operation, but the effort must be made or the recurrent problems of food shortage will become more severe. The problem of input supply may be lessened (though not eliminated) by an acceleration of investment in their production in the less developed countries. The elimination of uncertainty in the supply of fertilizers might be worth a considerable premium to African countries. The new International Economic Order must devise ways to hasten the transfer of the necessary capital and technology for the establishment of new fertilizer plants in Africa to ensure production at cheaper costs.

8. The most important asset of African agriculture is the abundance of natural resources including, in particular, land suitable for cultivation and grazing which is either unutilized or underutilized. The progressive commercialization of agriculture and the increase in population however, have rendered the traditional rural institutions inadequate in many developing countries in Africa and other regions. To be realistic, any institutional adjustment or change has to be undertaken in the light of the social and cultural background of each country and should not be imposed haphazardly on the farming community. With an appropriate institutional structure of production, improved methods of cultivation and the introduction of new technology, Africa should not only be able to feed itself more adequately and raise the incomes of the now underprivileged rural population but also to expand exports substantially in a world which is likely to be characterized by food shortages and high food prices. The present harvested area under staple food crops in ECA member States is about 70 million hectares, most of which is under cereals. If appropriate programmes of development were implemented, it would be possible to increase this area by tenfold.

9. However, agricultural practices in many areas have still remained relatively unproductive and wasteful in the use of resources. Compared with international standards, the average yield per hectare of land in Africa is relatively low, about one ton per hectare for cereals. But in many cases low productivity is partly due to difficulties of marketing and sharp fluctuations in prices which have an adverse effect on farmers' incentives to increase production.

10. Unless the appropriate transformation is brought about in the structure and organization of African agriculture, including the system of land holdings, destined to ensure a more appropriate factor mix, most of the increase in aggregate demand estimated to rise at over 3.5 per cent annually and even higher for foodstuffs would have to be met by more imports, thus putting further pressure on foreign exchange earnings.

11. Another problem area is the research effort which should be many times greater than at present in order to provide a continuing flow of profitable innovations. Although there is scarcely any articulated opposition to the principle of expanding agricultural research in Africa, the efforts so far made are limited, principally for two reasons: (1) Governments gladly agree in principle but in practice allocate far too meagre amounts because of budgetary constraints and (2) the out-turn of qualified African staff required is small and without specific effort can increase only slowly. In addition, agriculture research in Africa has begun only recently to focus on the problem of generating specific profitable innovations.

12. Pricing policies also represent a problem area. Measures to ensure realistic producer prices have paid dividends in terms of increased output in several African countries especially as regards industrial crops. But there are instances where Governments have refrained from authorizing higher producer prices for food crops lest they should lead to a general increase in the cost of living in urban areas. Where this is the case, non-price incentives such as subsidies on transportation costs should be provided. Again, better producer prices alone are not always adequate to guarantee greater output. Price stabilization is necessary. In addition thorough consideration is often indispensable prior to launching any programme either to modify the cropping patterns or to increase yields.

13. The effects of the recent drought and adverse climatic conditions have seriously increased the economic difficulties of many countries in the African region. Most of the problems created by adverse weather have to be handled by the affected countries themselves through appropriate long-term planning and investments such as in water resource development, land reclamation and population resettlement, etc. But it cannot be stressed too much that international action is needed to alleviate the short-term economic hardship created by drought.

14. In addition, it is suggested that the New International Economic Order should ensure a much higher degree of food security to those countries most vulnerable to drought and similar disasters. The newly established World Food Council should continue to take the initiative in consultation with members of the international community for attaining this end. At the regional level, work is in progress for the establishment of the African Ministerial Committee on Food. This Committee which is jointly sponsored by OAU, ECA and FAO will be responsible for the co-ordination of food production and distribution in member countries.

15. The New International Economic Order should also ensure better international trading arrangements in agricultural commodities. In addition to the general problems facing commodity trade, which are discussed in section C, there are specific problems relating to trade in agricultural commodities which require special attention. These include first and foremost the erection of non-tariff barriers within the context of income-support policies for farmers in developed countries, which from a global point of view give rise to a maldistribution of resources. For example, it has been estimated that as much as 40 per cent of world sugar produced in the northern hemisphere from sugar beets could be more economically replaced in the world at large by cane sugar. African Governments should urge developed countries to remove such non-tariff barriers to trade.

B. INDUSTRIAL DEVELOPMENT

16. The performance of the majority of African developing countries in industrial output fell short of the minimum target of 8 per cent annual rate growth set by the International Development Strategy. Industrial advances in the least developed and land-locked countries in particular were slow and disappointing. Africa's level of industrial output today stands at about $US 6,000 million only and accounts for slightly over 11 per cent of GDP.

17. Only minor structural changes in the composition of output, or geographic pattern have taken place. Within Africa, industry is concentrated in some ten countries. These have continued to account for nearly 75 per cent of total industrial output. Furthermore, no significant change has taken place in Africa's share of world industrial production which, over the last decade, has stood at the very low level of 0.6 per cent.

18. Generally, Africa's industrial structure is oriented to the production of consumer goods. Foods, beverages and tobacco account for over 40 per cent of Africa's industrial output. Import substitution in textiles, clothing and leather is the second most important industrial activity. Some significant advances have been made in intermediate goods industries such as cement, pulp and paper, chemicals and basic metal industries and capital goods industries such as engineering. Generally, however, the small size of national markets has inhibited major developments in large-scale industries.

19. Consequently, today Africa's industrial structure is characterized by excess capacity, heavy external dependence for industrial raw materials and intermediate inputs and by a cost structure which has not made it possible for countries to develop comparative advantages. The industries created were of the type that tended to operate in isolation from the domestic economy. Because of their capital intensity they created few industrial jobs and instead of transforming tended to strengthen the dualistic character of African countries.

20. In Africa, the basic strategy pursued has been import-substitution and the main policy instruments used by Governments were tariff protection, tax holidays and other incentives to attract foreign investment. This has no doubt led to a broadening of Africa's industrial base but not to initiating a process of sustained industrialization. To be successful, such a strategy calls for a widening and deepening of the import-substitution process based on increasing incomes and rising demand.

21. A strategy of multinational industrialization could have given impetus to the process but efforts devoted to promoting multinational co-operation among African countries in this field, proved disappointing. Industrial policy measures pursued in the context of an import-substitution strategy would also seem to have largely ignored the potentials that existed for rationalizing the distribution of industries and for reducing excess capacity. A progressive lowering of tariff barriers among African and other developing countries would, for example, have stimulated specialization and complementarity. Governments were not, however, disposed to do this even where there existed customs union arrangements mainly because the established industries were not developing international competitiveness as had been expected they would.

22. The unemployment problem of African countries is huge and cannot be solved through industrial expansion of the import-substitution type favouring capital intensity.

23. Policy instruments designed for import-substitution are not capable of promoting export industries. In particular overvalued exchange rates and a continued high degree of effective protection favour imports over exports. This is why the cases of successful spill-overs from import-substitutes to exports remained few and far between.

24. Further restrictive factors on Africa's industrialization at the international level are firstly the effects of international economic policies and secondly the operations of multinational corporations. Under the first category, recession fundamentally affects the capacity of African countries to acquire the goods and services to promote industrialization and inflation raises the cost of industrialization. Under the second category, the bias of multinational corporations for capital-intensive production process and their capacity to manipulate cost-price relationships tend to distort the goals of national industrial development policy.

25. For industrialization to become a self-generating process, the industrial development policy must be capable of performing certain basic tasks at the national, multinational and international levels. National industrial development policies should bring about an integration and consolidation of the national economy and thereby foster greater economic independence. In this connexion the Committee for Development Planning in its eleventh session was of the opinion that it was fallacious to view industrial and agricultural development as necessary competitions. Rather, industrialization should concentrate on interconnexions between industry and agriculture. However, with adequate emphasis on internal linkages, industry can become a true engine of socio-economic progress. A multinational industrial development policy among African and other developing countries is the means by which large-scale, high productivity industries could be created so that the full benefits of industrialization could be secured for African countries. It is also the instrument for promoting specialization and complementarity which would minimize the wasteful use of scarce resources. The judicious combination of national and multinational policies and the promotion of African self-reliance through collective action constitute potent forces for coping with the consequential efforts of international policies to the benefit of African countries.

26. The Second General Conference of UNIDO adopted the Lima Declaration which embodies a Declaration and Programme of Action for co-operation and industrial development. The Declaration constitutes a major step forward in efforts directed to promote the establishment of a just and equitable international economic order in the field of industry.

27. The basic precept of the Declaration is that it is by pursuing measures aimed at achieving a politically determined target that the accelerated industrialization of the developing countries could be achieved and that the present glaring inequalities in world productive facilities and incomes could be reduced. It emphasizes the need for international co-operation to enable the developing countries to raise their share of world industrial production from its present level of 7 per cent to 25 per cent by the year 2000. Action at the national, multinational and international levels would need to be co-ordinated to reverse past historical processes and thereby to bring about the establishment of a New International Economic Order.

28. The political acceptance of this principle is the point of departure and indeed the perspective for action by the international community. The focus of attention is the effective and efficient utilization of raw materials. The exercise of full sovereignty over natural resources would act as a powerful stimulant for the redeployment of world productive facilities. In such a scheme, industrial processing for export should provide the motive force for accelerating industrialization and for initiating a self-sustained process of economic growth.

29. Such an export-orientated strategy needs to be complemented by a strategy of multinational industrial development. It falls upon individual governments to co-operate on a regional basis to create large-scale multinational industries. A dual strategy such as this implies considerable mobilization of resources and the development of requisite institutions, skills and domestic capabilities in industrial technology. As a result of efforts directed to promoting industrialization in Africa during the last decade, some headway has already been made in developing the skills and infrastructures needed to support industrialization. The magnitude of the task ahead necessitates a substantial transfer of resources from the industrialized countries to the developing countries in which international co-operation will play a decisive role.

30. When it comes to the implementation of the Lima Declaration and Programme of Action, it will be necessary for African Governments to intensify efforts in order to safeguard and promote African interests. In particular, in any scheme for the redistribution of productive facilities, efforts need to be mobilized to ensure that Africa will not once again remain a commodity supplying region. Policy guidelines need to be elaborated on the progressive processing of natural resources for export.

31. The industries of primary and immediate interest to Africa must be identified at as early a stage as possible in negotiations for creating new export and multinational industries. One of the first tasks therefore is the identification and formulation of resources-based industries on a national or multinational basis. The list of such industries could include iron and steel, copper, aluminium, pulp and paper, petrochemicals, leather and a range of agro-industries. The early establishment of these commodities utilizing export industries would lay the foundation for raising Africa's share in world industrial production.

32. ECA studies have identified a number of multinational industrial projects in the fields mentioned above. Follow-up action on these proposals needs to be taken. In line with the approach adopted by the Second Conference of African Ministers of Industry, projects should be formulated and consultations held to define the steps and procedures required for setting up multinational industries.

33. In all, the implementation of projects relating to both export and multinational industries would involve the participation of foreign investment in one way or another. Consequently, careful attention would need to be paid to evolve mutually acceptable and equitable arrangements for co-operation with foreign investors. Measures will need to be pursued in order to develop domestic capabilities in industrial technology and to strengthen the negotiating position of African countries in respect of the terms and conditions for the transfer and acquisition of industrial technonology. The establishment of a regional centre for investment promotion and the transfer of technology could serve to achieve these purposes. The first meeting of the Follow-up Committee on industrialization in Africa have requested ECA and UNIDO to promote such a project.

C. COMMODITIES AND TRADE

34. About one quarter of the measured resources of the African region are derived from trade, hence the pervasive impact of changing conditions in the world economy on African development and the great importance which African countries have traditionally attached to trade issues. But in spite of the importance of trade to African countries, the role of Africa in world trade remains small. Between 1970 and 1973, exports of developing African countries accounted for only 4.2 per cent of world exports. Of this, almost half was accounted for by the six petroleum-exporting countries in Africa. By contrast, the developed countries accounted for about 80 per cent of world exports over the same period. This, in a nutshell, illustrates Africa's predicament. It is the victim of an asymmetry in the world economy. Developments in Africa have a less than marginal impact on world economic conditions in general, yet developments elsewhere, particularly in developed countries, have a greater impact on African economic conditions.

35. Not only do African exports represent a small proportion of world exports, but they are also highly concentrated on commodities. Between 1970 and 1972, primary products, excluding petroleum, accounted for 54 per cent of African exports. Including petroleum, they accounted for 92 per cent over the same period. The major proportion of these exports goes to the developed market economies of the West. Between 1970 and 1972, these countries accounted for roughly 80 per cent of African exports. The enlarged EEC alone accounted for about 57 per cent of African exports, the United States of America for about 9 per cent and Japan for about 7 per cent. Imports, on the other hand, are highly concentrated on manufactured goods. Between 1970 and 1972, they accounted for 73 per cent of African imports. Thus, Africa depends heavily on markets in the developed countries for its exports, and on supplies from developed countries for its imports. It is within the context of this situation that trade policies from the point of view of Africa must be considered.

36. In spite of its generally insignificant role in world trade, Africa is a leading exporter of some commodities such as cocoa beans, palm kernels and oil, sisal, groundnuts and oil, olive oil, coffee, diamonds, phosphate rock, manganese, and copper. The complete picture is given in table 1, which shows the African share of world exports for each of the major agricultural commodities and the African share of world production for each of the major metals and minerals. Export figures generally give a better picture of Africa's role in the world economy; production figures, such as those for the metals and minerals, tend to understate Africa's role because a high proportion of African production is exported compared to other areas in the world. Developing Africa has some bargaining power <u>vis-à-vis</u> the developed market economies, provided that African countries can reach a united stand on the problems which confront them.

(i) Instability in primary commodity trade

37. Instability in the prices and incomes which African countries receive for their commodity exports is arguably the most important problem facing developing African countries in the field of trade. It has certainly been the most discussed, not only in Africa, but also in other parts of the developing world. The African experience has been mixed since the start of the Second Development Decade. As a result of powerful inflationary forces at work in the world economy, the prices of African imports rose steeply at the beginning of the 1970s, by 4 per cent in 1971,

8.7 per cent in 1972, 23 per cent in 1973, and 38.8 per cent in 1974. Export prices, excluding that for petroleum, lagged in 1971 and 1972, but surged ahead in 1973 and 1974 as the demand for primary products greatly exceeded supply. Since mid 1974, the prices of most primary commodities have fallen sharply and all indications are that the terms of trade of African countries have deteriorated even more sharply as import prices have continued to increase.

Table 1: African share in the major world commodities

	Average annual exports, 1971-73 (thousand metric tons)		Percentage share of Africa
	Developing Africa	World	
Agricultural commodities			
Cocoa beans a/ b/	949	1 202	79.0
Palm kernels and oil b/	253	329	64.7
Sisal a/ b/	279	501	55.7
Groundnuts and oil b/	402	857	46.9
Olive oil	110	346	31.7
Coffee a/ b/	1 064	3 488	30.5
Pulses	406	1 937	21.0
Oranges	889	4 543	19.6
Tea a/ b/	122	754	16.2
Palm oil b/	167	1 380	12.1
Cotton a/ b/	381	4 229	9.0
Rubber b/	196	3 062	6.4
Bananas b/	425	6 603	6.4
Sugar (raw basis) a/	1 252	22 433	5.6
Copra and coconut oil b/	55	1 503	3.6
Maize a/	391	39 261	1.0
Wool (greasy) a/	7	1 124	0.6
Rice a/	43	9 334	0.5
Jute a/	1	956	0.1
Wheat and wheat flour a/	82	68 148	0.1
Metals and minerals			
Diamonds (thousand metric carats)	22 766	47 325	48.1
Phosphate rock	21 207	90 960	23.3
Manganese ore	1 495	8 420	17.8
Copper ore a/	1 115	6 600	16.9
Petroleum (crude)	263 825	2 827 461	10.7
Iron ore a/ b/	33 931	432 300	7.9
Tin a/	15	192	7.8
Bauxite a/	3 573	64 245	5.6
Lead ore a/	144	3 405	4.2
Zinc a/	223	5 450	4.1

Source: FAO Trade Yearbook, 1973 and United Nations Statistical Yearbook, 1973.

a/ Commodities included in UNCTAD's proposed scheme of international commodity stocks.

b/ Commodities included in the EEC compensatory financing scheme. Hides and skins, and tropical wood products are also included in this scheme.

38. As the experience of the different African countries has been divergent, in table 2 the countries of Africa have been divided into five groups: oil-exporting countries, mineral-exporting countries, land-locked countries n.e.s., least developed coastal countries, and other (semi-industrialized) countries. The experience of each of these groups is given separately along with the experience of Africa as a whole. The roughness of these estimates must be emphasized. Because of the way in which they were calculated - only the major exports of each country were used in calculating the export price indices - they tend to overstate somewhat the fluctuations in the terms of trade, but the direction of changes, if not the magnitude, is less open to doubt.

39. It can be seen from this table that import prices between 1971 and 1974 were essentially the same for all groups of African countries, reflecting the similar import structure of African countries, with a high concentration on manufactured goods imported from developed countries. Import prices for oil-exporting countries have been slightly lower because they do not import petroleum, but the difference is not significant.

40. Differences in the terms of trade between different groups of countries are explained almost entirely by the different prices they have received for their exports. The terms of trade of oil-exporting countries have improved steadily between 1971 and 1974; the price of their exports (principally petroleum) increased by 17 per cent in 1971, 12 per cent in 1972, 41 per cent in 1973, and 239 per cent in 1974. The mineral-exporting countries fared the worst; the prices of minerals did not rise as much as the prices of agricultural commodities and petroleum during the 1973-74 boom.

41. The export prices of all groups of countries except the oil-exporting countries fluctuated considerably between 1970 and 1974, generally being below 1970 levels in 1971 and 1972 and above 1970 levels in 1973 and 1974. Consequently, the terms of trade of the non-oil-exporting countries taken as a group, deteriorated in 1971 and 1972 and improved in 1973 and 1974. The improvement in the terms of trade of the 27 non-oil-exporting countries between 1972 and 1973 represented a net transfer of resources of about $US1,890 million, equivalent to 28 per cent of their exports in 1972. This is greater than the total recorded net flow of development assistance of $US1,410 million from DAC countries and multilateral agencies to these same countries in 1972. 2/ For all of Africa, including the oil-exporting countries, the improvement in the terms of trade between 1972 and 1973 represented a net transfer of resources of about $US3,620 million compared to a net flow of development assistance of $US2,200 million in 1972. Since mid 1974, commodity prices have been falling steadily. Except for petroleum and some agricultural food commodities, they are now approaching 1972 levels. For all of the non-oil-exporting countries in Africa, this reversal probably represents a net transfer of resources out of Africa of about $US3,000 million.

2/ OECD, Development Co-operation, 1973 Review, table 22. This includes ODA, other official flows, private export credits, private investment, and net grants and loans from all multilateral agencies on the DAC list. $US1,410 million is the total received by the 27 non-oil-exporting countries in the study.

Table 2: Exports, imports, and terms of trade, 1970 to 1973, by groups of African countries

	1970	1971	1972	1973	1974
Oil-exporting countries					
Exports (millions $US)	4 949	5 801	6 821	9 981	
Imports (millions $US)	3 316	3 963	4 703	6 713	
Export prices (1970 = 100)	100	117	131	184	624
Import prices (1970 = 100)	100	104	113	138	181
Terms of trade	100	112	115	133	345
Mineral-exporting countries					
Exports (millions $US)	2 423	2 067	2 302	2 949	
Export prices (1970 = 100)	100	84	85	123	155
Import prices (1970 = 100)	100	104	114	140	203
Terms of trade	100	81	75	88	76
Land-locked countries, n.e.s.					
Exports (millions $US)	517	507	575	661	
Imports (millions $US)	525	634	590	665	
Export prices (1970 = 100)	100	94	99	128	167
Import prices (1970 = 100)	100	105	114	139	201
Terms of trade	100	90	87	92	83
Least developed coastal countries					
Exports (millions $US)	729	790	898	1 105	
Imports (millions $US)	860	1 001	1 032	1 250	
Export prices (1970 = 100)	100	97	93	163	242
Import prices (1970 = 100)	100	105	115	140	193
Terms of trade	100	92	81	116	125
Other countries					
Exports (millions $US)	2 647	2 395	2 928	4 002	
Imports (millions $US)	2 776	3 121	3 152	3 851	
Export prices (1970 = 100)	100	95	112	172	256
Import prices (1970 = 100)	100	104	113	140	205
Terms of trade	100	91	99	123	125
Total Africa (33 countries)					
Exports (millions $US)	11 265	11 560	13 524	18 698	
(excl. oil-exporting countries)	(6 316)	(5 759)	(6 703)	(8 717)	
Imports (millions $US)	9 420	11 001	11 873	15 096	
(excl. oil-exporting countries)	(6 104)	(7 038)	(7 170)	(8 383)	
Export prices (1970 = 100)	100	104	115	169	433
(excl. oil-exporting countries)	(100)	(91)	(99)	(151)	(213)
Import prices (1970 = 100)	100	104	113	139	192
(excl. oil-exporting countries)	(100)	(104)	(114)	(140)	(202)
Terms of trade	100	100	102	122	224
(excl. oil-exporting countries)	(100)	(88)	(87)	(108)	(105)

Please see next page for the notes.

Table 2 (cont'd) - Notes

1. Definition of country groupings used in this table:

   (a) Oil-exporting countries: Algeria, Congo, Gabon, Libya, Nigeria and Tunisia.

   (b) Mineral-exporting countries: Mauritania, Morocco, Sierra Leone, Zaire and Zambia.

   (c) Land-locked countries: Burundi, Central African Republic, Chad, Malawi, Mali, Niger, Rwanda and Uganda.

   (d) Least developed coastal countries: Dahomey, Ethiopia, Gambia, Sudan and Tanzania.

   (e) Other (semi-industrialized) countries: Cameroon, Egypt, Ghana, Ivory Coast, Kenya, Madagascar, Mauritius, Senegal and Togo.

   Data for the other ten independent African countries were not sufficient for calculation of changes in their terms of trade.

2. Calculation of the statistics:

   Export prices and import prices were calculated for each of the above countries. Export prices and import prices for each group as a whole were weighted by the value of the exports and imports of each country in the group. The terms of trade equals the index of export prices over the index of import prices.

   International price series for the commodities exported from Africa were obtained from the UNCTAD Monthly commodity Price Bulletin, the IMF International Financial Statistics, and the FAO Bulletin of Agricultural Economics and Statistics. Export prices for each country were weighted by the value of each country's major exports, given in the IMF International Financial Statistics, April 1975.

   International price series were also obtained for four groups of imports: food and beverages, crude materials excluding fuels, mineral fuels, and manufactured goods. Import prices for each country were weighted by the proportion of each group in the country's imports. These weights were obtained either from the ECA Statistical Yearbook, 1973, or from the United Nations Yearbook of International Trade Statistics, 1972-73.

42. All this illustrates that the fluctuations in the export earnings of African countries as a result of fluctuations in the prices which they receive for their exports have not been small. They are of the same magnitude as the total development aid received by Africa. Such fluctuations play havoc with development plans. Because of the small capital goods sectors in most African countries, most capital investment must be financed by foreign exchange earnings. Steady increases in investments are impossible when such earnings fluctuate so rapidly and with such amplitude. Structural transformation from a traditional, primary producing country to one with a dynamic combination of agriculture and manufacturing is inherently more difficult when the international economic situation is liable to change so rapidly.

43. Fluctuating prices and incomes create other problems as well. Correct long-term responses to price incentives in production are more difficult; in fact, the short-term situation may dictate a policy that is injurious to long-term needs. The position of natural raw materials facing competition from synthetics deteriorates since purchasers prefer commodities less prone to large fluctuations. And, over time, as the prices of manufactured goods continue their steady upward movement, the prices of primary products are less likely to be just and remunerative to primary producers.

44. Although the problem of instability in primary commodity markets has been long recognized, international efforts to achieve greater stability have had little success in the past. International commodity agreements now exist for six commodities - sugar, coffee, cocoa, wheat, olive oil and tin. Only that for tin has been at all effective in stablizing prices as it incorporates economic provisions in the form of a buffer stock. The substantive elements in all other agreements were suspended during the commodity boom. No international agreements have yet been reached to ensure a reasonable degree of stability in the major commodity markets.

45. However, in light of the manifest fluctuations in primary commodity prices over the past four years, in particular the commodity boom of 1973-74 during which supplies of major commodities were very low, several commodity schemes, both comprehensive and partial, have been proposed, discussed and/or implemented. Among these, the most comprehensive is UNCTAD's integrated approach to commodities, of which the principal element is a unified system of international commodity stocks for 18 key stockable commodities to be financed out of a common fund. This system was proposed at the eighth session of the Committee on Commodities held at Geneva from 10 to 21 February 1975. The commodities selected for the scheme are indicated in table 1.

46. The purpose of the proposed buffer stocks is to stabilize prices within an agreed range and to assure supplies to importing countries. A comprehensive approach, as opposed to a commodity-by-commodity approach, has been proposed so that countries and regions in the world can see the balance of advantage in their favour. The commodities are both exported and imported by every major region in the world. Among the 18 commodities selected, nine - cocoa, sisal, coffee, tea, cotton, rubber, sugar, copper and iron ore - constitute a significant proportion of African exports and two - wheat and rice - constitute a significant proportion of African imports. On the whole, Africa would gain if UNCTAD's proposals were implemented in their entirety. It was also hoped that a comprehensive approach, as opposed to a commodity-by-commodity approach, would raise the level of discussion from that of commodity experts to that of national ministers who have more direct power to implement their decisions.

47. The initial support for UNCTAD's scheme is not inconsiderable, but African countries should be cautious before they lend their unqualified support to it. The long-term costs and benefits of a unified scheme of international commodity stocks are likely to be finely balanced. The initial capital cost is not small; preliminary estimates by UNCTAD range from $US10,000 million to 13,000 million. If the scheme is to be self-financing, this will mean interest charges in the neighbourhood of $US1,000 million to 2,000 million annually in addition to storage costs which will have to be financed by offering a slightly lower price to producers than would prevail on average over the long term. Whether there will be any long-term benefits or not will depend largely on the subjective evaluation of producing (and consuming) countries of the gains from stable prices and assured supplies. UNCTAD should be requested to prepare a paper illustrating more precisely the costs and benefits to be expected from such a scheme, and the World Bank, IMF, and the oil exporting countries should be asked to finance the scheme at the lowest possible cost.

48. A second scheme which has already been signed is the EEC compensatory financing scheme, which is part of the Lomé Convention signed by the nine members of EEC and 46 developing countries in Africa, the Caribbean and the Pacific on 28 February 1975. Thirty-seven of these 46 countries are in Africa. This scheme, unlike that of UNCTAD, is designed to stabilize earnings, not prices. Under the scheme, an ACP State may request a financial transfer if the earnings from any commodity which constitutes at least 7.5 per cent of its total export earnings falls more than 7.5 per cent below the average annual export earnings from this commodity over the previous four years. For the 34 least developed, land-locked, or island ACP States, the corresponding percentages are 2.5 per cent and 2.5 per cent. The commodities for which this scheme applies are indicated in table 1. Earnings from sisal need constitute only 5 per cent of total export earnings for the scheme to apply. Any financial transfer received is to be paid back without interest over a five-year period from the date of the transfer in any year that the export price of the commodity in question exceeds the average price over the previous four years and the quantity exported to EEC is at least equal to the average quantity over the previous four years. If after five years, the transfer has not been repaid, EEC will decide at its own discretion whether the sums outstanding should be waived or whether they should be reconstituted wholly or in part, in one or more instalments. The scheme is not generally speaking an aid scheme except in so far as repayments do not bear interest and in so far as EEC may decide to write off financial transfers which have not been repaid within five years.

49. The EEC scheme represents a breakthrough in relations between developed and developing countries. A significant group of developed countries has recognized that stable export earnings are a sine qua non for sound development planning. Developing countries might question the limited number of commodities (12) included in the scheme, or the ceiling on financial transfers of 375 million units of account 3/ over five years. This ceiling might make it necessary to institute some form of rationing. But the conditions of repayment are not punitive; repayments are only required if export prices are higher than average prices over the previous four years so that increases in export earnings arising from gains in export volume do not give rise to an obligation to repay. And there is potential for a substantial aid component in the scheme, depending on how liberal EEC is with regard to transfers that have not been repaid within five years.

3/ One unit of account equals 1 SDR at its value on 28 June 1974.

50. A third scheme, the IMF compensatory financing facility, was inaugurated in 1963 and revised in 1966. Unfortunately, this scheme has not met the aspirations of developing countries since it is operated in line with the general procedures and practices of IMF. This places certain limitations on compensatory lending. For example, loans are only made to a country experiencing a shortfall in export earnings, not to a country experiencing a rise in import prices and a fall in the terms of trade, and then only if the country is also in overall balance-of-payments difficulties. Secondly, total borrowing from the facility cannot exceed 50 per cent of the country's quota with IMF. This poses problems for developing countries experiencing large temporary shortfalls because their quotas are generally small. Thirdly, the scheme is self-financing. Repayment is to be made at the latest within a period of three to five years at normal interest charges for transactions with IMF.

51. The IMF scheme is currently under review in the light of these objections. African countries should request that the IMF make compensatory financing available to all countries experiencing a shortfall in export earnings irrespective of whether they are in overall balance of payments difficulties, with compensation being determined by the size of the shortfall, unrestricted by IMF quotas and not subject to repayment in its entirety within the relatively short period of five years. If such changes were made, then the need for any additional compensatory financing scheme would be largely overcome.

52. Other schemes have been proposed and discussed by Governments and international agencies, although not generally in such concrete form as the above three schemes. Prominent among these latter schemes has been the proposal to index the prices of commodities exported by developing countries to the prices of the manufactured goods which they import. The proposal has arisen from the need for prices of primary commodities to be just and remunerative to the primary producing country. Unfortunately, there are many inherent difficulties which beset any scheme of indexation.

53. Indexation of the price of a single commodity is feasible, irrespective of the agreement of importing countries, only if there are a small number of producers with virtual control over the supply, if the price elasticity of demand is low and if the cross elasticity of substitution is low. A high-income elasticity of demand is also conducive, though not absolutely necessary, to successful indexation. It is unlikely that many commodities other than petroleum meet these four conditions. The problem with indexation alone is that it fails to incorporate any economic provisions. If the above four conditions are not met, it relies solely on the mutual agreement of exporters and importers and becomes a form of multilateral contract. As was stated earlier, the only international commodity agreement which has been effective in assuring a just and remunerative return to the producer has been the tin agreement because it incorporates economic provisions in the form of a buffer stock.

54. Indexation should be viewed as part of an integrated commodity scheme. To be effective, any scheme designed to affect directly the prices which producers receive for their commodities must overcome four basic difficulties: the determination of a defensible price-range, the establishment and management of buffer stocks, the need for and the problems of control over production and the ways and means of

accommodating differences in efficiency and changes in producer patterns. 4/ Indexation provides an answer to the first difficulty; it does not obviate the need for stocking arrangements and supply management in order to keep the price at the indexed level.

4/ These conditions do not apply to the EEC scheme or to the IMF scheme, because compensatory financing schemes do not directly affect the prices which producers receive for their commodities. If UNCTAD succeeds in setting up a series of international commodity stocks, it will eventually have to face the problem of supply management if the stocks become too large at the price which UNCTAD tries to defend.

(ii) Dependence on commodity exports

55. As stated above, primary products excluding petroleum accounted for 54 per cent of Africa's exports between 1970 and 1972. Primary products including petroleum accounted for 92 per cent in the same period. This situation has several disadvantages apart from contributing to instability in export earnings. The prospects for transforming a country's economy through growth in the export sector depend on the linkages between export industries and other industries in the economy. The stronger these linkages, the greater is the effect of a rise in exports on production in others sectors of the economy. Since primary commodities, especially minerals and metals, generate relatively weak linkage effects, overdependence on primary commodities is not generally conducive to fast growth in other sectors of the economy. Dependence on commodity exports also implies that little upgrading or processing of these commodities is done in Africa. Since the value added in processing is frequently as large as, if not larger than, the value added in primary production, African countries are losing a significant potential source of income by exporting commodities in their raw form.

56. Dependence on commodity exports is closely related to such issues as access to markets, tariff escalation in importing countries, and industrial development in Africa. A major policy change in this field was the acceptance by developed countries in 1968 of the principle of tariff preferences on imports from developing countries as a means of promoting industrial development. However, most preferential schemes that have been instituted since 1968 have usually been limited in application by restrictive conditions regarding product coverage, the level of ceilings, the degree of preference, and the size of preferential tariff quotas. The most noteworthy exception is the Lomé Convention between the EEC and 46 African, Caribean, and Pacific countries. The ACP states now have duty-free access into the EEC for all industrial products provided for in the Convention. Although this will have little effect on current trading patterns because ACP States export so few industrial goods, it should act as a stimulant to the development of industries to process raw materials in the long run. African governments should attempt to negotiate similar and better agreements with their other major trading partners.

57. The multilateral trade negotiations within GATT have shown little progress. 5/ Recognizing that non-tariff barriers have become just as important, if not more important than tariffs as impediments to the export of manufactures from developing countries, the United Nations International Development Strategy for the Second United Nations Development Decade called for the relaxation and progressive elimination of non-tariff barriers. Although the Tokyo Declaration relating to GATT negotiations contained a number of objectives and procedures intended to favour the exports of developed countries, other factors both in the Declaration itself and in the initial stages of its implementation raise doubts as to whether the negotiations will in the end bring about a substantial improvement in trading conditions for developing countries. A concentrated effort by African and other developing countries is needed in order to yield significant results.

(iii) The pattern of trade

58. Although in the short term, African countries must rely on markets in developed countries for their exports, in the longer term, new patterns of trade must be set up

5/ The following is based on the report of the Committee for Development Planning, on its eleventh session, 1 - 16 April 1975 (E/5671).

in order for African countries to develop successfully. African exports are highly concentrated at present with roughly 80 per cent going to developed market economies. By contrast, intra-African trade accounts for only 5 to 6 per cent of total African exports.

59. Recognizing that developing African countries face serious problems in creating new markets for their exports, especially markets within Africa, the Africa Trade Centre was set up in 1970 at the request of members States of ECA to assist member countries in increasing their export earnings, to promote intra-African trade, to assist in training in trade promotion and export techniques, and to co-ordinate the efforts of other United Nations agencies in the field of export promotion in Africa. The centre is now fully established. It prepares studies relating to trade and development; provides trade promotion advisory services, marketing research services and trade information and documentation services; sponsors training courses in export promotion; and in January 1974 was instrumental in setting up the Association of African Trade Promotion Organizations to foster contacts and the regular flow of information and communication between African countries in trade matters. The resources of the Africa Trade Centre should be utilized as fully as possible by African countries.

60. An expansion of intra-African trade can foster efficient industrialization in Africa. The small size of African markets, as much as anything else, prohibits the efficient production of industrial goods with large economies of scale; expansion of markets is necessary to exploit these economies of scale. Extensive co-operation between African countries is needed in order to set up new trading links and to liberalize trade within Africa. At present, tariffs in African countries are generally much higher than tariffs in developed countries. Possibilities of economic integration should be explored. In this vein, the recently concluded agreement among fifteen West African States to form an economic union with the purpose of eliminating all trade barriers between them within 15 years is laudable.

61. Expanded intra-African trade should be only one of the main elements in a programme to promote the overall expansion of trade. Expanded Afro-Arab trade is another area which should receive special consideration. The Arab oil-exporting countries are the world's fastest growing market for consumer and producer goods, a market which could be tapped by developing African countries. The projects financed by the Arab countries in Africa could also become a source of trade in investment goods and raw materials produced in Africa. There is the opportunity for a fruitful triangular relationship between the Arab countries' capital, the human and natural resources of developing African countries, and the technological resources of the developed countries to promote the expansion of trade along these lines.

(iv) Marketing and distribution

62. The marketing and distribution of Africa's primary commodities are still overshadowed by large, increasingly transnational and multicommodity corporations controlled by interests in the developed countries. Although the situation is more clearly understood than it was even a few years ago, how to harness the vast technological and capital resources of multinational corporations to the aid of the development process without adversely affecting the interest of both the corporations and their host countries remains one of the most intractable problems of development.

63. The present situation with respect to coffee, cocoa, cotton, and oilseeds - Africa's four largest agricultural exports - amply illustrates the problem. 6/ The world market for coffee is dominated by four companies - General Foods Corporation, Standard Brands, Inc., Coca-Cola, and Nestlé. All have extensive interests in foods in addition to coffee, and all have subsidiaries in every major coffee-importing country. Nestlé, along with Hershey Food Corporation and British Chocolates, is also one of the three largest purchasers of cocoa. In addition, Nestlé has an agreement with Unilever to market foods in the Federal Republic of Germany, Australia, and Italy, a link which combines a large importer of cocoa and coffee with the largest world importer of oilseeds and a company which has had extensive interests in West Africa since the early years of this century. If this were not enough, Anderson Clayton and Company, at one time the world's largest cotton dealer, has a joint marketing agreement with Hershey Food Corporation. The international market for Africa's four leading agricultural exports is effectively dominated by a small group of inter-related multinational corporations.

64. This trend towards concentration has tended to increase the bargaining power of these firms. Although African production is largely in the hands of African Governments and peasants - foreign direct investment in agriculture accounts for not more than 7 per cent of total foreign direct investment in Africa - and the selling of African produce frequently in the hands of government-controlled marketing boards, the market for African produce is an oligopsony with many sellers and only a few buyers. The competition among sellers enables the multinational corporations which dominate the buying end of the market to purchase the output at the lowest possible prices. These trends have reduced the extent to which African exports can make a contribution to African development. The long run deterioration of Africa's terms of trade since 1960 is in part explained by increased concentration in marketing. If international efforts to ensure just and remunerative prices for primary products prove successful, it is not unlikely that the greatest gainers will be the multinational corporations which buy these products. Constant margins on a higher price will increase their returns.

65. The situation with respect to minerals is considerably different. If anything, this sector is more concentrated because of the large economies of scale in mineral extraction. In addition, multinational companies tend to exercise direct control over production, marketing, and distribution as opposed to simply indirect control over marketing and distribution by means of their oligopsonistic power. Roughly 60 per cent of foreign direct investment in Africa has been in the mineral sector of African economies. In spite of successive nationalizations throughout Africa, the situation has not changed much in the last decade. Although some African Governments have acquired nominal ownership of companies, multinational corporations have retained the management and make the critical decisions affecting price and output in light of their own profit-maximizing requirements.

66. The domination of marketing and distribution of African primary commodities means that primary commodity production plays a less significant role in the development of African economies than it might. African Governments should therefore explore ways and means of increasing their control over the marketing and distribution of their own commodities. They should consider expanded co-operation and exchange of information among themselves so as to enhance their bargaining power vis-à-vis **transnational corporations.**

6/ The following information is taken from Ann Seidman, "Prospects for Africa's Exports," Journal of Modern African Studies (October 1971).

(v) Producers' associations

67. The current world recession in the aftermath of the 1973-74 boom, and the virtual certainty that exports of many African countries will be depressed for a good part of the remainder of this decade, have made it more essential that the measures called for by developing countries in the various forums outlined at the beginning of this section should be implemented as soon as possible. Failure to reform the international trade system in favour of developing countries will put satisfactory growth out of the reach of most of them. However, it is not enough to call for certain measures, or to rely on the intentions of developed countries to implement them. African countries must make their own contribution. Enough has been said about what needs to be done and accordingly this subsection discusses one approach to how it might be done through the establishment of associations of primary producing countries.

68. The role which such associations can play in the pursuit of developing countries' objectives in the field of raw materials and development has been widely recognized. Such associations already exist in some form for copper, iron ore, 7/ coffee, cocoa, and groundnuts. An informal association exists for phosphates and a group of African oilseed producing countries met at Lagos in August 1974 to discuss the possibility of forming an African oilseed association. In line with resolutions passed at the ECA Conference of Ministers in February 1975, the work programme of ECA is being re-orientated in this direction. Work has already begun on three commodities of special interest to Africa - oil palm products, phosphates and potash within the special context of fertilizers, and iron ore. It is hoped that work on other commodities will soon follow.

69. Generally speaking, with allowance for the peculiar characteristics of specific commodities, the aims of producers' associations are to co-ordinate research on technical and economic aspects of production, processing, and marketing of African commodities; to promote the establishment of industrial activity in Africa based on the upgrading of primary products; to facilitate the exchange of information on programmes and policies; to promote the consumption of African commodities in traditional and new markets, especially in developing countries; to seek the removal of tariff and non-tariff barriers to trade in African commodities; to co-ordinate standards of quality so as to facilitate international marketing; and to keep under constant review developments relating to supply, demand, and prices of African commodities. All of the trade measures called for by developing countries can be accommodated within the aims of producers' associations.

70. Producers' associations are especially relevant in the African context in view of the generally marginal role of Africa in world trade, in view of the minimal bargaining power of individual African countries vis-à-vis the multinational corporations which overshadow the market for their commodities and in view of the general lack of information with respect to the production, processing, marketing and distribution of African exports. In continuation of efforts which have already begun, African countries might consider the establishment of producers' associations for cotton, forest products, citrus fruits, sisal, hides and skins, diamonds and manganese.

7/ This association was formed on April 2, 1975.

D. TRANSFER OF RESOURCES

71. The needs for the transfer of resources can be divided into those of a short-term nature and those of a long-term nature. Short-term measures relate to the need to alleviate specific difficulties arising from the current economic situation, in particular the dramatic rise in the price of key imports such as petroleum and cereals. Long-term measures relate to the problems of economic development in general. In light of the current economic situation, long-term development programmes have been virtually suspended in many developing countries. However, this should not detract attention from the continued need for such measures.

(i) Short-term measures

72. The recent explosion in the needs and plight of the non-oil-producing developing countries has been caused by an upheaval in the world economy during 1973-74 and the consequent deterioration in the terms of trade. As a result of inflation, recession, the large rise in import prices, and the sharp fall in export prices, according to IBRD estimates, the developing countries will require about $US 6,500 million in 1975 and $US 10,000-12,000 million annually above the amounts previously projected for the years 1976 to 1980. FAO estimates that the investment needed in the agricultural sector alone by 1980 will increase twofold over the estimated current annual level of $US 8,000 million and external assistance three to fourfold over the current annual rate of some $US 1,500 million.

73. The United Nations Secretary-General was authorized under General Assembly resolution 3202(S-VI) of 1 May 1974 to establish a United Nations Emergency Operation for providing relief to the most seriously affected developing countries. The gravity of the short-term situation was underlined by the initial identification in 1974 of 33 such countries: Rwanda, Bangladesh, Mali, Somalia, Upper Volta, Chad, Ethiopia, Guinea, Yemen Arab Republic, Dahomey, Lesotho, Niger, Sri Lanka, India, the United Republic of Tanzania, Haiti, Laos, the People's Democratic Republic of Yemen, Khmer Republic, Pakistan, Sudan, Malagasy Republic, Central African Republic, Kenya, Mauritania, Cameroon, Sierra Leone, Ghana, Senegal, Honduras, El Salvador, Ivory Coast and Guyana. As the economic conditions of other developing countries worsened, on 23 April 1975 another eight countries and Territories were added to the list: Burundi, Afghanistan, Burma, Uganda, Western Samoa, Cape Verde Islands, Egypt and Mozambique. The number of African countries thus listed for assistance came to 26. The plight of the countries in the Sahelian zone and other parts of Africa hit by prolonged drought has been the worst.

74. It was projected that in 1974, the resource gap of the most seriously affected would reach $US 2,300 million. Amidst worsening terms of trade, the World Bank and IMF have given the revised estimate for 1975 as $US 3,000 million.

75. Stop-gap emergency aid was for assisting with balance-of-payments difficulties and was given out mainly in the form of outright grants and loans with a substantial concessional component. Aid given under the Operation, to which commitments amounted to $US 275 million in 1974, was entirely in the form of grants. Total pledges amounting to $US 2,700 million were to be contributed multilaterally and voluntarily by Venezuela, Saudi Arabia, Algeria, Iran, the United Kingdom, Sweden, Kuwait, the United Arab Emirates and EEC. The latter provided a further $US 187 million direct to the most seriously affected countries on the understanding that individual EEC members would provide more assistance bilaterally. The Arab members of OPEC provided through their own institutions a further $US 300 million in

emergency aid on concessional terms to African and other most seriously affected countries. Further emergency aid was also granted by OPEC members bilaterally for longer-term development purposes.

76. On the whole OPEC disbursements during 1974-75 came to 1.4 per cent of GNP of its members, while their commitments to developing countries bilaterally and multilaterally amounted to $US 8,500 million, or 25 per cent of their accumulated reserves. Of this, one third was allocated to the most seriously affected countries. They also committed $US 3,100 million to IMF for the Oil Facility and $US 1,000 million to the World Bank. The United States of America also provided further aid especially through its food programme.

77. More emergency aid from international organizations was channelled by IMF through its Oil Facility for 1974. Purchases from the Facility by the most seriously affected countries amounted to SDR 600 million (about $US 740 million). These were in addition to SDR 600 million (about $US 740 million) in regular drawings from IMF in 1974.

78. FAO and World Food Programme (WFP) also provided assistance in food and fertilizers. IMF, through its Managing Director and its Interim Committee on Emergency Aid, recommended the creation of a Special Account from contributions of members to be used for subsidizing interest payments by the most seriously affected countries for their purchases from the Facility. The desirability of providing aid on concessional terms for the period immediately ahead was further taken up in January 1975 by the Joint Ministerial Committee of the Board of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (The Development Committee). The Executive Boards of the Bank and the Fund were requested to study the possibility of creating a Special Trust Fund for this purpose.

79. One main drawback in this kind of emergency operation was the lag of varying duration between allocation and actual disbursement by most Governments and institutions other than IMF. Under its Oil Facility, IMF filled the time lag by providing quick purchases for relieving balance-of-payments problems. It financed $US 1,450 million (SDR 1,200 million) of the deficit. The remaining $US 950 million was financed by the disbursement of emergency assistance and other short-term stop-gap financings already mentioned.

80. As another short-term measure, rescheduling and even cancellation of public debts contracted on hard commercial terms by those countries most seriously affected by the current economic situation should be sympathetically considered by the developed countries, from where they originated. A successful solution to the serious debt problem will increase substantially the ability of the countries concerned to concentrate more on long-term problems.

(ii) Long-term measures

81. The organization of emergency aid during the two-year period 1973-1975 temporarily overshadowed the greater longer-term needs for development aid. However, it is encouraging to note that the perennial questions concerning the real volume of aid, transfer mechanisms and terms of transfer have featured prominently in the discussions on the establishment of a New International Economic Order and that the favourable results of the deliberations assisted in shaping a very effective transfer of resources to the most seriously affected countries during the current emergency operation.

82. The International Development Strategy restated what the United Nations considered as the requisite volume of aid to developing countries. Each developed country, especially those in DAC which accounted for most of the resource transfers, was called upon to transfer to developing countries a net volume of resources equivalent to 1 per cent of its GNP annually by 1972 if it had not already reached the target. Within the 1 per cent, official development assistance (ODA) should reach a minimum of 0.7 per cent of GNP, of which the outright grant element should be around 80 per cent.

83. During the present decade the flow of resources has fallen far short of the targets. The total net flow of resources from DAC countries in 1973 was $US24,400 million or 0.79 per cent of the combined GNP of the advanced countries compared with $US15,700 million or 0.78 per cent in 1970. Net official development assistance rose marginally from $US6,800 million in 1970 to $US9,400 million in 1973, but fell from 0.34 per cent to 0.30 per cent of gross national product. In fact, "the volume of official development aid remained relatively stagnant, in real terms, over the past decade". 8/

84. The pattern of aid distribution as indicated by Africa's share in the flow of resources shows that official development assistance and multilateral aid provided on concessional terms increased from $US1,700 million or 25.8 per cent in 1970 to $US2,400 million or 27.6 per cent in 1973. Bilateral aid in the form of technical assistance increased from $US205 million or 36.7 per cent in 1970 to $US1,100 million or 38.2 per cent in 1973. ODA as such increased from $US1,300 million or 22 per cent in 1970 to $US1,800 million or 25.5 per cent in 1973. But while the total flow of resources from DAC countries and multilateral agencies increased from $US3,100 million in 1970 to $US4,100 million in 1973, Africa's share in fact decreased from 21.2 per cent to 18.1 per cent. During 1970-1973, the pattern of resource flow that emerged indicates that Africa received an increasing share in resources transferred on concessional terms, but a declining share of total resources transferred.

8/ Organization for Economic Co-operation and Development, Development Co-operation, 1974 Review.

85. Within Africa itself, the 16 least developed countries improved their *per capita* receipt of ODA and multilateral aid transferred on concessional terms from $US4 in 1970 to $US 6 in 1973. By comparison, Africa as a whole had an increase of only $US1 *per capita* and came level at $US6 with the least developed countrries. However, when the total flow of resources from the DAC countries and multilateral agencies is considered, the least developed countries of Africa received only $US 7 *per capita* in 1973, an amount equal to the *per capita* aid flow for the developing countries as a whole in 1970. It should, however, be noted that the *per capita* flow for these least developed countries had increased from $US4 in 1970 to $US 7 in 1973, while for the developing countries as a whole the increase had been only from $US7 to $US9.4. If the special measures favouring the least developed countries continue and are reinforced by the new measures intended to increase the total flow of resources to the developing countries in particular the least developed ones, there is hope that the emerging pattern of resource transfer will meet the targets being advocated.

86. The World Bank's revised five year programme 1974-78 envisages a total Bank/IDA leading of $US30,000 million which represents an increase of $US8,000 million above the $US22,000 million forecast in 1971. However, although the increase appears large in absolute terms, when account is taken of the present inflationary trends and currency realignments, the annual increase is no more than 7.8 per cent above the level for the period 1969-73. Without more aid from other international agencies, the World Bank's contribution would fall short of the assistance required to help the developing countries to attain even a modest annual growth rate.

87. While all developing countries are facing difficulties, the least developed among them, including particularly the Sahel zone countries and Ethiopia which have been worst hit by drought, will require more development aid on concessional terms. The World Bank has estimated that for this group to attain a *per capita* annual growth rate of 2.1 per cent during the remainder of the decade, the required flow of resources on concessional terms would have to rise from $US12,000 million in 1973 to $US18,000 million in 1976 and $US30,000 million in 1980.

88. There are a number of related issues which are pending solutions. The first is the terms on which transfers of resources take place. It has been suggested by the Committee for Development Planning that developing countries should be classified according to their ability to meet the cost of their imports and the level of *per capita* GNP. On a comprehensive basis, it is being suggested that the middle-level developing countries should give up their claims on resources transferred on concessional terms in favour of the least developed countries because, after all, such resources are limited. In return the middle-level developing countries should be given access to aid on terms that are between the interest rates charged by the World Bank and IDA, the so-called 'third window'. They should also have access to developed countries' capital markets where they would be guaranteed subsidized interest rates, financed out of contributions made by developed countries and the revaluation of the IMF gold holdings.

89. The second major problem relates to increasing the resources available to multilateral institutions. They have already proved their efficiency and effectiveness in the past including in the current emergency operation. Besides they reduce problems arising from tied aid which is a common feature of bilateral dealings.

90. In recognition of this, the African Group in the Bank has made a strong plea for increasing the paid-in capital of the Bank which is constantly being eroded by inflation. The Bank should also continue to raise funds in capital markets. Such funds are however available on terms that the least developed countries can scarcely afford. Their main source is therefore IDA whose resources are estimated to increase by 35 per cent during the fourth replenishment. In real terms this will be less than during the third replenishment. Therefore, noting the obvious shortage of such funds, the African Group called for creation of the "third window", a category of funds which would be lent at no more than 4 per cent interest to developing countries which did not qualify for or did not receive enough IDA assistance. These efforts should be coupled with subsidization of interest on other Bank loans to needy developing countries financed by contributions from the developed countries.

91. The Group also pointed out that the criteria of population, _per capita_ income and _per capita_ aid flow used by the Bank for differentiating between the developing countries were disadvantageous to the majority of African countries that had small populations and to other African countries with relatively high _per capita_ incomes but where the greater part of GNP was concentrated in an enclave and foreign investment. The Bank should therefore reformulate policies that truly take into account the economic conditions existing in a developing country.

92. The African Group also supports the Bank's efforts to redirect its assistance to the rural areas where over 40 per cent of the population of the developing countries live. The criterion of classic economic return to investment should not be applied here, because the social content of projects that will both stem the outflow of the rural population and guarantee them some income is bound to limit the scale of economic returns. The Bank should consolidate the success of such activities by joining other appropriate international agencies in promoting trade in agricultural products. Assistance by the Bank in conjunction with FAO, WHO, UNDP and other agencies to eradicate riverblindness in Africa is highly laudable. The assistance should be extended to other areas of public health for the eradication of other endemic diseases.

93. The Committee for Development Planning in its report on its eleventh session held from 7 to 16 April 1975 made a number of suggestions to increase the resources flow to developing countries, to enlarge the absorptive capacity for those countries in which mass poverty is still pervasive and to improve the terms and conditions of aid.

94. The Committee suggested that technical and financial assistance should be provided as much during the investment as during the preinvestment stage, in connexion with the identification, feasibility, engineering design, construction planning and initial operation and managing of projects. They also requested that a more liberal policy should be adopted towards local cost finanncing, including for national experts. Government institutions in the recipient countries should be increasingly entrusted with responsibility for executing projects.

95. The Committee added that, except when they themselves were explicitly providing essential finance, the oil producers wanted safe investments and at high rates of return. A mechanism had to be found by which the surplus funds of the oil producers and the technology of the industrialized countries could be put together for the development of the poor countries. It stated that that purpose could be achieved in various ways:

(a) By the rich countries or institutions in the rich countries borrowing from the oil producers at commercial rates and lending to the poor at subsidized rates;

(b) By interest rate subsidies financed either by the profits or revaluation of the gold holdings of IMF; or by combined direct contributions from industrialized nations and oil producers.

In its view there should be increasing scope for investment by OPEC countries in export-oriented industries in other developing countries, particularly in cases where such industries could provide OPEC countries with needed imports and where the latter countries could provide an assured market for future years.

E. THE INTERNATIONAL MONETARY SYSTEM

96. In this section, attention is focused on the adjustment process, the question of convertibility, international liquidity, and the role of the International Monetary Fund. The transfer of resources to developing countries outside the context of the international monetary system are discussed in the previous section.

(i) The adjustment process

97. There are principally three approaches to the process of adjusting balance-of-payments disequilibria in developed countries: exchange rate adjustments, restrictions on trade and capital movements, and deflation of the domestic economy. Of these three approaches, the least damaging to international trade is recourse to exchange rate adjustments. Thus, as rightly stated by the Committee of 20, the proposed reform of the international monetary system should be based upon stable but adjustable par values and equipped with intervention and convertibility arrangements which do not belong to widespread floating. 9/

98. The Bretton Woods Agreement provided for fixed exchange rates based on a gold exchange standard with the United States dollar playing the most important role. However, this Agreement was effectively ended by the decision taken by the United States of America on 15 August 1971 to suspend the convertibility of the dollar into gold. Subsequent attempts to revive the fixed exchange rate system through realignments among the major world currencies have failed and a period of widespread floating has ensued.

99. The solution to this serious problem appears to lie not only in the adoption of a system of stable but adjustable par values as proposed by the Committee of 20, but also in the acceptance of the need to avoid competitive devaluations or direct restrictions on trade. Hence the importance of the proposed principle "that the behaviour of Governments with respect to exchange rates is a matter of international concern and a matter for consultation and surveillance in the Fund". 10/

9/ Nature of monetary system's evolution assessed in an address by Jeremy Morse, IMF Survey, 17 June 1974, p. 187.

10/ Intergovernmental Group of 24 on International Monetary Affairs, IMF Survey, 20 January 1975, p. 25.

100. However, in applying the system of stable but adjustable par values, the problems to be faced by the developing countries should not be minimized. In the first place, there are uncertainties involved, although the level of uncertainties which will arise from small but stable adjustments may be less than those which arose in the past from large and sudden adjustments of exchange rates by the major trading countries. Secondly, the new situation will demand new expertise particularly in the area of future markets in money matters. This is another aspect of the dynamics of development for which the developing countries have to provide expertise, although initially they would need technical assistance.

101. It has been stated that the adoption of more flexible exchange rates to deal with external disequilibria will enable developed countries to concentrate on growth and employment problems at home which are essential for the orderly expansion of world trade including that of the developing countries. In this connexion, the institution of the IMF oil facility, the OECD Financial Support Fund ("the safety net") and other multilateral and bilateral arrangements particularly with oil producers should enable the industrial countries to cope with their huge deficit problems and so avoid trade and capital movement restrictions and/or deflation that could adversely affect developing countries' exports. As stated above, in view of the usefulness of the Oil Facility, it is hoped that it will be continued beyond 1975 without prejudice to the need for specific measures to cope with the problems of the additional capital needed by the developing countries as discussed in section D.

(ii) The question of convertibility

102. Recent events have confirmed the danger of using national currencies as international reserve assets. Fluctuations in the value of reserve currencies and the increasing costs of procuring gold as the ultimate-asset into which reserve currencies can be converted have demonstrated the need for an asset which is free of such handicaps. African Governments should support the proposal to make SDRs the standard international currency with a basket of currencies adopted as the basis of its valuation.

They should also support the proposal of the Interim Committee to make more attractive the value and yield of SDRs pending the final provisions of international monetary reform. The role of gold and existing reserve currencies should be gradually reduced.

(iii) International liquidity

103. SDRs were first established not only as an international currency standard, but also as a means of providing international liquidity for international trade and payments. On a global scale, in view of the world inflation, there appears to be no urgent need to increase international liquidity by the creation of more SDRs for the time being. However, it is doubtful whether international liquidity is equitably distributed between developed and developing countries. If and when new SDRs are created, special attention should be given to the liquidity needs of developing countries. African Governments should support the proposal that the allocation of SDRs should be linked to the development needs of developing countries. In this connexion, three objectives emphasized by the Committee of 20 should be achieved: minimum risk of adversely affecting other aid transfers, minimum overall cost of SDR transfers, and maximum assurance that the allocations will adequately reflect relative needs of developing countries.

104. With the role of gold as the ultimate reserve asset in the international monetary system being reduced, attention should also be focused on the possibility of bringing about a more equitable distribution of international liquidity by making use of IMF gold holdings which are at present worth $US6,000 million. African Governments should support the proposal of the Committee of 20 that the IMF gold holdings should be revalued at prevailing market prices and the profits used for long-term loans to developing countries and/or subsidizing interest on loans to them.

105. Under the old Bretton Woods system, the creation of international liquidity depended largely on balance-of-payments deficits in those countries whose currencies acted as international reserves. Other countries had little or no say in the creation of international liquidity. African Governments should support the efforts of the Interim Committee to invest global control of liquidity in the whole international community acting through IMF in order to avoid uncontrolled liquidity creation.

(iv) The role of the International Monetary Fund

106. In view of the changed world situation since the International Monetary Fund was created, there is need for its reform along with other elements in the international monetary system reflecting the increased importance of developing countries in the world. In addition to the need for a link between the operations of the IMF and the transfer or resources to developing countries, discussed in subsection (iii), there is a need to bring about more effective participation by developing countries in the international decision-making process in monetary and financial fields.

107. The effective participation of the developing countries in the international decision-making process in the monetary and financial fields can be achieved only through suitable amendments to the Articles of Agreement of IMF and strengthening IMF as an international instrument for effective economic and financial co-operation. In this connexion, the strong representation of the developing countries in the Interim Committee and the Development Committee is welcome. Similarly, the proposal to amend the Articles of Agreement so that the quotas can be increased and the shares of the major oil exporters doubled while the shares of the other developing countries remain unaltered is also welcome even though the recommended increase of 32.5 per cent is below the 50 per cent increase which the developing countries would have perferred. In conformity with the desire to reduce the role of gold in the international monetary system, the recommendation that the 25 per cent gold requirement in quotas should no longer be obligatory is equally satisfactory.

108. The recommendation that the Interim Committee should be transformed into a permanent council responsible for the management of the affairs of the Fund should be implemented as soon as sufficient experience has been gained by this Committee. Of course, the existing strong representation of the developing countries in the Committee should be retained when the Council is created.

109. The voice of African Governments has been heard through the Group of African governors of IMF and the World Bank, since its formation in 1969. In September 1974, at the Annual Meeting of the governors of IMF and the World Bank, the Group reiterated the African position as broadly laid down by the Heads of State of member countries during the meeting held on the occasion of the tenth anniversary of OAU at Addis Ababa in 1973.

110. The African position all along was that the most valid concept of the reform of the international monetary system had been and still remained a global approach. The Group supported the efforts of the Interim Committee to increase IMF resources by 70 to 100 per cent in order to meet the needs of deficit countries and guarantee that any quota increases thus made necessary and the resources so raised were put at the disposal of all members through effective participation in decision-making, and the calculation of quotas adapted to the new economic and political realities reflecting the importance of developing countries.

F. TRANSFER OF TECHNOLOGY

111. In view of the low level of technological capability in most developing countries, there has been little alternative in the past but to import technology while domestic capability is being developed. Indeed, in those areas where domestic capability is least developed, demand for technology has been greatest, particularly in the following fields: surveys and development of natural resources, modern processes of production, transport, and infrastructural facilities. In line with with these demands, much technology has been transferred to developing countries in the post World War II period, but there are at least two reasons why receiving countries have not fully benefited from this transfer.

112. First, the technology which has been transferred has not always been suitable to the factor proportions found in developing countries. In fact, there has been a definite bias in favour of capital, reflecting the relative labour scarcity in developed countries where the technology was developed. In some areas, especially agriculture, this capital bias has been positively harmful. Because of the inflexibility in adapting foreign agricultural technology to rural conditions in developing countries, agricultural development, which directly affects the majority of the African population, has been relatively neglected. In other areas, it must be admitted, the harmful effects have not been so great. Even with the best efforts, it is doubtful that labour-intensive technology could be developed to prospect for oil or minerals and to exploit them on a commercial basis. The elimination of the technological bias favouring capital calls for the formulation and pursuit of effective technological policies and the urgent development of domestic technological capabilities by African Governments. In addition, aid and trade policies pursued by developed countries should be re-examined with the object of promoting the import of labour-intensive products from the developing countries.

113. Secondly, the market for technology is dominated by transnational corporations controlled by interests in the developed countries. Contractual agreements between developing countries and transnational corporations have often resulted in developing countries' paying too high a price for technology. There are few hard and fast rules in this area, but generally speaking the market for technology is an imperfect market with transnational corporations exercising a monopoly rent over highly specialized technology. The maximum price for technology is generally determined by the social opportunity cost of land and labour to the host country; no host Government should rationally accept a return to land and labour utilized by the transnational corporation less than the return in their next best uses. The minimum price is determined by the private opportunity cost of capital to the transnational corporation; there is a minimum return on its capital which it will accept in order to invest in the host country. Between these two extremes, the resultant price attached to the technology will depend on the relative strengths of each side and the amount of information available to each side, especially with regard to the other's position. Suffice to say that the price is usually nearer the maximum than the minimum; developing countries are usually in a very weak bargaining position both because of their small size and because of the lack of relevant information available to them. To illustrate the contrast in size, in 1971, the sales of each of the top seven transnational corporations exceeded the GDP of any individual African country.

114. The Programme of Action on the Establishment of a New International Economic Order called for the formulation of an international code of conduct for the transfer of technology. After exhausive discussions at the international level, UNCTAD has since

proposed such a code with the following main principles: 11/ that suppliers should treat all receivers of technology equally; that problems with respect to factor intensity should be corrected by guaranteeing to receivers the suitability of the technology transferred, a continued supply of information on improvements in the technology concerned during the period of the agreement, and provision of assistance in developing local technological capacity; that monopoly rights granted to a patent holder to restrict the export of goods to other markets where the patent holder has similar operations should be waived; and that adequate training should be provided with a view to taking over management at the end of the agreement period. African Governments should support the activities of UNCTAD in conjunction with other international agencies to implement a code of conduct along these lines.

115. In the long term, African countries must increase their capacity to absorb and make meaningful use of science and technology. In this area, there is no question that progress will be slow. The dilemma is that demand for technological processes will be great, but the selective and productive utilization of the supply that will be called forth is bound to be limited for a while by inadequate local capability (qualified technologists) to scrutinize the suitability of plant design. The vetting capacity is essential for guaranteeing against over-ready acceptance of the recommendations of the purveyors of technology. The purely technological choice has also to be treated in the context of wage, tariff and other fiscal measures which should not unduly cause enterprises to choose capital-intensive rather than labour-intensive techniques. The sudden large increase in energy costs calls for even close examination of technological choices by the African countries, with a view to limiting the process of costly mechanization which they are in no position to afford.

116. The International Development Strategy contained a programme for the expansion of the scientific and technological capacity of the developing countries, and the creation of indigenous technology. It outlined four main components: strengthening scientific and technological manpower development and infrastructure, putting more effort into research and development that are of special interest to developing countries, easier and cheaper access to technological information, and the development of new technologies more suitable for adoption by developing countries.

117. The Committee on Science and Technology has taken up these guidelines and elaborated World and Regional Plans for achieving the objectives of the New International Economic Order in the field of science and technology. The Africa Regional Plan, while conceived in terms of solving the continent's unique problems, directs special attention to those areas neglected in the past: tropical agricultureal research in the field of genetics as a means of spreading the green revolution, research in health, diet and housing improvements, reduction of population pressure and acquisition of literacy.

118. While there are few short cuts to developing personnel and infrastructure in individual African countries, some economies may be effected through co-operation, especially among smaller countries. Such co-operation should cover higher education and research facilities which can be initiated with outside aid in the form of technical assistance.

11/ UNCTAD, Committee on Transfer of Technology, An International Code of Conduct on Transfer of Technology, Document TD/B/C.6/AC.1/2, Supp. 1, 25 March 1975.

G. TRANSNATIONAL CORPORATIONS

119. In the post World War II period, a new actor has appeared with increasing force on the development scene. This is the transnational corporation. Few other areas of discussion in the international community are so emotionally charged, with accusations against trasnational corporations ranging from neo-colonialism and collaboration with racist regimes to interference in the internal affairs of host countries and nonconformity with national development plans. Whether these be true or not, transnational corporations are here to stay. The role of transnational corporations in Africa is discussed above in section C, subsection (iv).

120. There are two basic questions confronting African Governments in their dealings with transnational corporations: transfer of technology and national sovereignty. The first question was discussed in section F. Concern about the activities of transnational corporations first arose out of the link between transnational corporations and the transfer of technology to developing countries, transnational corporations being the major agent for transfering technology. But it is more the question of sovereignty that has made transnational corporations a separate issue in discussions on the New International Economic Order.

121. The sovereignty of a host country is affected in many ways by the presence of a transnational corporation. A developing country, indeed any country, builds and maintains a network of infrastructural facilities for the benefit of industry for which it reasonably expects a transnational corporation situated in its country, like any domestic corporation, to pay its share of the costs. Unfortunately, a transnational corporation is often able to avoid taxation by means of transfer pricing, i.e., by overpricing inputs to and underpricing outputs from the subsidiary in the developing country in order to show no net profits there. The ability of a host country to collect taxes on profits or appropriate its share of the dividends, if any, is reduced.

122. Sovereignty is affected by the sheer size of the transnational corporation. Decisions taken by a transnational corporation, e.g., the raising of capital in international markets, often exert a greater influence on the economy of the host country than the Government's own fiscal and monetary policies. Similarly, the achievement or non-achievement of development objectives often depends crucially on decisions taken by a transnational corporation.

123. Sovereignty is affected by restrictive business practices of transnational corporations, such as the tying of raw materials and intermediate goods to an affiliate, and the allocation of exports markets between affiliates. Under such circumstances, an export promotion policy may be more difficult to pursue. It is the question of sovereignty in addition to the feeling that developing countries are paying too high a price for their technology that has led to nationalization of transnational corporations in many countries.

124. An alternative to nationalization is to take steps, such as the effective application of an international code of corporate conduct, designed to prevent the abuses often associated with the activities of transnational corporations, which would preserve the creative functioning of such corporations as well as guarantee the political and social integrity of host countries. Such steps have already been

initiated. In 1972, the Economic and Social Council of the United Nations convened a Group of Eminent Persons to Study the Impact of Multinational Corporations on Development and on International Relations. This Group presented its report in May 1974, in which it proposed among other things the establishment of an information and research centre on transnational corporations. This proposal was adopted at the fifty-seventh session of the Economic and Social Council in December 1974. It also proposed that the following principles should be included in a code of conduct for transnational corporations: non-interference in the internal affairs of host countries; elimination of restrictive business practices; conformity to the national development plans and objectives of host countries; the transfer of technology and management skills to host countries on equitable and favourable terms; and respect for the socio-cultural identity of the host country. African Governments should support the work of the Economic and Social Council through the Information Centre on Transnational Corporations to formulate and implement such a code of conduct.

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ECONOMIC COMMISSION FOR AFRICA

DEVELOPMENT AND ECONOMIC CO-OPERATION

Proposals for consideration by African Governments

Corrigendum

Page 4, proposal 26 (b), "profits or revaluation" please read "profits from revaluation".

Page 17, Imports for Mineral-exporting countries please read

	1970	1971	1972	1973
Imports (millions $US)	1,943	2,282	2,396	2,617

Page 23, paragraph 57, line 8, "developed countries" please read "developing countries".

Page 23, footnote 5/, "session, 1 - 16 April" please read "session, 7 - 16 April".

Page 30, paragraph 86, line 2, "leading" please read "lending".

Page 32, footnote 10/ please read "10/ 'Guidelines for the Management of Floating Rates,' Fund Press Release No. 74/30, IMF Survey, 17 June 1974, p. 181".

Page 34, paragraph 106, line 5, "transfer or resources" please read "transfer of resources".

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