UNITED NATIONS

# ECONOMIC AND SOCIAL COUNCIL



Distr.
GENERAL

E/CN.14/48
27 January 1960

ENGLISH

ECONOMIC COMMISSION FOR AFRICA
Second session
Tangier, 26 January - 6 February 1960

Statement by M. Philippe de Seynes
Under Secretary for Economic and Social Affairs

27 January 1960

The Economic Survey of Africa since 1950 submitted to the Commission contains invaluable information about the present economic structure of the Continent. One fact that the Survey makes clear is that although industrial development has contributed substantially over the past ten years to the growth of production and employment a large proportion of the income derived from the primary sector continues to be spent on the import of manufactured goods because there is no local production. A high marginal import propensity accentuates this phenomenon of "leakage", to use the term employed in the Survey, as income increases. Most if not all capital goods and consumer durables are imported, while the percentage of non-durables in total imports is not substantially decreasing.

In very many cases this situation is not attributable to the inadequacy of markets or their inability to absorb industrial production but rather to structural factors unfavourable to the establishment of industry, such as absence of technical skills and investment capital, and to institutional factors which do not encourage the development of effective incentives.

This schematic analysis of one of the basic characteristics of African development also serves to underline the dual role of the Commission. It must endeavour to pave the way for a different future by facilitating the mobilization of all the continent's resources in order to diversify the African Economy and as far as possible reduce its excessive dependence on the outside world. At the same time, by providing a forum for the joint discussion of common problems and thanks to the strength it can derive from association and concerted action, the Commission can play a useful part in bringing Africa's needs and problems to the attention of the national and international bodies where major decisions are taken directly affecting a continent whose economy will for many years to come continue mainly to be based on the export of primary commodities. Economic trends are not the outcome of blind market forces alone; they are also,

to a much greater extent than in the past, determined by the policies of the central authorities and the bargaining strength of the parties to negotiations, and they are expressed in the decisions of a small number of governments. The policies and actions of the great industrial powers are more than ever a subject of universal interest, and this is true in equal measure of the orientation of trade policies, the implementation of regional arrangements, international liquidity or even such apparently purely national problems as the scope and character of anti-cyclical measures and the relative importance attached to the objectives of growth and stability. These are the factors which give significance to a debate such as that which is opening today and to the Commission's subsequent discussion, and lend importance to the analyses and surveys which are prepared as a basis for discussion. The discussions can also help to clarify positions, illustrate trends and express needs, and thus ensure that decisions reached elsewhere are taken in fuller knowledge of their possible repercussions and the reactions they are likely to provoke.

Accordingly, the present debate cannot, if it is to achieve its full purpose, be confined to consideration of purely African factors. It must by the nature of things be broadened to include the most recent developments in the world economy.

*

* *

The world economy is entering a new decade at a time of economic expansion. The short term outlook, which has been improving for over a year, continues to be generally favourable. To quote only one figure, by mid-1959 the world index of industrial production was 11 per cent higher than at mid-1958 and the most recent information indicates that the upward trend is continuing despite the setback caused by the steel strike in the United States. In the early stages the public sector was the most important factor contributing to the rise in economic activity, through increased Government expenditure, tax reductions and measures to ease credit. As the expansion has gained momentum, its character has changed to some extent; fears of a recurrence of inflation reappeared at a very early stage, leading Governments to stabilize public expenditure and to adopt more stringent credit policies. These measures do not at the present stage seem likely to check expansion. The strong demand for consumer durables in the main European centres is providing a broad impetus to the economy, which should continue in the coming months. In the United States, despite certain weaknesses in the field of residential construction, the settlement of the steel strike should ensure expanding production at least for some time. The extent and duration of this expansion appears to depend mainly on the investment plans of private business and on certain special factors such as consumer reaction to the new model cars.

The advance in business activity in the industrial countries is being accompanied by a renewed growth of international trade. After a marked falling off in 1957-1958, imports into the industrial countries are now 7 per cent above the corresponding 1958 level and the exports of the less developed countries have shared in this increase. However, the increase in demand found most commodities in ample supply and the effect on prices has been relatively modest. The prices of rubber and hides have risen rapidly. Copper and zinc prices have also been higher than in 1958 as have those of hard fibres and coconut products. On the other hand, the price of non-ferrous base metals has not advanced. The prices of coal and petroleum, lumber, cotton and jute, sugar and tobacco, and the cereals and beverage crops were even lower in the first three quarters of 1959 than in the corresponding period of 1958. Under the influence of increased rates of absorption in the industrial countries, however, total exports from the less developed countries, after slipping back 5 per cent between 1957 and 1958, regained and even exceeded their 1957 level. As the average price index of manufactured goods in international trade remained more or less stationary, the less developed countries as a group enjoyed a higher capacity to import in the first months of 1959, although this has not yet been reflected in any substantial increase in imports.

As memories of the recession recede, attention is turning to factors that are less directly related to cyclical movements. Structural shifts seem to have taken place simultaneously with the changes in the economic situation. One of the most important phenomena in the present situation undoubtedly results from the gradual changes in recent years in the composition of trade between the principal world markets, the cumulative effect of which has rather suddenly confronted the world with new problems. The United States share of world exports has been falling while its share of total imports has been rising. Western Europe and Japan are improving their position correspondingly. Since 1954, imports of goods and services by the United States have, in fact, been increasing more rapidly than the national product. The import propensity of the United States appears to have reached a record high in 1958 and 1959, a reversal of trend since historically United States self-sufficiency has tended to increase in a relative sense as total output has risen. To what extent will this trend continue and to what extent will it be corrected by countervailing forces? An exhaustive analysis of the phenomenon cannot yet be given. Nevertheless, it is clear that the growth in the productive capacity of Western Europe and Japan has considerably reduced the advantage which the United States enjoyed in the early post-war years. There is also some evidence that costs have increased more rapidly in the United States than in other large industrial countries. In addition to these specific factors, there may be other, more general, causes. For several years, Governments have been making systematic efforts to restrain demand in the effort

to achieve price stability. Just as the post-war dollar gap resulted, at least in part, from the intense pressure of demand upon supply in a large part of the non-dollar world, the present reversal of the balance may, in turn, be due to a general relaxation in the pressure of demand. In so far as the United States has hitherto played the role of supplier "of last resort", relieving the shortages - from grain to steel - and breaking the bottlenecks that some countries encountered in their effort to achieve rapid expansion, it was natural for United States exports to fall relatively to those of other countries as total demand slackened.

These events may appear somewhat remote from the matters that concern Africa, but their effects are not limited to the industrialized part of the world and the relative positions of the principal economic Powers. The fact that the United States balance of trade has become more vulnerable than it was previously - or, at least, that it is regarded by some as having become more vulnerable - might easily have consequences which would affect the whole world economy. The phenomenon must be viewed in the broader context of the advances made in recent years towards liberalization of trade and currency convertibility. These advances, desirable and gratifying though they may be, have themselves created new problems. They have considerably increased the economic interdependence of the major nations and, in so doing, have made it more essential for Governments to harmonize their policies. Governments were not always able to prevent the flight of capital and its unfortunate attendant effects when they had comprehensive machinery for the control of foreign exchange and trade at their disposal. It may well be that in the present situation, with these controls dismantled, they will prove all the more sensitive to any indications of a threat to their position and may be inclined to take individual action, with a view to protecting their balance of trade, which would be detrimental to general economic expansion. A continuing deflationary tendency might thus gradually assert itself in the world economy. It is therefore in the interest of all nations that the need for a truly effective system of consultation and co-ordination should be fully recognized. Substantial progress in this direction seems to have been made at the meetings held in Paris just a few days ago.

If some Governments adopt new economic practices, it is to be hoped that the bodies which deal with the great problems of trade and assistance, of stability and growth, will be able to maintain some kind of contact with the bodies in which needs and trends in the under-developed countries are discussed, for otherwise a vital factor might be lacking in their decision-making process. The countries which have reached a high level of industrialization can adjust more readily than other countries, and over a much longer period, to a policy of limited expansion or of stagnation, and they may be tempted to adopt approaches leading in that direction, since they are sometimes simpler, if they do not have a complete picture of the situation because of a lack of information or a failure to communicate it.

In any discussion of African economic conditions, particularly in relation to the world economy, the problem of primary commodities must necessarily be given high priority.

Africa, like other primary producing areas, has been severely affected since the war by fluctuations in the prices of the principal commodities. These fluctuations have been less severe than during the inter-war period, but the improvement is much less might have been expected in view of the remarkable upward trend of activity in the industrial countries since the end of the war. One reason for this may well be that the amplitude of the movement in inventories has been greater than that of the over-all cyclical movements. During the recent recession in the United States, for example, the movement in inventories was equivalent to more than 2.5 per cent of the gross national product during the downswing and to 4 per cent during the subsequent upswing. Obviously, fluctuations on this scale must inevitably affect the price of primary commodities.

In some respects Africa suffers more than the rest of the world from these disturbing factors. Owing to its present level of economic development the African economy is relatively more dependent on primary production than other areas. Moreover, several of the main products which Africa exports - minerals, cotton, cocoa and coconut oil - have been particularly subject to price fluctuations.

A number of African countries have attempted, at the national level or within the framework of contractual or administrative relationships with other countries, to mitigate the effects of price fluctuations. The establishment of marketing boards and stabilization funds has in many cases made it possible more or less to sever the prices received by producers or exporters from those ruling in the international market. Prices are fixed in terms of local currency by administrative decision and the breaking of the link with world prices is achieved by requiring all producer sales to be made to an official agency which becomes the sole source of supply to all markets. The system has the further advantage of protecting small-scale producers against various forms of exploitation.

On the whole such experiments in Africa appear to have been more successful than some of the techniques employed in other areas to achieve the same purpose, such as variations in export taxes or exchange rates. They have not, however, succeeded in stabilizing incomes to the same degree as prices and no effort has been made to offset of continuing fluctuations in the volume of production, the repercussions of which are frequently as serious as those of fluctuations in demand. Domestic price stabilization also raises serious problems for Governments in so far as the burden of external fluctuations is shifted from the incomes of producers to government revenues. Moreover, the machinery for the stabilization of prices is itself far from being fully understood. How do producers, particularly in areas where there is still a non-commercial sector, react to fluctuations in prices? How is the instability of prices reflected in the volume and pattern of investment? Does the additional volume of investment made possible by a stabilization policy in a period of falling prices offset the restraining effect

in a period of rising prices? To what extent are the advantages of planning without regard to fluctuations in commodity trade counterbalanced by a weakening of the system of incentives? These are questions which give rise to theoretical debate and give pause to Governments.

The continuing and fairly steady increase in the volume of exports has to some extent mitigated the impact of price fluctuations on the African countries. The increase reflects Africa's rising share in world markets for primary products and has undoubtedly encouraged a series of expectations which are embodied in plans for expansion. It appears to be assumed that markets will continue to expand for many years to come. Unfortunately there is little information available to determine the validity of this assumption. It will obviously be much easier to accommodate rapidly growing African supplies if world demand is, as everyone hopes, expanding at a reasonable pace. It cannot be doubted, however, that sooner or later Africa will reach, over a whole range of products, the stage it has already reached in the case of cocoa, cotton, wool, copper and, more recently perhaps, coffee. Continued rapid expansion in the case of these products will mean either encroachment on the export market of other countries, or a significant deterioration in prices and consequently in the terms of trade and in import capacity. In the case of certain commodities excess capacity on a world scale already exists and in this situation the need for international action becomes particularly urgent. The problem will inevitably be aggravated if countries with similar resource endowments, whether agricultural or mineral, pursue their own national policies for the expansion of production of the same commodities without regard to the corresponding steps being taken by others. There can be no doubt that the existing machinery for the exchange of information and for consultation and the existing international arrangements should be strengthened and developed.

It is impossible to consider the problem of primary commodities without referring to the importance of international solidarity in its broadest sense. Examination of the long-term outlook serves only to emphasize the existence of structural difficulties which cannot be overcome by measures of price stabilization alone. At their present stage of economic development the over-all demand of the major industrial countries for primary commodities tends to increase less rapidly than their national product. This tendency is the consequence of a great number of factors which cannot readily be controlled or counteracted when a certain level of development has been reached. The over-all pattern of consumption then results in a growing demand for goods and services of which the raw material content is proportionately less. Technological innovations permit continuing economies in the use of raw materials and moreover synthetics are produced at prices competitive with those of natural products, even where labour is extremely cheap. The result is that the ratio of imports to gross product tends to decrease. The trend is reversed in the less developed countries, particularly in those which are undertaking ambitious development programmes requiring an increasing volume of imports of capital goods under long-term plans which involve a variety of interdependent elements and in which sudden adjustments cannot easily be made.

There is, therefore, in the respective situation of the two categories of countries a basic asymmetry whose effects can only be eliminated by international corrective action. It is the existence of phenomena of this kind that has gradually led to the acceptance of the principle of capital transfers under international programmes of assistance as a permanent feature of world politics, and justifies the discussion which the Commission is to hold and which I do not wish to anticipate concerning international aid to the African countries.

Another aspect of contemporary policy is of essential concern to the African countries. I refer to the schemes for regional integration which are at present the subject of intensive international negotiations between the principal industrial countries. At its most recent session, the General Assembly of the United Nations paid particular attention to the impact on the African countries of the policy of integration that is being pursued in Europe. The creation of the Common Market, of course, introduced a new form of preference and, if I may use the word, of discrimination into the African economy. I use the word "discrimination" in the technical sense, without any moral overtones. Discrimination is inherent in the establishment of any customs union or free trade area. The General Agreement on Tariffs and Trade, which is a detailed code of rules to regulate and thus promote free international trade, recognizes certain exceptions to the rule of non-discrimination. Customs unions or free trade areas established in accordance with prescribed procedures are authorized by specific provisions. It is for other bodies to settle the legal issue and decide whether the provisions of the Rome Treaty are legitimate from the point of view I have just mentioned. The problem of more direct concern to this Commission is, I believe, rather to define the type of organization or pattern of world trade which will afford the African continent the greatest opportunities for rapid and harmonious development. The question is a complex one, because of the immediate economic advantages the preferential system affords to the countries which benefit from it and because of the decisions which have still to be taken within the European Community, and only incomplete and provisional answers can be given. At all events one must attempt to avoid dogmatic answers. In considering the repercussions of the common market, it must be remembered that discrimination is not a new factor in the trade of the African countries. Throughout the present century African trade has been compartmentalized. The establishment of the European Economic Community reshapes one of the areas of discrimination and modifies the repercussions, rather than introducing a radically new institutional factor. According to the GATT panel of experts, the effect of the Common Market on the African countries will be trade diverting rather than trade creating. This does not necessarily mean that imports by the Community from third countries will decrease, but that the share of third countries in the total sales within the Community may decline. If the rate of economic growth of the Community is sufficiently rapid, the demand for primary products from third countries should continue to increase in absolute figures. The effect on the African countries of the reduction of tariff and quotas barriers within the European Community has this far been rather small. This is due to the fact that in several of the member countries of the European Community some imported primary products are not

subject to customs duties. Where reductions in duties have taken place, as in the case of coffee and cocoa, these concessions have been immediately extended to all member countries of GATT. Consequently the African countries have not as yet begun to benefit from or be harmed by the provisions of the Treaty of Rome. This fact in itself, and the active continuation of the international negotiations to which I referred earlier, show that the situation is still somewhat fluid and that there is, among the principal countries concerned, a desire to take into account changes in the international situation and to adapt the application of the Treaty of Rome to the needs of the moment.

An undertaking as complex and delicate as regional integration, which must be put into effect over a period of years, cannot readily be carried out in accordance with a plan every detail of which has been laid down once and for all and is incapable of further modification. As the European Community begins to feel its feet, affirms its identity and finds its place in the world, it may well be that some of the premises on which it was founded will appear in a different light. In particular, if economic integration develops in other ways and in other forms, it is not impossible that the preferential element may be considered less essential than it was thought to be when the Treaty of Rome was conceived.

Perhaps, if economic expansion continues, the member countries of the Treaty of Rome may themselves take the initiative in bringing about a general reduction of customs barriers which would be of considerable benefit to the African countries.

The very establishment of the Economic Commission for Africa implies that the continent is beginning to think of itself as an economic, as well as a geographic, unit. As this sense of awareness grows Governments will inevitably re-appraise the concepts upon which the Continent's economic system and its relations with the outside world are at present based, and consider that new institutions and forms of association should supplement or replace the existing ones.

Such a review will undoubtedly be undertaken when the continent's problems are examined in terms of a future in which industrialization must play an increasing role. In a continent as vast and relatively thinly populated as Africa, it is to be expected that compartmentalization and discrimination will in the long run be found to be a more serious obstacle to the development of great industrial centres than they have been in Europe or perhaps than they are today in Asia. Although the attention of the African Governments is at present largely concentrated on immediate measures for the more systematic development of the resources within their own borders, the time is not distant when they will have to consider the problem of creating favourable conditions for the establishment of functional complexes, the various components of which will not necessarily be confined within the borders of one country or even of one preferential area. The development of industrial complexes based on mineral or water resources or on the large-scale, rational production of foodstuffs will no doubt require the development of new institutional and legal solutions. These problems are already

arising in connexion with oil, iron, phosphates, aluminium and meat. The task is to create an area which possesses the essential infrastructure and in which the impetus given by primary production can develop and extend without being hindered by secondary effects. In order to achieve this sooner than would normally be the case, some thought should now be given to the economic and institutional conditions required. Such an undertaking involves not only the unity of the continent, whatever the form in which it may be expressed, but also, by reason of the capital it requires and the markets it assumes, world solidarity.

It is not too early for the Commission to consider the total picture of which its activities must form a part. The present debate and subsequent discussions will, I am sure, make a valuable contribution to that end.