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# COMPREHENSIVE REPORT ON THE TECHNICAL STUDIES ON TRADE, DEVELOPMENT AND MONETARY PROBLEMS PRESENTED BY THE AFRICAN EXPERTS OF THE DRAFTING COMMITTEE APPOINTED BY OAU, ADB AND ECA.

This report on Trade, Development and Monetary Problems was prepared by the African Economists of the Drafting Committee appointed by OAU, ADB and ECA whose work was co-ordinated by :

Professor Abdoulaye Wade

The report is not an official document of the Institutions constituting the Co-ordinating Committee, but rather a Conference working document. The opinions expressed therein are not necessarily those of OAU, ADB or ECA.

# DRAFTING COMMITTEE

CHAIRMAN : Mr. Ola Vincent, former Vice-President of ADB

African Economists members of the Drafting Committee

Prof. Abdoulaye WADE, Former Dean of the Faculty of Economics & Legal Science University of Dakar - Co-ordinator of technical studies

Mr. Samir AMIN - Director of the Institute of Development and Planification, IDEP, DAKAR

Prof. H.M.A. ONITIRI - Director of the Nigerian Institute of Social and Economic Research, NISER - University of Ibadan - Nigeria

Prof. S.R. DIXON-FYLE, Fourag Bay College, University of Sierra Leone

Mr. W. FARAH - Expert of OAU

Mr. G.E.A. LARDNER, Expert of ECA

Mr. A.F. KODOCK, Economist, Research Department ADB

Mr. I.E. EBONG, Economist, Research Department, ADB

Mr. M. MOHARBB, Economist, Research Department, ADB

Mr. A. ABDALLAH, Assistant, IDEP, DAKAR

Mr. C. MILLS, Assistant, IDEP, DAKAR

C O N T E N T S

# PRESENTATION

A-1 The Ninth Ordinary Session of the Assembly of Heads of State and Government of the Organization of African Unity held in Rabat in June 1972 adopted a Declaration on the United Nations Conference on Trade and Development contained in Document CM/ST.7 (XIX). In this Declaration, the Assembly of the Heads of State and Government requested the Administrative Secretary General of the Organization of African Unity to convene a Conference of African Ministers of Trade and Development to study, adopt and implement measures which Africa must take in order to remedy the weaknesses and shortcomings of the Third Session of the United Nations Conference on Trade and Development at Santiago. They also expressed the belief that the African Ministerial Conference should endeavour to strengthen the common African stand with a view to conducting negotiations with the other partners in the international community.

A-2 Considering the continued deterioration of the international monetary situation and its adverse repercussions on the economies of developing countries in general and of African countries in particular, and in the light of the above-mentioned Declaration, the Board of Governors of the African Development Bank at its Eighth Annual Meeting held in Algiers in July 1972 adopted a Resolution calling on the African Development Bank in collaboration with the Organization of African Unity, the Economic Commission for Africa and other international organizations to prepare for the holding of an African ministerial conference on trade, development and monetary problems, the purpose of which was to achieve the results asked for by the Rabat Declaration of the African Heads of State and Government.

A-3 The Second Meeting of the Conference of Ministers of the Economic Commission for Africa held in Accra in February 1973 welcomed the decision of the Heads of State and Government of the Organization of African Unity and the Declaration of the Board of Governors of the ADB to convene a Ministerial Conference. It noted with satisfaction the establishment of a Co-ordinating Committee of the Organization of African Unity, the African Development Bank, the Economic Commission for Africa and the Association of African Central Banks, and invited the Administrative Secretary-General of OAU, the President of ADB and the President of AACB to take all necessary substantive and organizational steps which they deemed appropriate to ensure that the Ministerial Conference be convened, so as to permit its results to be submitted to the OAU Heads of State and Government at their Tenth Session.

A-4 In the light of these Declarations, the Co-ordinating Committee, composed of the Organization of African Unity, the African Development Bank and the Economic Commission for Africa held a series of meetings and decided that the Conference of African Ministers on Trade, Development and Monetary Problems should take place at the Headquarters of the African Development Bank in Abidjan from 9 to 13 May 1973. The Committee also arranged a series of preparatory meetings designed to assist the Ministers in their deliberations.

A-5 On 27 February 1973, Mr. K.W. KAMANDA, Assistant Secretary-General of OAU, Mr. A. LABIDI, President of ADB and Mr. R.K.A. GARDINER, Executive Secretary of ECA opened the meeting in Abidjan of experts responsible for preparing the technical studies and for conducting broad discussions on the problems on the agenda for the African Ministerial Conference on Trade, Development and Monetary Problems, ended on 28 February 1973.

A-6 On 1 March, the representatives of the three organizations responsible for the conference, namely Mr. Kamanda Wa Kamanda, Mr. A. Labidi and Mr. R.K.A. Gardiner opened the meeting of the Drafting Committee composed solely of African experts whom the Co-ordinating Committee had earlier designated by common consent during its first meeting. In their three speeches, the members of the Co-ordinating Committee for the Conference defined the Drafting Committee's assignment and directed that its conclusions should be practical and operational.

# INTRODUCTION

B-1 In accordance with their mandate the African Experts examined in detail the definition and nature of the problems listed in the agenda for the Conference, taking into account both studies commissioned specifically for the purpose of the Conference as well as a wide range of other published material. They unanimously recognized that their assignment was to present conclusions and recommendations in forms that would facilitate discussion and decision-making at the Ministerial Conference.

B-2 In other words, in view of their knowledge and experience as Africans who have lived through and felt deeply the changing situation of Africa, particularly since independence, through the impressive mass of studies and documents prepared by national and international institutions, they were asked to indicate the practical measures which, in their opinion, should be taken by the African States in order to enable Africa as a whole to emerge from its difficulties, to steer a safe course through the dangers of the present international situation and accelerate its rate of development during the next decade.

B-3 Since independence the international community has become more aware of the difficulties which face the developing countries and has envisaged various forms of action to provide aid. But not only does the volume of aid granted to Africa appear very low when compared with the needs of the African countries, but, in addition, this volume is gradually decreasing while the needs continue to rise under the dual stimulus of changes of attitude resulting from changes in the conditions of life in Africa, and of population growth. There are various other issues which affect aid as provided at present. The first is whether the by now conventional stipulation that developed countries should provide aid to the value of 1% of their GNP, even if achieved in real terms, is a target which will realistically meet the needs of Africa.

B-4 The second is the relevance of aid, particularly in the sense of imparting to the African governments and peoples the capabilities for self-sustaining development. Even though the efforts being made by the developed countries entail only relative sacrifices, public opinion is less and less willing to accept them. Meanwhile the indebtedness of the African countries is increasing and developing into a situation which will undoubtedly and very rapidly bring the whole aid machinery to a halt.

B-5 1973 will be a key year in the development of African countries for it will mark an upheaval in the international rules that have prevailed since the end of the second world war and the start of a series of international negotiations on both trade and monetary matters. The new difficulties that will undoubtedly arise make it essential for Africa to protect itself against the dangers it is likely to find in its path.

B-6 The negotiations on the reform of the international monetary system which started in 1973 on the strength of a resolution adopted by the Governors of the Fund in July 1972 show that the international community is trying to work out a new system which, in the medium and long-term, will inevitably become the centre of the general machinery for the distribution of the world's wealth. In the negotiations which have so far taken place, the views and interests of the developing countries have tended to receive peripheral treatment. Yet it could be argued that the real international liquidity problem is the inability of the developing countries to buy more from the developed countries although they are obliged to rely on imports for a large part of their consumer goods and <u>almost all</u> of their capital equipment. The same applies to the specialized services they need for development and economic growth.

B-7 For these reasons they are totally dependent on <u>their balances</u> of payments which are generally in deficit, since their exports cannot pay for their imports. Traditional IMF facilities, in spite of various amendments, cannot in any way solve their problems in this regard. For this reason, the negotiations may condition the development of the African countries for several decades.

B-8 The multilateral trade negotiations are due to begin on 1 August 1973 and to continue in principle until 1975. There can be little doubt that the results will condition for many years to come the principles and practices governing the returns the African peoples receive for their exports.

B-9 The post-war years have been marked by the imposition, sometimes simultaneously, somestimes successively, of barriers to the exports of developing countries. At the same time encouragement has been given to measures for diversifying agricultural commodity exports of <u>individual countries</u> as well as for the development within the advanced countries of substitutes for imports from developing countries. The result has been that the prices of such commodities have continued to follow a long-term downward trend whilst the growth of inflation in advanced countries has reinforced the continuing deterioration of the terms of trade of agricultural export economies.

B-10 Of the various palliatives that have been tired - diversification of export crop, aid, international commodity management schemes, industrial development through import substitution, privileged access to a large and growing market - none has proved a genuine success for developing countries, particularly where success is defined in terms of accelerated growth, greater diversification of these economies and substantial improvements in their capabilities for achieving self-sustaining development and economic growth.

B-11 The African States have arrived at the moment of truth and that truth, stated simply, is that the future of Africa lies clearly in the hands of the Africans themselves; that the weight the outside world will give to individual and collective African views and standpoints in international forums will depend on the readiness and courage of the Africans to shape their own destiny. More concretely it will depend on the African's determination to present a united front at negotiations.

B-12 But the definition and statement of common views, the taking of common stand, even at some cost to some individual countries, will only command full recognition when they are seen to be part of a move towards building African collective strength.

B-13 It will not be sufficient merely to design policies and instruments. These must be seen to be actually beginning to work effectively. The Committee therefore sees a close connexion between effective internal steps towards economic co-operation and integration on the one hand and effective participation in international negotiations on the other. True intra-African co-operation must start at once.

B-14 The Committee is aware of the doubts and hesitation which have inhibited the making and implementation of decisions on this vital subject up to now; it anticipates the counsels of prudence, which will be offered to individual African countries: advice to hasten slowly and to avoid premature action. The consequences of economic integration will be described in a tendentious manner. There is a danger that these manoeuvres will delay true development in Africa for several more years.

B-15 The Committee does not pretend that there will be no difficulties in advancing towards effective economic co-operation and integration nor that certain interests and countries will not, for a time, suffer some hurt. It persists in the belief, however, that the advantages of co-operation and integration will rapidly outweigh any drawbacks and will be in the interest of all the peoples of Africa.

B-16 To conclude therefore, the year 1973 marks the beginning of a movement which may either prolong the current situation which could only deteriorate further, or mark the beginning of a progressive and sustained improvement. Since the results of the negotiations to be held depend to a considerable degree on the balance of forces, it appeared to the Drafting Committee that it would be only reasonable for the African countries to try to define, whenever possible, a common stand even if this means sacrificing certain individual interests so as to defend their common interests, and to adopt a united front to protect any individual interests, which, because of their importance, also constitute African interests.

B-17 After having offered these general observations, the Drafting Committee considered the various items of the agenda and initiated a general discussion which made it possible for them to draw up the conclusions of this report.

# SECTION I

## ASSESSMENT OF THE RESULTS OF THE THIRD UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT AS THEY AFFECT AFRICA

C-1 Summing up the results of UNCTAD III held in Santiago in April-May 1972 now presents no difficulties since public opinion has almost unanimously taken note of the failure of the results obtained to come anywhere near the initial objectives of the Conference.(1) But of course we cannot confine ourselves to taking note. It is worthwhile:

1) recalling the general objectives of the Conference as well as its results which do not need at this stage to be dealt with in detail since the basic questions will be discussed below in an attempt to find more adequate solutions for Africa;

2) seeing what steps have been taken to follow up the meagre results achieved;

3) learning the lessons to be drawn from these negotiations by the African developing countries so that they can prepare themselves for the international situations likely to emerge from the present state of fluctuation.

C-2 As far as the objectives and results of the Conference are concerned, it is worth giving the historical background briefly.

C-3 In order to reduce the flagrant inequalities of the post-war world situation, the United Nations Charter stipulated in Article 55 that one of the tasks of the United Nations was to favour the raising of standards of living and the establishment of conditions for the economic and social progress of mankind.

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(1) Documents ADB/OAU/ECA/CONFMIN/SC/WP/2
ADB/OAU/ECA/CONFMIN/SC/WP/3
ADB/OAU/ECA/CONFMIN/SC/WP/4

C-4 In spite of the efforts accomplished both within the developing countries and by international co-operation, the gap between these countries and the developed countries is growing.

C-5 If we consider the distribution of the fundamental variables of development among the countries, especially the technological variable, and the foreseeable behaviour of the development parameters, many experts have come to the conclusion that between the years 1967 and 2000 the gap separating the two categories of countries will be multiplied by 18. Unless of course political decisions intervene to break the infernal cycle which is leading to an apocalyptic situation.

C-6 What then can we say of Africa and of the developing African countries which in the list of developing countries come last with a 2% average annual growth rate, well behind Southern Asia (4.1%), Eastern Asia (5.6%), Latin America (4.5%), Southern Europe (7.1%) and the Middle East (7.2%)? A great deal was expected of UNCTAD III and the Secretary-General of UNCTAD, in order to prepare participants to approach the discussions with all the seriousness and clear sightedness warranted by the gravity of the situation, started his report in these terms:

> "The present international trade and monetary situation presents the third session of the Conference with both a challenge and an opportunity : a challenge to resist the tendencies which, if they continue on the present lines, will inevitably push into the background the development of the Third World in international policy-making; an opportunity, at a moment when world monetary and trade conditions are in a state of flux, to contribute effectively to the elaboration of a system better adapted to the needs of the developing countries and of the international community as a whole."

In the light of the results of UNCTAD I held in Geneva in 1964, the developing countries had placed their hopes in the international community. Thus, they listed a set of objectives reiterated in the 1967 Algiers Charter and the Lima Declaration of November 1971 adopted by the Group of 77 which, at that time, included 39 African countries.

C-7 The general objectives of the developing countries can be summarized as follows:

a) International Trade:

Agreements on commodity price stabilization, setting up of buffer stocks for the main products, access to the markets of the developed countries, suppression of customs duties, of non-tariff barriers and restrictive trade practices impeding access to the developed countries' markets, liberalization through non-reciprocal tariff concessions for manufactured goods from developing countries, the transfer of technology and the promotion of scientific and technological research in the developing countries.

b) Development Financing

An increase in aid to reach the 1% of GNP target before 1975 and an increase in public aid to reach 0.7% of the whole, elimination of tied aid and a lightening of the foreign debt burden.

c) Monetary Matters

Protection against the harmful effects of monetary crises for which the developing countries are in no way responsible, protection against imported inflation, establishement of an international monetary system capable of satisfying both the short-term liquidity needs of its member countries and the needs of the developing countries for long-term financial resources.

d) Mobilization of Resources for Development:

Mobilization of external resources by encouraging foreign private investment on terms designed to respect the developing countries' priorities; increasing the flow of public aid and the proportion of public aid in the total value of aid; mobilization of other forms of resources by participation in maritime transport by combined transports with a view to sharing the benefits, reduction of freight charges in favour of developing countries, mobilization of invisible resources (insurance, tourism, etc.)

e) Special Measures:

Elimination of the inequalities among the developing countries themselves by special assistance to the least advanced, by opening up access to the landlocked countries and by special aid to island countries.

This list is naturally not exhaustive if we compare it with the numerous resolutions passed or put forward in Santiago but it covers the main requirements.

C-8 The appeal of the Secretary-General of UNCTAD was apparently vain since the positions, on the whole, have remained the same and the huge international meeting did not even agree on the major problems it had to discuss.

C-9 A few months after Santiago, the Secretary-General of UNCTAD at the Trade and Development Board meeting held in Geneva from 3 to 18 October 1972, bitterly remarked that everybody seemd to agree that the conference did not achieve any concrete results in Santiago with regard to the marketing of commodities. Furthermore, the open and categorical admission that it was impossible to make progress in the discussions on the access to markets and on pricing policies (two decisive factors affecting the volume of

export revenue of the developing countries and their ability to implement their development plans) could only be regarded as a serious failure on the part of the Santiago conference. The total failure to achieve any valid results in Santiago on the question of development aid was all the more regrettable since it was now obvious and indisputable that, unless there was a sudden improvement in the situation, there was little likelihood of the minimum targets fixed in the international development strategy for the volume of development aid being attained before the end of the second UN development decade - whereas the date originally set for those targets was 1975.

He further added that one of the most serious shortcomings of the Santiago conference had been its inability to deal properly with the debt problem.

C-10 There could have been no more authoritative voice to observe the failure of the Conference.

C-11 With regard to the exploitation of the meagre results of UNCTAD III, the UNCTAD Secretariat and the Trade and Development Board have tried to improve conditions for a dialogue between developed countries and developing countries but it is clear that we are still tackling procedures and approaches and, apart from the Agreement on Cocoa which was signed in February and is due to come into force on 30 June 1973, very few worthwhile results have been achieved. The encouraging start was interrupted, almost immediately, with the deadlock of the negotiations for an international agreement on coffee.

C-12 Various groups of countries are preparing for the multilateral trade negotiations which are to deal with nearly all the questions whose answers will condition the fate of developing countries which depend on the export of primary products: liberalization of world trade, generalized preferences and reverse preferences, concessions with or without reciprocity, non-tariff barriers, etc.

C-13 Despite the general failure in terms of objectives and results, and the very limited achievements now evident with regard to the approach to problems, UNCTAD III should nevertheless be analysed in such a way as to enable developing African countries to draw the necessary lessons for action to be undertaken.

C-14 It is said that from one UNCTAD to the next, from Geneva in 1964 to New Delhi in 1968 and Santiago in 1972, results have deteriorated pari passu with the terms of trade of developing countries. It can be forecast from this harsh judgement that, if the situation does not improve and a genuine desire to change their attitudes is not demonstrated by the developed countries few countries will be eager to attend UNCTAD IV. It is true that UNCTAD has fostered a general awareness of the problems but African experts are wondering whether it will not now start to mark time if the developed countries maintain their present position.

CONCLUSIONS

C-15 The failure of UNCTAD, the creation of which had raised great hopes in the Third World, has led the Drafting Committee to give the subject further consideration.

C-16 It appears that international diplomacy is dominated by the great powers and the United Nations Organization and its institutions have been relegated to the background in the struggle for peace and economic progress for mankind so that it cannot tackle the problem of poverty and under-development boldly and effectively. In fact it can be said that all the major political, economic, monetary and financial problems are settled outside the UN. And the only countries that have been able to gain admittance to the supper-powers' club and obtain tangible results are those with considerable "weight" either economically speaking or in military terms, either because of their inherent size or through regional economic groupings. Unfortunately,

in face of this concentration of powers by the wealthy countries, the developing countries have not adopted an effective common front and confine themselves to solemn declarations at international gatherings. In fact they make no effective change in the international situation which, based as it is on extremely rapid technical progress by the developed countries can only result in the final analysis, in still more uneven distribution, thus widening the gap separating the rich from the poor countries.

C-17 Without seriously seeking to influence the working of this system, the developing countries recommend the organization of trade between developing regions whereas this proposal cannot possibly be implemented under the present domination of developed countries since vertical relations in their existing form constitute one of the most serious obstacles to horizontal trade both between developing regions and between developing countries of the same region.

C-18 All this means that the proliferation of international meetings is unlikely to achieve any concrete results for the developing countries in general or for African countries in particular, until the day these countries come together to form regional economic entities, the size and weight of which will command respect and, at the same time, take measures to modify existing vertical relations. They will then be able to express their views on world affairs and these views will be taken into account.

c-19 But before this final stage is attained, there will have to be a minimum coherence of attitudes and minimum solidarity which will enable them to obtain more equitable remuneration for their work through an increase in the prices of their products. Oil-producing countries have given an excellent example in this respect.

And that is why the African countries should advance progressively towards autocentric development, which by no means

implies that they should retreat into splendid isolation but rather that they should reduce their dependence on the outside world, especially by creating the capital and intermediate goods industries and supplying themselves with the specialized services for all of which they now depend so much on imports from the developed countries.

Although the road towards a radical change in the situation of the African countries may now be a rough one, it surely lies in stepping up the pace of intra-regional co-operation, reducing external dependence and stimulating development thanks to the broader scope thus offered to our products.

C-20 But such a change will require a change of attitudes and perceptions, particularly the recognition that, as the European States discovered, there is more to be gained by collaboration and mutual concessions than by rivalry and that beggar-my-neighbour policies are in the long run self-defeating.

# SECTION II

## MULTILATERAL TRADE NEGOTIATIONS, AID AND DEVELOPMENT FINANCING, IMPLICATIONS FOR AFRICA OF THE ENLARGEMENT OF THE EUROPEAN ECONOMIC COMMUNITY

# SECTION II

## PART I

## MULTILATERAL TRADE NEGOTIATIONS

## Part I

### Multilateral trade negotiations

#### 1. The context

D-1 Immediately after the last war, the Western countries made strenuous efforts to organize trade culminating in the Havana Charter, which did not become operative because of the American Senate's refusal to ratify it. GATT (the General Agreement on Tariffs and Trade) was set up in its place and has been the subject of several international rounds of negotiations: Geneva (1947), Annecy (1949), Torquay (1951), Geneva (1956), Geneva (1960/1967). 48 countries including 19 developing ones - out of which only three were African countries, Nigeria, Malawi and Sierra Leone[1/] - participated in those important and long-lasting negotiations generally known as the "Kennedy round of talks". Yet more than three-quarters of the developing countries' exports and more than 90% of those of African countries are absorbed by the developed countries which do not absorb our entire productions since they nevertheless erect all sorts of barriers in addition to normal customs tariff against them. But in 1958 a study by Professor Haberler on the trends in world trade emphasized the fact that the relatively slow growth of the developing countries' share of world trade was mainly due to tariff barriers erected by the developed countries. In 1963, a programme of action was drawn up including various measures designed to reduce quantitative restrictions on commodities from developing countries. The free entry of tropical products was to come into effect before the end of 1963. In this respect custom duties on semi-finished products from developing

1/ Evaluation of the effects of the Kennedy round of talks on tariff obstacles, United Nations, 1968.

countries were to drop by 50% over the three subsequent years and customs duties and internal taxes on products were to be steadily reduced leading to their total elimination.

D-2 Ten years have since elapsed without concrete results. Despite successive disappointments on the part of developing countries preference schemes have tended to raise some hopes, quickly dashed, however, because in addition to tariff barriers, there have been other subtle obstacles, the background to which will be dealt with below.

2. <u>The preconditions for African participation</u>

D-3 It is not a proof of pessimism to state that it was an attempt to attenuate the bitterness felt by the developing countries that induced the developed countries to declare in Santiago that they were prepared to open, as from 1973, within the framework of GATT, a vast series of multilateral negotiations aimed at further expanding and liberalizing world trade as well as at improving the standard of living of the peoples of the world[1/]. Taking note of this offer, the developing countries pointed out the limited results achieved by the Kennedy round as far as they were concerned. They put forward a number of objectives, and some of them justifiably declared that their participation in the international negotiations would depend on the preliminary definition by GATT of the procedures, methods and techniques governing the Conference. The Drafting Committee

1/ Resolution 82 III of UNCTAD III mentioned above
Report of the 12th session of the Trade and Development Board
Geneva, 3-25 October 1972, TD/B/421.

is of the opinion that the expansion of world trade is propitious to development. However, African countries should pay special attention to the following points :

a) There is no point in attending international gatherings with a view to participating in genuine discussions only to be presented with unfamiliar procedures, techniques and methods of work which oblige some of the participants to make hasty contributions after brief consultations at meetings of groups or sub-groups that are ill-equiped to deal with such questions. The African experts accordingly think that GATT should make its intentions on these points known beforehand so that proposals could be examined "at home"[1/] by the African governments and regional bodies.

b) The General Agreement should be modified and the proposals for modification should also be examined at home. In fact, the question arises of whether the GATT regulations and its procedures for adopting decisions are still valid. Should negotiations be conducted on a product by product basis or on sets of produots or globally ? If they are to be on a product by product basis, what should be the order of priority ? We cannot ignore the fact that a failure of negotiations regarding one product sometimes conditions all the following negotiations and consequently the lot of several developing countries. Nor should we forget that the

weight of the..

1/ within Africa and not in the corridors of conferences or similar meetings.

financial implications of earlier decisions will brought to bear on all subsequent negotiations and all the more heavily as the negotiations tend to last longer. If the developing countries and the African countries among themselves, do not take joint decisions on these points beforehand they will not be able to maintain a coherent attitude as the negotiations are pursued.

c) African countries should work together in advance on GATT's objectives, on the nature of the questions to be referred to it and, in addition to the special problem of preferences, they should attach equal importance to the non-reciprocal concessions they wish to claim and to non-tariff barriers.

d) The importance of a precise definition of objectives can hardly be over-emphasized because there is little point in agreeing on the liberation of world trade if one or several African countries become the victims of the measures involved i.e. if their positions deteriorate as a result of the overall improvement.

The principle of compensation should therefore be accepted and applied.

e) The African countries must also uphold the principle of solidarity between all developing countries, with particular emphasis on those which are not members of GATT and are therefore likely to be the victims of discrimination.

D-4 Another problem is that of financial and technical assistance the developing countries may require to enable them to negotiate more effectively. It seemed clear to the Drafting Committee that the African countries should rely mainly on African experts and organizations to define and defend their positions.

### 3. The implications of the liberalization of international trade

D-5 Following the Kennedy Round of negotiations which, as we have seen, achieved little for the developing countries in general and the African countries in particular, it is hoped that the next round of multilateral trade negotiations will study new liberalization measures that take the interests of the developing countries into account. The various problems to be discussed include:

A - Preferences
B - Non-tariff barriers

### A. Preferences and non-reciprocity[1]

D-6 The origins of preferences can be found in the organization of the colonial empires which lasted from the nineteenth century until the African countries attained independence. In order to promote industrial expansion in Europe the colonial powers, particularly England and France, each built customs barriers around their colonies. Only their products were allowed in duty-free to begin with and later on, once a local administration had been set up, at rates that were very low compared with products originating elsewhere. This was known as "imperial preference".

(1) The problem of preferences within the GATT framework is linked with the whole question of relations between Africa and the EEC. We shall deal here with the general aspects of the problem while relations between the European Community and Africa will be examined below, cf. ADB/OAU/ECA/CONFMIN/SC/W6.

D-7 As the African countries gained their independence and began drawing up their own policies for development, the problem of access of African products to the developed countries' markets arose. But the policy the European countries had applied to Africa for over a century because it was clearly the best way of supporting their industrial expansion no longer seemed applicable when it was a question of promoting African development. Only in 1971 was there the first, timid acceptance of the principle of generalized preferences.

D-8 It is true that, with the signing of the Yaoundé Agreement, the EEC countries had already granted <u>special preferences</u> to some of the agricultural products from the eighteen Associated States but only four products were affected: coffee, cocoa, bananas and groundnut and palm oil.

D-9 The Arusha Agreement and the Commonwealth agreements in their turn offer a few examples of special preferences. However, the concept of special preferences is rather ambiguous as it may relate to a product or limited number of products, or to a country or limited number of countries.

D-10 The advantage allowed may consist of a customs tariff that is reduced in relation to the same product imported from a different country or of an increase in the permitted quotas or else it may take the form of various other incentives. In the end, all these advantages have the same objective, namely to provide more ready access to a market for a product from a given country.

1) Generalized preferences

D-11 The principle of a generalization of preferences was asserted when industrialization was beginning in the developing countries, particularly in Latin America, and their finished and semi-finished manufactured products, owing to relatively higher production costs and the limited size of national markets, needed an outlet to the foreign markets of the developed countries. However, they came up against numerous obstacles, including customs tariff. The Algiers Charter accordingly recommended that while awaiting the adoption of a generalized system of preferences the developed countries should make suitable changes in their tariff nomenclatures to facilitate duty-free entry of products exported by the developing countries.

D-12 The generalized system of preferences should, in principle, be extended to all the developing countries and to all their products but the developed countries made it clear from the outset that it could be applied only to the manufactured and semi-manufactured products in chapters 25 to 49 of the Brussels nomenclature. Hence primary commodities were excluded in principle.

D-13 As the level of industrialization in the developing African countries was low and they had few manufactured or semi-manufactured products to export to the developed countries, the impact of the system of generalized preferences on these countries does not appear likely to be very marked and the possible beneficiaries, at the present stage, will be certain Latin America and Asian countries.

D-14 The second principle of the generalized system of preferences is that it is without reciprocity, i.e. it does not necessarily entail reverse preferences.

D-15 Lastly, the developed countries granting preferences should do so without a safeguard clause.

D-16 The generalized system of preferences is highly complex because, instead of a standardized scheme for all the developed countries, each preference-granting country has worked out its own scheme. In short, the Committee feels that nothing could really be less generalized than the so-called generalized system of preferences and that at best it is a euphemism if the content of the concept is considered.

D-17 It is true that 18 market-economy countries have begun to apply a system of preferences, including Australia since as far back as 1966, the EEC since 1 July 1971, followed by Japan and Norway. On 1 January 1972, it was the turn of the United Kingdom, Sweden, Denmark, Finland, New Zealand, Hungary and Czechoslovakia and, a few months later, of Switzerland and Austria. After being favourable to the system at the outset, the United States administration was reluctant to present the project for ratification owing to the powerful protectionist lobby in the US Congress. Since then, owing to the dollar difficulties bound up with the chronic deficit of the balance of payments of that country, the wave of protectionism has now reached the administration. As a result, the possibility of granting generalized preferences is related to the general problem of reverse preferences which are discussed below. Since 1965, the USSR has allowed the duty-free entry of all products from the developing countries.

D-18 The scope of the system of preferences offered by the developed market-economy countries is outlined below:

a) The preferences offered apply only to manufactured and semi-manufactured products with the exception of the EEC, which allows benefits to certain products from African countries that are parties to the Yaoundé and Arusha Agreements. But it is a well known fact that the advantages for these products are limited by the Common Market's common agricultural policy (quantitative ceiling and tariff quota).

With respect to manufactured goods, the developed countries are bringing the escape clause into play.

b) With the exception of the Common Market which, as already stated, grants preferences to the products in chapters 25 to 99 of the Brussels nomenclature, all the other countries draw up lists of exceptions:

- Austria excludes starch-based products (BN chapters 33 and 39) as well as certain albuminoid materials (ch. 35).

- Canada excludes various textile articles, gloves and elastic braid.

- Ireland excludes superphosphates, leather and footwear, brushes and brooms and some textiles.

- Japan excludes petroleum derivates, hides, clothes, plywood and footwear.

- The United States excluded (from the system it was proposing to offer) footwear, petroleum and its derivates.

- The United Kingdom excludes alcohol, matches and hydrocarbon oils.
- Switzerland excludes petroleum products, engines and spare parts for vehicles.

2) Reserve preferences

D-19 As opposed to direct preferences, reverse preferences are those granted by a developing country to a developing country. Irrespective of whether they are special or general in character, they steem directly from imperial preferences. The special preference systems already discussed, such as those under the Yaoundé and Arusha Agreements or for certain Commonwealth countries, grant reverse preferences to the respective developed countries.

D-20 Some experts in the developed countries consider that the reverse preferences which developing countries grant to some developed countries are of marginal importance. An unpublished study of UNCTAD apparently has come to the same conclusion regarding the reverse preferences which the African Commonwealth countries grant to the United Kingdom 1/. There are two reasons for this: the limited size of the preferences themselves and the fact that Ghana and Nigeria do not grant reverse preferences.

D-21 However, the discussions in GATT as far as African countries are concerned will most probably be shaped by the position of the United States on reverse preferences and the concessions which the Common Market countries are prepared to make on it.

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1/ UNCTAD : The Economic Consequences of Reverse Preferences - Nov. 1968, mimeographed - Quoted by Dr. Keith E. Jay in "Africa", the Enlargement of the EEC and Preferences" p.11

On the whole, the Committee is of the opinion that Africa should not grant reverse preferences.

B. Non-tariff obstacles and restrictive business practices

D-22 The developed countries have a whole arsenal of non-tariff obstacles and restrictive business practices to prevent the products of the developing countries over and above certain quantities from gaining access to their markets.

D-23 A detailed report by the UNCTAD Secretariat dated 31 January 1972 sets forth an impressive list of non-tariff obstacles which have been identified. These include: quotas and licensing agreements, limitations on exports (previously known as "voluntary limitations on exports" inasmuch as they were decided on by the developing countries at the request of, or under pressure from, the developed countries), embargos or prohibitions imposed on exports, purchasing policies within countries, regulations governing the local-product content, variable levies and additional import duty, deposit of funds prior to importing, obligations, anti-dumping duty, compensating duty, credit restrictions, direct or indirect subsidies, quantitative limitations on marketing, regulations governing packaging and labelling, health regulations and safety standards, tax measures, custom formalities and so on.

D-24 Studies have been conducted into restrictive business practices in some countries, including the United States, Federal Germany, the United Kingdom, India, Australia, Japan, the Philippines etc..

D-25 Agreements and cartels and multinational companies are often very active in establishing restrictive business practices. Similarly, the many forms of patents and trademarks are obstacles that can easily be seen placed in the way of products and exports from the developing countries.

D-26 After examining the problem of non-tariff obstacles as a whole, the Committee addressed itself to the individual cases of the developed countries. According to a study carried out by the UNCTAD Secretariat on the basis of the statistical data for 1968, of the 18 developed market-economy countries which have set up non-tariff obstacles, the order of decreasing importance is as follows: France, Federal Republic of Germany, Italy, Japan, Denmark, Finland, the Benelux countries, Austria, Ireland, Norway, the United States and Switzerland. In the case of France, the application of these measures is discriminatory in that products from the franc area are less penalized than the others.

D-27 According to the study, France applied different forms of restrictions to 36 processed agricultural products, 14 textile products and 14 petroleum products; Federal Germany to 28 processed agricultural products and 7 manufactured articles including textiles; Benelux to 22 processed agricultural products; the United Kingdom to 12 commodities out of the 17 covered by the study; the United States to 15 products and so on.

D-28 Even when the developed countries grant preferences, many products are subject to domestic taxation. Although preferences have been granted to the associated African countries in respect of the four major commodities mentioned above, an idea of the total volume of taxes and customs duties imposed on certain commodities can be gained from the following table which related to 1969.

**Revenue from domestic fiscal taxes* and customs duties** imposed on certain commodities by the main industrial countries in 1969 (in millions of US $)**

| | Coffee | Cocoa | Tea | Bananas | Petroleum and pretroleum products |
|---|---|---|---|---|---|
| E.E.C. | | | | | |
| Domestic taxes | 459 | 10 | 10 | 44 | 8,145 |
| Customs duties | 55 | 19 | 4 | 10 | 11 |
| Belgium | | | | | |
| Domestic taxes | 5 | .. | .. | .. | 418 |
| Federal Republic of Germany | | | | | |
| Domestic taxes | 283 | .. | 10 | .. | 2,650 |
| France | | | | | |
| Domestic taxes | 51 a/ | .. | .. b/ | .. | 2,243 |
| Italy | | | | | |
| Domestic taxes | 120 | 10 | – | 44 | 2,392 |
| Netherlands | | | | | |
| Domestic taxes | .. | .. | .. | .. | 442 |
| Japan | | | | | |
| Domestic taxes | 5 | .. | .. | ..( | 1,227 |
| Customs duties | – | 1 | 4 | 59) | 226 |
| United Kingdom | | | | | |
| Domestic taxes | .. | .. | .. | ..( | 3,069 |
| Customs duties | 2 | – | – | ..) | |
| United States | | | | | |
| Domestic taxes | – | – | – | – | 3,516 |
| Customs duties | – | 3 | – | – | 75 |

Source: UNCTAD document TD/115

* Not including EEC general taxes on sales and turnover and value added taxes.

** Generally speaking, tariff revenue has been estimated by applying the ad valorem rates in force in 1969 to the 1969 value of dutiable imports.

a/ This figure relates to 1967 since when the "single tax on teas and coffees" has been replaced by added value taxes. It includes fiscal revenue from indirect taxes on tea.

b/ Included in the figure given for coffee.

D-29 After having examined non-tariff obstacles and restrictive business practices, the Committee came to the conclusion that an enquiry could be conducted in the developed countries to shed more light on them, but that little success would be achieved by trying to remove such obstacles piecemeal. The problem is rather one <u>of goodwill on the part of the developed countries</u>.

D-30 Within GATT, the African countries should reach agreement among themselves so as to find out very precisely what the real purpose of the developed countries is, what liberalization measures they intend to propose and what the implications of such measures will be for Africa.

## 4. <u>COMMODITY AGREEMENTS</u>

D-31 There is no longer any mystery about the tendency for the prices of primary commodities, which are very responsive to market conditions, to decline and the economic literature on the subject is, to say the least, impressive. The tendency for the price of industrial products to rise causes a relative decline in the purchasing power of the producers of primary products, which is reflected in the deterioration of the terms of trade.

D-32 When the prices of industrial products in the developed countries rise under the effects of inflation for which the developed countries themselves are responsible, <u>there is nothing to justify imposing such increases on the developing countries</u>.

D-33 Attempts have therefore been made to stabilize commodity prices, although it is curious that, at the same time, nothing has been done, or seems likely to be done, to hold down the prices of the industrial products imported by the developing countries.

D-34 Experience has shown that there is little likelihood of achieving even the commodity price stabilization the developing countries are asking for as a minimum gesture. The following table shows to what extent the foreign earnings of the African countries are dependent on one or two primary commodities: 77.8% of Chad's export earnings are from cotton; 57% of Senegal's income from groundnuts; 66% of Ghana's from cocoa; 48% of Uganda's from coffee; 46% of Egypt's from cotton. Coffee, cocoa and timber account for 73.1% of Ivory Coast's exports.

**THE SHARE OF MAJOR AGRICULTURAL PRODUCTS**
**IN THE TOTAL EXPORT EARNINGS OF SELECTED AFRICAN COUNTRIES**
1967 - 1971 (in %)

| Country | 1967-1971 averages | of which : | |
|---|---|---|---|
| Somalia | 88.0 | Live animals | 53.6 |
| | | Bananas | 28.1 |
| | | Hides and skins | 6.3 |
| Ethiopia | 83.1 | Coffee | 57.3 |
| | | Hides and skins | 9.4 |
| | | Cereals | 7.5 |
| | | Oil seeds | 8.9 |
| Chad | 77.8 | Cotton | |
| Ghana | 76.6 | Cacao | 66.0 |
| | | Wood | 10.6 |
| Sudan | 76.4 | Cotton | 60.2 |
| | | Gum | 9.4 |
| | | Groundnuts | 6.8 |
| Ivory Coast | 73.1 | Coffee | 31.6 |
| | | Wood | 22.3 |
| | | Cacao | 19.2 |
| Uganda | 71.1 | Coffee | 48.2 |
| | | Cotton | 18.0 |
| | | Tea | 4.9 |
| Malawi | 67.2 | Tobacco | 29.3 |
| | | Tea | 22.0 |
| | | Groundnuts | 11.9 |
| | | Cotton | 4.0 |
| Cameroon | 60.4 | Cacao | 24.1 |
| | | Coffee | 24.4 |
| | | Cotton | 5.0 |
| | | Common wood | 6.9 |
| Egypt | 58.6 | Cotton | 46.0 |
| | | Rice | 12.6 |
| Senegal | 57.0 | Groundnuts and oil | |
| Niger | 56.1 | Groundnuts | |

THE SHARE OF MAJOR AGRICULTURAL PRODUCTS
IN THE TOTAL EXPORT EARNINGS OF SELECTED AFRICAN COUNTRIES

1967 - 1971 (in %)
(continued)

| Country | 1967-1971 averages | of which: | |
|---|---|---|---|
| Togo | 55.5 | Cacao | 32.5 |
| | | Coffee | 15.6 |
| | | Palm nuts | 4.7 |
| | | Cotton | 2.7 |
| Madagascar | 53.0 | Coffee | 28.9 |
| | | Vanilla | 8.7 |
| | | Rice | 7.8 |
| | | Sugar | 5.2 |
| | | Sisal | 2.4 |
| Congo | 52.4 | Woods | |
| Mali | 44.8 | Fish | 11.3 |
| | | Cotton | 21.5 |
| | | Groundnuts | 12.0 |
| Central African Rep. | 40.8 | Cotton | 21.9 |
| | | Coffee | 18.9 |
| Dahomey | 40.8 | Palm products | |
| Nigeria | 38.3 | Cacao | 18.1 |
| | | Groundnuts and oil | 13.0 |
| | | Palmnuts and oil | 3.4 |
| | | Rubber | 2.3 |
| | | Cotton | 1.5 |
| Tanzania | 37.4 | Coffee | 14.3 |
| | | Cotton | 13.9 |
| | | Sisal | 9.2 |
| Kenya | 31.0 | Coffee | 18.2 |
| | | Tea | 10.5 |
| | | Sisal | 2.3 |
| Tunisia | 20.3 | Olive oil | 13.2 |
| | | Citrus fruit | 2.9 |
| | | Wine | 4.2 |

Source : Computed from export data in IMF International Financial Statistics, January 1973.

D-35 However, comprehensive efforts covering all commodities should not prevent specific solutions from being sought for each individual commodity. This will admittedly take some considerable time, but a few results can be secured.

D-36 In this connexion, the methods usually explored are as follows:(1)

- the export quotas system (for coffee and sugar);
- buffer stocks (for tin);
- multilateral contracts (for sugar and wheat);
- supervision of the marketing of surpluses and reserve stocks;
- commodity agreements.

D-37 Quotas are generally used as a method of limiting supplies after a good harvest. Most agreements (the Coffee Agreement, the 1968 Sugar Agreement, the Tin Agreement) fix a basic export quota for each exporting country. In certain cases the quotas can be progressive and special arrangements may be included to take into account the position of developing countries. If some of the signatories cannot supply their whole quota, this gives rise to a deficit which can be redistributed among the other exporters although the whole deficit is not necessarily so distributed. In 1969 the sugar deficit was 800,000 tons and in 1970 it amounted to 820,000 tons, only 45,000 tons of which were shared out among the other exporters.

D-38 Buffer stocks are often combined with the quota system. Once an International Board has been set up for a given product, it establishes a buffer stock which is managed by a Stock Manager

(1) For further details, see document TD/129

under the instructions of the Board. The Manager has at his disposal a "price stabilization fund" which he can use to buy or sell on the current or forward market, depending on the prevailing prices. In theory, when production and demand are both fluctuating a minimum price and a maximum price are decided upon and the aim is to maintain an average price somewhere between the two. When stocks are exhausted, prices tend to reach or even exceed the set maximum. The only commodity for which a buffer-stock system is now operating is tin.

D-39 Multilateral contracts are arrangements limited to the contracting parties, i.e. the exporters on one side and the importers on the other, They operate as follows:

- Each exporter agrees to supply a given quantity of the product at a price not exceeding the maximum price;

- Each importer agrees to buy a given quantity at a price not lower than the minimum price.

Obviously, the quantities sold and the quantities purchased must be identical.

D-40 Supervision of the marketing of surpluses and reserve stocks: some developed countries have a tendency to offer their surpluses or reserve stocks for sale on the markets, thus bringing prices down and harming the developing countries. Machinery for supervision is therefore needed.

OBSERVATIONS ON CERTAIN COMMODITIES EXPORTED BY AFRICAN COUNTRIES

Coffee

D-41 The coffee market is an extremely important one as can be seen from the fact that the annual turnover is 2.5 thousand million dollars. Three countries, Brazil, Colombia and Ivory

Coast, export half the annual volume sold. Between 1967 and 1971 coffee provided a high average percentage of the export earnings of the African producer countries : 31.6% for Ivory Coast, 57.3% for Ethiopia, 48.2% for Uganda, 24.4% for Cameroon, 15.6% for Togo, 28.9% for Madagascar, 18.9% for the C.A.R, 14.3% for Tanzania and 18.2% for Kenya.

D-42 The problem of price stabilisation has been of concern to these countries for some time. The first International Coffee Agreement was signed in 1962 when prices had dropped as a result of over-production. In addition to measures aimed at ensuring stable prices, a diversification programme for coffee-producing countries was drawn up. The Agreement was renewed in 1968 but in 1971 differences arose among the producers with regard to pricing policies. In February 1971 Brazil lowered its prices by 12 cents per lb. causing prices to plummet below the minimum that had been fixed. The result was a reduction in quotas for all types of Arabicas.

D-43 As all attempts to conclude a new agreement failed, the International Coffee Organization tried to have the 1968 Agreement renewed in February but most observers are rather pessimistic about the outcome.

Cocoa

D-44 The main feature of the world cocoa market is the fluctuation of prices caused by speculation.

D-45 The proportion of export earnings provided by cocoa is very high in certain African countries as can be seen from the following averages for the period 1967-2971: 66% for Ghana,

32.5% for Togo, 24.1% for Cameroon, 19.2% for Ivory Coast, 18.1% for Nigeria. 70% of world production comes from African countries and, as far as exports are concerned, Ghana and Nigeria alone produced 52% of the quantities exported in 1968.

D-46 The main importers are the EEC and the United States, followed by the United Kingdom, Denmark, Norway and Ireland. The EEC imports nearly half the quantity it consumes from the associated African and Malagasy States while Italy buys more than half its imports from Commonwealth countries.

D-47 An international agreement signed in Geneva is expected to come into force on 30 June 1973. The agreement has been ratified by importing countries representing 69.83% of importers instead of the expected 70% and has been signed by five countries representing at least 80% of exporters. But it is worth noting that the agreement has not been signed by the USA which is the second largest importer after the EEC (218 tons in 1969 as against 334,000 tons by EEC for the same year).

Oil products

D-48 The market for oil products is one of the most complex markets where there is keen competition between these products and with the increasingly number of substitutes resulting from the advances in the chemical industry. The developed countries have substantially increased their production of soya-bean, rape-seed and sunflower-seed oils with the result that there has been tremendous increase in trade between the industrialized countries over the past few years to the detriment of developing countries.

D-49 With regard to African oil products the following remarks can be made:

- The share of groundnuts in world oil-seed exports has been decreasing yearly from an average of 28.2% between 1961-1963 to 16.7% in 1969. As the EEC imports 80% of the world total, the persistent drought that has prevailed, especially in Senegal, during the last few years has been one of the factors leading to a drop in its imports.

- The palm oil market on the other hand seems to have better prospects at least in the short term, because of the EEC's requirements which have constantly exceeded supplies during the last few years (FAO study group and UNCTAD Secretariat).

D-50 This would explain EDF's efforts to promote the extension of palm plantations in certain African countries. Nigeria, Ivory Coast, Zaire, Dahomey and Cameroon will therefore not meet major difficulties in finding outlets for their production in Europe in the first instance but, since the same operations are envisaged in Latin America, Indonesia and Malaysia, world exports seem likely to increase 4-fold between now and 1980. Unless demand increases at a similar rate, the future of palm oils hardly seems assured.

D-51 While the African associated and associable countries' production of copra and copra oil is still insufficient to meet the EEC countries' needs, the market for palm oil and palm-kernel oil, on the other hand, is practically saturated. With regard to copra, it is worth noting in any case that the market is

dominated by the Philippines which provide 50% of the world's supply and that if generalized preferences are applied and non-tariff barriers eliminated, the possibilities now open to African countries may quickly melt away. Although within the Common Market, oil-seeds are in principle not affected by customs duties, there is a certain amount of protection for edible oils. In the United Kingdom on the other hand, customs duties are quite high (10 to 15%).

Bananas

D-52 The FAO Study group has given close attention to the problem of bananas. In 1969, production was estimated at 26 million tons of which nearly 6 million tons were sold on world markets.

D-53 The major African producing countries, Cameroon, Ivory Coast, Madagascar and Somalia, export about 300,000 tons to Europe where competition comes particularly from Martinique and Guadeloupe (France) and from Jamaica and the Leeward Isles (United Kingdom). From the point of view of consumption, Federal Germany comes first within the EEC whose imports are increasing steadily and rapidly.

Cotton

D-54 Although cotton is the essential product of some African countries - C.A.R., Egypt - African production on the whole is relatively low in terms of world production of which only one-third is exported, the rest being used in the producing countries.

The main difficulty involving cotton is the competition it faces from synthetic products.

CONCLUSIONS

D-55 With regard to the African countries' stand on the multilateral trade negotiations, whose importance has been considered above, the Committee wishes to suggest the following measures:

1) If possible before the GATT meeting or in any case at the opening session, the African countries should make a declaration requesting the developed countries and GATT to lay down a precise definition of the objectives, techniques and modalities of the negotiations.

   For instance, will groups of producers of the same commodity be confronted with each one of the developed consumer countries?

   Will the negotiations be directed towards securing the stabilization of prices and price increases or, on the contrary, towards maximizing the expected income from the marketing of commodities, it being understood that such maximization could result from an extension of markets?

   Will an attempt finally be made to do away with all non-tariff barriers and restrictive business practices that impede access to the developed countries' markets?

   Will the problem of diversification be discussed not so much in conventional terms of switching from one commodity to another, as in terms of vertical diversification enabling the developing countries to process their products through all possible stages before they are exported?

Will an attempt be made to seek an international producer/consumer agreement for each commodity?

Will negotiations be conducted on a product-by-product basis or will they be tackled on a comprehensive basis?

2) The developed countries and GATT will have to make their position on reverse preferences very clear, since it is extremely likely that the forthcoming meeting will be the occasion for a confrontation between the major powers. The African countries should not have to bear the cost of this power struggle, which has nothing to do with them.

3) The African countries should request a review of the General Agreement and should press for inclusion in the agreement of clear definitions of the objectives, techniques and modalities of the negotiations.

4) The African countries should insist on unqualified non-reciprocity between developed and developing countries as a negotiating principle; this excludes consideration of the new concept of relative reciprocity, which appears to be a denial of non-reciprocity under a new guise.

5) The African countries, with the aid of African institutions including, in particular, OAU, ADB and ECA, should speed up preparations for the forthcoming negotiations, draw up a full list of products on which negotiations are to be conducted, and find out from GATT in good time the developed countries' intentions on all these fundamental points.

SECTION II

# PART II

# AID AND DEVELOPMENT FINANCING

E-1 The concept of foreign aid, which made its first appearance on the international scene after the last world war only assumed importance, as far as Africa was concerned, after independence when the colonial administrations were replaced by African governments. Assumption of responsibility by the Africans themselves was accompanied by new burdens and in particular by a new ethic of development, the cost of which seemed, in the early years, to be disproportionate to the meagre resources of the young independent states.

E-2 Because of the immense publicity it has received, aid now seems to many people to be a normal, even indispensible, instrument of development through the financial and technical resources it transfers from developed to developing countries. Donor countries and multilateral institutions periodically issue impressive statistics of resources put at the disposal of African countries. A large part of public opinion in the developed countries then seizes the opportunity to cry out against the waste of aid resources. It is sometimes admitted that effective projects of an economic and social nature have really been brought to fruition with the help of aid funds, but this invariably elicits the reply that such resources could be put to equally good use in the donor countries which still have enclaves of backwardness.

E-3 In considering the concept of aid, the Drafting Committee first of all noted the ambiguity which is mainly responsible for the confusion about aid. Tibor Mende has already pointed out how this single word is used in a number of different ways to mean, for instance, "the amount of financial help",

"effort", "assistance", "contributions", etc. He has even observed that the amounts quoted are very often arbitrary and depend on the astuteness of statisticians of donor countries in juggling with **dubious** figures under the banner of generosity.

E-4 The attempt to give an accurate definition of aid is inspired first of all by a desire for honesty, but a false notion of aid can even be dangerous, inasmuch as it is a source of misunderstanding and as such it can jeopardize international co-operation.

E-5 While the whole idea of aid is being increasingly contested in developed countries, the developing countries too are beginning to call into question the donors' estimates and motives. In order to calculate aid granted by the D.A.C. countries, OECD uses the following headings:

E-6 1) Official aid comprising:

- grants and grant-like contributions
- bilateral loans on concessionary terms
- contributions to multilateral organizations

2) Other contributions from the public sector comprising:

- bilateral contributions
- multilateral contributions

3) Contributions of the private sector comprising:

- direct investments
- bilateral portfolio investments
- multilateral portfolio investments
- export credits

E-7 First of all it is clear that, as the Pearson report stated, flows from the private sector can in no way be considered as aid because these are investments made with a view to profit, which would cease immediately if the investors began to have doubts about the profitability of their operations.

E-8 A quick glance at the rest of the list shows that the concept of aid that prevails is highly questionable for certain headings, the substance of which remains somewhat lacking in precision.

These observations show that the concept of aid is confused and ambiguous so that it might be preferable to use a definition based on motivations, although this does not preclude the use of other headings which would be given their real significance.

E-9 While therefore reserving its position on the definition of aid accepted by the developed countries, the Drafting Committee turned to the problems of aid to developing Africa.

E-10 If a study is made of official aid granted to African countries from 1960 to 1970, it can be seen that the figures are very low compared with Africa's needs.

Thus, for instance, the per caput aid per annum granted during this period by the DAC countries, amounted to \$2.9 for Egypt and Kenya, \$2.1 for Tanzania, \$3.8 for Mali, \$5.9 for Zaïre, \$7 for Liberia, \$16.9 for Algeria and \$13 for Senegal. After all, aid can also be assessed in relation to needs, even if it involves some sacrifice by the donor countries. The inequalities observed in Africa are found again in the distribution of aid among the developing regions.

E-11 Average development aid per caput per year in certain developing African countries during the past decade

Source : OECD - 1972 Review p. 100 to 104 in dollars per caput

| | Aggregate total of grants received (1960-1970) in million dollars | 1969 Population in millions | Grants per caput per year |
|---|---|---|---|
| ALGERIA | 2245.3 | 13.3 | 16.9 |
| CAMEROOM | 337.8 | 5.7 | 5.9 |
| EGYPT | 954.5 | 32.5 | 2.9 |
| GUINEA | 91.4 | 3.9 | 2.3 |
| IVORY COAST | 382.8 | 4.9 | 7.8 |
| KENYA | 315.4 | 10.9 | 2.9 |
| LIBERIA | 105.7 | 1.5 | 7.0 |
| LIBYA | 199.6 | 1.9 | 10.5 |
| MALI | 187.4 | 4.9 | 3.8 |
| SENEGAL | 494.3 | 3.8 | 13.0 |
| TANZANIA | 264.5 | 12.6 | 2.1 |
| TUNISIA | 641.1 | 4.9 | 13.8 |
| ZAIRE | 1047.5 | 17.9 | 5.9 |

E- 12 NET RECEIPTS OF OFFICIAL DEVELOPMENT AID BY COUNTRY AND SOURCE
(annual averages 1969-1971)

Source : OECD - 1972 Review millions US dollars

| | BILATERAL | MUTILATERAL | TOTAL |
|---|---|---|---|
| Algeria | 109.69 | 6.33 | 116.02 |
| Botswana | 12.00 | 3.23 | 15.23 |
| Burundi | 11.84 | 5.56 | 17.40 |
| Cameroon | 29.47 | 22.45 | 51.92 |
| Central African Rep. | 10.51 | 5.74 | 16.25 |
| Chad | 17.00 | 8.42 | 25.42 |
| Congo | 10.76 | 9.27 | 20.03 |
| Dahomey | 12.36 | 6.27 | 18.63 |
| Egypt | 15.29 | 11.39 | 26.68 |
| Ethiopia | 33.44 | 13.77 | 47.21 |
| Gabon | 15.10 | 5.25 | 20.35 |
| Gambia | 2.26 | 0.33 | 2.59 |
| Ghana | 53.87 | 7.39 | 61.26 |
| Guinea | 8.09 | 16.81 | 24.90 |
| Ivory Coast | 37.84 | 17.65 | 55.49 |
| Kenya | 49.12 | 22.13 | 71.25 |
| Lesotho | 9.83 | 2.96 | 12.79 |
| Liberia | 12.02 | 3.52 | 15.54 |
| Libya | 3.45 | 1.78 | 5.23 |
| Malagasy Republic | 28.07 | 20.00 | 48.07 |
| Malawi | 23.27 | 8.58 | 31.85 |
| Mali | 13.64 | 11.01 | 24.65 |
| Mauritania | 3.71 | 9.17 | 12.88 |
| Mauritius | 5.05 | 0.94 | 5.99 |
| Morocco | 88.31 | 16.25 | 104.56 |
| Niger | 25.36 | 9.42 | 34.78 |
| Nigeria | 82.44 | 34.10 | 116.54 |
| Rwanda | 16.87 | 4.54 | 21.41 |
| Senegal | 31.36 | 19,02 | 50.38 |
| Sierra Leone | 7.00 | 2.63 | 9.63 |
| Somalia | 20.26 | 9.75 | 30.01 |
| Sudan | 0.21 | 10.94 | 11.15 |
| Swaziland | 5.36 | 1.12 | 6.48 |
| Tanzania | 38.15 | 15.01 | 53.16 |
| Togo | 9.11 | 8.14 | 17.25 |
| Tunisia | 97.52 | 23.72 | 121.24 |
| Uganda | 20.83 | 8.87 | 29.70 |
| Upper Volta | 14.92 | 10.01 | 24.93 |
| Zaïre | 71.52 | 16.22 | 87.74 |
| Zambia | 15.11 | 5.08 | 20.19 |
| Total | 1,072.01 | 413.83 | 1,485.84 |

The average annual amount distributed to the 40 African countries of the table over the past three years works out at US $1,485.84 million, out of a total of US $7,551.17 million for all developing countries, i.e. 19.68% of the total.

Bilateral aid, which is by far the

aid

## 1) Assessment of experience over the past decade and Africa's requirements

E-13 From 1969 to 1971, bilateral and multilateral official aid flows to 40 African countries amounted to 1,485.84 million dollars. However, it should above all be noted that this sum is a net figure.

E-14 The Committee is of the opinion that, although errors have been committeed in the utilization of certain aid funds, it nevertheless has to be acknowledged that, in spite of all sorts of difficulties, African countries have notable achievements to their credit. In the period immediately after independence, many African countries did not have the qualified personnel needed to evaluate the economic and social value of projects and to manage them. In fact, many of the decisions which are now disparaged emanate from technical assistance personnel who were often dubbed experts in fields where they were virtual ignoramuses. This observation is in no way meant to belittle the undoubted qualities of many other technical assistants whose merits our countries have rightly appreciated.

E-15 Aid has been on the decline. After having agreed, within the framework of the International Development Strategy, to transfer resources to the developing countries at the rate of 1% of their GNP before 1975, the developed countries declared in Santiago that they could no longer commit themselves to transferring 0.70% of the target before the period specified.

We are still far from the minimum growth rate of 6% which the developing countries were expected to achieve at the end of the past decade: the African countries scarcely attained an average growth rate of 2% in 1967 and of 4% in 1972, and even worse, the economies of many African countries are losing ground.

E-16. The question of what Africa's needs are in financial terms is a difficult one because the answer depends not only on what is understood by need, but also on the many changes which will certainly occur both internationally and at the regional level. The extent to which technical progress will be transferred to Africa, the level of education and of growing awareness of populations and the degree of regional integration are all factors which have a marked effect on the pattern and rate of economic growth.

E-17. If the aim of African countries is to attain a given growth rate at the end of a given period, it is possible to estimate the rate of investment required to attain that target.

Although the estimate can only be a very rough approximation, the resources required are enormous.

A current method of calculation attempts to determine the savings gap by evaluating the external resources required to carry out, for example, an investment programme within a development plan. Other methods such as the calculation of the foreign exchange gap are also used but all these methods have one feature in common in that they deal with only a very limited aspect of the problem of development.

E-18. The evaluation of Africa's requirements in terms of objectives that are not ambitious, but are merely meant to ensure a decent minimum standard of living for the population, would work out to sums that can scarcely be grasped and which it is neither possible nor realistic to seek from outside the continent.

E-19. It is now generally recognized that Africa is lagging behind in development: contrary to Latin America for instance, the developing African countries are still largely deficient in the economic and social infrastructure and levels of education needed to sustain a policy of economic growth. Vast sums will,

in fact, have to be allocated to creating this infrastructure. At the outset, the expenditure involved will not be reflected in any increase in the product growth rate and yet such expenditure is necessary to support the development process. Perhaps it is in despair that statisticians and economists have given up trying to set a figure for Africa's absolute requirements and are merely content to evaluate them in the limited sense of the term, invoking the savings gap, the foreign exchange gap and so on.

E-20. But the African countries have to be aware of the fact that Africa's requirements cannot be identified with the <u>savings gap</u> or the <u>balance of payments deficit</u> even if, in the context of day-to-day economic policy, it proves impossible not to take these constraints into consideration.

E-21. It is quite clear, therefore, that the developing African countries, which are already experiencing enormous difficulty in solving the problems of their requirements in the restricted sense, can never find from outside the continent the resources needed to attain targets that alone can provide a decent minimum living standard for the peoples of Africa.

E-22. In these circumstances, it becomes essential for the African countries to consult together, adopt an inward-looking economic policy and define a common stand on all problems of development financing.

To this end, the Drafting Committee wishes to draw attention especially to the following:

(a) <u>Aid allocation criteria</u>

E-23. It is acknowledged that the developing countries allocate aid on the basis of criteria which vary from time to time according to the prevailing political doctrines. Generally, aid allocation is based on <u>the size of population</u>, <u>the level of development</u>,

the absorptive capacity of the country and its debt burden.

E-24. With regard to the level of development, which is customarily described in terms of per caput income, the general tendency has been to give most help to the least developed countries forgetting, as far as Africa is concerned, the basic problem of economic and social structures dealt with above. But nobody knows how the above criteria are combined, even if it appears evident that aid should go to the most highly populated countries with the lowest standards of living.

E-25. Only recently, the Pearson Report recommended that countries which have proved their ability to manage their affairs should be encouraged further. In other words, aid should be increased for countries which have reached the take-off stage and which, with sufficient help, will rapidly be able to attain the stage of self-sustaining development.

E-26. A country's absorptive capacity, which is linked with its degree of indebtedness, is only another way of describing its ability to ensure minimum profitability for new external investments. In fact, the size of a country's market and its structures set a limit beyond which investments are no longer profitable.

E-27. The effectiveness and implications of the difference forms of aid - bilateral and multilateral - are subject to controversy. Current opinion has it that certain forms of aid are more constraining than others. But in the Drafting Committee's view, the traditional relations between some African countries and some developed countries are so important that they cannot be neglected.

E-28. Political objections probably stem less from the form of aid than from the determination of the assisted country to safeguard its dignity and independence. The Drafting Committee therefore considers that the problem is one of determining measures which should be taken to ensure aid co-ordination in

Africa so as to safeguard the interests of the African countries.

(b) Assessment and effectiveness of the different forms of aid

E-29. The Drafting Committee noted that one of the problems connected with aid arises from the difficulty of assessing the effectiveness of aid granted. The priorities of developed donor countries are by no means always the same as those of recipient countries. The investment criteria chosen by the two parties may often be diametrically opposed. In any case, where investment decisions are concerned, even consideration of various criteria does not always make it possible to reconcile development requirements and economic effectiveness, particularly when the latter is interpreted in quantitative terms.

E-30. The Committee recognizes that this is a difficult problem, but it holds the view that the developed countries should, as far as possible, respect the choices African countries have made in full awareness of their implications.

(c) Administration

E-31. Aid administration also poses the difficult problem of whether a donor country should assume full responsibility for the conception, execution and administration of projects financed by its aid.

The conclusion to be drawn from the above observations that after placing the whole idea of aid in its proper perspective, the African countries should seek ways and means of obtaining an increase in volume and an improvement in quality with reference to development objectives rather than to immediate profitability.

(d) Debt

E-32. The Drafting Committee first considered the rate at which the African countries' overall debt is increasing, calculated on the basis of the previously defined data. This rate, which averaged 17.13% in 1965-66 fell to 7.42% in 1969-70, the drop being due, however, less to a general lightening of the burden than to a reduction in the growth rate of aid. In 1970-72, there was a slight rise, but the figure came nowhere near the 1965-66 level.

E-33. According to recent statistics , the total debt owing by the developing African countries as at 31 December 1970 amounted to 10,693.5 million dollars including 1,208 million in the form of suppliers credits. It has already been pointed out that nearly 75% of all grants are repaid in some form. If they are not to run into serious trouble within a very short time, the African countries will have to be offered means of relieving their debt burdens since the latter are increasing from year to year as tied aid compels recipient countries to obtain their goods and services on non-competitive markets on very costly terms. If this problem is not dealt with rapidly, Africa will soon find itself in the particularly difficult situation other developing regions have experienced.

2 - Technical Assistance

E-34. After ten years of independence and experience of both bilateral and multilateral technical assistance, the African countries should be able to assess the cost and effectiveness of the latter. It is now acknowledged that technical assistance is almost never completely free and imposes certain burdens on the assisted country. Furthermore, the training of African staff over some ten years poses the problem of their employment in place of technical assistance staff. Besides, some forms of technical assistance within the framework of intra-African co-operation

can be envisaged so that the countries with a surplus of training staff can make the latter available to the countries in need. In this sphere, an appraisal of man-power resources in all the African countries will make it possible to find a gradual solution to the problem of foreign technical assistance, the purpose of which, as has been stated on several occasions, is to put an end to its own esistence.

3. Other external sources of financing

E-35. The Drafting Committee considered first suppliers credits whose importance has already been emphasized. In 1970 such credits to all the developing countries amounted to over 24 thousand million dollars and their rate of increase over the previous years has been about 12%. Suppliers credits are granted at high interest rates, and very often the African countries are persuaded to use them for financing projects which are not always profitable. Furthermore, lacking African staff trained in the relevant techniques, the borrower countries do not always have the means of appraising the actual cost of projects.

E-36. As a first step, therefore, measures could be envisaged to reduce the recourse to suppliers credits, for example by using SDRs. But Africans should call increasingly on African consulting engineers to appraise project costs and help States during negotiations on the purchase of materials. Initially, it should be possible to establish a continental consulting engineers office working in close collaboration with existing regional institutions.

E-37. With regard to private foreign flows, the Drafting Committee admits that such funds are often necessary but insists that foreign investors should respect national priorities as defined officially by governments in their development plans.

Regional co-operation should make it possible to check and reduce the power of multinational companies which seem to be increasingly able to evade State control.

The Drafting Committee wishes to stress the fact that where relations between the African countries and the outside world are concerned, account should be taken of repatriation of profits in any assessment of the volume and effectiveness of aid. The figures for 1967 show, for example, that sums paid out as investment revenue amounted to 861.4 million dollars for Africa, comprising 614.1 million dollars' worth of profits and 247.3 million dollars' worth of interest.

E-38. If this figure (861.4 million dollars) is compared to the aid granted by the European Economic Community to Africa during the same period, i.e. 918 million dollars, it becomes evident that the problem should be considered at the overall level of relations between countries and that the concept of aid in the strict sense of the term has little significance.

E-39. Aid to the African and Malagasy countries in respect of the 3rd Association Agreement.

| Source: EEC, Miscellaneous | Millions of SDRs |
|---|---|
| Gifts | 748 |
| Special loans | 80 |
| E.I.B. loans | 90 |
| Total | 918 |

E-40. Investment revenue paid by the African countries.

| Source | Million of SDRs | | | | |
|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 |
| Profits | 138.0 | 464.0 | 505.3 | 564.4 | 614.1 |
| Interest | 129.4 | 147.8 | 177.3 | 233.8 | 247.3 |
| Total | 267.4 | 611.8 | 682.6 | 898.2 | 861.4 |

4. <u>Appropriate technology for development</u>

E-41. The Drafting Committee first observed that Africa is still more technologically dependent than the other developing regions. The Committee however **stresses** that the techniques used today by the developed countries did not originate in those countries but were sometimes borrowed from the regions now described as developing.

E-42. The Committee further observed the important role technology plays in development and the ever-widening technological gap between Africa and the developed countries and concluded that the development gap depends very largely on this technological gap.

E-43. In view of the fact that the study of technological skills and their transfer is a fairly recent branch of research, the Drafting Committee could not obtain the data needed to assess the exact cost involved in transferring technology to Africa, the obstacles which prevent the African countries from developing their own techniques and the likelihood of such techniques being accepted in the markets of the developed countries.

E-44. Aware of the economic implications of the transfer of technology, the Drafting Committee studied in detail the various modes of transfer: the commercialization of technology in association with intermediate products, wider-range know-how in relation to staff training, the channels of multilateral companies, licensing agreements, patents, trade-marks etc.

E-45. Over the last decade, all the patents and licences used by the African countries were of foreign origin and on the basis of the few available statistics, the Committee was struck by the fast-rising cost of technology transfers. Nigeria alone spent 13.8 million dollars in 1963 and 33.8 million dollars in 1968 in respect of such transfers. The average annual growth rate of payments for imported technology was therefore 55 per cent over that period, whereas the growth rate of production from its manufacturing industries was only 9.3 per cent and that of its Gross Domestic Product 4.1 per cent. In other words, the growth rate of payments for technology transfers was almost six times as high as that of production from the manufacturing industries.

E-46. Furthermore, the Committee noted that the developed countries have often sold obsolescent techniques to the African countries instead of the appropriate ones.

E-47. To remedy this situation, the Committee sees no solution other than the stepping up of technological training of Africans by providing the appropriate structures in national or continent-wide Universities and Research Institutes.

E-48. Drawing on the experience of the Latin American countries in general and the Andean countries in particular, the Committee draws attention to the difficulties laying in wait for developing countries which choose the option of "endogenous" technological advancement, i.e. technological progress originating within those countries themselves. In fact, in recent years, the Andean countries have developed a number of techniques and several patents

but only a very small proportion of these techniques and patents have been accepted in the developed world. Technological research should therefore be carefully and primarily geared to the specific needs of Africa and more particularly to a gradual substitution of costly imported technologies by newly evolved African technologies, following the example set by Japan.

5. Mobilization of domestic resources for development

E-49. As has been stated earlier, Africa's needs are immense; whatever the volume of aid provided, it would never suffice to finance Africa's development under conditions acceptable to the African countries.

E-50. Private capital is invested solely in areas offering high profits, the terms offered cost Africa very dearly, and add to its debt burden. All those factors could, in the long or short run, bring the continent's development to a halt.

E-51. For all these reasons, the Committee feels that the top priority for Africa is the mobilization of all its own resources. The African countries should begin by prospecting their natural resources with a view to drawing up a comprehensive inventory; new resources are being discovered every day. Only a knowledge of the various countries' potential can make it possible to plan their rational use.

E-52. The Committee however feels that human resources constitute the fundamental basis for this operation and that it should always be borne in mind that human ingenuity lies at the root of all achievements and that man is the main source of any country's wealth.

E-53. The past decade during which the African countries have had to manage their own affairs has proved, if proof was needed, that under the most difficult conditions the African could solve

the most complex problems successfully and even take on experienced adversaries. We need only cite the modifications to the structure of the petroleum industry in Algeria, the resumption of control of the natural resources in Congo and Zambia, etc.

E-54. Considering immediate measures for mobilizing African human resources, the Committee examined the "brain drain" problem. It was noted that the number of trained nationals from all the developing countries living in the developed world far exceeds the number of technical assistance personnel of comparable qualifications working in the developing countries. The return of Africa's qualified nationals to their home countries would bring with it many advantages including a more thorough knowledge of problems, services provided at cheaper rates, etc.

E-55. Having considered the rationale behind this brain drain, the Drafting Committee feels that Africa's trained personnel do not always leave home solely in order to earn higher salaries. Emigration is attributable in many cases to political differences, and many Africans would willingly return home for lower salaries provided political divergencies could give way to the pursuit of the same objectives, namely, the development and the liberation of the continent.

E-56. The Committee finally considered the mobilization of financial resources. Its main conclusion on this subject was that the savings effort could be stepped up, despite the low level of incomes in the African countries. But one of the main concerns of our States should be to take measures to restrict the outflow of capitals, as has been successfully done in other countries, and to mobilize all possible resources in ways that will be described in the third part of the present document.

## Section II

# PART III

# IMPLICATIONS FOR AFRICAN COUNTRIES OF THE ENLARGEMENT OF THE EUROPEAN ECONOMIC COMMUNITY

## IMPLICATIONS FOR AFRICAN COUNTRIES OF THE ENLARGEMENT OF THE EUROPEAN ECONOMIC COMMUNITY

F-1. The Committee examined the possible consequences of the enlarged European Economic Community for African trade and development as well as the possible implications of the various types of agreements that the Community has offered to conclude with African countries.

F-2. It believes that the overall aim of these agreements should be to permit African countries to promote some of the basic objectives of economic policies, such as the diversification of their economies, the expansion of their exports, the extension of their economic and social infrastructure, and the promotion of economic co-operation and integration among themselves.

F-3. It also believes that the fulfilment of this aim is so fundamental to the future of African development, and to the promotion of a fruitful and lasting relationship with Europe, that it should not be made to depend on a narrow range of possible relationships with Europe. The Committee is of the opinion that the maximum flexibility in the conception of these relationships should be envisaged, such as would allow the basic aims of African development to be pursued, while leaving room for some divergencies of approach that may be necessitated by different historical experiences rather than by different conceptions of the overall directions of African development.

F-4. It notes that the absence of a co-ordinated approach by African countries to the EEC might further intensify the existing obstacles to the development of intra-African co-operation, and thus retard rather than promote the basic aims of African economic development.

F-5. The Committee therefore proposes that African countries should at least endeavour to define certain common principles and conditions which individual countries or groups of countries would respect in their negotiations with the EEC.

F-6. It believes that such principles should take into account (i) the experience gained under the present agreements with the EEC, (ii) the principles which African countries may wish to promote during the multilateral trade negotiations under GATT and (iii) the special economic problems of Africa, particularly the fragmentation into small economies, the large number of least developed countries, the landlocked position of many African countries, and the low level of economic and social infrastructure everywhere.

F-7. The Committee suggests that the following items should be included among the principles to be thus defined :

(i) attitude to the principle of non-reciprocity in trade negotiations between developed and developing countries in the light of current discussions in GATT and the preparations for the multilateral trade negotiations;

(ii) attitude to the provision on right of establishment, in the light of current trends of policy as regards the promotion of Africanisation in many African countries;

(iii) attitude to the provisions of rules on origin;

(iv) attitude to the provision on the movement of payment and capital, in the light of current and proposed changes in international monetary reform and in the monetary relations between African countries and member-countries of the EEC;

(v) the divorce of access to EDF from any particular type of agreement; and

(vi) the nature of the trade concessions by Europe that would truly promote African interests, in the light of the little effect that existing agreements have had on African exports to the EEC.

F-8. In the light of the above considerations, the Committee believes that African countries need to assess the full implications of alternative relationships with Europe, and to co-ordinate their approaches to this issue. It accordingly suggests that African countries should, as a matter of urgency, begin consultations among themselves with the object of arriving at a common position before the commencement of the negotiations with EEC.

## SECTION III

## AFRICAN STAND ON MONETARY PROBLEMS

PART I

## 1. RECENT DEVELOPMENTS IN THE INTERNATIONAL MONETARY SITUATION

G-1 The origins of the international monetary system go back to the Bretton Woods Agreements concluded in 1946 after the second world war. The system was established by the leading powers, naturally without the participation of the developing countries which were colonies at the time.

G-2 The dollar was adopted as an international exchange standard at the rate of 35 dollars an ounce of gold, which was why the system was called the "Gold Exchange Standard".

G-3 The currencies of the other countries were defined, in their turn, in relation to the dollar in accordance with parities accepted by the IMF. Hence they were also indirectly defined in relation to gold and each country accordingly undertook to maintain the exchange rate of its currency within the narrow margins of 1% above and below the par value, i.e. the value of the currency in terms of gold as accepted by the IMF.

G-4 As the dollar was thus the basic currency of the system, it was soon to become the privileged reserve instrument.

G-5 The Bretton Woods system presupposed, therefore, that other countries could obtain dollars to make up any deficit in their balances of payments but this virtually implied that the balance of payments of the United States would be constantly in deficit if it had to export dollars to the other countries regularly.

G-6 At Bretton Woods, the IMF was set up as the appropriate institution for international co-operation in the monetary field with the prime function of making loans of various types to countries with liquidity difficulties. However, it has to be recalled that the sole purpose of international liquidity was to prevent international trade from seizing up if one or more countries happened not to have the liquid funds needed to pay for import surpluses. Obviously the rules of the game were

designed to prevail upon participants to remedy their external imbalances as quickly as possible, if necessary by taking the internal measures needed to ensure their economic recovery.

G-7 The Bretton Woods system is often considered to have fostered the expansion of world trade on the whole. While this may be true in general terms, it is equally true that:

i) The share of the developing countries in the total volume of world trade has been declining whereas the share of the developed countries has been growing;

ii) Likewise, international trade between developing countries has been declining whereas trade between the developed countries has risen steadily;

iii) From the nineteen-fifties to the sixties, the average growth rate of the developing countries fell from 5% to 4% while Africa as a whole barely managed an average growth rate of 2%.

G-8 After functioning for several years, the Bretton Woods system proved incapable of fulfilling the function required of it, namely that of supplying liquidity for countries with external deficits on terms that would compel them to adopt readjustment measures.

G-9 The shortage of international liquidity was ascribed either to its inadequate volume or else to the distribution arrangements, since some countries had substantial reserves while others experienced chronic deficits. Furthermore, the difficulties experienced by the centre-piece of the system itself were such that it found itself unable to uphold the role assigned to it.

G-10 The dollars which had piled up outside the United States lost some of their value, this phenomenon being the corollary of the increase in the price of gold which began to rise shortly after the Bretton Woods Conference, at the same time as the prices of all other goods.

G-11 The United States was thus obliged to give up supporting the 35-dollar per ounce price of gold fixed at Bretton Woods and to devalue its currency, thus more or less putting an end to the whole system.

G-12 As the crises that ensued affected the principal world currencies, the problem of reforming the international monetary system was posed. Every time the blow fell, the developed countries took care to close ranks in institutions from which outsiders were excluded to consult each other and decide on reform measures which subsequently, thanks to their dominant position, they introduced into the IMF machinery.

G-13 No precise assessment was made of the effects of all these crises on the developing countries or of the extent to which the reform of the international monetary system ought to be a matter of concern to the latter.

G-14 However, when it became clear that the developed countries were influencing IMF's decisions without any regard for the interests of the developing countries, the latter decided to set up the Group of 24 to act as a counterweight to the Club of Ten.

G-15 In the Lima declaration and the series of debates within the Group of 24 and, above all, in resolution 84 adopted at UNCTAD III, the developing countries were particularly intent on stressing the fact that they were involved and that consequently decisions affecting the international monetary system could no longer be the exclusive preserve of the developed countries.

G-16 After many international discussions and after a considerable number of proposals had been made by experts, the Committee of Twenty was set up by IMF and assigned the task of exploring ideas on reform and putting them to the Governors of the Fund.

G-17 Naturally, in numerical terms, the representation on the Committee of Twenty of the developing countries in general and the African countries in particular is slight, since the Committee mirrored the relationships existing on the Fund's Board of Directors. Even so, some of the developing countries placed a measure of hope in the new body.

G-18 However, the Committee of Twenty had no sooner started work in January 1973 than another dollar crisis shook the world economy. In the discussions on the crisis, some of the representatives of the developed countries proposed a world conference to seek a solution to reform the system once and for all, while others were more in favour of concerted action by a limited circle of developed countries.

G-19 Recent events are therefore sufficient illustration of the fact that the developed countries are still very reluctant to see the developing countries take an effective part in the reform of the international monetary system. Some African experts therefore argued forcefully that it was of little importance whether the African countries participated in the discussions on the reform of the system or not, because the final decisions would always be taken by the major powers. Hence instruments like the Committee of Twenty would be mere phantom vehicles for participation or merely another international forum in which the developing countries could, if need be, make high-flown declarations while the real problems were being dealt with elsewhere. According to those experts, the African

countries would do better to organize their economies at the regional level so as to become less dependent on the developed countries. In other words they ought to concentrate more on the real problems of mobilizing African resources and achieving economic integration and less on international monetary problems the solution to which would, in any case, be unaffected by their views.

G-20 However, another opinion to emerge was that, even if this thesis was borne out by recent events, the African countries should pursue their efforts to be allowed to play an active part in the reform of the monetary system since a well-conducted and well-coordinated campaign could result in some of the features of the system being improved.

G-21 The Drafting Committee noted that the problem of the African countries' participation in the reform process had often been badly framed in international institutions both because the concept of the international monetary system had been poorly defined and because the link between the system and national and regional structures had never been sufficiently highlighted.

G-22 The international monetary system does not consist solely of the International Monetary Fund which, on a world-wide scale, is based on the principle of federation; it also includes all the principles, methods, rules and mechanisms which can affect international liquidity and its expansion at both the national and the international levels.

G-23 The importance of the international monetary system does not reside only in the fact that international liquidity acts as a support for international trade; there is also the fact that it ensures the relative stability of exchange rates and the international distribution of income and it ought also to provide for the transfer of real resources from countries that have surplus capital to countries in need.

G-24 Nevertheless, the Drafting Committee thought that the participation of African countries in the reform process and the moral backing they would give to decisions in this way required further justification; this point will be dealt with below.

G-25 Following these general remarks on the problem, the Committee considered the following specific aspects of the effects of the monetary crisis on the African economies.

2. APPRECIATION OF THE EFFECTS OF THE MONETARY CRISIS ON AFRICAN ECONOMIES

G-26 The five main manifestations of the recent monetary crises were:

- The decision to allow the dollar to float taken by the United States on 15 August 1971 and the 10% surcharge imposed on American imports. The latter measure lasted for only about four months and from the outset special provisions were made to limit the effects on the African countries' exports;
- The Smithsonian Agreement of 18 December 1971 on the realignment of major currencies;
- The United Kingdom's decision to allow the pound to float;
- The devaluation of the dollar on 13 February 1973;
- The fact that the European currencies are all being allowed to float vis-a-vis the dollar.

G-27 It would be an extremely complex operation to determine the effects exactly. This problem will have to be studied more closely, but the Drafting Committee has been able to pick out the following points:

a) Effects on exchange rates

The effects of the monetary realignment of 18 December 1971 on exchange rates arise out of the decisions the various African countries took on whether to follow the dollar or not or whether to devalue to a greater extent than the dollar:

- 9 African countries aligned their currencies with the dollar;
- 4 other countries (Ghana, Botswana, Lesotho and Swaziland) devalued their currencies to a greater extent than the dollar;
- 24 countries maintained their gold parity in principle.

Hence the effect of the dollar devaluation has, in fact, to be analysed in terms of a revaluation.

b) As a result, the effects on reserves, prices and terms of trade vary significantly and depend on the situation in each country. The effect of the realignment on reserve holdings depends on the composition of the reserves. Countries with dollar surpluses therefore suffered an actual real loss owing to the devaluation of the dollar.

According to an overall estimate made by IMF, the net actual losses represent the order of 2.3% of the total value of the reserves of all countries taken together and they are "more or less the same" for both developed and

developing countries. Unfortunately, details on the situation of the African countries are not given in the above document.[1] For the developed countries, the increase in the price of gold procured advantages which very amply offset the losses incurred, since their reserves are said to have risen concommitantly by 4.04%. To judge from an enquiry conducted by UNCTAD, covering 55 developing countries, the monetary alignment of December resulted in a 3% drop in purchasing power, of a figure of about $500 million. Here again, however, no details are given for the African countries.

c) It has not been possible to determine exactly the effects on prices and terms of trade, as everything depends on the direction of trade flows. Improvements in the terms of trade have been observed in some cases, while the opposite effect has been noted in others.

d) The same observation can be made with regard to the African countries' external debt. According to a World Bank Study, the ratio of dollar debts to other debts is relatively lower in Africa than elsewhere, i.e. 23.3% in 1970 as compared with 76.6% in Latin America, 40.3% in the Middle East, 48.6% in Asia. Consequently, as IMF has observed, the effect on the nominal value of the total debt has not been the same in Africa and in the other developing regions.[2] It has thus been impossible to calculate the effect on the African countries' debts with any degree of accuracy because of the lack of necessary data in this subject.

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1/ IMF Annual Report,

2/ IMF/SM/72/72

e) With regard to aid, the only certain fact is that developed countries encountering monetary difficulties will always be inclined to reduce the volume of their aid to the developing countries.

G-28 Another set of effects brought about by the monetary realignment relate to development programmes and plans whose implementation requires a minimum degree of stability. How in fact can a development plan be carried out when it depends mainly on export earnings and on aid if the slightest monetary change jeopardizes everything by making it impossible to calculate what sums will be earned or received?

G-29 One of the most baneful effects of the currency realignment was the effect on the whole structure of exchange rates of the African countries. Regional economic integration and intra-regional trade were seriously impaired because of the changes in the exchange rates of the African countries resulting from the general realignment of the major currencies. The Drafting Committee's conclusion is that even if detailed studies still need to be carried out to determine the exact effects of the monetary realignment, it is nonetheless certain that nearly all the African countries have suffered as a result.

G-30 In order to be convinced of this, it is enough to observe only that the countries which formerly belonged to the sterling area have had to adopt entirely different approaches and have modified their exchange rates with regard to one another's currency. It follows that the African countries owe it to themselves to find a defense mechanism they can use when such monetary realignments take place. Europe has set an example in this regard by deciding in April 1971 to maintain the exchange rate of its currencies within very narrow limits.

G-31 Moreover, the present suggestion about the floating of all European currencies is partly motivated by the need to determine the real relative values of the currencies but it is almost certain that the European countries will endeavour shortly afterwards to fix new, narrow limits for the fluctuation of their various currencies.

G-32 With regard to the question of protecting African economies against the harmful effects of foreign monetary decisions, the discussions were first geared towards the idea of compensation which had been suggested by UNCTAD but was abandoned in Santiago. One expert quoted a precedent in the 1968 Basle agreements, which guaranteed the dollar value of 90% of official sterling holdings. In the Drafting Committee's view, African countries can only defend themselves by establishing a regional monetary organization able to satisfy at least part of their liquidity requirements and to protect them against the effects of decisions taken outside Africa.

G-33 Furthermore, the African countries should not wait until the effects begin to make themselves felt and become permanent before taking a decision. There is a need for a very flexible body to provide a forum for consultation as exists in Europe where every time there is a monetary crisis, the Finance Ministers meet within a matter of hours to take joint decisions on the steps required.

## 3. CONCLUSIONS

G-34 1. In view of the fragmentary and incomplete information now available, new studies should be carried out so as to determine the exact effect of the monetary crisis on each of the African economies concerned.

2. The monetary realignment has had harmful effects on regional integration by altering the exchange rates of African currencies and consequently changing the prices of products at the intra-regional level.

3. With regard to measures for protecting African economies, the Drafting Committee suggests certain measures to be taken at the regional and international levels.

<u>At the regional level</u>:

1) The African countries can most effectively defend themselves by establishing a common regional organization.

2) Ministers of Finance should form a flexible body for mutual consultation so that they can meet immediately to discuss any important international monetary crisis.

<u>At the international level:</u>

1) With regard to the effects on reserves at least, the Committee feels that although it might be impossible to find a general solution, compensation could be considered in certain cases by a system of guarantees provided by the developed countries with which African countries deposit their reserves.

2) The developed countries should ensure that the developing countries' share of the world reserves does not fall.

## PART II

## AFRICAN STAND ON THE REFORM OF THE INTERNATIONAL MONETARY SYSTEM

### 1. THE SIGNIFICANCE OF AN AFRICAN OPTION FOR THE REFORM OF THE INTERNATIONAL MONETARY SYSTEM

G-35 The Drafting Committee wishes to emphasize the generally overlooked fact that the international monetary system is [illegible] as a system set up and organized for economic purposes, which does not constitute an end in itself, but is intended to facilitate the growth of international trade. The Committee therefore observed that the monetary system set up at Bretton Woods is relative in time and space. It is relative in time since human beings have always lived without an international monetary system and since the system is only about a quarter of a century old, which is a very short space of time compared to the period of industrial development. The system is also relative in space since a whole region of the world exists and organizes its trade without belonging to the IMF (the socialist countries of Europe and China).

G-36 Consequently, the African States should find justifications for their involvement in this system. This involvement may be justified by the longstanding historical relations with the western world, but also in the hope that the community of the western countries will be able to find a quick and favourable solution to their development by considering their true interests not only on a formal basis but also in realistic terms.

G-37 Since this involvement is an established fact, a second stage should be passed through, which consists in determining why the African countries should continue to support the search for reform under the IMF as presently organized rather than find another solution.

## 2. RANGE OF POSSIBLE CHOICES FOR AN INTERNATIONAL MONETARY SYSTEM

G-38 It should be recalled that at Bretton Woods the Keynes plan, which was rejected for political reasons, was opposed to the White plan which forms the basis of the present system. On the basis of Keynes' ideas according to which the world monetary organization would be conceived as a pyramid with a sort of Central Bank of Central Banks at the apex, which could therefore intervene more efficiently in a given country. Triffin drew up a system which appeared more practicable to many economists. Even if these ideas now seem to have been abandoned by their supporters it is to be wondered whether the Triffin system or a system he would have inspired, would not take more cognizance of the realities of the developing countries and ensure the transfer of real resources more effectively to these countries.

G-39 On the other hand, it should be recalled that in 1964, Hart, Kaldor and Tinbergen proposed a system based on raw materials. Although such a system does not appear applicable under present conditions, it is nevertheless worthy of interest.

G-40 In a word, the Drafting Committee feels that the African countries should support the reform of the present system but should consider it as transitional while the resourcefulness and the creative bent of research workers make it possible to work out a long-term system better suited to the needs of all countries.

## 3. THE SIGNIFICANCE OF AFRICAN MEMBERSHIP OF A REFORMED IMF

G-41 The question arose at UNCTAD III of whether an attempt should be made to find a solution within IMF or entirely outside it. The conclusion was that IMF could be reformed and adapted to the needs of its members. Thus, the participants decided against the Lima recommendation on the holding of a world conference which the socialist countries would probably have attended. By participating in the current attempts to reform the system the African countries are therefore expressing their confidence in IMF and their belief that the institution can be reformed to take their interests into account.

G-42 The international community should accordingly measure the consequences of a possible disappointment of the African countries which, although enlightened on the varied range of possible options, have nevertheless chosen to commit themselves to the idea of a collective reform of the international monetary system.

## 4. COMMON AFRICAN STAND ON THE PROCEDURE FOR THE REFORM OF THE INTERNATIONAL MONETARY SYSTEM

G-43 The recent dollar crisis has shown that the reform of the international monetary system will be carried out outside the Committee of 20. When the crisis occurred, the United States proposed that a world conference be convened to study the basic problems of monetary reform while the European countries called for a meeting of the Club of Ten to which a few guests were invited.

G-44 In point of fact, the first meeting of the Alternates of the Committee of 20 had immediately come against the basic difficulty of an option as to the role of the dollar and of gold in the actual workings of the international monetary system. During this discussion, the developing countries appear not to have been very concerned with the issues involved and yet the problem is one of the utmost importance.

G-45 On the pattern of the example set by Latin America on the lines of the experience of Europe, the participation of each region in the reform should take several forms: universities, private national banks, central banks, regional banks, U.N. regional economic commissions, research centres .... etc. Africa was the only continent which did not intervene effectively through regional secretariats like OECD for EEC, the monetary department of the Common Market, the Centre for Latin American Monetary Studies and ECLA in Latin America. In view of the technical nature of the discussions on the reform, it is desirable that each regional representative should be able not only to refer back without difficulty to the countries he represents, but at the same time enjoy regional logistic support. The developed countries in general have no difficulties in this regard since, in case of need, it is much easier for a representative resident in Washington, in Europe or elsewhere, to consult a single Minister of Finance instead of 14 Ministers.

G-46 The Drafting Committee therefore felt it was desirable for the African representatives at the IMF and on the Committee of 20 to maintain close relations with a regional organism charged with monetary studies and placed under the authority of an African institution exercising some political power like the OAU. It is difficult to conceive how, when dealing with a technical question, the African representatives can possibly consult 14 countries and take a position with the certainty of defending an idea that has received the consensus of all the countries he represents.

CONCLUSIONS

G-47 Following the example set by Europe and Latin America, it is evident that effective participation in the reform does not consist merely in being represented on the Committee of 20, but in establishing an African regional institution to be placed under a political authority.

G-48 To this end, the African experts on the Drafting Committee suggest the setting up of an AFRICAN CENTRE FOR MONETARY STUDIES (ACMS) which could initially enjoy the technical and financial assistance of ADB but would be under the authority of OAU and would work in close collaboration with the Association of Central Banks and ECA.

5. AFRICAN COMMON STAND ON THE BASIS AND FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM

G-49 Having once agreed to becoming involved in the reform of the IMF, African countries should be conversant with the many problems arising and express their views accordingly. The Drafting Committee observed that developing countries are generally preoccupied with the link, i.e. with the search for additional development financing in relation to the creation of SDRs. Obviously, this is wrong, as the Latin American economist Javier Marques[1/] has shown.

G-50 In fact, before effort is devoted to seeking financing, every attempt must be made to participate in the drawing up of an equitable system. This raises the problem of the objectives of the system, its basis and its operating rules.

1/ The reform of the international monetary system: certain aspects affecting the developing countries, by Javier Marques.

G-51 So far, the IMF has been functioning on the "restrictive" concept, in spite of a few subsequent amendments. Apart from its role in the process of stabilization and adjustment, this consists of providing countries in deficit with liquidities, whereas the role of development financing is assigned to the World Bank. In expressing their ideas through the institutions of UNCTAD, the developing countries have stressed the point that the additional objectives of the international monetary system should include the transfer of real resources to developing countries, thereby reconciling short-term and long-term objectives in order to meet the specific requirements of the developing countries.

G-52 As already mentioned, the first meeting of the group of Alternates of the Committee of 20 came up against the problem of the role of gold, the dollar and reserve currencies in the international monetary system. It is striking to note from the statistics how slight a share of reserves and monetary gold is held by African countries.

G-53 As the African countries hold very little gold, it is really not in their interest to defend the metal as the basis of the system. Obviously, the Committee did not lose sight of the advantages certain African countries would derive in a stable system based on gold because of their specific relations with certain developed countries which defend that principle. But while in the short-run, they may agree that gold should continue to play an important role, these countries should, in the long-run, support the attempts to create a neutral currency and research on the demonetarization of gold. On this point it is worth recalling the opposition between the U.S.A. and France, the former favouring a neutral currency of the SDR type and the latter defending the principle of the increased role of gold because it considers gold as being the most objective basis of an equitable system.

G-54 Bearing this consideration in mind, the Committee examined the recent proposals for the modification of quotas, drawing rights and voting rights within the IMF. It wishes to draw attention to the fact that from the outset, the IMF was based on members' contributions or quotas. This quantitative contribution, as defined by the Bretton Woods formula, fixed the drawing rights of member countries from the very beginning. Each country's quota was calculated in the light of various factors: national income, the country's volume of reserves, average imports, maximum variations in exports over the past five years and the ratio of exports to national income. This formula straight away ensured the predominant position of the developed countries. The Drafting Committee certainly agrees that it is not possible to create and distribute liquidities without taking into consideration the relative strength of the countries concerned and that such strength should determine their respective responsibilities in the functioning of the system, but it would like to point out that the Bretton Woods formula is only a formula among many others, and that it could be significantly amended to take the requirements of the developing countries into consideration.

G-55 The conception which prevailed in the IMF was that voting and drawing rights should be governed by the quota. On this point, however, the Drafting Committee thinks that there is no justification for the rigid link between quotas (in other words the responsibility of each country), and drawing and voting rights. Originally 25% of each country's contribution was, in principle, paid in gold or convertible currencies and the remainder in local currency, i.e. thus consituting a credit. The question which arises is whether the volume of drawing rights should depend solely on the gold tranche, which is 25% or on the credit tranche (75%). The Committee thinks that it is because it has a restrictive view of matters that the IMF does not take

the credit tranche into more account and that, in effect, it involves a question of confidence. It should therefore be possible to increase the drawing rights of developing countries insofar as confidence is placed in their development.

G-56 These observations on drawing rights are equally valid for voting rights, which are also determined by the quotas. In sum:

(1) The Committee believes that a new formula for allocating quotas must be found or at least that quotas should be dissociated from drawing and voting rights;

(2) Drawing rights should be based on a formula different from that of Bretton Woods or preposed substitutes. The new drawing rights formula which should serve as the basis for the distribution of international liquidities should take account not only of the cases of individual countries, but also of the categories of countries depending on their position on the development ladder. As the groups of countries on the development ladder correspond to the distribution of developing countries by geographical areas, this would be tantamount to modulating the distribution of international liquidities in accordance with the regions.

(3) Voting rights should also be made more flexible inasmuch as it is acknowledged that the developing countries occupy an important place in the functioning of the world economy, although their share in the distribution of income is low.

G-57 On the subject of SDRs, the Committee is of the opinion that the volume of SDRs now fixed without regard for the specific requirements of the developing countries, but rather in consideration of the functioning of the system as a whole, thereby reserves the largest portion to the United States and the United Kingdom since the system was designed in such a way that the United States, in particular, virtually acts as the supplier of liquidities to the other regions.

G-58 There can be no denying the responsibility of the developed countries in the world-wide inflation that has resulted from the distribution and utilization of SDRs and these countries are also, to a large extent, the architects of the deterioration in developing countries' terms of trade. Although it may be unrealistic to look for immediate remedies to these adverse effects, it is not inconceivable that the sacrifices imposed on developing countries could find some compensation in a more substantial allocation of SDRs. The Committee is therefore in favour of the creation of SDRs, but it thinks that, in addition to a substantial increase for the benefit of developing countries, they could be utilized in two other ways:

(1) Research has shown that suppliers credits have played a very important role in the financing of developing countries' imports - 24 thousand million dollars in 1970 with a growth rate of 10 to 12% in the preceding years. Obviously these suppliers credits give rise, in the first instance, to the problem of their utility in the investment programmes themselves and also to a problem of interest rates, which are high and carry relatively short repayment periods (about 5 years).

The Committee wondered whether it might not be possible to finance suppliers credits with long-term SDRs at lower interest rates. The Committee is however aware that the essential problem is whether the purchases made by African countries which are beneficiaries of these credits really serve a useful purpose for development. This is another question which will be dealt with in part three of this report.

(2) Reiterating an idea they had discussed last August, the African experts are of the opinion that regional SDRs that are acceptable to member countries should be created to facilitate inter-regional trade. Their indispensable external convertibility could be examined with the IMF and other institutions outside the continent. This concept, which was only brought up a few months ago, may not appear to be very practicable, but it has been gaining ground, since it is in line with the opinions expressed since then by Latin American and European experts on monetary matters.

G-59 African countries, together with other developing countries, should look for a new formula for the allocation of international liquidities created on the basis of an international agreement.

G-60 With regard to facilities of the Fund, as indicated in the African Development Bank's Aide-memoire, the intervention mechanisms should be made more flexible so as to take the situation of the developing African countries into consideration. It seems in fact that compensatory financing has been particularly inspired by the nature of the developed economies which are subject to fairly regular cyclical fluctuations.

G-61 The adaptation of such a mechanism to primary-producing economies, especially with regard to repayment periods, would certainly be very complex.

G-62 It was noted that African countries have had relatively little recourse to the facilities of the Fund. After examining this point, the Committee thinks that this situation can be explained by the fear of these countries of not being in a position to fulfil their obligations within the stipulated time-limits.

G-63 It was also noted that when the developing countries face serious difficulties, some of them hesitate to appeal to the IMF because of certain political implications involved in obtaining facilities from the Fund.

G-64 The African experts think that any international monetary system must have adjustment mechanisms but that these need not necessarily be automatic. Periodic review of par values may be desirable but it should be accompanied by guarantees so as not to jeopardize regional integration in Africa.

G-65 All aspects of the problem of the link were discussed at particular length by the Committee.[1] But as stated earlier on, this problem should not dwarf the need to concentrate first of all on the reform of the system, because, in reality it is simply a subsidiary measure. The link is only necessary in so far as the system itself would fundamentally be incapable of ensuring the link between short-term liquidity and long-term development resources.

1/ ADB/OAU/ECA/CONFMIN/SC/WP/2

G-66 If the idea of the link is to be retained, two precautionary measures should be taken:

(1) The link should not be a substitute for any part of the present volume of aid, but should ensure additional resources.

(2) Assuming that this condition is fulfilled, SDRs allocated to developing countries through the link should be administered by regional development institutions, and in particular by the African Development Bank in the case of Africa.

# PART III

## AFRICAN POSITION VIS-A-VIS THE MONETARY BLOCS OF THE DEVELOPED COUNTRIES AND OTHER ARRANGEMENTS

### 1) The problem

G-67 At the present time, the appearance of monetary blocs between developed countries is considered as being an increasingly probable eventuality, as anticipated in the ADB Aide-memoire.

G-68 In fact, monetary blocs may be established as a result either of a disagreement on the fundamentals of the international monetary system or of unilateral decisions such as the joint floating of the European currencies in relation to the dollar.

G-69 The Committee wishes to recall that the IMF member countries, and the developed countries in particular, are deeply divided on the role that should be assigned to gold and SDRs in the reformed IMF system. The United States has made clear its position on this issue on several occasions, namely that gold should increasingly give way to an international currency created by mutual agreement, hence a currency after the manner of SDRs. This position has been strengthened by that of the Latin American countries in a document produced by CIAP.1/ By contrast, the European countries, notably France, are insistent on gold continuing to play its roles as a reference value for an international currency.

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1/ Latin America and the Reform of the International Monetary System.

G-70 On this issue, the Drafting Committee tried to ascertain what the African position might be. It is a known fact that the African countries hold virtually no gold.[1] However, some of them, especially those in the franc area, have very close relations with France, which has made it an essential functional principle of the international monetary system.

G-71 Irrespective of the immediate advantages that certain African countries may derive from their bilateral relations, it is obvious that a currency created by international agreement, and therefore without regard to accumulated gold stocks, would probably allow more appropriate consideration to be given to the interests of every country. The discussions within the group of Alternates to the Committee of 20 show that even if SDRs were to replace a currency based on gold, the changeover could only take place in the long term.

G-72 Thus, while still upholding their immediate interests, the African countries should take an active part in evolving an international monetary system based on a currency that has been created by international agreement.

G-73 The second assumption that has been regarded as being likely to lead to the establishment of monetary blocs formed the subject of a recent proposal following the latest dollar crisis. The European countries, which are determined to maintain the progress they have already made towards economic integration, are on the point of deciding to let all their currencies float together in relation to the dollar, which is another way of initiating the process that will lead to the creation of monetary blocs.

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1/ ADB/OAU/ECA/CONFMIN/SC/WP/5.

G-74 As some African currencies are linked to European currencies and others to the dollar, the joint floating of the European currencies will cause a further upset in the exchange rates of African currencies that are related to the franc or the pound sterling. Moreover, these disturbances will be exacerbated owing to the fact that some African currencies will still remain pegged to the dollar.

G-75 The effects of this kind of decision will be similar to those analyzed above, except that inter-African trade and regional integration would suffer to a greater extent. Hence, while it may be difficult at this stage to take protective measures against decisions that are largely beyond our control, our countries could nevertheless start organising themselves in order to cope with situations of the same kind arising in future.

## 2. The monetary implications of European integration

G-76 The entry of the United Kingdom, with its close ties with African countries, into the Common Market had led to a complete upheaval in the fortunes of the African currencies that used to be linked to sterling. In virtually putting an end to the sterling area, the United Kingdom did not prepare its former partners for the new situation they now have to face.

G-77 Having recorded this fact, the Committee examined the possible repercussions in Africa of the monetary integration now under way in Europe. The process of monetary integration in Europe is becoming a growing reality, notwithstanding the monetary disturbances in the region, which stem directly from the dollar crisis. The Heads of State and Government of the European countries, at their Paris meeting in October 1972, reaffirmed that integration should be achieved before 1980.

G-78 As already pointed out on an earlier occasion, the experts on the Drafting Committee wish to recall that it is not self-evident that African monetary integration will automatically follow from European monetary integration if no action is taken in the interim. In the opinion of the experts of the Committee, it follows that those African countries whose currencies are linked with European currencies should start now by setting up two bodies to follow up this question.

3. Measures to safeguard the interests of the African countries

G-79 The Drafting Committee proposes the creation of:

1. A technical body, whose function it would be to work the technical experts of the Common Market in following up the progress made towards integration and to attempt to determine, wherever possible, the consequences for African economies.

2. A political body, working in liaison both with the Common Market and with the European countries whose currencies are linked to African currencies, with a view to harmonizing positions or, in any event, to avoiding surprise effects when monetary integration in Europe is achieved.

G-80 Consequently, failing the existence of a study on the consequences of European monetary integration on African economies, the African countries should commission a thorough-going study of the possible effects of such integration. Africa should be in a position, at least to achieve monetary integration at the same time as in Europe.

G-81 In this connection, the Committee wishes to point out that the advantages which the franc-zone countries of Africa enjoy, in particular the "compte d'operation" and the accounts with the Banque de France, could certainly not be automatically extended to the Common Market as a whole, as it is difficult to see how France's partners would consent to such measures without demanding reciprocal advantages.

G-82 The Committee accordingly suggests that a technical study group and a political body be set up in consultation with the Common Market and those of its member countries which maintain close monetary relations with the African countries.

## SECTION IV

## CONSIDERATION OF MEASURES TO REMOVE OBSTACLES TO INTRA-AFRICAN CO-OPERATION

## 1 - RATIONALE FOR ECONOMIC CO-OPERATION AND INTEGRATION IN AFRICA

H-1 Before starting to study the question of economic co-operation and integration in Africa, the Drafting Committee recalled the conclusions arrived at regarding the subjects previously dealt with:

1) The results of UNCTAD III are very limited as far as Africa is concerned and, as regards aid in particular, the funds available cannot possibly satisfy all the requirements of the developing African countries;

2) it is true that Africa offers interesting possibilities for foreign private capital but it will not be easy to prompt foreign investors to respect national priorities as defined by African States in their development plans;

3) the African countries have exerted very little influence in international negotiations either on international monetary problems or on price stabilization for commodities exported by developing African countries.

H-2 The Drafting Committee then considered the fundamentals on which economic co-operation and integration in Africa could be based.

H-3 The peoples of Africa are experiencing the same difficulties as those of all developing countries. The African countries' GDP is low and they are extremely dependent on the outside world. In general, the standard of living is also extremely low and sixteen of these countries are in the category of the "hard-core" least-developed countries with a per caput GDP of less than US$100. If the outflow of funds to service foreign loans and investments and to remunerate

foreign technical assistance were taken into account, the per caput income would be lower still and many more African countries would fall into the least-developed category. The school-attendance and professional training rates are equally low and, in many African countries, the setting-up of an administrative infrastructure requires substantial expenditure that will not immediately be reflected in any increase in GNP.

H-4 Since their independence, the African countries have felt the need to rationalize their economic options in order to avoid competing with each other and to secure markets of a size that could cut down production costs. Only sub-regional markets of this type will make it possible to make more large-scale use of the available labour, to adopt optimal production techniques and to build up the vast physical infrastructure needed for intra-regional trade.

H-5 The African countries' failure to exert, as individuals, any real influence on recent international negotiations and the encouraging experiences of countries in other parts of the world that have succeeded in forming cohesive groups clearly illustrate the fact that economic co-operation and integration are <u>indispensable for Africa's survival</u>. It is becoming increasingly evident that the results achieved in international negotiations vary with the size and economic weight of the country or group of countries concerned.

H-6 Our governments have often proclaimed their faith in economic co-operation and integration, but the difficulties encountered in the immediate post-independence period and the innumerable obstacles originating from outside our continent have so far made it impossible to achieve this ideal.

H-7 The Drafting Committee realizes that the integration process in Africa will not necessarily be identical with the process that took place in other regions such as Europe. As far as the European economies were concerned, gradual developments led progressively to integration of the infrastructure (roads and railways), of economic structures (e.g. large-scale markets and multi-national corporations), of technology and of labour, etc. Since all these efforts reflected the progressive rationalization of market forces, the political authorities finally decided to round off the process by creating the Common Market which is expected to culminate in a set of common political institutions. In Africa, likewise, political decisions will undoubtedly be of prime importance.

## 2. IDENTIFICATION OF OBSTACLES TO INTER-AFRICAN CO-OPERATION

H-8 The Committee then considered and attempted to identify the obstacles to inter-African trade.

H-9 It is true that political and psychological obstacles exist in Africa as they do everywhere else in the world, but the experience of recent years has demonstrated the progress that can be made. In fact, Europe and Latin America have set an example by showing that such obstacles may be of only secondary importance in the long run when nations become increasingly aware of the overriding significance of economic solidarity.

H-10 Political and psychological obstacles appear to be reinforced in Africa by arguments put forward by the opponents of economic co-operation and integration. The Committee thinks that it is wrong to believe that:

(i) the benefits accruing from multi-national co-operation can be measured with reasonable accuracy;

(ii) the size, quality and allocation of these benefits are independent of policies and actions at the national level;

(iii) the country of location of a multi-national plant (e.g. a steel mill) is necessarily the major beneficiary of that plant;

(iv) a decision to allocate a basic industrial plant to a member state of a group is irreversible or, in other words, that after one plant is established for a particular product or group of products within the group of co-operating countries no other will be required for an indefinite period, and that if demand exceeds the capacity of the first plant any additional capacity must take the form of repeated expansions of the existing plant.

H-11 In any case feasible arrangements, described below, can be made for sharing benefits and costs.

H-12 Important consequences of these beliefs appear to be:

(i) repeated postponement of decisions and action;

(ii) a preference for limited co-operation in 'soft' areas;

(iii) recourse to policies and instruments incorporating so many reservations or subject to so much intervention that they are virtually inoperative from the beginning;

(iv) belief in the efficacy of trade as the engine of growth and development;

(v) failure to provide efficient machinery at the national and multi-national level for dealing with co-operation matters;

(vi) persistence of the belief in policies for grafting elements of a modern socio-economic system on to a weak, pluralistic base.

H-13 Linguistic barriers admittedly give rise to difficulties for co-operation but, here again, the two regions mentioned above have shown that these are only secondary factors, especially considering the remarkable progress that has been made in Africa in spreading the teaching of the different working languages used on the continent.

H-14 The most striking of the physical obstacles is the inadequacy and orientation of the continent's means of transport and communication, i.e. transport by road, rail, sea, inland waterways and air, telecommunications and postal services. The historical causes of this inadequacy and orientation are too well known to require restatement. The Committee is aware that a large number of studies and proposals have been made for improving the means of transport and communication in such a way as to serve the needs of co-operation within Africa, and that governments have actively pursued the implementation of these proposals, but in view of how much more needs to be done the Committee outlines concrete proposals intended to accelerate the development of these forms of infrastructure.

H-15 Since independence serious impediments have arisen, hampering the movements of populations which commonly occurred throughout Africa in the past. But the growth of markets, as a result of gradual industrialization, has shown that any economy whose industrial sector is progressing has to open its frontiers in the long run.

H-16 The effect of policies to restrict jobs to nationals, when pursued rigorously, is to divide the African labour market into a large number of small units. The essence of the problem is the reconciliation of permanent national interest in expanding employment for nationals on one hand, with the periodical adaptation of labour supply to demand on the other. This required flexibility in the rules which now affect population movements between countries and an agreement on the rights, privileges and responsibilities of immigrant labour.

H-17 Impediments to the movement of goods may arise from differences in the technical specifications of the means of transport (e.g. axle loads of lorries, railway gauges and braking systems) or from the absence of agreements which permit the free movement of means of transport across African frontiers.

H-18 Monetary obstacles are extremely complex. Although the impact of these obstacles may not now be extensive they nevertheless exist. However, they cannot be held entirely responsible for the small volume of intra-African trade, even though payments facilities certainly facilitate intra-African trade.

H-19 In particular the Committee feels that there is now urgent need to find workable solutions to the problem of border trade. It is paradoxical that African countries should be setting up trade promotion

centres with a view to speeding up intra-African trade whilst, at the same time, endeavouring to contain the natural response of Africans to exploit obvious opportunities for trade, often with their relatives on the other side of the border.

H-20 Fiscal obstacles to co-operation fall under two broad headings:

i) the unequal impact of mutual tariff reductions within an economic grouping on public revenue from all forms of taxation;

ii) the effect of disparate internal taxes and financial concessions among partner States in an economic grouping applying uniform import and export duties.

H-21 Such internal fiscal and non-fiscal arrangements include customs duty revision, double taxation, investment allowances, exemption from transport tax, concessionary rates for electric power, government-purchasing, etc, .

H-22 There is little doubt that unless these are harmonized the whole system of economic arrangements can be undermined by unilateral action within the group. In the case where the harmonization of customs duties and internal fiscal arrangements lead to severe inequalities in their effect on public revenue, there is a clear need for arrangements by which this loss can be compensated by the transfer of resources from the least affected to those most affected. Mechanicisms would have to be devised to suit particular circumstances.

H-23 One of the most powerful obstacles to economic co-operation in Africa is the lack of efficient machinery at the national level for

dealing with the various aspects of this subject. This is sometimes reinforced by inadequate machinery for consultation and decision making at the multi-national level. Beyond this is the lack of a sufficient number and range of agencies charged with the task of promoting specific multi-national enterprises and activities.

## 3. GENERAL MEASURES TO ELIMINATE OBSTACLES AND PROMOTE INTER-AFRICAN ECONOMIC INTEGRATION AND CO-OPERATION

H-24 One of the obstacles to inter-African co-operation is the lack of harmony among development plans. But there is a need to distinguish between harmonizing plans and producing balanced and harmonious development of partner States. Since a random coincidence of interests cannot form the basis of plan harmonization, such harmonization implies broadly similar development strategies of partner States. Indeed, judging by the declarations of governments at international conferences the broad object of strategy may be said to be the transformation of the national socio-economic system. This will require long-term perspective planning in which short period plans are structurally related to each other. Only in such circumstances will it be possible to identify common priorities and complementarities for multi-national action.

H-25 As regards linguistic barriers, it is suggested that the time has come for a review of the need for special measures to speed up the study and use of the different working languages. In particular, attention should be given to the mastery of such languages by scientists and technologists, administrators in government, and managers of major enterprises both public and private on whom will depend the main thrust toward implementing economic co-operation and integration. There are a variety of tested methods for this accelerated acquisition of at least a working knowledge of a foreign language and the possibility should be examined of utilizing some of them.

H-26 Reference has been made earlier to broad similarities in the characteristic problems of development of the countries of Africa. It was on the basis of these similarities that the Conference of Ministers adopted, by Resolution 218(X) taken at the session of the ECA in Tunis in February 1971, a general strategy for the development of Africa in 1970s. Some aspects of this strategy were broadened at the Accra session of the Commission in February 1973.

H-27 A considerable number of areas of essential co-operation - some of which are described below - have already been identified. Moves towards implementation - which constitute an essential part of strategy - have been inhibited in some cases due to conceptual difficulties and in others through the operation of special interests or prior commitments. Whilst the Committee therefore recommends the continuation and extension of the search for new areas of co-operation, it cannot avoid the conclusion that this must to some extent be justified by genuine efforts to remove obstacles in the way of implementing co-operation projects already identified.

H-28 Economic co-operation projects may be classified into two kinds, those which affect the continent as a whole and ought to be considered by all countries with a view to their early implementation and those which affect only a group of countries. Included in the former are:

- the African telecommunications network programme;
- a rational, continent-wide harbour strategy;
- programmes - under the auspices of the Association of African Universities - for the optimum utilization of high level educational facilities and for exchanges of students;

- some aspects of science and technology;
- trade fairs;
- a regional federation of national associations of chambers of commerce and of industry;
- an African Railway Union and an African Postal Union.

H-29 Although natural economic regions such as the Lake Chad basin, the basins of such international rivers as the Senegal and Niger, and the Liptako-Gourma region in Mali, Niger and Upper Volta properly fall within the second category, the Committee suggests that this form of co-operation be extended to the rest of the continent.

H-30 The Committee's chief point is that the very large number of international river basins and other natural regions in Africa offers an opportunity to extend the area of multi-national co-operation. It is felt that these may well constitute some of the nuts and bolts which bind countries together. However, political difficulties apart, it is recommended that detailed study of the organizational and technical problems of some of these projects would assist in guiding the design and functioning not only of new similar projects but also of other forms of co-operation.

H-31 The large number of landlocked as well as of least-developed countries in Africa and their importance for successful economic co-operation arrangements makes this subject a matter of continental importance.

H-32 The Committee wishes to draw attention to the fact that several countries which, a decade ago, would have been classified as least-developed now have or expect to have at their disposal considerable financial resources as a result of the discovery and mining of rich deposits of minerals and of hydrocarbons. This suggests that a desirable step would be assistance to both landlocked and least-developed countries in the detailed exploration of their natural resources endowments. This assistance could be provided through African regional institutions such as ADB.

H-34 Next the Committee recommends that landlocked countries should collaborate with each other in order not only to define their common needs but also, where possible, to negotiate formal agreements and seek participation in organs which affect their exports and imports.

H-34 Although, at present, landlocked countries are rightly pre-occupied with obtaining inexpensive access to the sea by alternative routes, the Committee feels that they should also take account of the need for penetration routes to all neighbouring markets.

H-35 It will also be obvious that the long-distance transportation of cargo by air, the development of inland waterways and the extension of railway networks are of great interest to landlocked countries. The exploration and discovery of exportable mineral resources improves the economics of transport links to the sea but, in order to ensure that the present fragmentation of the African railway network is not fragmented further to the disadvantage of inter-African trade, governments should decide once and for all on the technical specifications suitable for the African network.

H-36 High level manpower development appears to offer particularly fruitful opportunities for co-operation. Preliminary reviews of the subject structure of African Universities suggest that there is inadequate provision for education in many subjects required for the exploration and discovery, evaluation and extraction of natural resources and for their transformation into semi-finished and finished goods. This is an issue of such grave consequence that it deserves detailed examination.

## 4. SPECIAL MEASURES AIMED AT REMOVING OBSTACLES AND AT PROMOTING INTER-AFRICAN ECONOMIC CO-OPERATION AND INTEGRATION

### a) Production and marketing of primary commodities

H-37 The Committee noted with disquiet that although there has been a slow decline in recent years in the share of food, beverages and tobacco in total African imports the absolute increase in value, particularly of food, continues to rise. It notes further that there are no inherent technical or economic reasons why Africa should not be able to supply to herself an increasing share of the food products she now imports, at the cost of foreign exchange earned in declining external markets for agricultural export commodities. The Committee is not unaware of the problems which a policy of replacing food imports by local production would raise regarding the simultaneous diversification of production and of trading partners, but it feels that the trend towards growing imports ought not to be allowed to continue. The Food and Agricultural Organization has, in a recent report, pointed out the growing capacity of the advanced countries to produce food not only for domestic consumption but also for export to less-developed countries. Unless firm steps are taken to halt the trend of imports the African States may find themselves increasingly providing a growing market for food exports from advanced countries.

H-38 The problem of readjustment should not be exaggerated. The introduction of new export crops in the 19th Century, the dramatic expansion of maize production in Zambia during the past few years, the programme for promoting rice production in West Africa to meet deficits, all indicate that where the technical inputs (seeds, fertilizers, feeding stuffs, technical advice, etc.) are made available, where there is reasonable assurance of demand, and where the physical means of transportation and distribution are established, the change in production patterns can be effected quite rapidly.

b) Exploitation and evaluation of mineral and power resources

H-39 On the subject of mineral and power resources, the Committee was concerned with the infrastructure essential needed by African countries to establish effective sovereignty over their natural resources, viz. legislation on the exploration and exploitation of such resources and collaborative arrangements within the region for developing national capabilities in a range of specialisms which include the earth sciences, mining engineering, surveying and mapping (especially photo-grammetry and photo-interpretation), plant and animal genetics, soil sciences, the science and technology of materials, forest products technology, metallurgical and design engineering, hydrocarbon technology and the economics of natural resources.

H-40 It is not possible to outline here the extraordinary and continuing growth of the technologies involved. What is important is that the African States can now, if they act quickly and in concert, take advantage of these new technologies to repair deficiencies in their knowledge and to establish more precisely not only the natural resources base for their industrial and agricultural advancement, but

also the optimum process for their exploitation. Knowledge of this kind would also enable them to embark with greater confidence than at present on negotiations with foreign corporations engaged in the extraction of natural resources for export.

H-41 The problem of resources is of greater importance at present than seems to be realized. On the basis of known facts Africa is well endowed with mineral and hydrocarbon resources which currently account for well over half of its exports. At the same time it is also realised that only a very small part of such resources are already being exploited. Were African governments equipped with the capabilities to explore, discover and evaluate these resources and to secure the optimum returns from their exploitation, it is believed that an increasing number of them would find it unnecessary to jeopardize their economic independence.

c) Industry

H-42 Although industry has a prime role to play in economic co-operation, this subject is given only limited treatment here because it has been examined in great detail by the OAU/ECA Conference of Ministers of Industry held at Addis Ababa in May 1971.

H-43 The African experts consider that, since independence, the countries of the continent, in an endeavour to attract foreign capital, have been continually trying to outbid each other in offering the best terms to foreign capital in respect of taxation, rights of establishment and guarantees against additional imposition even if these are of a social character.

H-44 Latin American experience, especially that of the Andean countries countries, show that it is possible either to adopt the same investment code or at least to harmonize the general principles governing the terms allowed to foreign capital. In other words, such general principles could be adopted by all the African countries, but each country would be left a margin of adjustment. Under such an arrangement, the African countries would lose less in tax revenue than they are doing at present because of the cut-throat competition existing between different investment codes.

H-45 At the same time, they should encourage the promotion of African multi-national companies, i.e. enterprises involving the participation of African nationals and States in agricultural and industrial production. Along the same line of thought, a number of other difficulties would be removed if the same sets of industrial standards were adopted.

H-46 The Drafting Committee puts forward the following proposals regarding multi-national industrial enterprises:

i) African governments should reach agreement on minimum rates of taxation on profits of multi-national enterprises. All or part of such tax proceeds could be contributed to a common fund for financing new partially state-owned multinational enterprises or joint research on development programmes.

H-47 There seems no inherent difficulty, in the light of actual experience of economic groupings in Europe and Latin America, in devising a formula for sharing such foreign exchange in such a manner that it helps to reduce temporary strains on the balance of payments

position of a partner-State. Comparisons of the price-quality ratios of products produced and traded within the group and those available from third sources have often raised acute difficulties in intra-group trading. The Committee feels that facilities should be created for providing technical support to industrial enterprises on quality control and industrial productivity.

d) Transport and communications

H048 The main deficiencies of the African transport and communications network are now sufficiently well known. The Committee therefore wishes to draw attention to the following general points.

H-49 Reducing the enormous gaps in the transport network in Africa (both as between countries and as between rural and urban areas within countries) will require considerable knowledge of transport systems planning, design, management and economics, particularly because of the close relations now being developed between different modes of transport For this kind of knowledge African countries now depend almost wholly on expensive imported services.

H-50 Reducing this gap will also involve a vast increase in the supply of transport equipment, components and spare parts. This scope of opportunities for manufacturing such equipment, spare parts and components will obviously depend on the degree to which governments adopt and apply standardization policies in order to overcome the transport bottle-necks at this stage of Africa's economic development.

H-51 With regard to local manufacture it is particularly essential to stress that the establishment of local assembly plants in the expectation that this will provide essential manufacturing skills is an error. There is a marked distinction between the skills required for manufacturing (knowledge of aero-dynamics, metals, plastics, rubber and glass, etc.) and those required for assembly. Knowledge of the process

processes of constructing a building does not in any way imply knowledge of the processes of manufacturing cement, bricks, construction steel, paint, etc.

H-52 The fragmentation of the market through the establishment of small, uneconomic assembly plants for differing varieties of automotive vehicles embodying widely differing technical specifications has proved extremely difficult to overcome as the experience of several developing and semi-developed countries show. It is suggested that, judging from the great possibilities which automotive manufacturing offers as a leading industrial sector in Africa, the OAU, ADB and ECA be requested to prepare and circulate a short study of the implications and consequences of fragmentation for the development of automotive manufacturing in Africa.

H-53 The foregoing considerations suggest that an urgently required step is the design and development of institutions which now hardly exist for training African manpower in the disciplines essential for these activities.

Roads

H-54 The Committee wishes to draw attention to only a few points: the need for international agreements on the identification, design and maintenance standards, and use (axle load etc.) of roads; the need for co-ordination of road with other modes of transport; the need for multi-national agreements governing the licensing of road vehicles, joint pooling and sharing of cargoes, freight rates, insurance, containers, customs and frontier formalities.

H-55 There is also a need for multi-nationally organized research into standards, construction materials and processes relating to road surfaces and foundations.

H-56 The role which will, inevitably, be played by private foreign enterprise in the very large road construction programme required for national and multinational integration over the next ten to fifteen years suggests that studies on the economics of road construction will yield valuable policy and operational guidelines.

Inland waterways

H-57 There are known to be 54 river basins in Africa shared by two or more countries. The total area of these basins accounts for some 40% of the overall land surface of the continent. The opportunities of joint exploitation of the potentialities of these waterways (irrigation, fishing, hydro-electric power, transport) are obvious. They also offer opportunities for economic co-operation through systematic development planning.

H-58 The multi-national exploitation of inland waterways will depend on the negotiation and adoption of international agreements which define the rights and obligations of riparian states.

H-59 More positively, and in regard to transport, co-operation will be essential in securing loans and grants for improving the physical infrastructure of inland waterways; in the organization (e.g. through joint companies) of river and lake transport services; in the co-ordination of freight rates and port dues; in the standardization of traffic regulation; in the design of customs and transit procedures and documents; in the training of port and river craft personnel. Since the subject is of great importance to landlocked countries, it is recommended for high priority on the agendas of the regional and sub-

regional bodies which, it is proposed below, should be set up to deal with transport questions.

Maritime transport and coastal shipping

M-60 The Committee's principal points can be stated briefly.

i) negotiations over freight rates, cargo sharing etc. with Conference lines are unlikely to yield much unless these are conducted from a position of strength;

ii) a position of strength, in the present context, requires nothing less than a combination of national shipping lines, preferably one covering the East African shipping range (from Sudan to Tanzania) and another covering the West and Central African shipping range (from Senegal to Zaire); it is understood that developments of this kind are already under way in North Africa;

iii) strategy might take the form first of organizing and developing coastal shipping along these ranges; detailed studies on potential traffic, port development and administration (including the question of the location of container ports) would be required, as would a more precise definition of the types of vessels required in the light of the character and distribution of cargoes and the situation and development of ports;

iv) joint ownership would facilitate the establishment of ship repair and maintenance services, and the training of ship's personnel.

H-61 The Committee therefore recommends that the African countries should organize an African conference on maritime and coastal shipping to consider these matters and put forward recommendations for early implementation. The agenda should include consideration of the combined transport system as proposed by UNCTAD.

Air transport

H-62 The dominance of the North-South (Europe and USA/Africa) axis over the East-West (trans-African) axis is one of the most striking characteristics of air transport patterns in Africa. Another is the persistence of almost exclusive links between African countries and the former colonial powers with which they were linked in contrast to the slow emergence - in spite of the large number of landlocked countries in Africa - of air transport links between African countries. A third is the extensive dependence of African national airlines on extra-African airlines for finance, technical assistance and management.

H-63 These three factors would seem to account for the continued absence of an integrated air route system, for the substantial volume of African air traffic handled by external airlines and for feebleness of attempts at intra-African co-operation and integration.

H-64 What is now clearly needed are steps towards the amalgamation of national airlines, primarily in respect of their international traffic. This should make it possible to reduce costs in several ways.

H-65 The development of new types of aircraft and new and more efficient forms of organization and management now in process of adoption by extra-African airlines provides them with a competitive margin which can only be met by some form of co-operation if integration is considered difficult to design and implement immediately.

e) Research, Science, Technology and Professional Training

H-66 The Committee dwelt at some length on the advantages to be derived from inter-African co-operation in the fields of science, research, technology and professional training and singled out various points from the abundant literature on the subject.

H-67 The developing countries, and African in particular, should seek to avoid the wastage which was amply illustrated in the Jackson Report on the capacity of the United Nations. Unfortunately, many foreign aid sources tend to encourage research which results in the amassing of tons of documents that are unused and unusable. The areas of research should therefore be determined from the apex, having due regard both to the progress already achieved in specific fields, even abroad, and to African priorities. This would make it possible to avoid the duplication of effort which can be seen when research is conducted in several places at the same time, and to tackle targets that have been fixed in an order of priority.

H-68 The problem of research is bound up with that of the training of African research workers and teachers. The Committee's view is that if the personnel is Africanized, the efficiency of research would be enhanced without precluding international co-operation and technical assistance.

H-69 From the practical standpoint, measures should be taken to ensure the effective transfer of techniques to the countries of Africa. There have been many studies on this point, but the tangible achievements that have followed are still of minor significance. Much of the discussion on research, science and technology appears to have been concentrated on two issues, the high and growing cost of imported technology and the necessity for adapting technology to suit the natural resource endowment, environmental conditions, and social features which distinguish Africa from advanced temperate countries.

H-70 However, an equally pertinent issue is the extent to which the African countries have been able to derive full benefit from the technology for which they now pay. It can be established that research and technology, insofar as they have effected major beneficial changes in Africa, have been restricted to narrow areas of the African economies which were of interest to advanced countries. Means should be found of ensuring a broader spread of the impact of research and technology to other areas of the economy.

H-71 It is a well-known fact that the spread of technology in advanced countries depends on the ability of scientists, technologists and business leaders to perceive how a technological break-through in one sector can be adapted and applied to other sectors. As the Committee has elsewhere pointed out, the benefits obtained from imported technology depend on the quantity, quality, orientation and technical mix of Africans capable of conceiving, designing, installing and operating productive enterprises successfully. This is a factor independent of political and social ideology. The supply of such will remain grossly inadequate for as long as educational systems and policies are not structured to produce them.

H-72 To summarize, the Committee feels that while there have been many studies on the transfer of techniques, these studies are often short on operational ideas that take account of the market structure. As a conclusion, therefore, the Committee proposes the following measures:

<u>At the regional level:</u>

1) The establishment of joint institutions for training research workers, in co-ordination with existing universities;

2) organization of exchanges of information;

3) secondment of personnel from African countries which have a surplus to those where such personnel is lacking,

4) in addition to basic research, the inclusion in university programmes of practical and technological research;

5) the organization and encouragement of technology centres for engineering studies. In this connexion, the Committee is of the opinion that African States should encourage African companies and ensure their direct participation in the study of major projects such as roads, railways, dams and so on. However, to be realistic, it has to be noted that the knowledge necessary in these fields is, for the moment, the monopoly of companies from the developed countries. It is for these reasons that the Committee thinks that African companies could form associations with foreign companies.

H-73 It is easy to illustrate the importance of even partially Africanizing this sector because, at the present time, African countries which need to carry out certain projects are entirely dependent on foreign companies. These companies, out of purely individual business strategy, often lay down construction times that are too long and terms over which our countries can wield no influence. And it would be naive to believe that international tendering makes it possible to guard against drawbacks such as exaggeratedly high prices and delays in project implementation.

H-74 In the international context:

1) Wholly or partially State-owned enterprises in the African countries could conclude technical agreements with similar firms in the developed countries, such as the railways sector;

2) enormous difficulties are encountered in technology transfers in cases where licences and patents are involved. A single engine may involve upwards of a dozen patents. The Japanese strategy in this respect could be put to good use in Africa, whereby foreign firms holding the patents would form associations with African countries and the patents involved would be considered as capital inflows into the continent. As the share represented by the patent rights would remain fixed, it would gradually phased out in the long run as the capital is increased and the advantages of the patent would become Africanized. Another possibility would involve the hiring or administration of patents which would be remunerated as a percentage of turnover. Unfortunately, this type of operation often proves to be very expensive.

## 5. MEASURES TO REINFORCE MONETARY AND FINANCIAL CO-OPERATION IN AFRICA

H-75 Monetary Co-operation

The African experts on the Drafting Committee have taken account of all the studies conducted into the various aspects of monetary co-operation and have singled out five areas in which they feel such co-operation is possible, especially in the light of the experience gained in Latin America[1]. The different systems corresponding to

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1/ cf. Javier Marquez : Some Latin American experiences in the field of financial integration.

various degrees of co-operation are alternatives and not necessarily cumulative, although the more sophisticated monetary co-operation arrangements can technically include and surpass the less sophisticated formulas.

H-76 The different formulas are:

- Bilateral agreements;
- African clearing-house;
- African reserve fund (or African Reserve Bank);
- African payments union;
- African external settlements fund.

H-77 The characteristics, advantages and disadvantages of each of these formulas are described below.

1. Bilateral agreements

H-78 The bilateral payments agreement can take the form of a convertibility agreement between two currencies, concluded by two central banks.

H-79 It is not necessary to recommend agreements of this type since two countries which trade with one another always find the means of solving problems of payments either in national currencies, or in convertible currencies, or in kind (barter). It is, to say the least, paradoxical that African countries issuing national currencies almost always settle their reciprocal payments in convertible currencies (dollars, pounds), and never in their own currencies. This does not, however, apply to the East African Community countries which, in June 1967, signed agreements lasting at least until 1970, when

restrictions were introduced. As a result of this mutual lack of confidence, each country is compelled to use foreign currencies for intra-African settlements, whereas if the national currencies were accepted, at least within certain limits, this would lead to a saving of foreign exchange, which could then be used for imports of capital goods from the developed countries or other regions.

Disadvantages

E-80 As shown by the experience of the developed countries in the post-War period:

a) bilateral agreements necessarily involve quantitative restrictions. Consequently, although they permit savings of foreign exchange, they do not completely liberalize trade;

b) as a result of the multiplication of bilateral agreements, each country ultimately finds itself in an inextricable position in which the relative exchange rates of currencies finish by no longer corresponding to anything in particular. For example, if Ghana concludes four payments agreements, the first with Zaire, the second with Nigeria, the third with Algeria and the fourth with Zambia, the terms of the agreements between Zaire, on the one hand, and Nigeria and Algeria on the other cannot be entirely discretionary, but must take into account the Ghana-Zaire agreement.

Ghana → Zaire
Ghana → Nigeria
Ghana → Algeria
Ghana → Zambia

formalized agreement area

Discretionary agreements area.

H-81 In other words, the first agreements are discretionary (free) but the subsequent agreements should be formalized (from the outset, there are constraints which can be expressed by an initial formula which makes them more or less automatic).

H-82 If the agreements to be formalized are subsequently drawn up on a discretionary basis, the overall outcome is one of total irrationality.

H-83 The European countries which concluded such bilateral agreements after the war, took less than 3 years (i.e. from 1948/1949 onwards) to realize the disadvantages of proliferating such agreements. When they decided to liberalize intra-European trade, they realised that <u>this was only possible if a multilateral payments system were set up</u>.

H-84 This experience which is backed up by theory, proves that <u>intra-African trade cannot be liberalized or expanded without a multilateral payments system</u>.

H-85 It is often asserted that currencies do not present an obstacle to trade, and, in particular, it is stated that, as far as the French-speaking West African countries are concerned, the fact of belonging to a monetary union has not stimulated trade between these countries.

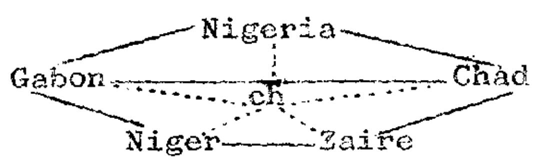
H-86 When one replies that a distinction must be drawn between currency and payments, and that payments difficulties are obstacles to intra-regional trade, one receives the answer that, in practice, traders always manage to circumvent the difficulties and that, in the case of the relations between Ghana and the <u>Entente</u> countries, for example, the fact of having to go through the banking channels of

foreign countries is not felt to be an obstacle. Such assertions by traders and government officials would seem to be disputable.

H-87 The European countries recognize that the substantial growth in intra-European trade in the post-war period undoubtedly stemmed from the lifting of quantitative restrictions, but also to a large extent from the payments facilities provided by the European Payments Union. This union, which was set up on 1 July 1950, liberalized 90 per cent of intra-European trade by January 1955. Similarly, as will be seen later, monetary arrangements instituted in other regions, notably Latin America, have produced the same effects.

2. Clearing-house

H-88 A clearing-house is set up by a number of countries and has a multilateral character. Example:




______ real flows

...... monetary flows

ch = clearing-house

H-89 If we consider relations between just three countries, Chad, Zaire and Nigeria, for example, it is possible to illustrate the operation by the following features:

a) the monetary flows are dissociated from the real flows.

H-90 The Zairian businessman who imports meat from Chad will pay to the Central Bank of Chad for his imports through a commercial bank in Zaire. The Central Bank of Zaire, <u>instead of transferring the money to the clearing-house, simply notifies it of the debt to the Bank of Chad</u>.

H-91 The Chad businessman who imports from Nigeria, and the Nigerian who imports from Zaire, follow a similar procedure. Every three or six months, the clearing-house carries out reciprocal clearing operations so that, finally, each country no longer has any balance to transfer.

H-92 Advantages

a) Monetary flows dissociated from real flows involve only a small amount (the balances) compared to the real flows. Operations are therefore simplified.

b) Between the settlement dates the central banks provide each other with credits. But the balances must be fully paid on the settlement date.

c) The balances are paid by the debtors in an agreed currency (generally a convertible currency) the value of which is defined in relation to a unit of account. There is nothing, however, to prevent settlements from being made in African currencies according to the parities laid down by the IMF.

d) Use of the clearing arrangements is optional so that a country may make only partial use of them and, if necessary, gradually increase this use as its confidence in the system grows.

H-93 It will be noted that the clearing house is a closed circuit between African countries, within the limits of their reciprocal trade. It therefore has no bearing on the problem of external payments.

H-94 Application

a) There is a central American clearing-house, founded in July 1961 by the Central Banks of Salvador, Guatemala and Honduras. Costa Rica and Nicaragua became members in 1962 and 1963 respectively.

In any event, it will be noted that intra-regional trade increased from 32 million US dollars in 1962 to 249 million dollars in 1968, i.e. from 7 per cent to 25 per cent of the total trade of these countries. In 1970, this volume increased to 280 million dollars. The clearing system has therefore been a decisive factor in stimulating intra-regional trade.

b) The LAFTA (Latin American Free Trade Association) clearing-house.

The initial 1960 agreement covered Argentina, Brazil, Chile, Mixico, Paraguay, Peru and Uruguay. The Dominican Republic joined in 1969.

H-95 As an illustration of the effect on intra-regional trade, we shall simply mention here that the volume of payments dealt with in 1971 was 26 times greater than that of the first operation in 1966, increasing from 6 million dollars to 156 million dollars. This proves that the member countries are placing greater confidence in the multilateral clearing system, even though they undertake certain operations outside.

c) The system recommended by the IMF between Ghana and each of the Entente countries is not, strictly speaking, a multilateral clearing-house system, but rather a series of agreements between the Central Bank of Ghana and each of the agencies of the BCEAO in the Entente countries.

3. African reserve fund

H-96 The common reserve fund is often used to complement the clearing-house.

H-97 Under this system, each country pays to the fund a certain percentage of its reserves. It should be pointed out, at this juncture, that:

a) The African countries, and the African institutions, invest their reserves in the developed countries, thus helping to further increase the credit of the depositary countries at the expense of the African countries;

b) The African countries as a whole are creditors of the developed countries. The highly paradoxical result is that Africa is financing the growth of the industrial countries.

H-98 Under the reserve fund system, each country remains in control of the reserves which it has placed in the fund. As far as operation is concerned, the fund allows for drawing rights similar to those of the IMF and can make loans. The unused resources can be invested in the form of bonds, for example, but in this event the investments are managed by the Fund.

4. Payments Union

H-99 The Payments Union is more sophisticated than the simple clearing-house system. It takes account of the balance of payments of the member country, and consequently of relations with countries outside the Union.

H-100 The Union involves clearing arrangement in its operations, since it takes into consideration the balances between itself and each Central Bank.

H-101 From the operational point of view, it grants medium-term credit to those countries with balance of payments deficits. It differs from the clearing system in that the deficit country can, at the end of the term, be granted a deferment of the payment

H-102 Initial arrangements

a) Initially, each country contributes according to a quota system and the Union can receive external grants. The European Payments Union, established in 1950, received an initial contribution of 350 million dollars from the United States.

b) The deficit countries may receive an initial credit.

H-103 Another example of the use of this system is the Asian Clearing Union recently established on the basis of the Kabul Declaration of 1970.

5. <u>African Fund for External Settlements</u>

H-104 The Committee is strongly in favour of the establishment of an African Fund for external settlements which could operate along the same lines as the Bank for International Settlements in Basle, Switzerland. This would consist of a Fund whose first appropriations would come from contributions made by the States, by multinational organisations and also by foreign private banks. On the one hand, the Fund could make short-term loans to countries needing liquid resources to settle their deficits, but it would also conduct other business on strict banking principles. A study could be carried out quite quickly with a view to reaching an inter-African agreement on the establishment of such a Fund.

H-105 It should also be noted that the Fund can be the linchpin of a Payments Union.

H-106 It is felt that the most urgent task of the African countries is to set up a Payments Union with an African External Settlements Fund as its focal institution.

a) In order to keep the number of institutions to a minimum, the Union could include a <u>Clearing Department and an external settlements department</u>.

The initial capital could be made up of :

i) National quotas, to be determined;

ii) A given percentage of the reserves of each country, for example 15 per cent; this percentage may not necessarily be uniform;

iii) A contribution from the developed countries, (including the Socialist countries), their economic regional groups and from international institutions such as IMF and IBRD;

iv) a supply of private capital from foreign countries where the Union should also engage in ordinary banking operations.

b) The deficit countries, the least developed countries, and the land-locked countries could be granted an initial credit.

H-108 The banking operations proper of credit and investment make participation financially rewarding since they generate profit.

H-109 If there is insufficient political will on the part of the African States to set up the payments union at the present time they could limit themselves to setting up a clearing-house system from which they would all benefit, because of the stimulus to intra-African trade. Furthermore, there is no risk inherent in this system since there is no credit involved (apart from interim credit), each country being obliged to balance its account at the end of each payments period, and each member being, in addition, free to channel only part of its operations through the clearing-house.

6 - SDRs at Regional Level

H-110 The principle of creating SDRs at the regional level and the manner in which their full convertibility could be ensured has been outlined in the section on monetary matters. SDRs of this kind could be used in part in the internal transactions of the payments union and, furthermore, by virtue of their total convertibility, for the settlement of payments abroad through the African settlements fund.

Financial Co-operation

H-111 In the domain of financial co-operation, the Committee wishes to draw particular attention to the following two factors:

1. Capital Markets

H-112 The Committee considered the problem of setting up organised capital markets in Africa and noted that while the existing banking and financial structure may be inadequate, it could be rapidly improved to act as a basis for the organization of such markets. The Committee also examined the problem of savings which are not only low but are often directed outside Africa. It feels that domestic savings can be encouraged and the securities market set on a new footing by re-organizing the structure of local companies. Agreement would clearly have to be reached on certain strategic locations, as there can be no question of setting up such markets in every country.

2. Finance Companies

H-113 The Committee wishes to recall the role played by stockholder companies in the growth process of Europe and the United States and suggests that African Finance companies involving regional participants be established and encouraged.