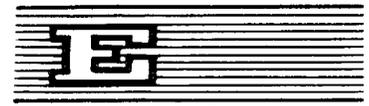




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(iii) ISSUES IN THE AREA OF INTERNATIONAL TRADE
IN GOODS AND SERVICES

Issues in the area of international trade in goods and services

- Protectionism and structural adjustment;
- Examination of the impact of the principles, policies and practices in international trade relations taking into account recent developments including those in other international fora;
- Policies to expand trade and promote development particularly that of the developing countries.

A. Action taken at UNCTAD V

1. The problem of protectionism and structural adjustment were given special emphasis at UNCTAD V in 1979, and Resolution 131(V) adopted by that Conference concentrated on two aspects of the problem:

- (i) policies and measures for structural adjustment related to trade; and
- (ii) policies and measures to deal with the problem of protectionism.

2. In the first part of this resolution, the Conference decided to entrust the UNCTAD Trade and Development Board with the organization in an appropriate existing body of an annual review of the patterns of production and trade in the world economy. In the second, the Conference called for the continued resistance to protectionist pressures and called on the developed countries to implement fully and adhere strictly to the stand-still provisions they had accepted, in particular concerning import from developing countries. In addition, it called on the Secretary-General of UNCTAD to continue the work of compiling, updating and analysing the inventory of obstacles to the trade of developing countries.

B. Recent development since UNCTAD V

3. For African countries, the most important development was the adoption by the Second Extraordinary Assembly of OAU Head of State and Government of the Lagos Plan of Action for the Economic Development of Africa up to the year 2000.

The Plan, in particular, called for measures to be taken "to set up new trading framework at the international level including agreement on new trading rules and principles covering, inter-alia, structural adjustment, preferential treatment for developing countries and elimination of protectionism and measures aimed at hampering access of manufactures and semi-manufactures from developing countries to markets of developed countries" ^{1/}....

^{1/} Lagos Plan of Action page 87 paragraph 251(d).

4. In conformity with the mandate of Resolution 131(V) referred to above, the UNCTAD Trade and Development Board, at its twenty-seven session, decided, in resolution 226(XXII), to constitute a special committee to, in particular, undertake an annual examination of the structure of production and trade in the world economy and to analyse the effects of the new forms of protectionism and restrictions to trade and to complete the inventory of restrictions to the trade of developing countries. It is expected that this inventory will be presented to UNCTAD VI.

5. During the 38th session of the GATT Ministerial Conference in Geneva in November 1982, the central theme concerned the liberalization of world trade and the restructuring of the world economy with new proposals for the trade negotiations covering agricultural products. As is well known the Ministerial Conference turned into a confrontation between the EEC on the one hand and the United States of America on the other, mainly over the former's common Agricultural Policy, and was unable to come out with any satisfactory solution to the issues at stake.

C. The Main Problems in the area of Protectionism and Structural Adjustment

6. These problems have manifested themselves in different forms. Apart from quantitative trade restrictions and other traditional forms of restrictions, the developed countries are adopting new trade restrictive practices which seek to preserve their markets for themselves to the exclusion of competing imports, especially from the newly industrialising developing countries. These new forms of trade restrictions include the greater resort to sanitary regulations on agricultural imports, discriminatory import licences, system of minimum price under bilateral arrangements, application of discriminatory import duty. In addition, the developed countries protect their markets by voluntary restraint agreements and other bilateral arrangements, all of which are contrary to letter and spirit of GATT.

7. The consequences on the economies of the developing countries are serious, particularly the aggravation of their balance of payments problem, the high cost of structural adjustment especially in situations where developing countries have comparative advantage over the developed countries.

8. Structural adjustment is in fact an investment in new production activities, and it takes as given, the availability of financial and other resources required for such activities.

D. The Situation in African Countries

9. It will be recalled that African countries are particularly vulnerable to the international economy because of their high dependence on the export of one or two primary products or at best a very limited number thereof for the acquisition of the foreign exchange earnings needed for the settlement of their import bills. The region also depends almost solely on external sources for its needed capital and industrial goods (including spare parts); the level of dependence in respect of managerial, consultancy, banking

and insurance, freight services is equally high. Therefore, issues in the area of international trade relations in goods and services are of direct concern to all African countries, particularly as these countries strive to survive and promote their economic development.

A) Protectionism and structural adjustment

10. Africa's total exports and imports (FOB) for 1980, 1981 and projections for 1982 and 1983 are shown below (in billion) US dollars.

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Exports(FOB)	91.4	76.6	60.2	80.9
Imports(FOB)	73.4	78.6	83.7	93.6
Balance	<u>17.7</u>	<u>-2.0</u>	<u>-23.5</u>	<u>-12.7</u>

Source: UNCTAD Trade and Development Report, 1982; Annex Table A.4

The decline in export earnings for African countries, as shown in the above table, has been accompanied for much of Africa by a severe foreign exchange squeeze, a drastic reduction in import volume, fall in government revenue and a scaling down of development programmes. There is no question that had the figures for oil exports been excluded from the above table the decline in export earnings for Africa would have been even more alarming.

11. For African countries in general and the African Least Developed Countries, in particular, the weak world demand for their major export items (coffee and cotton) has led to a major deterioration in their terms of trade which, coupled with the declining rates of growth of exports, has in some cases, resulted in absolute declines purchasing power.

b) Africa's Response

12. The response of African countries to this situation has taken many forms. Nearly all countries have reduced their import volumes sharply, including the imports of spare parts and industrial raw materials, forcing a close-down or production under capacity of factories and retrenchment of workers. The attendant social and political upheaval is too familiar to be documented here.

13. Very few countries have succeeded in increasing their exports owing to the general economic recession in their major markets and cumulative effects of the recession. The slump in demand for minerals such as copper, uranium and oil has had serious repercussions for the countries producing them. Secondly, an effective increase in exports requires serious efforts to produce more, and this, in turn requires additional investment injection of financial resources, by way of net increase in concessional financial flows. This, on the contrary, has been deteriorating.

14. The existing sources for financing the deficits of African countries are drying up, particularly the official bilateral concessional sources. The official multilateral sources such as the IMF are not always well received by African countries because of the stringent conditionalities attached to loans from the IMF Compensating Financing Facility.

15. Payments to ACP countries under the Lome II STABEX amounted to 143, 076, 014 ECU in 1980 and 182, 853, 718 ECU in 1981 respectively. Advanced payments for 1982 totalled to 21,115,000 ECU, which underlines the seriousness of the situation.

16. A source for additional capital inflow which is open to very few African countries is the international capital markets to sustain imports and finance additional investment. This is because of the harsh conditions of access to these markets. Even then, the prevailing high interest rates coupled with the appreciation of the US dollars, especially on the last few years have made loans more expensive and repayment of old loans subject to variable interest rates more difficult; with the result that the problems of external indebtedness, which was already serious enough, has been further aggravated.

17. For African countries, therefore, the problems of managing the present economic crisis are formidable and their responses have not in most cases, such as to enable them deal effectively with them.

E. Examination of the impact of the principles, policies and practices in international trade relations taking into account recent developments including those in other international fora

18. Unfortunately international trade is being increasingly interpreted to mean trade between the major trading countries or groups of countries - the USA, EEC and Japan. A practice that has now become institutionalised is the treatment of the trade problems of developing countries on the periphery and outside the framework for resolving global trade issues. The emphasis has been on the accommodation of the interests of these major groupings while the legitimate trade interests of developing countries have invariably been forgotten or at best, relegated to the background. The result has been that issues affecting the developing countries have, more often than not, been treated as exceptions with minor adjustments that have failed to deal with the fundamentals.

19. For African countries which are very much affected by developments in international trade relations as explained above, this approach has contributed considerably to their present economic crisis.

20. Another development which has also become institutionalised is the sectoral or partial treatment of trade problems rather than embody them within the global framework for resolving these problems. A classic example for developing countries is the Multi-Fibre Arrangement which imposes voluntary restraint on developing countries, thus legitimising restrictions.

21. Finally, there is the lack of policy measures on the part of Africa's major trading partners with regard to the agricultural sector, policies which are within the framework of resolving world commodity problems and that take into account fully the interest of developing countries. While the contracted common Fund negotiations finally come to an end and an agreement on its establishment was reached, the Fund itself has yet to become operational, and only one new international Commodity Agreement has been concluded under the Integrated Programme for Commodities.

22. The upshot of this situation is to further exacerbate the well known uncertainties in commodity markets with their serious adverse impact on production and planning, and even more importantly, on the economic and political stability of developing countries.

F. Policies to expand trade and promote development particularly that of the developing countries

a) Action at the national level

23. The present economic structure of African countries is such that no amount of improvements in the field of international trade, in terms of the narrow range of exports of these countries, can achieve a structural transformation without major national efforts in the key sectoral activities that provide the motor for growth. The efforts required at national, sub-regional and regional levels are first and foremost, as outlined in the Lagos Plan of Action the objective being the gradual achievement of self-reliant economic growth and self-sustaining development. Such efforts will need, however, to be supplemented by action at the international level.

(a) Action at national level

- (i) intensification of efforts to diversify the export base through increased local processing and manufacturing with appropriate quality and standard regulations;
- (ii) formulation and adoption of a package of measures in the areas inter-alia of producer prices, transportation and storage to promote increased output, efficient local distribution and marketing, as well as export;
- (iii) formulation and implementation of policies to increase farmers' incomes, thus giving them incentives to stimulate agricultural production and simultaneously increasing their purchasing power, thereby creating effective demand for the products of the sprouting industries;
- (iv) formulation and implementation of policies to effectively integrate the urban and rural markets.

b) Action at the sub-regional and regional levels (and South to South Co-operation)

24. Action in this area should be seen within the context of economic co-operation among developing countries; the objective being to consciously develop and exploit complementarities among developing countries, in particular African countries.

- i) effective implementation by the developing countries, of the ECDC programme - in the crucial areas of trade (STO's and GSTP) production, marketing;
- ii) examination with a view to possible adoption of unconventional but dynamic measures to increase trade exchanges, including barter, long-term purchase arrangements;
- iii) the promotion of intra-African trade in industrial raw materials (both agricultural and minerals);
- iv) strengthening or establishing ancillary services (insurance, banking etc.) to support trade and economic co-operation programmes. Improvement in transport and communications.

c) Action at the international level

25. The requirement for action in this area is the formulation of concrete proposals for negotiation with the industrialised countries with a view to their adoption and implementation. These could include inter-alia:

- i) adoption by the developed countries of policies that would rationalize their export credits and export subsidies with a view to the abolition of their restrictive element and effects, with regard to the export interests of developing countries;
- ii) action to be taken by the developed countries for the rationalization of their national policies on food security in order to ensure that such policies do not unduly hamper the agricultural export interests of developing countries;
- iii) urgent establishment of a special facility for financing structural adjustment;
- iv) ratification of the Common Fund Agreement with a view to its effective entry into force by effective implementation of the other provisions of the Integrated Programme for Commodities through participation by all exporters and importers in commodity negotiations with a view to the conclusion of new commodity agreements.

G. The Problem of Services

26. The importance of services and service payments in the world economy and trade in their various forms, such as the following, can hardly be over-emphasized:

- a. factor payments - interests, dividends and income and workers remittances;
- b. investment income;
- c. tourism;
- d) others: - shipping, banking, insurance, engineering and construction;
- consultancy;
- communications, the sale of patent rights, file rentals;
- passenger services.

27. As far as the African region is concerned, some of the major factors that should be taken into account in any serious consideration of issues in this field are undoubtedly the dependence of developing countries, especially those in Africa, on imported services, the dominance of transnational corporations; the different methods of classification of services in national accounts; the high cost of services (especially foreign exchange cost); and above all, the lack of detailed information on the exact nature, costs, operation providers and beneficiaries of the various types of services and terms under which they are supplied and paid for.

28. In short, the complexity of the issues involved seems to call for a very cautious approach on the part of developing countries in general and African countries in particular. If these issues are to be discussed at all, African countries should make sure that a detailed study be conducted taking account of the above-mentioned, with a view to:

- i) amassing detailed information on the operation of the various services;
- ii) examining their impacts on developing countries, especially in terms of foreign exchange outflows;
- iii) identifying common elements that could provide a basis for uniform methods of classification of services;
- iv) identifying areas for intergovernmental action, including proposals for such action.