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THE MONETARY OBSTACLES TO THE EXPANSION OF INTRA-AFRICAN TRADE AND DEVELOPMENT IN AFRICA

by

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THE AFRICAN DEVELOPMENT BANK IS NOT BOUND BY THE OPINIONS EXPRESSED IN THE WORKING PAPERS

THE MONETARY OBSTACLES

TO THE EXPANSION OF INTRA-AFRICAN TRADE

AND DEVELOPMENT IN AFRICA

A. - The monetary obstacles to the expansion of intra-African trade.

1. - The problem of intra-African trade has now been the subject of numerous studies, some of which are fairly well documented. Among them ,we wish to note at least :

a) The studies of E.C.A., particularly documents E/CN.14/AM/12, dated May 1966, and E/CN.14/UNCTAD III/1, dated March 1972 (restructuration of African Foreign Trade)

b) The E.C.A. studies dealing with allied problems, particularly the Triffin report concerning the establishment of a clearing and payments union in Africa (E/CN.14/APU/RI), dated December 1963, and the report E/CN.14/AMA/20, dated September 1969.

c) The report drafted in the context of the Association of African Central Banks, by a study group on trade and monetary relations in the West African sub-regional group (Dakar, April 1972).

d) Lastly, our personal contribution, published in Le Mois en Afrique, N° 24, December 1967, entitled "INTER-AFRICAN TRADE" (document ADB/CONFMIN/73/WP/III/8)

2 - All these studies agree in observing : a) the modest extent of intra-African trade (8% of African import in 1962, according to our estimates which is higher than that of the other writers); b) the concentration of most of this intra-African trade in the items concerning sub-regional trade (intra-Maghreb, Egypt - Sudan, intra-West Africa, intra-U.D.E.A.C., intra-East Africa, intra-Central and South Africa); c) the concentration of this trade on foodstuffs (more than 60% according to us).

3 - The foreign trade of every African country reflects the structure of dependence and under-development which characterizes the continent. There is little trade in products destined for the intermediate consumption of enterprises, either within the economy or between it and the rest of the world. Thus, the role played by African countries in "international specialization" is qualitatively different from the role played by the developed countries. That is the primary structural reason which explains the weakness of intra-African trade, and of trade between developing countries in general, as opposed to the importance of trade between developed countries.

4 - The origin of the weakness of intra-African trade is therefore the strategy of outward-oriented colonial development pursued after independence during the sixties. The policies of industrialization through import substitution do not correct this outward-oriented strategy. They lead to the setting up in the various countries of similar industries, which are complementary to, and dependent on, those of the developed centres which provide them with their capital equipment (and capital and technology). Thus, they do not pave the way to trade between developing countries, but enhance the relations of

dependence between the periphery and the centre by carrying to a new stage an international specialization which remains fundamentally asymetrical. However, since these import substitution policies are unequally advanced as between one country and another, they deepen the inequalities between developing countries. Certain countries may then be induced to become markets for industries of this type established in others, and supply in exchange either foodstuffs or migrant labour.

5 - The strategy of outward-oriented growth therefore gradually reduces the relative share of intra-African trade. We can see this during the sixties. Complementarities which used to be important no longer occupy more than a secondary place in the foreign trade of the States. This is the case for North-South relations inside West Africa, for example. If, as we have shown, this intra-African trade - very small as a whole - is still very important for some States, this fact fits into the context of unequal development. Thus, in West Africa the intra-African trade is only important for the poorest States of the interior (Mali, Upper Volta, Niger).

6 - Thus, the strategy of outward-oriented growth is at the root of the balkanization of the continent and of its increasingly unequal development. It is impossible to contemplate being able to promote intra-African trade without breaking radically with this strategy in favour of a self-centred alternative, based on the principle of self-reliance at the level of States , sub-regions and of the continent as a whole.

7 - Although all the studies on the question recognize that structural reasons are the main cause of the weakness of intra-African trade, few of them go as far as analyzing these structural obstacles in terms of dependent outward-oriented growth versus self-centred development.

8 - Added to this fundamental structural obstacle there are other real obstacles, recognized by the various studies on the question. First, there are the traditional relations between the colonial trading houses and the metropoles and, in connexion with this vertical linkage of circuits, the absence of transport facilities organized to favour other trade. Secondly, and only accessorily, there are the customs and other preferences. The conventional economists disregard too much the internal relations of allied interest groups and, at the same time, attribute too much importance to prices (and hence to customs tariffs, etc..), because they like to assume a competitive world, which is entirely at variance with reality.

9 - The nature of the monetary systems in force in Africa comes far behind the real obstacles in the analysis of handicaps to the development of intra-African relations. Indeed, it is not certain that these systems, as they are, constitute today an obstacle to the trade in question because : a) a number of countries are grouped in monetary unions, b) the metropolitan currencies on which the African currencies are based are convertible.

10.- Nevertheless a convincing argument in favour of an African clearing and payments union has been put forward by Triffin (report cited), and we fully accept its conclusions and recommendations. The report recommends, for a first phase, arrangements implying no opening of credit between the member countries, under which, for trade with non-member countries, each member country would be authorized to exchange earnings of convertible currency against other currencies needed for its payments, while, for trade between the members, the Union could credit each member with its claims on the others and use these credits for the settlement of any debt to the others. These arrangements, which are immediately possible, would considerably reduce delays in payments, which are at present lengthy because of the need to resort to the money markets of the metropoles, and would make possible a saving of international reserves. The report recommends that, in a second phase, each member country could grant a line of credit to the Union up to an agreed percentage of its earnings from other members received during a reference year; it also suggests making available to the Union an initial working capital constituted from foreign sources.

11 - We agree with Triffin that this second phase is possible and useful. It is true that, as Triffin points out, there can be no parallel with the European Payments Union. In Europe, the aim was to restore commercial relations (representing more than 60% of the trade of the countries concerned) shaped by a century and a half of industrial development, momentarily interrupted by the war. In Africa, the aim is to promote. It is thus obvious that the instrument that the Union is to be is only meaningful if, on the decisive structural plane, the choice of self-centred strategies is adopted. But, if these choices are made, the Union can become a catalyst of economic integration. It will be recalled that in Germany, the monetary union preceded the customs union (the Zollverein, established in 1848) by eight years, and then came the economic union (after the unification of 1870. In the context of a policy of systematic development of complementarities, the Union would be by no means a negligible means of progress, since as Triffin points out, every time a country called on

the others for assistance, there would have to be a special agreement for harmonizing policies, thus paving the way for the last stage, that of monetary fusion.

12 - To embark on the path described above, the partners must have full monetary sovereignty. It is quite impossible to go beyond the first phase so long as the African countries do not have their own currency, since the harmonization of monetary policies may conflict with the monetary policies at present imposed by certain metropolitan countries in the context of highly centralized zones.

13 - A further monetary obstacle to integration between the franc zone countries and others, particularly in West and central Africa, is that of the present parities of the currencies, which do not correspond to their real purchasing power. Being over-valued, the C.F.A. franc will probably have to be readjusted at a level compatible with that of the purchasing power of the other currencies of the hoped-for sub-regional unions.

14 - In the context of the prospect of self-centred development, a pyramid of sub-regional Unions, based on the existence of intra-sub-regional relations which can already be observed and of a pan-African Union, designed to promote trade between sub-regions, would, as E.C.A. suggests (E/CN.14/AMA 20) doubtless constitute the most realistic solution.

15 - It is quite clear that the policies for the systematic development of real complementarities, which we assume here to be accepted, cannot be replaced by classical liberalization measures (abolition of customs barriers and

payments restrictions). On the contrary, such measures would be rather harmful unless the overall development strategy is revised. They would, in fact, accentuate the inequalities of development in the context of overall dependence on the centre, forcing certain countries to become the outlet for industries - usually foreign - established in others.

B - The monetary obstacles to African development

16 - There are two aspects to the monetary obstacles to African development: a) the assessment of the different monetary systems in force in Africa from the point of view of development requirements and b) the analysis of the impact on the conditions of development in Africa of the functioning of the international monetary system both in its present form (i.e. based on the Bretton Woods agreements) and in the various alternative changes in response to its current crisis.

17 - However, in connexion with both aspects, it is difficult to consider the monetary problems in themselves without reference to the real structural conditions of development. At the risk of repeating ourselves, we would stress that in our view the main "obstacle" to development, in Africa as elsewhere in the Third World, is not monetary in nature. The national monetary systems in force, as well as the international monetary system, merely reflect the inequality inherent in international relations and the specific nature of the structures engendered by this inequality in the developing countries. This is indeed why the A.D.B. rghtly proposes for the planned African ministerial conference an agenda which in its first three items covers the "non-monetary' aspects of the problem (an evaluation of the results of U.N.C.T.A.D., a discussion of trade negotiations and of negotiations on development financing), before going on to the monetary aspects in its last two items. Similarly, U.N.C.T.A.D. studied the whole of these problems simultaneously. Our contribution to this discussion is given in the document "entitled UNCTAD III - A critical appraisal (Document ADB/CONFMIN/73/WK/I/2). In it we argue that the aims of the "77" as formulated by

U.N.C.T.A.D. fall within the framework of dependent outward-oriented growth stragegy. This applies to the measures advocated concerning the improvement of the position of commodity producers, the regulation of the prices of these commodities, the abolition of special preferences and the multilaterization of trade, the increase in the volume and relaxing of the conditions of foreign aid, the reduction of the debt burden, the organization of the transfer of technology, the adoption of measures in favour of the "least" developed countries, etc... For these points, and particularly for the last two, the reader should refer to Document ADB/CONFMIN/73/WP/I/2.

18 - The national monetary systems in force cannot therefore be studied in themselves, but in relation to the development policies advocated. By monetary system, we mean : a) all the de jure and de facto rules concerning the functioning of the central bank : rules concerning the granting of advances to the Treasury, the management of foreign reserves and associated problems (fixing the parity, etc.), control of credit, and b) all the de jure and de facto rules concerning the functioning of the primary commercial and specialized banks (agricultural, industrial and mortgage credit, etc.): status of banks (foreign and national, private or public), limitations or absence of limitations on foreign transfer, structural solidarity of interests between the banks and the different sectors of the business world, etc...

19 - A country has an autonomous national monetary system, not only when it runs its central bank freely (with no statutory or de facto limitation), but also when the central bank really controls all the activities of the primary credit establishments. It is only then that it has a monetary instrument which, if need be, can be made to serve a strategy of self-centred development.

20 - Very few African States, at least south of the Sahara, have this instrument. From this point of view, the African countries of the franc zone have practically no control over their monetary institutions. Not only are their so-called central banks merely banks of issue which a) can only grant advances to the local Treasuries within very rigid statutory limits, and b) do not manage the foreign reserves of the States, but also the fact that the main primary credit institutions are branches of the great metropolitan banks and the total absence of control over transfers reduce to nothing any possibility of the "central bank' directing credit. We have analyzed the role and the specific functions of this monetary system in the document concerning the "franc zone and development", (Document ADB/CONFMIN/73/III/4). With regard to most of the other countries of the continent, particularly those of the Sterling area, they are still far from having fully efficient national monetary instruments. It is true that these countries have genuine central banks which are not subject to any restriction of international law, and sometimes they have established a more or less severe control of foreign transfers. Nevertheless, in many cases the network of primary banks is still mainly foreign and closely bound up with the traditional business interests established in the colonial context inherited by the independent States.

21 - Really, since the situation is one of an outward-oriented growth strategy,there is no point in making changes in the monetary systems at present in force. It is only if we want to be placed in the context of a self-centred development policy that we need to have an autonomous monetary instrument. No country, large or small, can aspire to a development policy if it does not control the monetary mechanisms. We must clarify what we mean by control. Conventionally, three goals are assigned to monetary policy : 1) to ensure price stability, 2) to ensure a monetary expansion parallel to that of the economy and 3) to ensure the equilibrium of the balance of payments. The institutions of the international system, especially the IMF give priority to the last of these goals when there is conflict , which is frequent. It is quite obvious that the developing countries must give full priority to the second goal, leaving the equilibrium of their balance of payments to be ensured by controlling their foreign relations. Also, conventionally, preference among tools of monetary policy is given to manipulations of the rate of interest, regarded as a "neutral" instrument, and there is some mistrust of direct intervention on the orientation of credit, by recipient sector of activity and enterprise. Yet this orientation of credit exists in fact; but a discreet silence is maintained concerning the solidarity of interests between the banks and the business world. In Africa, this solidarity stems directly from the colonial inheritance, and that is why a development policy cannot confine itself to acting on the volume of credit in order to ensure the latter's normal expansion. There must be active intervention by the financial institutions for the

purpose of promoting new activities which generally do not interest foreign capital or the banks dependent on it. Thus the necessary establishment of autonomous monetary systems for the purpose of mobilizing all the financial resources up to the extreme limits imposed by the constraints of the economic system and the foreign relations, requires : 1) the creation of genuine central banks where they do not yet exist (franc zone), i.e. the recovery of the prerogative of fixing the parity, the issue of credit to the State and the management of the foreign reserves, and 2) the revision of the regulations concerning the functioning of foreign private banks, the granting of credit and foreign transfers (simple fiscal measures raising the taxation on foreign enterprises, special tax on transfers, forced loan of excess profits and /or control of transfers, possibly going as far as the nationalization of financial institutions as a growing number of Third World countries have been induced to do).

22 - The balkanization of the continent, objective result of the outward-oriented strategy, creates serious specific problems for Africa. The necessary creation of autonomous monetary systems, if operated in the context of the present political division, is liable to impose on States additional real costs (if only that resulting from the high volume of reserves of international liquidity which this balkanization implies), and is liable seriously to limit the efficiency of the monetary instrument (problem of "small nations" against "big firms"). Thus the ideal would be to set up independent monetary systems in the context of large spaces. That would facilitate economic integration, provided of course that the problems of balance within the groups constituted are correctly solved both by coordination of economic policies on the real level and by setting up joint development funds to correct the imbalances engendered by the outward-oriented strategy.

23 - Africa also suffers from the international monetary system in force. As we have already said, this system - particularly through the voice of the I.M.F. - is still solely preoccupied with balance in theecontext of the system of unequal international division of labour, without concern for the structural changes required by development. Moreover, there is a danger that the changes envisaged by those concerned to meet the present crisis of the Bretton Woods system (choice of type of international liquidity : gold, dollar or drawing rights- and rules for the issue of the latter; preferred adjustment mechanisms : flexible exchange rates or active intervention by a world monetary institution) may be decided once more without taking account of the interests of the under-developed world. Here you should refer to Document ADB/CONFMIN/73/WK/I/2, section III.