

FOREIGN TRADE AND ECONOMIC DEVELOPMENT IN AFRICA

by

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TABLE OF CONTENTS

Chapter	Page
INTRODUCTION.....	vi
I.- THE NATURE OF THE AFRICAN ECONOMY.....	1
A. The Subsistence Economy.....	1
B. The Market Economy.....	5
C. Economic Development: Requirements.....	19
II.- FOREIGN TRADE AND ECONOMIC DEVELOPMENT.....	30
A. General Developments in Trade.....	30
B. African Exports.....	49
C. African Imports.....	71
D. Intra-African Trade.....	85
E. Balance of Payments and Economic Development.....	89
III.- TRADE POLICY AND ECONOMIC DEVELOPMENT.....	106
A. Maximization and Efficient Use of Foreign Exchange.....	107
B. Import Priority.....	113
C. Encouragement to New Industries.....	119
D. Control of Inflation.....	128
IV.- COMMODITY STABILIZATION.....	136
A. Principles and Methods of Stabilization.	136
B. International Measures.....	146
C. The Role of Africa in Commodity Stabi- lization.....	163
SUMMARY.....	176
BIBLIOGRAPHY.....	179
APPENDIX	182

LIST OF TABLES

Table	Page
I.- Area Under Crops for Subsistence, 1947-1950..	3
II.- Global Indicators of African Trade; Value, Unit Value and Quantum of Exports and Imports, Terms of Trade, Expressed as Percentage of Imports, 1951-1954, 1957-1960..	32
III.- Distribution of World Trade, by Country Group, 1950-1960, Percentages.....	37
IV.- Selected African Countries: Balance of Trade and Payments, 1950-1957.....	44-45
V.- African Trade by Currency Areas, in Millions of United States Dollars, 1957-1959.....	46
VI.- African Export Economies Wholly or Mainly Dependent on a Single Commodity; Millions of National Currencies, Percentages, 1950-1957.....	54
VII.- Semi-Diversified Export Economies of Africa: Selected Principal Exports; Millions of National Currencies, Percentages, 1938, 1950-1957 averages.....	57
VIII.- Multi-Commodity Export Economies of Africa: Selected Principal Exports; Millions of National Currencies, Percentages, 1938, 1950-1957 averages.....	59-60
IX.- Price Fluctuations of Exports of Primary Goods and Manufactures; Percentages, 1948-1957.....	64
X.- Manufacturing as a Percentage of GDP of Six African Countries, 1955-1958.....	75
XI.- Composition of Imports: Selected Countries; Percentages, 1955-1959.....	78
XII.- Composition of Imports of Materials and Fuels; Percentages, 1955-1959.....	80

LIST OF TABLES

Table	Page
XIII.- Composition of Imports of Manufactures as Percentage of Total Manufactures, 1955-1959.....	83
XIV.- Value of Trade Between Selected African Countries, 1950-1957.....	86
XV.- Short-Period Fluctuations in Export Proceeds and Purchasing Power of Exports in African Countries; Percentages, 1948-1958.....	95
XVI.- Short-Period Fluctuations in Quantum, Unit Value and Proceeds of Primary Commodities in Africa; Percentages, 1948-1957.....	96
XVII.- Percentage Changes in Trade of Selected African Countries and Territories Between 1958 and 1959, in National Currencies.....	100
XVIII.- Private Capital Movements and the Financing of Current External Position by Countries, 1955-1958.....	103
XIX.- Africa's Share in World Production of Selected Agricultural Commodities, 1934-1938 and 1950-1958, Percentages.....	164
XX.- Africa's Share in World Production of Selected Minerals, 1936-1938 and 1950-1958., Percentages.....	165
XXI.- Africa's Share in World Exports of Selected Agricultural Commodities, 1934-1938 and 1950-1958, Percentages.....	167
XXII.- Africa's Share in World Exports of Selected Minerals, 1936-1938 and 1950-1958, Percentages.....	168
XXIII.- International Bank for Reconstruction and Development; Loans to African Governments, by Purpose Cumulative as of December 31, 1958.....	

LIST OF TABLES

Table	Page
XXIV.- British Colonial Development Welfare Schemes (Excluding Research); Total Issues for Period April 1, 1946 to March 31, 1958.....	
XXV.- United States Grants and Loans to Indepen- dent Countries in Africa, 1950-1954 to 1957-1958.....	

INTRODUCTION

Economic development is a matter of major concern for all countries of the world, but particularly so for the poor and less developed countries. Yet, it is difficult to define economic growth in any precise way or to pin-point the factors which cause it. Growth is a composite of many factors and has many facets. No single-term definition can ever be adequate. Any such definition of economic growth would require further explanations and qualifications. This basic complexity of defining and explaining growth is aggravated for the less developed countries by the inadequacy of statistical data.

The study of economic growth has, therefore, to be attempted with reference, not to one but several measures or determinants. The process of economic growth, difficult and complicated as it is, involves the problem of getting development itself underway and also that of charting a course and steering the developmental process after a start has been made.

In defining and explaining economic growth it is helpful to distinguish between two cases: the historical development of the now leading industrial countries of Europe and North America and the process of catching up by the less developed countries of Africa, Asia and Latin America.

INTRODUCTION

vii

This process of catching up by the less developed countries may be understood as involving two aspects: an increase in the total amount of wealth¹ and an increase in the capacity to create wealth usually referred to as "infrastructure". The infrastructure is partly economic-transport, power, resource surveys, etc. But it is also partly non-economic. The capacity for rapid rate of economic growth to a certain extent depends on people. Their health, education, skills, knowledge, managerial and entrepreneurial ability, incentives, are all important requirements of economic growth. To this may be added the requirements of stable and responsible government.

Although conditions differ from country to country, the inadequacy of both economic and non-economic infrastructure is a basic characteristic of most African countries. The provision of such facilities of growth often require substantial amount of capital². However, scarcity of capital reflected in a low level of per capita income and

¹ It may be measured in terms of gross national product or national income per capita, or personal disposable income per capita.

² This may not be true for stable and responsible government which to a large extent depends upon the integrity and determination of the governing as well as the political maturity and effort of the governed.

INTRODUCTION

viii

savings is a general feature of less developed countries such as those of Africa. Foreign aid in the form of loans and grants cannot be expected to come commensurate with the requirements of the less developed countries.

Thus, the desire of these countries for a more rapid and continuing economic growth raises a number of questions: How the limited resources that are available could be allocated for maximum effect or how to determine priorities among competing demands; how to ensure that the development is not held back either by a lag in a particular sector or by an excessive concentration of resources in that sector to the detriment of other sectors and in general formulating a "balance" between action to meet the immediate welfare needs of the people and action to build up capital and a firm infrastructure for future economic development.

These are some of the primary objectives of planning for continuing economic development at a desirable or maximum feasible rate of growth. The problem may be approached by making an analysis of inter-relationships of "complementarities" (dependency of one factor upon another) or of consequences (effect of one factor upon another). Thus, a programme of economic development may be said to be undesirable if it can be shown, for example, that a speed-up in capital investment lacks essential supports in the social field such as institutional and educational facilities; or that a social

INTRODUCTION

ix

programme lacks essential economic requirements, e.g. adequate investments on directly productive enterprises.

Another case in point would be for development in a particular social or economic field to advance rapidly but with the result of serious consequences for other sectors of the economy. Such progress might lead to maladjustment, excessive drainage of resources, over supply of products (or categories of manpower trained in special occupations, e.g. engineers, lawyers), which the society cannot absorb.

The above considerations imply that the effectiveness of an economic development programme should not be evaluated by a single average measurement, e.g. gross national product or national income in real terms per capita or per person working because it may hide "overconcentration" in some fields and "neglect" in other important sectors of growth. The effectiveness of a development plan may be judged, among other things, by the following factors:

- 1) The extent to which balance of payment difficulties are reduced;
- 2) How far industrial production has increased in terms of power capacity, transport facilities, manufactured goods, etc., and the degree of import substitution attained;
- 3) By the rate of capital accumulation;
- 4) By the improvement in manpower training expressed in terms of skills, managerial capabilities and enterprise;

INTRODUCTION

x

5) Balanced economic development between secondary industries, resource industries and service industries;

6) And in countries, like most of Africa, by the rate to which the subsistence sector of economic activities are integrated within the scope of the market economy.

This thesis is not an exhaustive analysis of the factors and problems of economic growth in such a vast area as Africa. The primary objective is to present an examination of the problems of external trade in as much as it is one of the principal factors in economic growth. As far as exports are concerned, the major problems on the supply side include, among other things, the heavy reliance on agricultural raw materials and foodstuffs and on one or a few commodities. On the demand side, the principal problem is that of instability in demand for primary commodities in industrial countries representing the major foreign markets of the less developed countries of Africa. These problems are reflected in balance of payment difficulties which imposes serious limitations on the capacity of those countries to maintain imports of goods and services required for economic development. The nature and extent of the balance of payment problems will therefore be examined in some detail.

These being the major problems, appropriate actions are required to deal with them. It would require the less developed countries to make structural adjustments in the

INTRODUCTION

xi

pattern or composition of exports. It would require these countries to come up with constructive and imaginative trade policy that would promote not only an expansion in resources but also an efficient use of what are already available and thus permit a desirable or maximum feasible rate of growth.

Inasmuch as the less developed countries have very little influence on the conditions of demand in export markets, the objective of bringing to better balance the supply of and demand for primary commodities requires an all out international effort. Therefore, the role of international actions for commodity stabilization together with those of national measures will also be an important issue examined in this thesis.

The major source of data in the preparation of this thesis has been various United Nations publications. Those referred to are listed in footnotes and in the bibliography.

A report³ by a group of United Nations experts has been of significant help in the preparation of Chapter IV. It contains an informative examination on the problems of commodity trade in general and recommendations of measures that could be adopted to deal with these problems.

On the theoretical side, Professor Higgins' book⁴

³ UN, Commodity Trade and Economic Development, New York, 1955.

⁴ B. Higgins, Economic Development, New York, W. W. Norton & Company, Inc., 1959.

INTRODUCTION

xii

dealing with economic development has been particularly useful because it presents a comprehensive study on the nature of the development problems. He provides an analytical framework for dealing with these problems and presents an informative summary on the literature of growth. He brings out to light some of the major policy issues on the underdeveloped countries fiscal, monetary and trade policies.

Many contributions of basic significance on economic development are scattered in a number of journals and periodicals access to which is not often easy. In this respect, Agarwala and Singh have made worthwhile assistance to research students by bringing together articles which make a general and overall approach to the various aspects of economic development⁵. These include: the causes and factors contributing to underdevelopment and the various approaches that are generally made in analyzing and discovering solutions to the problems of underdevelopment; illustrative comparisons between the present day underdeveloped countries and the pre-industrial phase in the economically advanced countries and an analysis of the problems of development in the light of economic theories such as those of Schumpeter and Keynes.

⁵ Agarwala, A. N. and Singh, S. P. (Eds.), The Economics of Underdevelopment, Bombay, Oxford University Press, 1958.

CHAPTER I

THE NATURE OF THE AFRICAN ECONOMY

A. The Subsistence Economy

Subsistence economic activities can broadly be defined "as the production of goods and services which are subsequently found to have been directly used by their producers, and not exchanged."¹

In Africa today, practically all communities are in the process of transition from almost complete dependence on subsistence to participation in various forms of exchange activities. Thus, whereas at the beginning of this century money and exchange may have played little or no part in the lives of the African population, today there is hardly any community whose members do not earn some money either by the sale of produce or by labour for wages or engage in some form of barter exchange.

Therefore, the expressions "subsistence economy" or "subsistence sector" pertaining to the African economy do not convey the idea of a separate sector of the economy

¹ UN, Economic Commission for Africa, Report of the Working Group on the Treatment of Non-monetary Transactions within the Framework of National Accounts, Addis Ababa, 1960, p. 2.

THE NATURE OF THE AFRICAN ECONOMY

2

where no exchange transaction takes place. The fact is, there is no pure subsistence sector left in Africa today.

However, the subsistence sector, having in mind the limitation of definition noted above, is still a major element in the African economy although the proportion varies from territory to territory, as indicated by a United Nations estimate given in Table I.

Thus, according to the above United Nations estimate for a sample of African countries, about 70 per cent of the total cultivated area of the territories is devoted mainly to production for subsistence. This is compared with 81 per cent in the former West African territories; 73 per cent in the former Equatorial Africa; 67 per cent in Uganda; 59 per cent in Nigeria; 58 per cent in the Congo and 25 per cent in Ghana. Therefore, of all these territories, only in Ghana ¹⁴ ~~does~~ the cultivated area mainly under crops for subsistence smaller than that devoted to the production of crops for the market. These estimates can roughly be extended to apply for Africa as a whole, so that one can generally conclude that in terms of area under cultivation the subsistence sector forms a large part of the African economy.

The significance of subsistence economic activities can also be viewed in terms of the size of population engaged in such activities. For the above territories

THE NATURE OF THE AFRICAN ECONOMY

3

TABLE I

Area Under Crops for Subsistence
(Percentage of total area)

Territory and Area	Area Mainly Under Crops for Subsistence
Congo (1947-50)	58
Former French Equatorial Africa (1948-50)	73
Former French West Africa (1947-49)	81
Ghana (1950)	25
Kenya (1947-50)	93
Nigeria (1950-51)	59
Southern Rhodesia (1950)	85
Tanganyika (1950)	78
Uganda (1948-50)	67
TOTAL	69

Source: UN, Enlargement of the Exchange Economy in Tropical Africa, New York, 1954, p. 14.

THE NATURE OF THE AFRICAN ECONOMY

4

under consideration, the United Nations have come up with an estimate of the percentage of total male populations over fifteen years engaged in subsistence production.² For the sample territories covered in Table I as a whole, it has been estimated that approximately 60 per cent of the total male population above fifteen years of age are engaged in subsistence activities. The estimate also shows that only in the Congo and Ghana are the percentages of male populations over fifteen years engaged in subsistence production below those engaged in production for exchange.

Although the above estimates provide a rough guide to the magnitude of the subsistence sector in the African economy, it should be noted that they were calculated on the basis of "available information". Generally, in African countries statistics pertaining to subsistence economic activities are non-existent or scanty. It is obvious, therefore, that African countries should endeavour to carry out an extensive and more accurate study of the magnitude and nature on the subsistence sector because it is indispensable for a rational assessment of the needs and possibilities of economic development as a whole. More precisely, we could state the importance of a more accurate information of subsistence activities as follows:

² UN, op. cit., p. 17.

THE NATURE OF THE AFRICAN ECONOMY

5

(a) Since production for own use in agriculture, forestry or fishings, could make, by its magnitude, an important contribution to the levels of living, its evaluation would be useful for policy making in the estimation of needs and assessing the trends of subsistence level of living, especially consumption.

(b) The inclusion of a more accurate estimate of subsistence activities in the measurement of national income allows a more realistic assessment to be made of the rates of growth of an economy. Without the inclusion of the subsistence sector, rates of economic growth could be much magnified.

(c) A more accurate estimate of subsistence production is necessary to evaluate the trend in the shift from production for subsistence to production for the market.

B. The Market Economy

In the foregoing discussion we made the point that subsistence activities have been and still are a major element in the African economy.

Economic growth would, therefore, be concerned with the successful transformation of the subsistence activities within the scope of the market economy.

The expansion of the scope of exchange activities have two aspects: the shift of resources of land and labour

THE NATURE OF THE AFRICAN ECONOMY

6

from subsistence production to production for exchange and the more effective use of all economic resources in the process of production for exchange.

However, lack or inadequacy of existing transport and related marketing facilities, for example storage facilities, present the most obvious obstacle to the enlargement of the scope of the domestic market. A statement in a report concerning Northern Rhodesia may be applied to a large part of Africa:

... Present marketing facilities are improvised and elementary, and consequently the primary producer of many areas has to take a risk of selling his surplus crops or leaving them to rot uneaten. It is believed that there are many who in present circumstances are unwilling to take this risk.³

However, it should be noted that an expansion of production for the market, the availability of transport involves not only the existence of physical means of transport, but also a question of cost. In other words, whether or not the scope of production for the market will expand depends to a large measure on the significance of transport costs in relation to the selling prices of the products. In the post-war period world prices have favoured the extension² of the production area for certain export crops such as

³ Northern Rhodesia Department of African Affairs, Annual Report for the Year 1950, Lusaka, 1951, p. 48.

THE NATURE OF THE AFRICAN ECONOMY

7

groundnuts and cotton. In Nigeria, for example, post-war prices for groundnuts have generally been high enough to stimulate production for the market in areas previously neglected due to high cost of transport⁴.

Furthermore, the inadequacy of marketing facilities places the African producer in a weak bargaining position and thus tends to discourage production for the market. The relatively weak bargaining position for the individual African producer may also arise from lack of knowledge of market conditions, the need to dispose quickly of surplus production largely due to want of cash and lack of storage facilities. The general measures to overcome the deficiency in bargaining power and thereby encourage production for exchange have been summarized in a United Nations report:

1. By ensuring greater competition between the various middlemen and organization concerned and by facilitating their operations through the provision of basic services - roads and other transport facilities, more and suitably located stores, improved and extended market information services, effective arrangements for standardization and better credit facilities;
2. By encouraging larger scale operations where this is economically feasible;
3. By ensuring that monopoly powers are not used against the interest of producers...⁵

⁴ UN, Enlargement of the Exchange Economy in Tropical Africa, New York, 1954, p. 35.

⁵ UN, Rural Progress Through Cooperatives, New York, 1954, p. 68.

THE NATURE OF THE AFRICAN ECONOMY

8

In some African countries important steps have already been taken in the establishment of marketing boards. These boards⁶ have, in addition to their function of smoothing out the effects of price fluctuations on producers' income, the essential purposes of improving the physical organization of marketing in order to reduce transport and other marketing costs and of improving the bargaining power of individual producers.

However, the above marketing arrangements are almost entirely concerned with export commodities to the effect that internal marketing organizations are relatively lacking or inadequate. This in part reflects the low level of exchange in the internal economy and an obstacle to its expansion. Furthermore, the possibility of enlarging the scope of production for exchange purposes has been limited notably by the lack of adequate and efficient techniques of production; for instance, soil conservation, fertilizers, diversified farming, irrigation schemes and improved varieties of seeds.

However, the provision of adequate transport and other marketing facilities or the introduction of better and efficient techniques of production would require large

⁶ For example, Marketing Boards in West Africa for cocoa, cotton and groundnuts; in Congo, for oil products and oil palm products; in Uganda, for coffee and cotton.

THE NATURE OF THE AFRICAN ECONOMY

9

amounts of capital investments, while prospects of financial return are relatively small. It can only be undertaken under the initiative and participation of the governments concerned. Thus, all development plans in Africa have recognized the need for providing facilities such as transport, and a large part of total investment envisaged in these plans is devoted ^{To} for this purpose.

Implications on Economic Policy: The above analysis tends to emphasize the importance of increasing agricultural productivity and the steps that have to be taken to achieve this objective. The significance of emphasizing agricultural development has the support of various economists, among them Buchanan and Ellis⁷. This group of economists argue that since the less developed countries are primarily agricultural, emphasis should be placed initially on increasing agricultural output and productivity⁸ in the primary industries in attempt to raise real incomes. They point out that most national leaders of the less developed countries under-

⁷ N. S. Buchanan and Howard Ellis, Approaches to Economic Development, New York, Twentieth Century Fund, 1955.

⁸ Output refers to the total quantity of goods and services produced in a given period of time while productivity refers to the change in the quantity of goods and services produced by a person working over a given period of time. Productivity depends upon technological development, capital equipment, working and living conditions, management and many other factors. Changes in quality are not reflected in statistical measurements of productivity but might well be considered as part of the general concept.

THE NATURE OF THE AFRICAN ECONOMY

10

estimate the importance of the agricultural sector because of a desire for industrial self-sufficiency, national pride or ~~purely romantic~~ ^{insignary} association of manufacturing with affluence.

However, the above point of view has been challenged by another group of economists. They do not deny the desirability of efforts to raise agricultural output and productivity in principle. But they tend not to put too much faith in such policies. Instead, they place the chief emphasis on the development of secondary industries largely because they maintain agriculture to be "inferior" to industry as a means of raising the standard of living of the less developed countries. In order to evaluate this point of view it may perhaps be proper to present an outline of the analysis of two economists who support this line of thought.

The Prebisch Analysis⁹. Although he presented his analysis with particular reference to Latin America, his conclusion can be applied equally well to the less developed countries in general. Prebisch makes the point that the price ratio of primary to manufactured goods in international trade has fallen since 1870's¹⁰. This, to him, indicates

⁹ See UN, Economic Commission for Latin America, The Economic Problems of Latin America and its Principal Problems, New York, 1957.

¹⁰ He based his argument on data showing the ratio of price movements of United Kingdom exports to imports for the period 1876-1948. See UN, Relative Prices of Exports and Imports of Underdeveloped Countries, New York, 1949, p. 22,

THE NATURE OF THE AFRICAN ECONOMY

11

that labour and entrepreneurial incomes in the industrial countries have increased ^{as much as or} more than productivity since otherwise price would have fallen as productivity rose. By the same reasoning, he maintains that incomes in the countries producing primary goods have increased less than productivity. He, therefore, concludes that the benefits of technical progress have gone disproportionately to the industrialized countries and will continue to do so until the underdeveloped countries themselves become industrialized.

The Prebisch analysis on the apparent disparity between incomes and productivity fails to explain what factors accounted for this disparity. As Higgins states: "He provides no analysis of how this disparate movement in relation of incomes to productivity may have taken place"¹¹. In appraising Prebisch's point of view, it may generally be accepted that most of the less developed countries rely primarily on agriculture, and thus may suffer during times of depression since prices of industrial goods tend to be relatively maintained. Furthermore, the fact that most less developed countries are dependent on one or a few exports of primary commodities would, as will be explained more fully later, expose the economies of these countries to greater risks of instability. Besides, in comparing the price move-

¹¹ B. Higgins, Economic Development, New York, W.W. Norton and Co., Inc., 1959, p. 367.

ments of industrial and primary goods we should take into account the "quality" of industrial goods vs primary goods. As Buchanan and Ellis point out: "...it is the one great variable which illudes this price comparison".¹² While technical advances have improved the quality of manufactured goods enormously that of primary exports of the less developed countries has generally remained stagnant or improved a little.

Therefore, it is hard to accept Prebisch's analysis of general "inferiority" of agriculture to industry. A prominent economist, Jacob Viner, put forward his point of view as followed:

Misallocation of resources as between agriculture and manufactures is probably rarely a major cause of poverty and backwardness, except where government through tariffs, discriminatory taxation and expenditure policies, and failure to provide, ... facilities for education, health promotion and technical training, is itself responsible for this misallocation¹³.

The Singer Analysis. That agriculture is generally "inferior" to industry is also the view of H.W. Singer¹⁴.

¹² N. S. Buchanan and Howard S. Ellis, Op. cit., p.261.

¹³ J. Viner, International Trade and Economic Development, The Clarendon Press, Oxford, 1953, p. 71.

¹⁴ H.W. Singer, "The Distribution of Gains Between Investing and Borrowing Countries", American Economic Review, May 1950, p. 472-494.

THE NATURE OF THE AFRICAN ECONOMY

13

He presents his case for emphasis on industrialization as a proper policy for less developed countries on three accounts: (1) "Infant" industry argument; (2) "External economies" of industry; (3) A supposed progressive decline in the terms of trade of primary products.

As far as the third of these arguments is concerned Singer closely resembles Prebisch. His "infant" industry argument contends that the preoccupations ^{with agriculture} of the less developed countries interferes with the growth of potentially productive enterprises. This argument cannot be wholly denied. But, the problem is to what extent policy makers of the less developed countries are prepared to substitute merely potentially productive manufactures for actually profitable primary production, although productivity in the later may be less than in the former. A further problem is to what extent conditions in the less developed countries, in the form of technical skills, domestic demand, institutional and social factors, management, justify structural changes in the economy as expounded by Singer. It would be irrational to build industries in the mere belief that they are more productive than agricultural undertakings unless there exists sufficient domestic demand for products of these industries, efficient and adequate transport and marketing facilities as well as adequate labour with the required skills. Furthermore, if industry, as contended, may have

THE NATURE OF THE AFRICAN ECONOMY

14

suffered relative neglect so also the need to raise agricultural productivity.

In extending his "external economy" argument Singer maintains that the most important contribution of industry may not be its immediate products, but rather "...its effect on the general level of education, skill, way of life, inventiveness, habits, store of technology, creation of new demand"¹⁵. Such a statement, while it appears plausible on the surface, offers little practical help for policy makers of the less developed countries. For instance, it is not clear to what extent or how exclusively the "external economy" benefits accrue merely to industrial economies, and to what extent they may be the causes of economic growth. How would Singer explain the high standard of living and developed economies of a country like New Zealand which predominantly depends on agriculture? Indeed, there are no general valid reasons why countries that possess natural advantages in agriculture and other types of primary production should not put more emphasis on this sector of economic activity than on industrialization. The basic issue in the less developed countries such as those of Africa is not just a simple choice between manufacturing or primary production. Rather it is the problem of achieving a more rapid and sustained economic growth with

¹⁵ H. W. Singer, Op. cit., p. 476.

THE NATURE OF THE AFRICAN ECONOMY

15

both agriculture and manufacturing industry playing a positive role in such development.

It is not possible to advance one type of economic policy, for instance, as to what the "proper" relationship between agriculture and industry should be. Economic policy depends upon the structural background of a particular country; social, cultural and many economic factors such as the availability of sufficient capital, natural resources and manpower had to be taken into account. Nevertheless, we can generally say that the close interdependence between agriculture and industry, and hence the need for them to advance in steps has been increasingly realized. For instance, a United Nations study points out the need for such interdependence in these words:

Agriculture requires industrial consumer goods as an incentive, i.e. something for farmers to spend additional income on, and industrial equipment to make farming more efficient. Industry needs to have agriculture provide raw materials, food for industrial workers, and exports. (Besides earning foreign exchange which is essential for securing industrial equipment and raw materials from abroad, these exports also keep build present or future domestic markets for industrial products by raising the incomes of merchants, farmers and others.) In many countries agriculture needs industrial employment opportunities to absorb surplus farm labour.¹⁶

Clearly, economic development in the less developed countries embodies all sectors of economic activities.

¹⁶ UN, Community Development and Economic Development Part I, Bangkok, 1960, p. 13.

THE NATURE OF THE AFRICAN ECONOMY

16

That is, agricultural produce, manufactured goods, economic services such as transport, social services such as education and health services. All have to be taken into account in appraising the degree of economic growth of a country.

Objectives of Industrial Development. In assessing the structure and growth of an economy such as those of African countries it may not be enough to point out the interdependence between industry and agriculture. It is equally important to show the contributions industry had to make to economic growth of these countries. Industrial development may contribute to three important economic objectives:

1. The achievement of a more rapid growth in national income in the near future;
2. Increasing the stability of the economy;
3. The creation of skills and experience that will in the future lead to a more rapid increase in productivity and a more flexible economy.

For most African countries an increase in primary exports (although it may be desirable) may not be expected to provide a sufficient basis for rapid growth, either because of limited supplies of exportable goods or because of unfavourable demand conditions abroad. However, while it is desirable for practically all African countries to increase

the relative proportion of industrial output in their national product, the choice of industries must be made on a selective basis that takes account of each country's markets and resources and of the advantages of trading with its neighbour.

While emphasizing the importance of industry, we had no intention to imply any general priority for its development over agriculture. The best distribution of output, as has been already indicated, has to be determined by natural resources, the composition of demand and the country's trading opportunities. Some degree of balance among growth of different sectors must be achieved. If any one of the major sectors is neglected it may become a bottleneck to further growth, as several countries in Asia have found when they put too great a stress on either industry, agriculture or public capital to the detriment of others¹⁷.

Assessing the Degree of Industrialization. A number of approaches are commonly employed to measure industrial growth in a given country. One such method uses the proportion of economically active population working in industry relative to those employed in other sectors of the economy. Industrial activity may also be said to have expanded if its

¹⁷ UN, Formulating Industrial Development Programmes, (With Special Reference to Asia and the Far East), No. 2, Bangkok, 1961, p. 2.

THE NATURE OF THE AFRICAN ECONOMY

18

share of gross domestic product, relative to other sectors of economic activities, increases over time.

However, to assess the degree of industrialization the above approaches may be insufficient. The reason is ~~because~~ ^{THAT} the degree of industrialization refers to an increase in manufacturing capacity and its productivity over time. It may also imply not only a mere increase in industrial goods produced but also an increase in the range of these goods. Therefore, to assess the degree of industrialization in a given country over time, or between two countries at the same time, other important factors must be taken into account. These include: stock of capital, productivity, diversification or the range of industrial goods produced. These factors, to a large measure, determine whether or not a given country has succeeded to make a more effective use of its resources.

To conclude, we have rejected the point of view that industrialization is the only way for economic development in the less developed countries, while maintaining its desirability in so far as it is implemented on a selective basis taking into account each country's market, its resources, and opportunities for trade. Thus, while it may be economically feasible for very large and diversified countries such as the USSR and China to aim at a large measure of industrial self-sufficiency, most countries of Africa may suffer

serious losses if they attempt to follow the same policy.

However, as will be noted more fully in Chapter III, the establishment of new industries, or the expansion of existing ones may require government assistance in the form of tariffs, and ~~for~~ fiscal and monetary incentives.

C. Economic Development: Requirements

The intensive study of economic growth in recent years has produced an ever ^{increasing number} lengthening of factors and conditions, obstacles and prerequisites that are conducive to a desirable pace of economic progress and rates of economic growth. "The direction of the inquiry has proceeded from thoroughly objective, tangible and quantitative phenomena, to a more and more subjective, intangible, unmeasurable ones."¹⁸

Classical economics had considered capital accumulation and natural resources as principal agents of development. In recent years, however, this view has been strongly challenged. Among the requirements of economic growth, the supply of entrepreneurial and managerial abilities now occupies in official documents and economic literature a position of strategic importance at least equal to that of capital and natural

¹⁸ A. O. Hirschman, The Strategy of Economic Development, New Haven, Yale University Press, 1960, p. 1.

THE NATURE OF THE AFRICAN ECONOMY

20

resources¹⁹. The important contribution to be derived from investment in people as productive agents has been stressed²⁰. Furthermore, among economists of today, Simon Kuznets for instance, has given continuous technological progress a strategic importance. In his words, "...continuous technological progress... are the necessary condition for the high rate of modern growth in per capita income"²¹. In addition, if one looks at factors that have an indirect effect on the supply of capital, entrepreneurship and skills, the list of factors become far more ^{extensive} ~~numerous~~. Among other things, the need for public order, law enforcement and ^{efficient} public administration have been emphasized²².

The analysis of conditions and obstacles to economic growth have become even more complex as a result of growing sociological and anthropological studies which attempt to assess the influence, ^{-that-} beliefs, attitudes, value systems, etc., exert on enterprise and initiative²³.

¹⁹ See UN, Processes and Problems of Industrialization in Underdeveloped Countries, New York, 1955, p. 30-38.

²⁰ T. W. Schultz, The Economic Test in Latin America, New York, State School of Industrial and Labour Relations, Cornell University, 1956.

²¹ S. Kuznets, Economic Growth. Six Lectures on The Johns Hopkins University, New York, 1961, p. 29.

²² H. Leibenstein, Economic Backwardness and Economic Growth, Studies in Theories of Economic Growth, New York, Wiley, 1957, p. 40.

²³ W.A. Lewis, The Theory of Economy Growth, London, 1955.

Interest in such institutional factors became more prevalent in the attempt of economic historians to find solutions as to why some countries entered the "take-off" stage in economic growth before others. Why England in the 1770's, why not ancient Egypt or Imperial Rome or China many centuries ago?

As Lewis asks implicitly in the preface to his book, "Was it mechanical spinning or the invention of the steam engine, or did other countries experience inhibiting factors which they could not overcome?"²⁴

The above analysis inevitably leads us to the question "how can a stagnating country ever hope to fulfil simultaneously so many necessary conditions?"²⁵ This is what Hirschman attempted to answer²⁶. While recognizing the significance of the large volume of literature on the prerequisites or conditions of economic growth, he maintains that economic backwardness cannot be explained in terms of an outright absence or scarcity of this or that factor of production. It is also a result of misallocation of an inefficient use of available resources, natural and human. To support his argument he cites the luxury consumption of the rich, the widespread hoarding or misdirected and

24 W. A. Lewis, Ibid.

25 A. O. Hirschman, Op. cit., p. 2.

THE NATURE OF THE AFRICAN ECONOMY

22

unproductive investments prevalent in most less developed countries. He goes further to state that if whatever resources that are available are well organized and efficiently utilized it will, at least, permit economic development itself to "raise its head"²⁶. Thus, according to his reasoning "while we were at first discouraged by the long list of resources and circumstances whose presence has been shown to be needed for economic development, we now find that these resources and circumstances are not so scarce or so difficult to realize"²⁷.

This is of course another way of stating the well-known proposition that economic development is held back by a series of "interlocking vicious circles"²⁸. Before it starts economic development is very hard to visualize because so many conditions have to be fulfilled and also because of the "vicious circles". But as Hirschman's analysis points out, it means also that once development has started the circle may be broken as the prerequisites and conditions for development are brought into being. In other words, economic development depends not only on the most efficient

26 Ibid.,

27 Ibid., p. 5.

28 H. W. Singer, "Economic Progress in Underdeveloped Countries", Social Research, March 16, 1949, p. 5.

combination of available resources and factors of production but also "on calling forth and enlisting for development purposes resources and abilities that are hidden, scattered and badly utilized"²⁹.

Some economists³⁰, however, maintain that the real cause inhibiting economic development in Africa, Asia and other underdeveloped countries could be explained on the form which their foreign trade has taken in the past. The argument, in short, is that colonial policy in these countries had been such that the export sector had little stimulating effect on other sectors of the internal economy. Economic activities connected with storing and processing of industrial materials occurred in the colonizing countries so that, in effect, the secondary benefits of the export sector in the colonized countries was largely felt not in the domestic economy but abroad. But, if this proposition was true, why did countries such as Ethiopia and Liberia who had remained independent experienced the same problems that the colonized African countries had?

Thus, while colonial policy may have had a restrictive effect on the stimulative impact of the export sector

²⁹ A. O. Hirschman, Op. cit., p. 5.

³⁰ For example, see H. Mint, "The Classical Theory of International Trade and the Underdeveloped Countries", The Economic Journal, June 1958.

on other sectors of the economy, it is an exaggeration to suggest that such a policy was the only major inhibiting factor. It is the opinion of this writer, at least from first hand experiences in Ethiopia, that factors such as lack of transport and other marketing facilities weaken the spread effects of expansion of the export sector to other sectors of the economy. Furthermore, distribution of export incomes is such that few landlords or enterprises benefit substantially from an expanding export sector while a large proportion of the population gain relatively little. The result is that a rise in income in the export sector has not been reflected in a substantial increased demand in the domestic economy.

It has also been maintained that the real problem hindering the rapid rate of economic growth in most of the less developed countries is to be found in the tendency of the terms of trade to run against them³¹. While this could be true for some countries, it has not been the case with many African countries where the terms of trade in the post-war period had generally been favourable³². As we will examine more fully later, the major problem facing these

³¹ See B. Higgins, Economic Development, New York, W. W. Norton and Co., Inc., 1959, p. 537.

³² See Table in UN, Economic Survey of Africa since 1950, New York, 1958, p. 182.

countries is the violent instability of export proceeds. Economic development requires favourable terms of trade as well as a more stable export income.

It has also been suggested that it is the lack of "balanced growth"³³ that keeps underdeveloped countries from a more rapid rate of economic growth. The argument is roughly as follows. The market for a particular commodity is inadequate to absorb the minimum output of an efficient plant, and the income created by the investment in the single plant will not solve the deficiency in demand. Thus, by itself, the plant will be uneconomical so that coordinated investments in large and varied groups of industries is the solution. In other words, this doctrine tends to emphasize massive investments in industries the objective being the creation of external economies³⁴. However, as we saw earlier, the problem of African countries is also how to increase agricultural productivity. In this sense, therefore, the doctrine fails to give an answer to solving the development

³³ Far further details refer to Higgins, Op. cit., pp. 397-408.

³⁴ "These are economies in production which depend on increases in the output of the whole industry rather than on increases in output of an individual firm. External economies occur where an increase in the size of an industry leads to lower costs for the individual firms composing the industry". See A.W. Stonier and C. Hague Douglas, A Text-book of Economic Theory, Longmans, Green and Co., Ltd., London, 1957, p. 139.

problems of African countries. Furthermore, even if we take the doctrine to mean massive investments in both agricultural and manufacturing industries it would be unworkable because it is definitely beyond the capacity of most African countries, which lack sufficient supply of domestic capital. While foreign capital inflow may help to ease the scarcity of capital, it cannot generally be expected to be forthcoming commensurate with the massive investments that may be required. Furthermore, there are the problems of management, shortage of skilled labour, inadequate transport and marketing facilities. In short, what the balanced growth doctrine fails to recognize is that massive and varied investments on all fronts cannot be successful unless the major bottlenecks to development are tackled beforehand and continue to be resolved as the process of economic growth takes place. This is not to suggest that investments in directly productive enterprises should be neglected altogether. The point is that the less developed countries should give priority to sectors such as textile industries that may be feasible within the existing market.

The preceding analysis has been made with particular reference to the economies of the less developed countries. As such it is only a "partial" theory of economic growth. Likewise, there are various growth theories applicable to the problems of the now advanced economies.

Keynes attempted to explain the workings of a developed economy and the factors explaining the collapse of these economies during the depression of the 1930's and suggested some remedial measures³⁵. In fact, his theory was expounded with particular reference to conditions prevailing in the United Kingdom so that while applicable to economies at a similar stage of economic development and industrialization it fails to embrace the conditions prevailing in the less developed countries.

Another celebrated work bearing on the theory of growth is that of Shumpeter³⁶. He relates economic growth and economic change as a consequence of technological progress and innovations. Therefore, his theory is more applicable to the industrial countries and fails to consider the problems and requirements of the less developed countries.

Among other contributions to the literature on growth is that of Higgins who set out the postulates of economic growth as capital accumulation, population growth, discoveries of new resources and technological progress³⁷.

³⁵ J. M. Keynes, The General Theory of Employment, Interest and Money, MacMillan, London, 1936.

³⁶ J. A. Schumpeter, The Theory of Economic Development, Harvard University Press, Cambridge, 1934.

³⁷ B. Higgins, Op. cit., p. 239.

What may be included or excluded by a theory of economic growth cannot be made explicit at this stage because they are as yet in a state of exploration and clarification. They have to be tested as to their general applicability.

Simon Kuznets envisages a comprehensive theory of economic growth,

- (a) "that would indicate the factors in the development of the more industrially advanced nations and thus illuminate the problem of their secular possible stagnation;
- (b) "to frame the factors so that a testable analysis of obstacles to economic growth of underdeveloped countries and hence a basis for intelligent development policy become possible;
- (c) "to consider the operations of these factors under a system of free enterprise as well as within the Authoritarian System, so that their interplay and potentialities in both become clear;
- (d) "to distinguish the factors that make for peaceful and warlike behaviour, so that the bearing of each on economic growth can be clearly perceived."³⁸

³⁸ S. Kuznets, "Toward a Theory of Economy Growth", in Robert Lekachman's Ed., National Policy for Economic Welfare at Home and Abroad, New York, 1955, p. 14-15.

The requirements as set out by Kuznets offer a broad and meaningful approach though neither he nor his followers have as yet demonstrated how the model envisaged can be put to a test.

The advantage of Kuznet's presentation is his requirements that a model of economic growth must be applicable to economies at all stages of development, under varying circumstances, at different times and under varying civilizations. A comprehensive theory of economic growth should offer explanations not only as to why economies expand but also why at times stagnate and retard.

Conclusion. Such a general theory of economic growth may never be attained. The concern about economic growth too is a recent phenomenon. When the economic theories of the Classical and Marxian Schools were formulated there had been no significant theoretical framework in the field of economic growth. However, with the passage of time, experience of nations in the field of economic growth has broadened and empirical data have accumulated. But no significant break through has been made to utilize these data in a testable theoretical framework. Meanwhile, the various partial theories of underdevelopment examined above provide useful theoretical basis for economic development planning in the less developed countries.

CHAPTER II

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

A. General Developments in Trade

Exports of primary commodities from Africa, as in most of the less-developed countries, represents a high share of gross national product and these exports are highly dependent on the markets of industrial countries. About four-fifths of Africa's principal exports of primary commodities are absorbed by the industrial countries. The share of Western Europe in the markets for these exports - over three-fourths - is especially striking¹.

Inasmuch as Africa's exports of principal commodities are highly dependent on the markets of industrial countries, it is not surprising that changes in the export trade of Africa are closely related to changes in economic activity of the industrial countries. In other words, developments in the export trade of Africa are very much affected by demand conditions existing in the industrial countries. The nature and extent of this dependence may become evident if one examines the general development trends in Africa's external trade during the 1950's.

¹ These facts are drawn from Economic Survey of Africa Since 1950, United Nations, New York, 1959, pp. 149-165.

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

31

As a result of the Korean conflict at the beginning of 1950, there was a substantial rise of demand for primary commodities in the industrial markets. This had naturally meant an increase in the export proceeds of Africa. However, what is interesting to note is that the impact of the increase in demand has largely been felt in terms of substantial increases in prices rather than volume of exports. This could be seen from the export data given in Table II for the period 1951. Why this has been the case may be explained in terms of the nature of the commodities exported. That is, supply of primary commodities exported from Africa are relatively inelastic to changes in demand in the short-run. It may be noted that the Korean crisis was a sudden and an unforeseen development so that there was a time lag before supply could be increased in response to the rise in demand originating abroad. But, by 1952 industrial activity and stock piling in the markets for primary commodities had began to subside which was reflected in a decreased demand for primary commodities. This was followed by the 1953-1954 recession in the economic activity of industrial countries. Throughout this period, as may be observed from the data contained in Table II, the unit value (prices) of exports from Africa had substantially reduced. This decline in price had persisted even for the years following the recession while on the other hand the quantum of exports ^{following an} was increasing.

TABLE II

Global Indicators of African Trade
Index numbers: 1953 = 100

	Exports Value	Unit Value	Quantum	Imports Value	Unit Value	Quantum	Terms of Trade	Expenditures as of Imports	2
1951	-	114	89	-	98	104	116	-	
1954	108	103	105	103	97	107	107	-	
1957	122	101	121	130	102	127	99	75.7	
1958	119	98	121	131	100	131	98	73.7	
1959	125	93	134	123	96	128	97	80.8	
1960 (1st Qt.)	131	92	142	136	97	140	96	-	

Source: UN Monthly Bulletin of Statistics, October, 1960.

trend. The later development may perhaps be explained by the fact there is generally a tendency among primary commodity producers to offset the loss in income as a result of declining prices through an increase in the quantity of the commodities sold.

The terms of trade position of Africa in general could not, however, be viewed with complacency because of the fact that it followed a consistently declining trend. The recession of 1957-1958 in industrial countries resulted in significant changes in the export trade of Africa so that by 1958 the unit value of exports as well as the terms of trade of Africa dropped to the lowest level since 1950. As to why prices of primary commodities fluctuate more than manufactured goods, reference to this has been made in the previous pages. Prices of industrial raw materials fluctuate more than prices of manufactured products because they are more characterized with "overcapacity" in production. Furthermore, countries that depend exclusively on exports of one raw material (e.g. Egypt on cotton, Malaya on rubber) cannot stop competition when price falls below a certain level. They have to continue to compete for survival despite reduced prices, thus reinforcing the reduction in price still further. Production of capital and consumer durable goods, on the other hand, are deferrable. As demand for such goods is deferred and inventories accumulate

production is cut back so as to bring supply and demand into better balance. This is the further point that as many consumer goods passing through world trade are luxury items the purchase of which is the function of income. When recessionary influences occur, a large part of the world income may decline and with it the purchase of consumer durable and luxury goods. To some extent there may also be a cutback in the purchase of capital goods.

Despite the 1959 expansion in economic activities of the industrial countries the terms of trade of Africa continued to decline. To explain why, let us refer again to the data contained in Table II. The expansion in economic activities of the industrial countries had a stronger impact on the volume of exports than on prices of exports. The substantial rise in volume of exports may be accounted by the high rate of consumption of raw materials in the industrial countries during the expansion phase, coupled with a revival in demand for inventory purposes. But this large increase in the volume of exports did not bring a comparable gain in foreign exchange earnings. This was because supplies being ample, the rise in demand for primary commodities was inadequate to produce a general rise in prices. Although for certain export commodities such as wool and rubber marked increases in prices were recorded², current production

² UN, Economic Commission for Africa, Economic Bulletin for Africa, Addis Ababa, 1960, p. 34 and 31.

together with stocks which had accumulated during the recession was generally more than sufficient to offset the effect of the rise in demand.

Thus, the 1957-1958 recession and subsequent recovery and expansion were generally characterized by tendencies similar to those experienced during the inter-war period. These tendencies are spelled out in a report of the Economic Commission for Africa as follows:

- "(1) The high responsiveness of primary commodity prices to industrial contractions;
- (2) The relative insensitivity of the volume of exports of primary commodities and the rapid deterioration in the terms of trade of primary exporting countries in the downward phase of the cycle;
- (3) A rise in the value of exports usually tended to lag behind the rise in export volume."³

These tendencies characterize an aggregative analysis of developments in exports of less developed primary commodity exporting countries as a whole. While the less developed countries accounted for somewhat less than one third of total world trade in 1950, their share in 1960 had shrunk to one-fifth. During the same period, the industrially developed countries increased their already large share in the total from

³ UN, Economic Commission for Africa, Op. Cit., p. 11.

three-fifths to two-thirds⁴. Equally important are some of the underlying trends regarding regional direction of trade. Perhaps the most significant fact is that while the share of exports from the underdeveloped countries declined in the total imports of the developed countries^{4a} shown in Table III, including the total of intra-trade of the less developed countries, the industrially developed countries have increased their respective intra-regional trade notably. Even the 1959 expansion in economic activities of the industrial^{de} countries favoured trade among themselves^{more} than from primary exporting countries⁵. The above analysis suggests that there are long term influences which account for the declining ratio of primary commodity imports to total imports by industrialized countries. One explanation is that the relative share of durable goods and services - sectors with generally low inputs of primary imports - in total output of industrial countries has been constantly growing⁶. Of no less importance is the increased economy in the use of raw materials due to improved methods of production and to manufacture of synthetic substitutes⁷. Agrarian protection both in the United States

⁴ See Table III.

⁵ UN, Economic Commission for Africa, Op. cit., p.12.

⁶ Ibid., p. 13.

⁷ It is because of the operation of these forces on primary exports of the less developed countries that a recent

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

37

TABLE III

Distribution of World Trade, by Country Group,
1950 and 1960

(Percentage)

Exporting Country Group	Importing Country Group			
	Total World	Developed Countries	Developing Countries	Unclassified Trade
<u>Total World</u>				
1950	100	100	100	100
1960	100	100	100	100
<u>Developed Countries</u>				
1950	59.8	62.6	68.8	34.6
1960	66.0	72.1	75.3	55.9
<u>Developing Countries</u>				
1950	30.0	32.2	27.3	52.5
1960	20.4	22.8	19.0	34.5

Source: World Economic Survey 1962, New York,
1963, Table 1-3, p. 3.

and Western Europe coupled with efforts to develop domestic production at the expense of imported commodities should also be taken into account. It is the operation of these factors that lead the Economic Commission for Africa to state: "It seems indeed that, given the long term changes... in the import demand patterns in the industrial countries, together with changing conditions in the overall supply of primary commodities, primary exporting countries should not rely too much on stimulative effects of cyclical expansions in the future."⁸

It has also been contended that "the plight of primary exporting countries stems from a low level of productivity and a slow rise - if any - of this level"⁹. The point here is that this fundamental disadvantage has not been counterbalanced by favourable changes in the terms of trade. Thus, it is argued that "...the underdeveloped countries helped to maintain in the prices which they paid for their imported manufactures relative to those which they obtained

report observed: "The attainment of a 5 per cent annual rate of increase in export earnings may well require the achievement of a growth rate of appreciably above 5 per cent in the national income of industrial countries...". UN, World Economic Survey, 1962, New York, 1963, p. 20.

⁸ UN, Economic Commission for Africa, Op. cit., p. 14.

⁹ UN, Relative Prices of Exports and Imports of Underdeveloped Countries, New York, 1949, p. 7.

for their primary products, a rising standard of living in the industrial countries, without receiving, in the price of their own products, a corresponding equivalent contribution towards their own standard of living."¹⁰

Prebisch goes a step further when he said: "... it is evident that in the center the income of entrepreneurs and of production factors increased relatively more than productivity, whereas in the periphery the increase in income was less than that in productivity; and "the industrial centers not only keep for themselves the benefit of the use of the new techniques in their own economy, but are in a favourable position to obtain a share of that deriving from the technical progress of the periphery."¹¹

The main argument that could be brought forward to sustain this conclusion is, of course, population pressure and the existence of surplus labour in underdevelopped countries. As long as there is no scarcity of labour - at a price that exceeds only by a small margin the subsistence level - rises in labour productivity would tend to be transferred to the importing industrial countries¹².

¹⁰ UN, Op. cit., p. 12.

¹¹ Economic Commission for Latin America, The Economic Development of Latin America and its Principal Problems, by Raul Prebisch, New York, 1950, p. 10 and 14.

¹² A. W. Lewis, "Economic Development with Unlimited Supplies of Labour", The Manchester School of Economic and Social Studies, 1954, p. 183.

Carrying the discussion further Myrdal made a number of observations "concerning forces and conditions, besides the general conditions surrounding subsistence economy in underdeveloped countries and the population pressure - which would need quantitative analysis within the framework of a dynamic theory of international price formation"¹³. Among these observations the following may be noted:

(1) that for many primary exports the underdeveloped countries are competing with advanced countries, where productivity has been rising more rapidly even in primary production;

(2) that a larger part of foreign private enterprise in, and private capital inflow to, underdeveloped countries has been, and continues to be directed almost exclusively towards enlarging their export industries, that at the same time industrially advanced countries have protected and subsidized their own primary production - particularly agriculture.

(3) and more generally, that because of their poverty, the precariousness of their narrow exchange

¹³ G. Myrdal, *An International Economy-Problems and Prospects*, Routledge and Kegan Paul Ltd., London, 1956, p. 233.

margins, and their desperate need of continuing large exports in order to be able to import essential consumer goods and capital goods for their economic development, the bargaining power of underdeveloped countries has been, and remains, relatively very weak.

The above analysis suggests that the rate of expansion in exports of primary commodities from less developed countries to the industrial countries depends on four principal considerations:

- (1) the rate at which consumption or industrial absorption is increasing;
- (2) the extent to which consumption requirements are met from domestic supplies;
- (3) the extent to which import requirements are made by others than the less developed countries;
- (4) the availability of "appropriately" priced exportable supplies in the less developed countries.

What the future trend in the trade of the emerging nations would be is difficult to forecast. However, there are two divergent points of views. On the one hand there is the view that with the limited openings for extension of primary production in new areas of settlement, with the expected continued growth of industry in the advanced countries, and the tendency of labour to move away from

agriculture, there will be a greater relative scarcity of the world supply of primary products, the benefit of which will partly fall to the less developed countries. On the other hand, there is the opposite contention by pointing out to the very large scope for improved agricultural productivity (both in the advanced and the less developed countries), technical progress in making further economies in the use of raw materials in industrial production, discoveries of new synthetic and other industrial substitutes for a number of primary products, and the invention of new technical processes of producing such substitutes at even lower costs.

However, the above analysis concerning movements in the external trade of the less developed countries in general must be understood with the existence of divergent movements between different commodities and regions. It may be useful to point out such tendencies briefly below.

Different commodity groups. The experience of cyclical fluctuations in industrial countries and its effect on primary exports indicate that some commodities or groups of commodities felt the impact more than others. As a general rule, exports of raw materials were affected much more than foodstuffs. By and large exporters of raw materials having lost more, for instance, in the downswing of prices during the 1957-58 recession tended to gain more in the recovery and expansion that followed. The impressive

increase in export proceeds for Congo (minerals), Sudan (cotton) compared with a fall in export proceeds for Algeria, Tunisia and Morocco (mainly foodstuffs) in 1959 may be cited as a convenient illustration. This may be explained by the relatively inelastic nature of foodstuffs to fluctuations in demand in industrial countries compared with raw material exports. This divergence in the relative response to demand changes among commodity groups is reflected in the terms of trade of various countries. If we examine the data contained in Table IV we note that experiences relating to difficulties in trade balances have varied from country to country. Thus, in such countries as the Congo, the Federation of Rhodesia and Nyasaland, the terms of trade have been generally favourable, while in countries that include Egypt and East African countries (Kenya, Uganda and Tanganyika) the terms of trade have been more adverse.

Different currency areas. The experience of the sterling and other currency areas in comparison with the Franc Zone countries in Africa show an interesting trend in their relative trade position. For instance, if we confine our analysis to the periods between 1957 and 1958 and 1958 and 1959, the data in Table V reveal that contrary to the behaviour of the two remaining groups - sterling and other currency areas - the Franc Zone countries and territories do not seem to have been affected by fluctuations in demand

TABLE IV

Selected African Countries: Balance of Trade and Payments
1950 - 1957

Country & Currency Unit	1950	1951	1952	1953	1954	1955	1956	1957
<u>Congo & Uranda Urundi</u> (Billions of francs)								
Balance of trade	3.64	3.90	-0.48	1.75	1.31	3.82	6.03	1.81
Balance of Payments	3.09	1.36	-1.80	-1.67	-1.98	-2.04	-3.86	....
<u>British East Africa¹</u> (Mils. of sterling)								
Balance of trade	1.0	10.0	3.0	-15.0	-17.0	-42.0	-14.0	-22.0
Balance of Payments	-26.1	-80.8	-10.0	-53.0	-52.0	-56.0	-50.0	-46.0
<u>Egypt (UAR)</u> (Mils. of Egyptian £)								
Balance of trade	-25.0	-30.0	-74.0	-40.0	-23.0	-45.0	-44.0	-11.0
Balance of payments	-10.4	-15.2	-53.4	- 7.9	- 3.6	-34.0	-39.2	-30.9
<u>Ethiopia²</u> (Mils. of Eth. \$s.)								
Balance of trade	8.0	15.0	1.0	14.0	19.0	- 9.0	-12.0	15.0
Balance of payments	12.6	26.9	7.8	42.7	13.7	9.6	1.5	24.2

¹ For balance of trade, Kenya, Uganda and Tanganyika; for balance of payments, figures also include Aden, former Br. Somaliland, Zanzibas and Pemba.

² Prior to September, 1952, excluding Eritrea.

TABLE IV (Continued)

Selected African Countries: Balance of Trade and Payments
1950 - 1957

Country & Currency Unit	1950	1951	1952	1953	1954	1955	1956	1957
<u>Ghana</u>								
(Mils. of £ sterling)								
Balance of trade	20.0	19.0	10.0	6.0	34.0	-1.0	-10.0	-15.0
Balance of payments	20.1	19.3	11.5	5.2	40.7	1.8	-13.3	-14.4
<u>Morocco</u>								
(Billions of francs)								
Balance of trade	-48.0	-71.0	-85.0	-77.0	-67.0	-59.0	-42.0	-31.0
Balance of payments	...	...	-30.0	-21.3	-23.4	4.98	43.0	...
<u>Rhodesia & Nyasaland</u>								
(Mils. of S. Rhodesian £)								
Balance of trade	4.0	-10.0	- 6.0	24.0	22.0	34.0	22.0	21.0
Balance of payments	-27.9	-49.2	-42.8	-24.8	-11.3	-11.2	-33.7	-69.9
<u>Union of S. Africa</u>								
(Mils. of S. African £)								
Balance of trade	-80.0	-175	-131	-128	-108	-112	-83	-97
Balance of payments	0.2	-102	-58.2	- 58.7	- 29.9	- 45	- 4	-13.0

Source: UN Economic Survey of Africa Since 1957, New York, 1959,
p. 150.

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

46

TABLE V

African Trade by Currency Areas
(in millions of US dollars)

	1957	1958	1959
<u>Total</u>			
Exports	5,700	5,570	5,810
Imports	7,300	7,560	7,190
Balance	-1,830	-1,190	-1,380
<u>Sterling Area</u>			
Exports	2,620	2,500	2,840
Imports	3,400	3,360	3,240
Balance	-780	-860	-400
<u>Franc Zone^a</u>			
Exports	1,507	1,654	1,411
Imports	2,443	2,554	2,323
Balance	-936	-900	-912
<u>Other Countries</u>			
Exports	1,573	1,416	1,558
Imports	1,687	1,646	1,627
Balance	-114	-230	-69

Source: Economic Commission for Africa, Economic Bulletin for Africa, E-CN. 14/67, Addis Ababa, 1960, p. 3.

a) Excluding the French Somali Coast, the Comores and Reunion; including Guinea.

for primary commodities in industrial market. This does not indicate any significant difference in export composition between the Franc Zone and other currency areas. The difference is largely explained by the secured position the Franc Zone African countries enjoy in the French market as a result of their special association with France within what is known as "The French Community". France extends special preferential treatment to its former and present territories in Africa so that the primary imports from the Franc Zone countries are generally admitted duty free. For some commodities, e.g. groundnuts, oil seeds and bananas, there is a guarantee of fixed prices for specified quantities. For some commodities, e.g. groundnuts and palm products, the price obtained in the French market has been substantially higher than the world market price. For groundnuts for instance, the differential had amounted to some 35 per cent as early as 1958.

The same Table also shows that Franc Zone countries and territories account for a much larger part of the trade deficit of Africa. This is not because these groups of countries import more than the other African countries. In fact, the level of imports of the Franc Zone countries is much lower than that of the sterling area countries. The explanation of this high trade deficit seems to be the low level of exports in relation to imports. This does not imply

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

48

that they have^{to} cut imports but rather they have to increase their exports. What is needed is a relatively low trade deficit at a higher level of trade.

This is not an easy objective to achieve. Nevertheless, one of the ways by which the trade deficit could at least be reduced may be by expanding the volume of exports. But, there are problems that may be faced, namely competition from producers of similar commodities elsewhere; demand instability in the export markets or tariff and quantitative restrictions in importing countries. All these problems are discussed more fully in Chapter II. Furthermore, other alternatives towards increasing the value of exports include improvements in the quality of the commodities exported and processing them before they are exported. Improvements in the quality may be reflected in an increase in the competitive strength of the export commodities and its prices. How trade policy may help in this direction is discussed more fully in the chapter dealing with trade policy and economic development.

B. African Exports

(i) Commodity Pattern

In the preceding section we examined the general trends in the development of African external trade. The purpose of this section is to examine the pattern of exports and the changes that are taking place in these patterns.

African exports are dominated by agricultural products which account for the great bulk of the export trade of most African countries and territories¹. The three main exceptions are Congo (Leopoldville), The Federation of Rhodesia and Nyasaland and The Union of South Africa - all of which have a large component of mineral exports.

Major agricultural exports include grains, vegetable oil and oil seeds, beverages and tobacco and agricultural raw materials. The beverage and tobacco group (coffee, cocoa, tea, wine and tobacco) is the most important in the agricultural export trade of Africa, and accounts for about 40 per cent of the total value of its agricultural exports, whereas agricultural raw materials (cotton, sisal, wool,

¹ Taking Africa as a whole it is reported that agricultural products account for nearly two-thirds of the total value of exports excluding gold. (Refer to an FAO report: "The Review of Food and Agricultural Situation in Africa", Document E/CN. 14/62.)

rubber), the second most important group, represents nearly 30 per cent of the total value of agricultural exports. Vegetable oil and oil seeds account for a further 20 per cent of the total value of agricultural exports, whereas, grains and fruits, the remaining commodity group, play a relatively small part in the agricultural exports of Africa as a whole, but are of considerable importance in several individual countries, particularly North Africa.

Gold, diamonds, copper and minerals like phosphates and bauxite play an important role in the export pattern of a few African countries and territories, namely Congo, The Federation of Rhodesia and Nyasaland, The Union of South Africa.

Moreover, though manufacturing plays a significant role in the gross domestic product of some countries, mainly the Union of South Africa, the Federation of Rhodesia and Nyasaland, Egypt, Morocco and Kenya, the share of manufactured articles in the export trade of these countries, with the exception of the Union of South Africa² is still extremely small. Exports of processed goods are still of potential importance to most African countries.

In short, the commodity pattern of African exports

² In the post-war period manufactured goods have been taking up an increasing share of total exports of the Union of South Africa. In 1936-37 exports of manufactured goods accounted for only 3.2% of total value of exports while in 1956-57 it accounted for 18% of total value of exports. (Refer to UN, Economic Survey of Africa Since 1957, N.Y., 1959, p.170-171).

in order of importance in the total export trade may be summarized as follows:

- 1) Agricultural commodities which may be sub-divided into two groups:
 - a) agricultural foodstuffs
 - b) agricultural raw materials
- 2) Minerals
- 3) Manufacturing products.

Another most important feature in the pattern of African exports is the dependence on one or a few commodities for export. This fact, as will be noted more fully in latter chapters, makes exports from African countries highly sensitive to fluctuations in demand for them in the industrial countries. Therefore, it is the aim of African countries to diversify their production and consequently their export patterns. This objective could be achieved in one of several ways:

- 1) The development of new crops and minerals or of existing but hitherto less important, items, or both;
- 2) The development of local processing of primary commodities and the expansion of industrial capacity.

The above-stated objectives have been pursued by

most African countries³, but it is only in the case of the Union of South Africa that the expansion of the industrial sector of the economy has *lead* to a significant degree of diversification of export patterns. Nevertheless, some African countries have a more diversified export economy than others so that the problems of instability in export income varies accordingly. It is the subject matter of the next section to examine these divergence in production and export trade among different groups of countries in Africa.

(ii) Exports by Sub-groups

One can divide African countries into various groups to examine differences in export patterns. It could be according to currency areas or according to geographical areas. But it appears to this writer that grouping African countries according to the degree of diversification achieved in production and trade is the most appropriate. Thus, we can distinguish the following groups⁴:

- 1) One-commodity exporting countries, the most striking

³ For example, Nigeria, in common with other West African countries has actively promoted the extraction of palm oil locally. Senegal has developed groundnut processing for export. On the other hand, Ghana has promoted the extraction of gold, diamonds, bauxite and timber to help diversify the export structure, but the export economy is still largely dependent on one commodity - cocoa.

⁴ Excluding the Union of South Africa; this is because it is the only country in Africa whose export patterns consist of a significant quantity of manufactured goods.

examples of which are Gambia, Ghana, Ethiopia, Sudan, and Mauritius.

- 2) Semi-diversified commodity exporting countries which include Algeria, Sierra Leone, Liberia, former French Equatorial African countries, and the Federation of Rhodesia and Nyasaland.
- 3) Multi-commodity exporting countries which include Nigeria, Congo and Ruanda-Urundi, Tunisia, Morocco and the former French West African countries.

One commodity exporting group: Among countries of these groups the degree of dependence on a single commodity is very high being, on the average, over 60 per cent of the value of their total exports, as shown in Table VI. During the period 1950-1957, raw cotton constituted an average of 81 per cent of Egypt's total exports and 64 per cent of exports from the Sudan; groundnuts, an average of 92 per cent of Gambia's exports; cocoa beans, an average of 65 per cent of Ghana's exports; sugar, 98 per cent of the value of exports of Mauritius, and coffee, an average of 58 per cent of the value of exports of Ethiopia.

A high dependence on the export of a single commodity is not necessarily a weakness in an economy provided exports constitute a fraction of the domestic output - a condition not fulfilled by any of the countries cited in the preceding paragraph. Ghana, for example, exports up to

TABLE VI

African Export Economies Wholly or Mainly Dependent on a Single Commodity
(Mls. of National Currencies; %)

Country and Item	1950	1951	1952	1953	1954	1955	1956	1957
<u>Egypt (UAR)</u>								
Total Exports	173.0	200.6	142.8	135.9	136.7	137.0	140.9	170.3
Exports of raw cotton	149.8	164.1	126.4	116.4	113.1	107.4	98.9	124.2
Exp. of raw cotton as % of total exports	86.6	81.8	88.5	85.6	82.7	78.4	70.2	72.9
<u>Ethiopia</u>								
Total exports	...	109.7	112.1	147.8	172.2	151.0	151.9	176.3
Exports of coffee	...	56.5	58.8	83.1	112.4	85.3	81.8	118.9
Exp. of coffee as % of total exports	...	51.5	52.4	56.2	65.2	56.5	53.8	67.5
<u>Gambia</u>								
Total exports	2.2	3.0	3.7	2.6	2.9	2.5	2.4	4.0
Exports of groundnuts	2.1	2.7	3.6	2.5	2.2	2.4	2.3	3.7
Exp. of groundnuts as % of total exports	97.2	88.7	96.2	95.0	76.5	95.3	95.1	93.0
<u>Ghana</u>								
Total Exports	76.2	90.0	84.3	88.0	113.3	95.7	85.9	90.9
Exports of cocoa	54.6	60.3	52.5	56.1	84.6	65.6	51.1	50.9
Exp. of cocoa as % of total exports	71.7	67.0	62.3	63.8	74.7	68.5	59.5	56.0
<u>Sudan</u>								
Total Exports	32.1	61.0	41.2	43.0	38.9	48.8	65.5	45.6
Exports of raw cotton	22.9	46.5	29.0	26.8	21.7	30.4	41.7	21.3
Exp. of raw cotton as % of total exports	71.3	76.2	70.4	62.3	55.7	62.2	63.7	46.6

Source: UN, Economic Survey of Africa Since 1950, New York, 1959, p. 167.

35 to 40 per cent of its domestic output and Egypt up to 20 to 25 per cent⁵.

However, if we closely examine the statistical information contained in Table VI there is evidence of some lessening of dependence on a dominant export in some cases, although subsidiary exports have not been built up to a level where they can provide sufficient diversification. Such is the case with countries like Ghana, Egypt and the Sudan who have pursued a policy of diversification of exports, but their achievements in this direction have so far been moderate.

The objective of this policy has been to expand the relative share of other export items in total exports, namely rice and processed cotton materials in Egypt⁶; oil seeds and gum arabic in the Sudan⁷, and minerals such as gold and bauxite in Ghana⁸. Thus, the share of cotton in total exports has reduced from 86 per cent to 72.9 per cent in Egypt and from 71 per cent to 46 per cent in the Sudan in

⁵ UN, Economic Survey of Africa Since 1950, New York, 1959, p. 167.

⁶ UN, Economic Commission for Africa, Economic Bulletin for Africa, Addis Ababa, 1962, p. 15.

⁷ Ibid., p. 16.

⁸ Ibid., p. 22.

1957 compared with 1950. In Ghana the share of cocoa in total exports has reduced from 71.7 per cent in 1950 to 56 per cent in 1957. Nevertheless, the fact that a single commodity still dominates the export trade of these countries suggests that much remains to be accomplished in the way of export diversification.

Semi-diversified export economies: The export patterns of countries in these groups are characterized with a narrow range of exports, a few commodities, accounting for the bulk of the value of total exports, in many cases an average of 70 per cent and over, as shown in Table VII. For example, the percentage which the four major exports of Algeria constitute in the total of exports is in excess of 50 per cent in most years while exports of wine alone accounted for an average of 40 per cent of the total value of exports during the period 1950-1957. In Liberia, the main export item, rubber, constitutes an average over 75 per cent of the value of total exports, while iron ore next in importance accounted for 13 per cent of total exports.

In some African countries the restricted range of exports appears to have given rise to processing of primary products. This has been the case of copper exports from the Federation of Rhodesia and Nyasaland. Such development is also true of the Congo, an important copper exporting country and with a much greater degree of export diversification.

TABLE VII

Semi-Diversified Export Economies of Africa: Selected Principal Exports
(Millions of National Currencies; %)

Country & Item	Value				Percentage			
	Average				Average			
	1938 ^a	1950-57 ^{bc}	1950 ^d	1957 ^{ef}	1938 ^a	1950-57 ^{bc}	1950 ^d	1957 ^{ef}
Algeria								
Total Exports.....	5639	129102	116596	171736	100.0	100.0	100.0	100.0
Citrus fruits.....	140	8310	5060	15478	2.5	5.6	4.3	9.0
Wine.....	2756	57687	52914	83571	48.9	39.7	45.4	48.7
Iron Ore.....	317	9987	4428	11055	5.6	6.8	3.8	6.4
Phosphate & Chemical fertilizer	53	2129	1555	2093	0.9	1.5	1.3	1.2
Total for items listed	3266	78112	63957	112198	57.9	53.6	54.8	65.3
Liberia								
Total Exports.....	2.0	39.0	52.1	44.5	100.0	100.0	100.0	100.0
Rubber.....	1.0	30.2	46.3	30.3	50.8	76.3	88.8	67.9
Iron Ore.....	...	4.8	0.7	8.1	...	13.2	1.4	18.3
Palm Kernels.....	0.5	1.7	4.0	1.0	23.3	4.3	7.7	2.3
Totals for items listed.....	1.5	36.7	51.0	39.4	74.1	93.9	97.9	88.5
Former French Equatorial Africa^g								
Total Exports.....	228	11653	7926	15211	100.00	100.0	100.0	100.0
Coffee.....	10	628	575	610	4.6	5.4	7.3	4.0
Cotton, raw.....	49	4297	3427	4398	21.4	36.9	43.2	28.9
Wood & Wood Products.....	95	3831	1974	6254	41.5	32.9	25.0	41.2
Diamonds.....	2	398	223	498	0.8	3.4	2.8	2.8
Total for items listed.....	156	9154	6199	11760	68.3	78.6	78.3	76.9

a) for Liberia, 1937
 b) for Liberia, averages for 1951-1956
 c) for Rhodesia and Nyasaland, averages
 for 1950-1958

d) for Liberia, 1951
 e) for Liberia, 1956
 f) for Rhodesia and Nyasaland, 1958
 g) for 1938 value in French Metropolitan
 Francs.

TABLE VII (Continued)

Semi-Diversified Export Economies of Africa: Selected Principal Exports
(Millions of National Currencies; %)

Country & Item	Value				Percentage			
	Average				Average			
	1938 ^a	1950-57 ^{bc}	1950 ^d	1957 ^{ef}	1938 ^a	1950-57 ^{bc}	1950 ^d	1957 ^{ef}
Fed. of Rhodesia & Nyasaland								
Total Exports.....	...	145.8	92.9	142.6	100.0	100.0	100.0	100.0
Copper.....	...	80.1	42.9	67.5	...	54.1	46.2	47.3
Tobacco.....	...	24.1	21.2	27.8	...	16.9	22.8	19.5
Total for items listed.....	...	104.2	64.1	95.3	...	71.0	69.0	66.8
Sierra Leone								
Total Exports.....	21.1	10.2	6.6	12.1	100.0	100.0	100.0	100.0
Palm Kernels.....	0.5	3.5	2.3	2.5	21.4	34.5	34.3	20.7
Iron Ore.....	0.6	2.8	1.3	4.0	30.2	27.8	19.4	33.0
Diamonds, uncut and unworked.	0.9	1.5	1.6	1.8	40.2	14.4	23.5	15.1
Total for items listed.....	2.0	7.8	5.1	8.3	91.8	76.7	77.1	68.8

Source: UN, Economic Survey of Africa Since 1950, New York, 1959, p. 168.

Multi-commodity export economies: Among the countries belonging to these groups, those whose export structures are the most diversified in Africa are Nigeria, Morocco and Tunisia (with the exception of the Union of South Africa). As indicated in Table VIII, in the first two countries the largest share of total export value accounted for by any single commodity is around 20 per cent and in the case of Tunisia around 14 per cent. The Table also shows that the remaining countries of these groups also have a series of important export commodities so that their export earnings will not be seriously affected as a result of fluctuations in production or export demand for any one single export commodity. Furthermore, the fact that the same group of commodities in each country accounts for a decreasing proportion of total exports, as can be observed from Table VIII, suggests that, even in the multi-commodity export economies, there are further trends towards diversification.

(iii) Commodity Concentration and Price
Fluctuations

The next question for examination concerns the relationship between the degree or intensity of price fluctuations of exports and the degree of concentration of exports.

An interesting study has been made on average year-

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

59

TABLE VIII

Multi-Commodity Export Economies of Africa:
Selected Principal Exports

(Millions of National Currencies; %)

Country and Items	Percentage Average			
	1938	1950-57	1950	1957
<u>Belgian Congo Uranda Urandi</u>				
Total Exports	100.0	100.0	100.0	100.0
Coffee	7.0	9.5	10.0	12.9
Raw cotton	14.6	9.1	13.9	5.5
Palm oil	7.9	7.5	10.4	6.5
Copper	33.3	32.4	25.0	32.1
Cobalt	....	7.7	5.7	6.3
Tin	11.3	7.9	10.6	6.0
Totals for items listed	74.1	74.1	75.6	69.3
<u>British East Africa</u>				
Total Exports	100.0	100.0	100.0	100.0
Coffee beans	12.9	28.6	22.5	35.4
Tea	4.6	2.8	2.3	4.0
Hides and Skins	4.6	4.0	6.0	2.9
Oil seeds, oil nuts, oil kernels	4.4	3.6	3.2	4.3
Raw cotton	35.7	25.9	27.1	21.9
Sisal	17.2	17.5	25.1	10.4
Diamonds	....	2.5	2.0	2.9
Totals for items listed	79.4	84.9	88.2	81.3
<u>Morocco</u>				
Total Exports	100.0	100.0	100.0	100.0
Calcium phosphates	18.9	19.5	19.9	19.8
Manganese ore	0.8	4.7	3.6	4.0
Lead ore	1.7	3.7	3.3	4.0
Fresh tomatoes	....	2.3	2.5	3.3
Citrus fruits	1.4	4.9	5.9	5.7
Wheat	13.0	3.1	1.5	5.2
Barley	2.1	7.9	7.2	6.8
Maize	....	1.5	....	2.9
Fish, preserved	....	8.4	15.0	6.7
Totals for items listed	37.9	56.1	58.9	58.4

TABLE VIII (Continued)

Multi-Commodity Export Economies of Africa:
Selected Principal Exports

(Millions of National Currencies; %)

Country and Items	Percentage Average			
	1938	1950-57	1950	1957
<u>Tunisia</u>				
Total Exports	100.0	100.0	100.0	100.0
Alfa	3.7	4.5	4.5	2.1
Olive oil	22.8	13.8	31.0	16.4
Wine	11.2	5.8	3.9	13.9
Phosphates	9.8	13.8	10.7	12.2
Iron ore	7.9	7.9	3.1	8.4
Lead and lead alloys	4.7	6.5	5.1	5.0
Totals for items listed	60.1	51.8	58.3	58.0
<u>Nigeria</u>				
Total Exports	100.0	100.0	100.0	100.0
Cocoa beans	16.6	21.8	21.5	19.7
Cotton	2.6	5.1	3.4	5.8
Groundnuts	13.8	17.5	17.2	19.9
Palm kernels	22.9	16.3	18.9	15.1
Rubber	1.4	4.2	3.2	5.6
Timber	1.1	2.2	1.1	3.9
Tin	15.2	5.3	6.8	2.9
Ground nut oil	....	2.0	0.3	2.8
Palm oil	10.4	11.0	13.6	9.3
Totals for items listed	84.0	85.3	85.9	85.0

Source: UN, Economic Survey of Africa Since 1950,
New York, 1959, p. 170.

to-year fluctuations of export prices of 36 different countries⁹. It may suffice for our purposes to examine the findings on two African countries - one representing the multi-commodity exporting countries (Nigeria) and the other representing the one-commodity exporting countries (Ghana).

For the period 1948-1959 it has been shown that the average year-to-year fluctuations of export prices for Nigeria approximates 14 per cent while for Ghana it was 19.9 per cent¹⁰. The most popular explanation of differences among countries in the extent of price fluctuation of exports is given in a United Nations report. It reads:

When a country exports just a single good, changes in the world price of this good are identical with changes in the price of the country's exports; when, on the other hand, the country exports many goods, price movements of some of these goods will be partly offset by movements in the opposite direction of prices of other goods, and this will tend to restrict the intensity of fluctuations in the price level of the country's total exports¹¹.

However, there are exceptions to this general conclusion. M. Michaely, for instance, cites Finland as a good example where, although exports are not particularly

⁹ M. Michaely, Concentration in International Trade, North-Holland Publishing Co., Amsterdam, 1962.

¹⁰ Ibid., p. 71.

¹¹ UN, Instability in Exports of Underdeveloped Countries, New York, 1952, p. 29.

concentrated, they in fact, consist of goods (wood and wood products) that show similar developments in demand¹². In other words, when there is a substantial increase in the demand for different products made of wood, there will tend to be a corresponding increase in the demand for lumber. Likewise, when there is a drop in demand for wood products, there will tend to be a fall in demand for lumber. In a case like this, one would, therefore, expect prices of export items to move in the same direction, rather than to move in an offsetting fashion. Indeed, as M. Michaely's findings show, for the period 1948-1959 and of the 36 countries covered by the study, Finland had one of the highest fluctuations of export prices (20.2 per cent) higher than the corresponding figure for Ghana.

Another exception in point to the generalized statement above, given by the United Nations report, is that prices of various commodities exported by the less developed countries will move in a compensating fashion in the absence of a general price trend such as that experienced during the Korean crisis. In the event that a significant upward or downward trend in world prices does exist, a majority of primary exporting prices of a country would tend to move in the same direction. For example, in 1951, when the

¹² M. Michaely, Concentration in International Trade, North-Holland Publishing Co., Amsterdam, 1962, p. 71.

Korean crisis gave rise to a general upswing in prices of primary commodities in the world market, the index of export prices rose by 26.6 per cent in Egypt and 23.9 per cent in Ghana over the previous year. These increases compare with 27.3 per cent for Nigeria¹³.

Since Ghana and Egypt are predominantly one commodity exporting countries one would have expected them to experience greater price fluctuation than Nigeria which is relatively a multi-commodity exporting country. The above data, however, indicate that such a general assumption may not hold true in all cases. In actual fact, Nigeria felt the impact of rising export prices more than Ghana, because during ^{the} 1951 period the former's raw material exports (e.g. rubber, tin) were in greater demand.

Some economists, for example Prebisch as we may recall from earlier discussions¹⁴ have argued that since the bulk of the less developed countries exports are made up of primary commodities, they are more vulnerable to fluctuations in international trade than exporters of manufactured goods. It is not, however, easy to verify this contention partly because the less developed countries, as a rule, have less diversified exports than the developed countries, as Table IX indicates. A study made on price movements of

¹³ M. Michaely, Op. cit., Appendix B, p. 150, 152, 160.

¹⁴ See Chapter I, B.

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

64

TABLE IX

Price Fluctuations of Exports of Primary Goods
and Manufactures

Year	Price Level (1953=100)	Primary Goods	Price Level	Manufactures
		Changes from Previous Years (in %)		Changes from Previous Years (in %)
1948	100		102	
1949	93	-7.9	98	-3.9
1950	97	+4.3	86	-12.2
1951	117	+20.6	103	+19.7
1952	104	-11.1	104	+ 1.0
1953	100	- 3.8	100	- 3.8
1954	103	+ 3.0	98	- 2.0
1955	99	- 3.8	99	+ 1.0
1956	100	+ 1.0	103	+ 4.0
1957	102	+ 2.0	107	+ 3.9

Source: M. Michaely, Concentration in International Trade, Amsterdam, 1962; calculated from UN data contained in Yearbook of International Trade Statistics, issues of 1954 and 1957.

primary commodities and manufactured goods for the period 1948-1957 shows that, on the average, price fluctuations were somewhat higher for the former than for the latter.

But the data do not prove that the extent of price fluctuation of primary commodities and manufactured goods have been about equal. The reason is that each of the two indexes of fluctuation describes a movement of price level of a whole class. These movements in turn are the results of many price changes of individual commodities within each category. A change in the price movements of a category, e.g. manufactured or primary sectors, is the net outcome of many individual price changes which partly offset each other. And the price changes of individual goods or a group of them may be larger in one category than in another.

Furthermore, another exception to the casual relationship between commodity concentration and price fluctuation may be illustrated with a specific case. Mauritius is an African country which depends on sugar for about 98 per cent of its total exports. This is the highest ratio among African countries; it is practically as high as it could get, indicating a complete specialization of exports on one commodity. Yet, Mauritius' average yearly price fluctuations of exports for the period 1948-1957 reported to be about 7.9 per cent is rather low¹⁵. This is explained by the fact that

¹⁵ UN, "Commodity Trade and Policies in Post-War Period", World Economic Survey 1958, New York, 1959, Table 13, p. 40.

Mauritius specializes in a commodity whose price has fluctuated only mildly during the post-war period due mainly to extensive price stabilization operations called for by multinational agreements, as well as by unilateral government intervention such as that conducted by the United States Government.

The same report shows that in countries like Malaya and Indonesia whose degree of commodity concentration of exports is much lower than that of Mauritius, fluctuations in the level of export prices are among the most severe. This is because of the large share of crude rubber in total exports of both countries, which for the period 1948-1957 experienced an average yearly fluctuation in price of about 25 per cent. This compares with an average of 11.6 per cent for all groups of commodities taken together¹⁶. Thus, it will not also be surprising if Liberia with more diversified exports than Mauritius, but largely of rubber, shows greater fluctuations in prices.

To sum up, the degree of fluctuations of the level of export prices depends, among other things, on the degree of commodity concentration, the structure of industry (i.e. primary vs manufactured goods), the existence of stabilization arrangements for a particular commodity. However, since most

¹⁶ UN, Op. cit., Table 13, p. 40.

African countries depend largely on few primary commodity exports and, as will be indicated in Chapter IV, in the absence of international stabilization measures for most of these exports, fluctuations of export prices are indeed major problems for economic development.

iv) Implication for Economic Development

Fluctuations in export prices will cause hardship on the orderly process of economic development in a number of ways, chief of which are the following:

(a) Fluctuations in export prices cause parallel fluctuations in the country's national income. Since the terms of trade fluctuate mainly due to fluctuations in export rather than in import prices, the income affected is mainly that originating in the export sector. The less developed countries suffer relatively more from this source not only because export prices and the terms of trade of these countries fluctuate more than "usual", but also because in these economies ^{export} international trade is relatively larger in proportion to national income than in highly developed economies. The reasons are, among other things, that the former countries produce commodities which they themselves consume to only a small extent so that they are largely dependent on external demand for the sale of their commodities.

(b) Fluctuations in the Amounts of Resources Available for Investment. - Fluctuations in the national income may be expected to lead to parallel fluctuations in the amount of savings in the economy, and, since as is often the case, these are not accompanied by offsetting, autonomous fluctuations in capital inflow from abroad, changes in the amounts of savings necessarily lead to changes in the amount of resources available for investment and in the size of investment in the economy.

As one economist puts it, "it is likely that in many cases a particularly large portion of the income changes under consideration will be reflected in the net profits realized in the export industries.... It seems probable that the marginal propensity to save out of profits, mainly for purposes of reinvestment in the industry, is larger than the marginal propensity to save in the economy as a whole, so that changes in profits should indeed lead to considerable changes in savings"¹⁷.

Furthermore, fluctuations in export prices are likely to have a strong impact on the government's budget¹⁸. In many countries characterized by highly concentrated exports, the export sector provides a substantial share of government

¹⁷ M. Michaely, Op. cit., p. 116.

¹⁸ See UN, Op. cit., p. 96

revenues (in addition, another important source of revenues is duties on imports). Therefore, fluctuations in export prices often cause fluctuations in revenue from this source. It, of course, applies to those countries who impose taxes per unit of export prices, and there are many in Africa. Fluctuations in anticipated revenue make difficult long-run policy decisions concerning total government expenditure and its allocation among various alternative uses.

Another important reason for fluctuations in the amounts of savings resulting from fluctuation in export prices and terms of trade is explained by the "permanent income hypothesis"¹⁹. This hypothesis maintains that income recipients expect some level of "permanent" income of which they save a certain proportion. When income is temporarily above the "permanent" level due to particular favourable terms of trade, savings out of the "extra" income are very high. The opposite is true when the terms of trade are unfavourable: The loss of income induces dissaving.

Fluctuations in saving (as a result of export price fluctuations) would interfere with the implementation of development programmes, particularly where a large or major role in these programmes is played by the government - as it

¹⁹ This hypothesis is discussed by M. Freidman in A Theory of Consumption Function, Princeton University Press, 1957, p. 97.

actually is in most of the less developed countries such as those of Africa.

(c) Fluctuations in Imports and Foreign Exchange.

This problem will be discussed more fully later in the section dealing with balance of payment difficulties of the primary exporting less developed countries. However, few comments may be made at this stage. Barring intentional changes in foreign exchange reserves of the country, fluctuations in export prices and terms of trade of the less developed countries should be expected to lead to fluctuations in the amounts of imports, as export receipts are the major source of financing imports of goods and services. It is often argued that imports of consumption goods have been curtailed in many underdeveloped economies to the bare minimum, so that their volume cannot be reduced further when the terms of trade deteriorate. Likewise, imports of essential raw materials and fuels cannot be cut without severely impairing current production in the country, and should, therefore, fluctuate with the rate (actual or expected) ^{of} production in the economy rather than with the ability of the country to finance imports out of receipts from exports. Fluctuations in the amounts of imports that are dictated by fluctuations in the terms of trade must therefore be borne by the third segment

of imports - namely, imports of capital goods²⁰. Since economic development projects, private or public, depend to a large extent on imports of capital goods, the latter's cut-back will have an unfavourable effect on a more rapid rate of growth.

To sum up, fluctuations in export prices of primary exporting countries will affect the level of national income, savings, and expenditure. It will also determine to a large extent the amount of foreign exchange available and therefore the level of imports that a country can sustain over a period of time.

C. African Imports

i) Commodity Pattern

Imports into African countries in recent years have expanded rapidly. Moreover, while the level of imports has risen, its commodity pattern has undergone considerable changes.

Traditionally important imports like textiles, which held a preponderant place in the import patterns of most African countries, have been losing ground relatively to

²⁰ Including in this term imported inputs for domestic construction of capital goods as well as essential raw material.

imports like capital equipments, basic materials and mineral fuels. The decline in the share of textile imports is due partly to increasing domestic production in many African countries and partly to some diversion to cheaper sources of supply. Textile imports are expected to decline still further when current plans for the development and expansion of local textile manufacturing materialize²¹.

Although food imports have lost some ground to other categories, they are still important in others, particularly the smaller countries. This will probably continue to be the case for some time, since a rising middle class associated with increasing urban population in many African countries, together with the existence of large European communities, creates a demand for quality foods which cannot be produced locally in the near future. Furthermore, food production in many African countries is not keeping pace with population growth and rising incomes. In this connection the FAO of the United Nations had this to say in its report of food and agricultural situation in Africa:

²¹ According to a report by the Economic Commission for Africa, projected production of textiles in Nigeria and Ghana alone will amount to 33 million yards of cloth annually. Ghana's share of 15 million yards will represent 25 per cent of its present total imports. Ethiopia, UAR (Egypt), Sudan and Morocco all have plans to expand the production of textiles. (For further details refer to UN, Economic Bulletin for Africa, Addis Ababa, 1960.

From 1948-52 to 1959-60 the population of Africa is estimated to have been increasing at an average annual rate of 2.2 per cent. Total agricultural production appears to have increased at approximately the same rate, but there has been a lag in food production, for which the rate of increase is estimated as only 1.9 per cent per year.

Per capita food production fell sharply in 1957-58 and again in 1959-60 and is...estimated at about 5 per cent less than before the war²².

Thus, although Africa is predominantly an exporter of agricultural foodstuffs and raw materials, the report points out that its import of wheat, flour and tea are quite substantial. For example, import of wheat and wheat flour into the continent in 1959 were nine times as high as in the pre-war period. This, together with the substantial increase in imports of potatoes, prepared and canned meats and dairy products, the report concludes, is an indication of the changes in diets that are developing with urbanization and rising incomes. Therefore, in the light of such developments in the import patterns of some African countries, it is obvious that one of the important objectives in their development programmes is to expand the production and processing of foodstuffs for the domestic market. Such a step will, no doubt, contribute to a saving of foreign exchange that can be used to finance imports of capital goods.

²² FAO, Review of Food and Agricultural Situation in Africa, Document E/CN. 14/62, p. 1.

As can be seen from Table X, except in the Union of South Africa, UAR (Egypt), Morocco, Tunisia, the Congo (Leopoldville), the Federation of Rhodesia and Nyasaland and Kenya, manufacturing in Africa is not so extensively or highly developed as to permit of any significant import substitution. However, given the higher productivity usually associated with it, manufacturing does contribute a not altogether insignificant part of the domestic product of some other African countries.

Development plans in many African countries place great emphasis on industrialization, and it is reasonable to suppose that when these plans materialize a number of African countries will be able to replace some imports by local manufactures. Some commodities which are already produced in part substitution for imports are textiles, cigarettes, beverages (mainly beer and soft drinks), meat products, some dairy products, edible oils and fats, flour, footwear, some chemicals, cement and building materials.

ii) Import Patterns by Sub-groups

Although what is said in the preceding section indicates general development trends in the import patterns of Africa, it is not sufficiently instructive in that it conceals various divergencies in the import patterns of individual countries and groups of countries. In general, in

TABLE X

Manufacturing as a Percentage of GDP
of Six African Countries

1955-1958

Country	1955	1956	1957	1958
Union of South Africa	24	24	24	25
Morocco	15	15	17	16
Congo (Leopoldville)	12	12	13	13
Kenya	9	9	10	10
Federation of Rhodesia and Nyasaland	8	8	10	11
Tanganyika	6	6	7	13

Source: UN, Yearbook of National Accounts
Statistics, 1959.

Africa, we can distinguish between two groups of countries: the relatively developed and less developed group of countries. In the following paragraphs we will examine the differences in the import structure of the two groups mentioned. Furthermore, the import patterns of these groups of African countries will be viewed in contrast with that of a non-African country - Mexico - which has achieved a relatively higher level of economic growth than the more developed group of African countries.²³ A comparison of the import patterns of the relatively more developed group of African countries with the less developed group may be sufficient to indicate the changes that have taken place in the structure of imports of the former group. However, to understand the changes in import patterns that may be expected as economic development proceeds, it may be useful to view the changes in contrast with that of ^a country at a higher stage of economic development than most African countries but still listed among the less developed nations. The point to remember is that there are different stages of development among emerging nations. Mexico has been selected for this comparison not only because it has a more developed economy than most African countries but also because like the latter countries development in Mexico aims at a transformation of a largely agricultural economy in favour of greater industrialization in the attempt being made to accelerate economic diversification and economic progress.

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

77

Table XI shows the value of imports of broad commodity group as well as the percentage distribution of these commodity group in total imports for few selected African countries and Mexico. A glance at this Table shows that the level of imports of food, beverages and tobacco of the African countries is rather high compared with the corresponding level for Mexico. At the same time, the level of imports of industrial materials and fuels is generally low compared with Mexico, although the proportion of mineral fuels and building materials in the total imports of materials is much higher than that of Mexico. The result is that the proportion of manufactures in total imports for all the selected African countries, on the average, is as high as 70 per cent compared with about 50 per cent for Mexico. In the case of the more developed group of countries in Africa, for example, Congo, Kenya and the Rhodesias a shift would appear to have taken place from food imports to imports of materials, whereas in the case of the relatively underdeveloped group of countries, for example, Ghana and Cameroun, food imports still account for a high proportion of total imports.

The diminishing importance of food imports in the more developed group of African countries may be a consequence of a relatively higher level of agricultural productivity. The fact that transport and other marketing facilities

TABLE XI

Composition of Imports: Selected Countries

	Year of Reference	Value of Imports by Major Commodity Groups				%distribution of Imports by Major Commodity Groups			
		Total	Food, Bever- ages and tobacco	Materials and fuels	Manu- factures	Total	Food, bever- ages and tobacco	Materials and fuels	Manu- factures
Ethiopia	Av. 1956/7-58/9 (Mls. Eth.\$)	187.1	16.2	33.5	137.4	100	9	18	73
Guinea	Av. 56/58 (Bls. F.CFA)	8.0	0.5	1.8	5.7	100	6	23	71
Nigeria	Av. 56/58 (Mls £)	148.0	24.3	23.8	100.0	100	16	16	68
Cameroun	Av. 58/59 (Bls. F.CFA)	21.7	3.6	4.2	13.9	100	17	19	64
Ghana	Av. 56/58 (Mls. £)	88.3	19.5	15.7	53.1	100	22	18	60
Ivery Coast	Av. 57/58 (Bls. F.CFA)	12.3	3.3	2.9	6.1	100	27	23	50
Congo	Av. 1957/58 (Bls. F.Congolese)	18.4	2.7	2.4	13.4	100	14	13	73
Kenya	Av. 57/58 (Mls. £)	71.4	10.6	15.3	45.5	100	15	21	64
Rhodesian Fed.	Av. 56/58 (Mls. £)	160.7	15.9	35.6	109.2	100	10	22	68
Mexico	Av. 1955/58 (Mls. of Pesos)	12070.0	927.0	3468.0	7674.0	100	8	39	53

Source: UN, Economic Commission for Africa, Economic Development in Africa: Aims and Possibilities, June, 1961.

are better developed in these countries encourages production for exchange. Furthermore, unlike the relatively less developed group of African countries, Congo, The Rhodesias and Kenya have promoted local processing of foodstuffs, e.g. canned food, to meet the domestic demand for quality foods.

Table XII shows the level as well as the composition of imports of fuels and materials in total non-food imports. The percentage share of fuel imports naturally reflects the domestic resource position in that category as well as the degree of fuel consumption in the domestic economy. This is particularly clear in the case of the Congo and the Rhodesias. The years covered for Nigeria, are not sufficiently recent to reflect the development of an oil industry.

The level of industrial imports, as shown in Table XII, varies considerably from country to country. In general, imports of industrial materials are of considerably less importance in the selected African countries than in Mexico. Among the relatively more developed group of countries in Africa, Congo and Kenya have the smallest proportion of imports of industrial materials, largely because in these two countries domestic production of industrial chemicals and related materials plays a significant role in their total manufacturing output. It may be that there has been considerable substitution of imports through domestic production of industrial materials in the more developed group

TABLE XII

Composition of Imports of Materials and Fuels
(Percentage)

Country	Year of Reference	TOTAL	Mineral Fuels	Industrial Materials	Building Materials	All Materials and Fuels	Manufactures
Ethiopia	Av. 1956/7-58/9	100	12	4	3	19	81
Guinea	Av. 56/58	100	6	11	6	23	77
Nigeria	Av. 56/58	100	7	8	5	20	80
Cameroun	Av. 58/59	100	7	15	0	23	77
Ghana	Av. 56/58	100	9	8	6	23	77
Ivory Coast	Av. 57/58	100	16	10	6	32	68
Congo	Av. 57/58	100	10	4	2	16	84
Kenya	Av. 57/58	100	15	8	4	27	73
Rhodesian Fed."	56/58	100	6	14	4	24	76
Mexico	Av. 55/58	100	6	24	-	30	70

Source: UN, Economic Commission for Africa, Economic Development In Africa: Aims and Possibilities, June, 1961.

of countries or else that domestic raw materials are processed.

All African countries depend to some extent on imported building materials, those least dependent being the more developed group of African countries. But on the whole, from the information presented in the above paragraphs, we can say that in the total non-food imports of most African countries the level of industrial materials is low and the level of manufactures still high. This reflects the fact that, given the structure of domestic production, only minor quantities of manufactures are produced for the domestic market in most countries of Africa today. If we refer back to the data contained in Table X, it may be observed that (with the exception of the Union of South Africa where manufacturing accounts for about 25 per cent of gross national product) manufacturing represents roughly 10 per cent of gross national product for the countries covered in the Table. The fact that these countries (e.g. Congo, Kenya) represent the relatively more developed group of African countries suggests that manufacturing in many other African countries is even more insignificant in domestic production. This may perhaps be explained in terms of the low level of per capita national income. Furthermore, the lower the income the lower is likely to be the proportion spent on manufactured consumption goods. In addition, the domestic market

for manufactured goods may be even less favourable in many African countries than would appear from the low figure of per capita national income. For instance, lack of adequate transport and communication facilities hinders the optimum exploitation of the existing market and thus aggravates the difficulty of establishing local industries.

Table XIII shows the percentage distribution of imported manufactures. It can be seen from this Table that the level of imported textiles and footwear are on the whole excessively high for the African countries compared with that of Mexico. On the other hand, in the case of the relatively more developed group of African countries (e.g. Kenya, Congo, The Rhodesias, etc.) the level of textile and footwear imports are somewhat lower than for the less developed African countries. This would appear to be reasonable, since the textile and footwear industries have reached a more advanced stage in the former group of countries and domestic production of textile and footwear accounts for a much higher proportion of domestic consumption of these goods than in the relatively less developed group of countries.

Imports of machinery and equipment may vary considerably from country to country, but the general level of most African countries is much lower than in Mexico, whose economy is relatively more developed. The data in the above Table also indicate that the relatively more developed group

TABLE XIII

Composition of Imports of Manufactures
(as percentage of total manufactures)

Country	Year of Reference	Total	Textiles, footwear, etc.	Consumer Goods excluding textiles, etc.	Machinery and Equipment	Transport	Not specified
Ethiopia	Av. 1956/57-58/59	100	35	28	15	17	5
Guinea	Av. 56/58	100	26	10	38	16	9
Nigeria	Av. 56/58	100	41	19	15	22	3
Cameroun	Av. 58/59	100	22	52	6	20	-
Ghana	Av. 56/58	100	38	25	15	19	3
Ivory Coast	Av. 57/58	100	35	24	27	14	-
Congo	Av. 57/58	100	14	44	23	18	1
Kenya	Av. 57/58	100	17	32	17	22	12
Rhodesian Fed.	Av. 56/58	100	22	22	33	23	-
Mexico	Av. 55/58	100	5	20	50	25	-

Source: UN, Economic Commission for Africa, Economic Development in Africa: Aims and Possibilities, June 1961.

of African countries import a larger amount of machinery and equipment as compared with the less developed group of countries.

The most obvious conclusion that may be drawn from the above analysis is that a close relationship exists between the pattern of imports and the changes in the structure of industrial outputs. The apparent shift towards a lower level of imports of food, textile and footwear that accompanies economic development does not necessarily imply a reduction in the value of total imports, but as indicated in the above analysis, a change in the composition of imports in favour of capital goods. In general, indications are that as economic development proceeds, shifts that may be expected to take place in the structure of import patterns of African countries would be:

- (1) An increase in imports of industrial raw materials due to an increase in domestic industrial production;
- (2) A decrease in imports of semi-finished consumer goods and this decrease being offset by an increase in imports of more advanced type of consumer goods;
- (3) An increase in imports of capital goods and industrial raw materials;
- (4) A decrease in the share of food imports, which depends in turn on an increase in agricultural productivity.

D. Intra-African Trade

Most of the trade of Africa is with non-African countries, primarily Western Europe and North America, the proportion of intra-African trade being far smaller. While this proportion is not precisely known, the United Nations Department of Economic and Social Affairs has come up with a reasonable estimate by studying a group of nineteen African countries including the most important by value of total African trade, as shown in Table XIV.

The Table shows that while the level of aggregate import and export trade of the nineteen countries with African countries in relation to aggregate trade with all countries ranges from as low as 1 per cent for Nigeria to as high as 27 per cent for the Federation of Rhodesia and Nyasaland, the range in the case of imports is from less than 1 per cent (Nigeria) to about 36 per cent (Federation of Rhodesia and Nyasaland); and that for exports it is from about 1 per cent (Sierra Leone and Nigeria) to about 22 per cent (Union of South Africa).

Taking the nineteen countries as a group, intra-African exports constitute about 11 per cent of aggregate exports to all countries of the world while intra-African imports form about 8 per cent of aggregate imports from the world. The aggregate intra-African trade (exports and

TABLE XIV

Value of Trade Between Selected African Countries, 1950-1957
(Millions of \$s; %)

Country	Aggregate Trade with African Countries ^a			Aggregate Trade with All Countries ^b			A as percentage of B		
	Import	Export	Total	Import	Export	Total	Import	Export	Total
Algeria	409	231	640	5367	3282	8649	7.6	7.0	7.4
Angola	15	59	74	733	836	1569	2.0	7.0	4.7
Congo ^a	221	152	373	2863	3279	6142	7.7	4.6	6.1
Cameroun (Fr.)	49	42	91	734	591	1325	6.7	7.1	6.9
Egypt (UAR)	170	114	284	4623	3232	7855	3.7	3.5	3.6
Ethiopia	22	21	43	431	464	895	5.1	4.5	4.8
Former French Equatorial Africa	73	59	132	839	523	1362	8.7	11.3	9.7
Former French West Africa	246	277	523	2819	2202	5021	8.7	12.6	10.4
Ghana	102	47	149	1672	1885	3557	6.1	2.5	4.2
Kenya, Uganda & Tanganyika ^b	116	203	319	2754	2536	5290	4.2	8.0	6.0
Madagascar	51	66	117	1016	649	1665	5.0	10.2	7.0
Morocco	175	273	448	3629	2260	5889	4.8	12.1	7.6
Mozambique	84	56	140	661	409	1070	12.7	13.7	13.1
Nigeria	20	36	56	2582	2819	5401	0.8	1.3	1.0
Fed. of Rhodesia & Nyasaland	1121	604	1725	3077	3331	6408	36.4	18.1	26.9
Sierra Leone	10	3	13	330	262	592	3.0	1.1	2.2
Sudan	170	125	295	1112	1117	2229	15.3	11.2	13.2
Tunisia	77	64	141	1403	933	2336	5.5	6.8	6.0
Union of S. Africa ^d	832	1683	2515	10017	7456	17473	8.3	22.6	14.4
TOTAL	3963	4115	8078	46662	38066	84728	8.5	10.8	9.5

Source: UN, Economic Survey of Africa Since 1950, New York, 1959, p. 152.

a) Including Uranda-Urundi

b) Including trade between the members

c) ~~Including trade between the members of the Federation prior to 1954~~

d) Including South West Africa from 1955.

imports) constitute about 10 per cent of the total value of export and import trade with the world.

Thus, in view of the importance of the trade of the nineteen countries studied in total African trade, we can reasonably estimate that for the continent as a whole the amount of intra-African trade is not likely to differ significantly from an estimate of 10 per cent of the total value of export and import trade of Africa with the world. It is, therefore, quite logical to assume that about 90 per cent of total African trade is with countries outside Africa.

It might be said as a result of the above evidence that Africa is "naturally" an outward-looking continent; in other words, the principal channels of trade of the countries of Africa lead outwards to the rest of the world, rather than inwards towards one another. The very geography of the continent, with its vast interior mountains, jungles and deserts may be said to be a hinderance to the development of inter-continental transport and communications required for the expansion of intra-African trade. Furthermore, the small manufacturing output in the regional output of African countries and in the trade between them, may be said to reflect the advantages which African countries find in having their imports of manufactures from the industrial countries of Western Europe, North America, and Japan.

This writer realizes that the importance of these

various obstacles should not be underestimated. However, the situation which they reveal is in itself only a reflection of the broader problem of underdevelopment in Africa. If the existing trade among the African countries is small in relation to total trade, it is largely because their economies have thus far developed in response to the import demand and export supplies of the industrial countries of Europe or North America with which they have been accustomed to trade. If trade in manufactures between African countries is small, it only reflects the low level of industrial development. Moreover, even if intra-African trade in food and raw materials is small in relation to exports of the same products to industrial countries outside Africa, this in turn is the result of the much higher incomes, and hence import demands, to be found in the industrially advanced countries.

Therefore, there is no reason to believe that the low level of intra-African trade is due to an "economic law of nature". To assume that intra-African trade, in the future, will remain as small as it is today is equivalent to assuming also that Africa is incapable of economic development. If per capita income and output in Africa were to rise in relation to those of industrial countries, we can reasonably expect that the share of intra-African trade would rise in relation to total trade.

E. Balance of Payments and Economic Development(i) Nature and Extent of the Problem

It is perhaps appropriate to begin our discussion by answering a question often asked; namely, why did the trade problems of underdeveloped countries remain unresolved after the trade liberalization which was characteristic of international trade in the post-war era? To answer this question it should be noted that most underdeveloped countries of the world and Africa, export agricultural foodstuffs and raw materials; and sometimes export few or one crop. Therefore, it becomes clear that the problems of underdeveloped countries in their trade are not primarily tariff problems, but demand fluctuations for exports. In the post-war period, overall demand for African and other underdeveloped countries' exports have, no doubt, increased but fluctuations in demand for their exports have not been resolved.

In contrast with industrial countries where economic instability and balance of payments difficulties are associated chiefly with fluctuations in investments²⁴, economic instability and balance of payments problems of primary

²⁴ For example, loss of investments during the war particularly in Great Britain, and loss of foreign investments after world war II. In some industrial countries serious economic instability may also result from external influences operating through trade. This happened, for example, during the depression of the 1930's, when the adverse effects of reduced imports by the United States were particularly acute.

producing and exporting countries have been and still are largely the result of external circumstances operating by way of trade, particularly their export trade. In most African countries, for example, exports represent a considerable share of gross domestic or national product, substantially more than government expenditure and much more than private investments - and in almost all of them export earnings are derived from one or a few primary commodity exports. This makes most African and other underdeveloped countries vulnerable to any substantial change in the demand for their major exports, and in that way handicap them in their efforts at achieving an orderly and stable economic development.

However, the above discussion should not lead one to believe that export fluctuations are entirely a matter of change in demand; it may also result from variations in the exportable surplus of the underdeveloped country itself, or in the supply offered by competing exporters. Variations in a countries' export capacity may be due to irregularities in the weather or it may be due to political factors, a good example in Africa being the extensive burning of coffee trees by underground nationalist forces in Angola. In recent years among the causes attached to economic instability, increasing importance is given to inflationary pressure, which the developmental effort of the less developed countries, if not carefully controlled, is likely to generate. Thus, economic

instability in the underdeveloped countries, of which Africa is no exception, is a complex phenomenon. "Not all export instability results from external causes and not all externally generated instability is connected with imports"²⁵. Nevertheless, for Africa as for most other underdeveloped regions, instability of primary exports constitutes a major problem in the balance of payments.

It should be added, however, that export fluctuations have a tremendous impact not only on the balance of payments but also on a country's internal economy. This effect on the internal economy is transmitted by way of instability of income generated in the export sector in the first instance, and in the public revenue to the extent that public revenue in most African and other primary exporting countries derives largely from custom duties. Rising foreign demand and rising income in the export sector can give an impetus to economic growth by increasing both the "effective demand" for domestic products and the supply of foreign exchange for payments of imports. Thus, the export sector, in most of the primary producing countries, is the dynamic element in both the balance of payments and domestic economic activity. But there are dangers, however, in that "excessive income generated in the export sector will create

²⁵ UN, Economic Survey of Asia and the Far East, 1957, Bangkok, 1958, p. 114.

inflationary pressure or multiply nonessential imports, and that later, unless foreign demand can be kept up at a continuously high level, the impetus to growth will cease leaving the country with difficult adjustments to effect"²⁶.

However, the difficulties in the balance of payments and the internal economy as a result of excessive fluctuations in the price of primary exports, does not invalidate the fact that price movements themselves serve as a mechanism of adjustment in demand and supply allocations of resources. In other words, "reasonable"²⁷ price fluctuations may be useful and not to be condemned"²⁸. What is undesirable and a menace to the success of plans for economic development of the less developed countries is the extreme upward and downward movements of prices due to abnormal conditions against which adequate safeguards have not been prepared; for example, the Korean boom and its aftermath.

(ii) Instability in Exports and the Balance of Payments

In the discussion of export instability and the problems it entails in the balance of payments of African

²⁶ UN, Op. cit., p. 14.

²⁷ However, what amount of price fluctuation should be permitted remains one of the major obstacles in the formulation of stabilization schemes.

²⁸ UN, Commodity Trade and Economic Development, New York, 1953, p. 4.

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

93

and other primary exporting countries, the following basic facts stand out:

(a) Fluctuations in prices, volumes and proceeds of the major export commodities significantly affect the balance of payments.

(b) While changes in import prices influence the terms of trade and payments position, the export price fluctuation tends to be the dominant factor, so that they, together with changes in export volumes, in a substantial degree determine the country's capacity to import in real terms.

(c) Capital movements may or may not serve as a stabilizer to export instability; and that foreign exchange reserves may not be large enough to cushion the repercussions of export instability in the balance of payments satisfactorily.

As far as the first of these points is concerned, in the African countries where one commodity accounts for the bulk of the total export value, movements of total export earnings and balance of trade difficulties have naturally followed very closely the movements of that item. This has been the experience of countries like Ghana where exports of cocoa accounts for an average of 65 per cent of total export value and Ethiopia where coffee constitutes an average of 58 per cent of total export value. On the other hand, in countries where exports are more diversified so that two or more

commodities contribute substantially to total export earnings, the movements in total export proceeds, of course, to some extent offset each other. As a result total export earnings may fluctuate less than the export proceeds from the most unstable export commodity by itself. This has been the experience of some African countries like Morocco, Nigeria, Congo and Tunisia²⁹.

Table XV shows that for the period 1948-1958 the average short period fluctuations in export proceeds of some 25 African countries is roughly 10 per cent. However, this average conceals the largest fluctuations in export proceeds which more truly reflect the extremes of instability. For example, 26.8 per cent for Togo; 19.1 per cent for Sudan and 14.7 per cent for Ethiopia. In general, as is shown in that Table, the less diversified a country's export commodities the greater the fluctuation in total export proceeds.

Table XVI shows the correlation between volumes, prices and proceeds of major African exports by commodity groups. An analysis of this Table reveals the following basic facts:

(a) That, in general, the volume, price and proceeds of all the major commodity groups referred to showed significant fluctuations;

²⁹ Refer to Tables VI, VII and VIII.

TRADE POLICY AND ECONOMIC DEVELOPMENT

95

TABLE XV

Short-Period Fluctuations in Export Proceeds
and Purchasing Power of Exports in
African Countries, 1948-1958

(Percentage)

Country	Export Proceeds	Purchasing Power of Exports
Togo	26.8	27.2
Sudan	19.1	17.6
Ethiopia	14.7	12.3
Mauritius	12.7	9.5
Cameroun	12.4	11.3
Ghana	12.3	12.8
Chad, Congo (Brazaville) (	12.2	9.9
Gobon, Eq. Africa (
Angola	11.7	12.3
Reunion	11.3	9.3
Tunisia	11.3	13.9
Congo (Leopoldville)	11.2	9.6
British East Africa	10.8	9.3
Dahomey, Guinea, Ivory Coast, (
Mali, Niger, Senegal, Upper (	10.6	9.8
Volta, Fr. West Africa (
Nigeria	10.3	8.7
Rhodesia and Nyasaland	8.0	9.7
Malagasy	8.8	11.5
Egypt (U.A.R.)	8.5	7.7
Union of S. Africa	8.1	6.5
Algeria	8.0	7.8
Morocco	6.3	4.9
Total weighted average	9.9	9.1

Source: UN, Economic Commission for Africa, International Action for Commodity Stabilization, Addis Ababa, 1960, p. 33.

TRADE POLICY AND ECONOMIC DEVELOPMENT

96

TABLE XVI

Short-Period Fluctuations in Quantum, Unit Value
and Proceeds of Primary Commodities^a in Africa,
1948-1957

(Percentage)

Commodity Group	Quantum	Unit Value	Proceeds
<u>Beverages</u>			
(Cocoa, coffee, tea)	18	17	12
<u>Cereals</u>			
(Barley, maize, wheat, rice)	31	10	32
<u>Non-staple foods</u>			
(Butter, beef, sugar, cheese, mutton and lamb, bananas)	8	6	7
<u>Fibers</u>			
(Wool, jute and cotton)	3	19	13
<u>Metals</u>			
(Tin, copper, zinc)	5	14	14

Source: Economic Commission for Africa, International Action
for Commodity Stabilization, Addis Ababa, 1960,
p. . (Computed from FAO, Yearbook of Food and
Agricultural Statistics, several issues).

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

97

(b) That fluctuations in proceeds are, in all cases, due to both fluctuations in prices and volumes; and

(c) That, by and large, fluctuations in prices have been greater than fluctuations in the volume of exports, with the notable exception of cereal exports where fluctuation in proceeds has been more largely due to fluctuations in volumes than in prices.

The above commodity groups constituting the bulk of the export patterns of most African countries, we can safely conclude that export fluctuations, both price and volume wise, present a major problem in their balance of payments in African countries. However, the nature and degree of fluctuations and the consequent repercussions on the balance of payments depend on the kind and range of commodities exported.

It was pointed out earlier that owing to the present limited manufacturing activity in most countries of Africa, they have had to depend largely on imports for the supply of manufactured goods. Moreover, some countries import a significant amount of food. The capacity of African countries to import is determined chiefly by their export earnings while the degree to which exports can pay for imports is determined by both export earnings and the prices of imports. But, the experience of most African countries proves that the dominant factor menacing the stability of the "export-based" capacity to import has been the instability in export proceeds.

That is to say, import prices being relatively stable, violent fluctuations of prices and volumes associated with African exports have a preponderous effect on the capacity to import.

Table XV shows the degree of fluctuations in both the export proceeds and the purchasing power of these proceeds for a large group of African countries. It may be noted that there is a close relationship between the two fluctuations; the fluctuation in export proceeds being on the average 9.9 per cent and that of purchasing power being 9.1 per cent (the period covered being 1948-1958). This reflects the fact that import price fluctuations are by far insignificant in causing the instability of purchasing power of export proceeds.

However, there are other factors, besides the fluctuations in export proceeds and the consequent fluctuation in purchasing power, that affect the level of imports into a country. In some African countries imports have fluctuated more than they normally would have due to restrictive government trade policy. This might have been because exchange reserves have fallen to a low level or because monetary authorities have followed a cautious policy of foreign exchange budgeting. Thus, some African countries at times experienced an improvement in their balance of trade and payments position not because of any significant change in

their export proceeds but rather due to import restrictions. These import restrictions usually take two forms: imports may suffer bigger reductions than exports or exports may increase while imports are reduced or kept at the same level.

For the period between 1958 and 1959, as shown in Table XVII, some countries, for example Egypt and Morocco, achieved improvements in their balance of trade and payments position because imports declined more than exports while impressive improvements in the Sudan, Congo, the Union of South Africa and the Rhodesias were not the result of an exclusively remarkable increases in their exports but also partly of substantial declines in their imports³⁰. But improvements in the trade balances so achieved do not reflect a real improvement, that is, a higher degree of equilibrium at a higher trade level. To African countries whose economic development is so heavily dependent on imported goods, balance of trade improvements by restricting imports cannot be regarded as a change for the better, especially when in most cases the decline in imports disproportionately affected imports of capital goods.

³⁰ Out of the 22 countries and territories shown in the Table only Nigeria, former French Equatorial Africa and Ethiopia achieved an improvement in their balance of trade position at higher levels of imports and exports.

TABLE XVII

Percentage Changes in the Trade of Selected African Countries and Territories Between 1958 and 1959
(National currencies)

Country	Exports	Imports
Sudan	+53.8	- 4.0
Rhodesia and Nyasaland	+37.7	- 4.7
Togo	+37.7	- 0.6
Guinea	+33.7	+ 0.3
Congo and Urund-Urundi	+21.0	-14.4
Nigeria	+20.6	+ 7.5
Former French Equatorial Africa	+12.8	+ 6.3
Cameroun	+10.1	-10.2
Union of South Africa	+ 9.6	-12.0
Ethiopia	+ 9.6	+ 9.6
Ghana	+ 8.7	+33.6
Ivory Coast	+ 7.4	+23.8
Kenya, Uganda, Tanganyika	+ 4.1	+ 0.05
Mauritius	+ 0.2	- 4.1
Dahomey, Niger	-26.6	-12.0
Algeria	-12.0	+17.6
Malagasy	- 7.9	+11.1
Tunisia	- 7.5	- 1.1
UAR (Egypt)	- 5.8	- 6.9
Angola	- 2.7	+ 0.9
Senegal, Mali, Mauritania	- 0.6	+ 0.6
Morocco	- 0.5	-13.6

Source: UN, Monthly Bulletin of Statistics, October, 1960.

(iii) Capital movements and international reserves.

The repercussions of export instability on the balance of payments are, of course, reduced when capital moves in the opposite direction from export proceeds. Moreover, the effects of export instability are less serious when the level of exchange reserves is high enough to cushion the shocks. In neither respect, however, were conditions satisfactory for most African countries. However, there were periods when foreign capital inflow provided temporary assistance to strengthen the monetary reserve position of some African countries. For example, two loans were obtained for this purpose by the Union of South Africa from IMF - 10 million dollars in 1957 and 25 million in 1958. Medium term and short term capital has also been made available to other African countries in the form of export credits. For example, Sudan obtained for this purpose 15 million dollars from the US in 1958, in addition to export credits from the UK amounting to 5 million pounds and from the Federal Republic of Germany amounting to 25 million Deutsche marks. Furthermore, the IBRD had extended loans to the Congo, Nigeria, Sudan, The Union of South Africa, Ethiopia, The Rhodesias, and some other countries³¹. All these loans are of

³¹ Refer to Tables . . . in the Appendix.

particular importance to the African countries assuring them the continuation of basic projects in their development plans and avoiding balance of payments difficulties, as well as further declines of their domestic economy, already affected by weak commodity markets.

However, in many cases long term capital movements and official donations did not by any means always move in the opposite direction to export proceeds and thereby play a compensatory role in the balance of payments. This has been especially true of external private capital inflows which are sensitive to fluctuations of primary commodity markets. For instance, the downward movement of commodity prices, starting in 1956 and intensified by the decline in industrial production in the US in 1957, slowed down considerably the rate of private capital inflow to African countries. This decline in the inflow of foreign funds was particularly felt in the Congo, the Rhodesias, and the Union of South Africa and Morocco.

The facts in the preceding paragraphs and the data contained in Table XVIII indicate that there is no guarantee for external capital to flow in the opposite direction to export proceeds in the balance of payments. Thus, while external capital inflows including foreign aid have in some instances helped to bridge gaps in the balance of payments for some African countries, they could not be regarded as a

TABLE XVIII

Private Capital Movements and the Financing of
Current External Position by Countries
1955-1958

Country and Currency Units	Current Account Surplus or Deficit	Official Grants	Capital Account				Errors Omissions
			Private long- term	Official long- term	Short-term & Monetary Gold	Total	
<u>Morocco</u>							
(bils. Moroccan Francs)							
1955	4.61	0.37	14.17	18.15	-1.22	31.10	-36.08
1956	38.50	4.44	4.72	13.10	49.80	67.62	-110.56
1957	42.88	0.56	5.04	12.04	-40.9	-23.82	-19.62
<u>Rhodesia and Nyasaland</u>							
(Mils. of Rhodesian £s.)							
1955	-12.5	1.3	23.9	18.7	-24.1	18.5	- 7.3
1956	-34.9	1.2	22.7	5.7	3.8	32.2	1.5
1957	-70.7	0.8	19.6	11.1	43.5	74.2	- 4.3
<u>Union of South Africa</u>							
(Mils. of South African £s.)							
1955	-45	---	10	15	20	45	---
1956	4	---	9	-1	-12	-4	---
1957	-13	---	-27	2	38	13	---
<u>Congo</u>							
(Mils. Congo Francs)							
1955	-2039	---	136	12389	-418	2017	-68
1956	-3860	---	36	3531	429	3996	-136
1957	-7826	---	365	26	7532	7923	-97

(Cont'd)

Source: UN, The International Flow of Private Capital, 1956-1958, New York, 1959, p. 79.

TABLE XVIII (Continued)

Private Capital Movements and the Financing of
Current External Position by Countries
1955-1958

Country and Currency Units	Current Account Surplus or Deficit	Official Grants	Capital Account				Errors Omissions
			Private long- term	Official long- term	Short-term & Monetary Gold	Total	
<u>Egypt (UAR)</u> (Egyptian £s.)							
1955	-36.7	2.7	2.2	2.9	28.5	33.6	0.4
1956	-48.2	9.0	0.3	13.1	25.9	39.3	-0.1
1957	-33.5	3.4	-0.7	n.a	29.7	29.0	1.1
<u>Ethiopia</u> (Mils. of Eth. \$s)							
1955	1.2	8.4	7.6	1.5	-17.7	-8.6	1.0
1956	-3.9	5.4	4.1	-7.9	- 3.8	-7.6	6.1
1957	17.0	7.2	3.4	11.3	-22.6	-7.9	-16.3

solution to the structural problem inherent in the balance of payments of African countries, namely, fluctuations in exports. In actual fact, external capital inflows should not be expected to play a major compensatory role in the balance of payments. What is important for the success of economic development plans of African countries is a continuous inflow of long term capital and foreign aid of adequate proportions. A reasonable rate of growth of world markets and reduction in fluctuations of the size of these markets remaining a major objective of international economic policy, it should be achieved by other more direct and efficient means than have been employed hitherto. How this could be achieved is discussed in detail in Chapter IV.

It is sometimes suggested that the balance of payment problems of African countries could be reduced by accumulating an adequate reserve of foreign exchange. But, most African countries cannot afford to do so without significantly affecting imports of manufactured goods essential for economic growth. Furthermore, substantial fall in export proceeds sometimes lasting for a year or more (for example, during the period following the Korean boom) limits their capacity to accumulate sufficient amount of foreign exchange. This inability has forced many African countries to resort to selective import controls in order to protect their balance of payments. Although normally the policy of selected import controls

favours imports of capital goods against those of consumer goods, the effect could still be detrimental in that it could mean higher cost of living in the country concerned.

Some degree of import controls is a usual practice even in the economically advanced countries of the world. But the existence of large fluctuations in the export proceeds of most African countries necessitates more import restrictions for any given level of foreign exchange reserves and larger reserves for any given level of import restrictions than would be called for under conditions of stable export proceeds. Even if African countries are in fact able to maintain a sufficiently high level of reserves, fluctuations in exports immobilize a significant part of their foreign exchange resources, which could - assuming greater export stability - be used for economic development. Thus, from the point of view of both short-run balance of payments and long-run economic development, greater stability of export markets is highly desirable for African as well as for most primary commodity exporting less developed countries of the world.

CHAPTER III

TRADE POLICY AND ECONOMIC DEVELOPMENT

This chapter will consider trade policy as a means of implementing or promoting economic development with special reference to African countries. In most countries of Africa the main objective of economic policy is the economic development of the country which aims primarily at a diversification of economic activities through industrialization. In view of the urgent need to implement economic development and to raise the general standard of living of African countries, it is not surprising that all other aspects of economic policy, including trade policy, should be framed in the light of that paramount objective, namely, economic development. Trade policy can assist in promoting economic development if its objectives and methods of operation are defined in close relation to the objectives of economic development.

Trade policy will be considered in its broadest terms as the sum total of measures which governments may take in order to influence the flow of imports and exports of goods and services. The concept of trade policy is not confined to measures determining the volume, prices or the direction of export and import trade; it also includes bila-

teral or multilateral arrangements between African and other countries concerning facilities to expand trade between them. Finally, trade policy comprises the assistance which governments may give in the marketing of goods abroad or the supply of foreign goods.

Trade policy may affect in many ways the implementation of economic development programmes; it seems, however, that its contribution is particularly significant insofar as it enables African countries:

(a) To maximize the foreign exchange earnings derived from the exports of goods and services; and to make an efficient utilization of available foreign exchange;

(b) To give priority to the imports of goods and services required for economic development;

(c) To provide encouragement to the industries set up within the framework of development, while safeguarding the interests of the community; and

(d) To combat excessive inflationary pressures.

A. Maximization and Efficient Use of Foreign Exchange

At the outset, it should be noted that the implementation of economic development programmes involves substantial expenditures in foreign exchange. The amount of foreign exchange expenditure needed as compared with the total outlay on economic development programmes may vary from

country to country and from project to project, but experience and analysis in reference to Africa¹ suggests that, on an average, one third or more of total expenditure has to be spent in foreign currencies. The adoption of any large project presupposes, therefore, an addition to current exchange earnings. In most countries of Africa where monetary reserves are not large enough to meet such additional demands, import programmes have been highly selective so that there is very little scope for further reductions of non-essential imports. Furthermore, the implementation of economic development programmes will not yield appreciable exchange savings over the short run. Thus, additional income in foreign exchange has to be found either through export expansion or through loans and commercial credits from abroad. However, unless financial assistance takes the form of outright grants (e.g. British Welfare and Development Fund for Overseas Territories), the repayment of loans or commercial credits will oblige the recipient country to increase its exports in subsequent years. In other words, the financing of development plans through loans will require a determined effort to obtain additional current income in foreign exchange. Some of the ways by which African countries could increase

¹ UN, "Financing of Development Plans", Economic Survey of African Since 1950, New York, 1959, p. 242-244.

their foreign exchange earnings are discussed below.

(a) Expanding the volume of exports: If trade policy is to succeed as a means of maximizing foreign exchange earnings by way of expanding the volume of exports, it requires an assessment of the trends in world markets for the products which may be exported; it requires an assessment of the capacity of those markets to absorb an increased supply and the probable effects on world prices of such an export drive. Such assessments are important because they will enable developing nations to choose among different products those which are likely to bring the best results, either because demands for them are comparatively strong or because price trends are favourable. The government can then devise appropriate measures to promote an increased production of the products thus selected if they are already being exported, or to initiate production, if they are not yet exported.

In present circumstances, and for some time to come, expansion of exports will concentrate primarily on a number of primary products, either raw materials for industrial processing or agricultural products for consumption. But, the world markets for such products are generally characterized by low elasticity of demand and as regards agricultural products, by the existence of import obstacles (e.g. tariffs) in the consuming countries and export incentives in producing countries outside Africa. However, it is fair to assume

that not all products are affected to the same degree by such adverse effects. Therefore, one of the objectives of trade policy would be to encourage, as far as practicable, the production of those commodities which are likely to meet less competition and less trade barriers. In this connection, it is particularly important to those African countries which depend on exports of a small number of primary products to avoid excessive reliance on an export promotion of one particular product, since any over-optimistic assessment of the prospects of such a product will jeopardize the implementation of economic development plans. The experience of Uruguay in the early post-war period which faced financial difficulties when it encouraged the production of wheat at the expense of meat provides a good illustration of such mistakes in economic policy.

(b) The Processing of Primary Products Before they are exported: Another possibility which trade policy should take into consideration in its objective of foreign exchange maximization is that of processing of primary products before they are exported². It is generally accepted that

² The East African Royal Commission, for instance, had studied, among other things, the prospects of processing primary products for export. The Commission concluded that there are a number of opportunities available, to cite one example, the processing of sisal into different kinds of fibers and ropes. See "The Report of East Africa Royal Commission", in Hance's Ed., African Economic Development, Harper and Brothers, New York, 1959.

the value added by processing would increase the foreign exchange earnings derived from a given quantity of exports. However, this generalization may not hold true in all cases. Therefore, in the formulation of trade policy consideration should be given to the fact that the substitution of processed products for raw material exports is limited, particularly by the following two factors:

(1) It should not involve the exporting country in foreign exchange outlays for the setting up and the maintenance of the new industry exceeding the additional exchange income expected from the export of the processed product. To state it in another way, the establishment of a new processing industry may require government subsidy to strengthen its competitive ability in export markets so that if the raw material had a good market, the subsidization of the processed product may involve a net loss in foreign exchange.

(2) What is perhaps more important is the fact that the capacity of absorption of a market for the processed product may be less than for the raw material. The importing countries may be reluctant to abandon their processing industries so that if a country that used to supply them with the necessary raw material stops to do so, they may turn to other sources of supply to fill the gap. For this reason, it may sometimes be necessary for African countries to refrain from substituting processed products for some of their raw material exports.

(c) An Improvement of the Quality and Grading of the Products Exported: It is a recognized fact that most African countries do not receive the full benefits of many of their commodity exports (e.g. coffee, cocoa, groundnuts) because these commodities have to be sent abroad where they are graded, blended, and packed for sale to the consumer. Although in some cases the reliance on such market arrangements abroad may be the most economical system, in most instances, the location of these marketing operations in the exporting country would bring additional incomes to that country without affecting the disposal of the exported goods or the competitiveness of the exporter.

The above discussions concentrated on the role of trade policy in the maximization of foreign exchange earnings. However, we should point out that it is equally important for African countries to make the most efficient use of the available foreign exchange. As the implementation of economic development programmes increases the demand for imported goods and brings pressure to bear on the balance of payments, it is important to see to it that all purchases are made in the cheapest market. Trade policy has an important part to play in this respect. Insofar as trade policy is able to maintain a multilateral pattern of import trade, it may be reasonable to believe that the importer, in his own interest, will buy as economically as he can without any special

direction from governmental authorities. However, it may not be always possible to grant these facilities to individual importers, particularly in the less developed countries like those of Africa. In the first place, there may be a conflict between the interests of particular importers and that of a country's overall economic development objectives. While the former is usually motivated by personal profits, the import policy of the latter is motivated by the economic gain that will accrue to the society as a whole. Furthermore, as long as all currencies are not equally convertible, it may be necessary for the government to restrict the expenditure in hard currencies than the expenditure in soft currencies. In some cases, the condition in the export markets of certain commodities may be such that bilateral channels may have to be used for the disposal of these commodities, and consequently the government may have to require importers to buy certain products in a specific country or a specific group of countries.

B. Import Priority

The implementation of an economic development programme requires that imports be limited in such a way as to give priority to the goods required for such development. In other words, this means that available foreign exchange

in the less developed countries has to be allocated in the interests of development. A recent report by the United Nations concerning the less developed countries made a statement that may be taken as an explanation of the policy of setting up import priority. It reads:

Some industries have mainly the effect of strengthening the reserve position, either by earning or saving foreign exchange. The great need to promote such industries is obvious³. Others tend on the whole to weaken the position, either by creating additional demand for imported capital goods or raw materials or by reducing the supply of foreign exchange through diversion of resources from 'export' industries to 'home' industries⁴.

It is difficult but none the less necessary to evaluate these conflicting claims and contributions when preparing a programme of economic development. As indicated in Chapter I, economic development requires, among other things, balance between agricultural and industrial development. Failure to maintain appropriate balance between different sectors of the growing economy can put a serious strain on a country's foreign exchange reserves. In other words, a lagging sector may be unable to supply the resources that

³ The capacity to earn or save foreign exchange should of course be viewed in the long term perspective. Thus, for example, the laying of a groundwork for producing machinery may ultimately have important effects in strengthening the balance of payments although no such effect may be apparent at first.

⁴ UN, Economic Development and Planning in Asia and The Far East, Bangkok, 1958, p. 28.

the rapidly growing sector increasingly demands. The result would be an increasing drain on foreign exchange as these requirements have to be met from foreign sources. An important measure to guard against an unfavourable foreign exchange position is thus to make a more clearly defined projection of the course of economic development, having in mind the claims and contributions of different sectors in the economy.

Thus, the rationing of available foreign exchange or the setting up of import priority is an important element in formulating growth policies in the less developed countries. In most of the emerging nations the usual way of rationing foreign exchange is through the maintenance of quantitative import restrictions. In other words, the government as a planning body decides to allot a certain amount of foreign exchange for the various categories of goods taking into account the relative priorities of these goods in relation to the requirements of economic development. It is a common practice among less developed countries to grant foreign exchange to entrepreneurs who wish to import capital goods necessary for economic development and to withhold it from importers of consumer goods that are believed to be "non-essential".

As R. Nurkse, a prominent economist specializing in the field of "Underdevelopment", pointed out,

The luxury restrictions of underdeveloped countries in the world today seem to represent,

in the last analysis, ... an effort to isolate the local consumption pattern from that of advanced countries and so to make possible more domestic saving and capital formation⁵.

It should also be noted that the need for foreign exchange by development projects does not end when the necessary equipment and machinery has been imported. It often requires a regular flow of spare parts and raw materials. Established industries, therefore, if they are to be kept running, tend to have a prior claim on the available foreign exchange resources. In other words, the decision to give priority for the importation of plant and machinery has to be made on the understanding that subsequent claims for foreign exchange will be given high priority.

The above system of allocation was primarily employed in order to meet balance of payment difficulties which often accompany economic development. A United Nations' report has summed up the need (or advantage) for such import regulation when it said:

...in the absence of commensurate inflow of foreign capital, only strict control over the composition of imports in accordance with the essentiality or availability of foreign exchange is likely to prevent the consequent strain on the country's balance of payments from slowing down the rate of industrial growth⁶.

⁵ R. Nurkse, "Some International Aspects of Development", in Agarwala and Singh Ed., The Economics of Development, Bombay, Oxford Press, 1958, p. 268.

⁶ UN, Processes and Problems of Industrialization in Underdeveloped Countries, New York, 1955, p. 63.

However, this system of import control may have disadvantages⁷. In the countries which are embarking on long-term economic development programmes, the balance of payments problem may not be temporary. This being the case, the restriction of imports considered non-essential may lead to a substantial diversion of available resources to the production of such goods in the importing country to the detriment of more important projects. That is why some economists, including Nurkse, suggest "compulsory saving through public finance"⁸, as a more basic attack of the problem. But this overlooks the fact that the low level in living standards in most of the less developed countries makes compulsory saving both practically and politically difficult to implement. Thus, in spite of its disadvantages some import controls may be unavoidable particularly for countries which have low foreign exchange and are in a process of a rapid economic growth.

In order to avoid, at least, some of the difficulties of direct control the United Nations has suggested a scheme which will now be reviewed⁹.

⁷ Eric Lundberg has made an interesting discussion of the repercussions of import control in D. C. Hague's (Ed.) Stability and Progress in the World Economy, London, MacMillan, 1958.

⁸ R. Nurkse, Op. cit., p. 269.

⁹ UN, Economic Bulletin for Asia and the Far East, Vol. VIII, No. 1, May 1957, p. 11-13.

In these schemes the goods whose imports are authorized will be classified in a small number of (e.g. four or five) categories and a graduated premium is levied, in one form or another, before or when the goods are imported, in accordance with the degree of essentiality of the goods of the category. According to this method all importers are free to compete for the exchange available and to select in the category the goods which they want to import. Therefore, with the adoption of such a scheme the intervention of the government is limited to the determination of the amount of foreign exchange which the community may use for the total imports of goods in each category.

The premiums levied on the categories of imports may be revised from time to time according to changing circumstances. The categories of goods may be defined for a long period or for a shorter period.

An alternative approach also suggested in the report is that of graduated deposits to be made by importers on each category of goods. That is, the higher the degree of essentiality of the goods to be imported the lower the deposits to be made and vice versa. The deposits are to be repaid sometime after the import is actually made.

Thus, in the words of the United Nations' report, "The common feature of these systems is that the rationing of imports is done through the price effect rather than by

the official determination of the quantity to be imported."

It is difficult to say offhand whether the above methods would assist the importing countries in making a better use of the available foreign exchange to meet the requirements of economic development. But it offers a practical approach that could avoid the distortions and other inconveniences which a prolonged maintenance of quantitative import controls could bring about in countries which are undergoing an active process of economic development.

In conclusion, import controls may only mean the postponement of the adverse effects on the balance of payments. In other words, import controls, while they appear to solve the short run difficulties in the balance of payments, may in fact prevent the authorities from providing long term solutions. The longer import controls are maintained, the more difficult it becomes to solve the long run problems in the balance of payments.

C. Encouragement to New Industries

Apart from providing a general economic framework conducive to industrialization, governments may adopt a series of specific measures designed to promote industrialization. The measures of general importance to African as well as to most other underdeveloped countries are discussed below.

(a) Protection to New Industries. When a new industry is set up in countries like those of Africa, engaged in an active policy of economic development, that industry may require assistance from the government in the form of tariffs or quantitative restriction of imports of similar products.

The justification for such protection is to be found in the fact that, during the early stages of operation, the new industry is not fully efficient; the volume of production is usually below the optimum level and therefore, the overhead costs are high; the labour and technical staff lack the necessary skill and experience to avoid breakage or wastage and the product of the new industry may face consumers' prejudice. What is important to remember, however, is the fact that governments should not be prepared to grant protection unless it is satisfied that the substitution of domestic products for imported goods is in the general interest of the country. That is to say, after a temporary period of protection, the new industry should be in a position to produce efficiently and the best test of efficiency is the ability of the industry to compete with foreign suppliers of similar products without further protection.

Meir and Baldwin supported protection of industries as suggested above. They based their argument on the thesis that "by protection of an industry that has possibilities of

future expansion and an eventual reduction in costs, a tariff might allow a country to enter a line of production in which it might eventually acquire a comparative advantage¹⁰. In effect, what they are suggesting is that if a country is willing to undergo a short run sacrifice, there may be a long run gain. Nurkse, while he does not disagree with Meir and Baldwin in principle, points out that industrial protection overlooks the problem of capital supply¹¹. This is the same as saying an industry must first be established before it is protected. However, this is a different problem from that of protecting new industries. It will be examined below when we come to the discussion of fiscal and monetary incentives to encourage the establishment of new industries.

The most difficult aspect of granting protection for new industries is the fact that the level of protection which may be appropriate in the case of an industry and consistent with the interests of the community at large, varies from country to country, from industry to industry, and from time to time. Thus, the task of determining the exact levels of protection and what specific industries should be granted such protection is extremely difficult. For these reasons,

¹⁰ G. M. Meir and R. E. Baldwin, Economic Development, John Wiley and Sons' Inc., New York, 1962, p. 400.

¹¹ R. Nurkse, Problem of Capital Formation in Underdeveloped Countries, Oxford, Basil Blackwell, 1953, p. 105.

this writer proposes that African countries set up tariff commissions, for instance, similar to that existing in Canada. While tariff commissions may not provide the answer to all difficulties of decision making, it will, no doubt, be in a better position to consider applications for protection in the light of an objective appraisal of the facts and requirements, if need be, to recommend changes in the level of that protection.

(b) Provision of Fiscal and Monetary Incentives:

An alternative approach to encourage the establishment of new industries is that of providing appropriate fiscal and monetary incentives. These incentives could take the form of tax exemptions or reductions, subsidies and credit assistance.

The significance of fiscal and monetary incentives to encourage the establishment of new industries in the less developed countries has been examined in detail in a United Nations' study¹². Referring particularly to tax incentives the report suggests "full or partial exemption from taxation of profits and other forms of business taxation, or taxation of interest and dividends, especially when they are re-invested for productive purposes."¹³

¹² UN, The Effects of Taxation on Foreign Trade and Investment, New York, 1950, pp.6-31.

¹³ Ibid., p. 25.

Tax exemption or reduction will be reflected in lower prices for the products of the industry concerned. The ability to sell at lower prices will in turn be reflected in a stronger competitive ability for the products of the domestic industry against similar products of foreign producers. Tax measures could also be adopted to direct investment into particular channels that are considered to be more urgent and important from the point of view of economic development of a country.

Tax incentives to encourage new industries have usually taken the form of tax reduction rather than that of total exemption. However, in some African countries, for example Ethiopia, new and essential industries are exempted from any taxes for a specified period. In the case of Ethiopia, it runs for five years starting from the day the industry begins operation. Similar concessions are to be found in some other African countries although the length of the period may vary from country to country.

A commission organized by the International Bank for Reconstruction and Development to study and report on the economic development of Uganda, in agreement with the policy already existing in a number of African countries had this recommendation: "We suggest that an income tax (or profits tax) holding should be allowed for pioneer industries¹⁴ to

¹⁴ Report of a Mission organized by IBRD, The Economic Development of Uganda, Baltimore, John Hopkins Press, 1962, p. 66.

apply to any five of the first eight years of operation of a company obtaining pioneer status". As the commission further pointed out, this type of provision has now become more attractive since the 1961 change in United Kingdom tax law. The law now allows a United Kingdom taxpayer investing abroad to claim double taxation relief for overseas tax that has not in fact been paid because of reliefs given in the country of investment to encourage development. The change is particularly significant to most African countries as United Kingdom is a major investor in Africa.

Another way by which governments could provide incentive to new industries is the provision of higher rates of depreciation. This method could be particularly effective for industries with large scale investments in plant and equipment. However, in Africa, with the exception of few mineral industries, industrial activity is confined to small scale operations and this will probably continue for a long time to come. On the other hand, small scale industries could be encouraged more effectively through subsidies provided by the government. Like tax reductions, subsidies will enable industries concerned to sell their products cheaper than will otherwise be possible.

It should be noted, however, that like tariff protection, tax or subsidy incentives to encourage industrial activity should not be extended indiscriminately. Only those

industries that are expected to compete efficiently with foreign producers of similar products, after the temporary period of tax or subsidy support is over, should be encouraged. As in the case of tariff protection noted earlier, the choice of specific industries eligible for tax or subsidy incentives and how much tax reductions or subsidy to be granted is difficult to decide. In this connection the setting up of a commission independent from a revenue department will be highly recommended for African as well as for other less developed countries. The task of that commission would be to consider applications for tax reduction or subsidy grants in the light of objective appraisal of the facts; to make periodic review of the tax structure and make definite arrangements for the tax or subsidy incentives to be steadily reduced in order to spur the local industry into more strenuous efforts to increase productivity and lower its costs.

Lack of capital is one of the basic problems expansion of industrial activities in Africa. The small scale industries characteristic of Africa at the present stage of its economic development are unable to secure sufficient credit capital because they are unable to offer security to banks or other non-government credit institutions. In some of the African countries such credit institutions may not exist. In this respect, governments have an important role

to play by encouraging the establishment of private credit institutions or assuming these functions by itself.

The expansion of commercial banks may be one step in this direction. However, in view of commercial banks constant concern about liquidity, they often tend to confine their loans to short period or seasonal purposes. Although such loans may be useful for the purchase of raw materials or the sale of the products of an industry, they are quite unsuitable for the initial investment in building, plant and machinery, which requires long-term finance. This is the background against which many of the less developed countries have found it necessary to establish special government-sponsored institutions to meet the need for long-term industrial credit. The Ethiopian experience with such an institution may be taken as an illustration among African countries. The Development Bank of Ethiopia was formed in 1951 for the purpose of "providing credit to industrial enterprises, both to existing concerns for the modernization of equipment and the expansion of production, and for the promotion of new industries"¹⁵. The bank started operation with a capital of \$Eth. 13 million. Of these 5 million represents a loan from the IBRD while the balance was raised

¹⁵ Ethiopian Ministry of Commerce and Industry, Economic Progress in Ethiopia, Addis Ababa, 1955, p. 35.

from local sources. However, the fact that it was able to raise capital does not mean that there were no more problems hindering the successful operation of the bank. The experience of Ethiopian indicates that there are major obstacles to the successful lending of capital that may be raised by a credit institution. For the most part these obstacles lay in the status and qualification of the applicants for credit. On the one hand, many of the proposed projects may be inadequately prepared while on the other hand there may be difficulties in appraising and establishing the credit-worthiness of applicants. These obstacles may be extended to reflect some of the basic conditions in many of the African countries - shortage of entrepreneurial skill, low level of literacy and education, ignorance of relevant technical and economic data and many others.

The main conclusion offered in the above analysis is this: fiscal and monetary incentives and adequate financial institutions, competently managed, are essential for the economic development and industrial diversification of the emerging nations.

But adequate capital and proper financial management, as vital as these two factors appear to be, are not enough. What is also needed is an earnest and coordinated effort on the part of the people and their government to create the framework, the climate, the skills and the will to achieve

economic progress and increasing industrialization. Such an objective can only be reached by an all-out national effort involving hard work, self-sacrifice and a positive philosophy. Time is on the side of the less development countries if they use it constructively and do not waste it with dissension, complaints and undecisiveness.

D. Control of Inflation

Economic development of the less developed countries of Africa, Asia and Latin America are often accompanied by inflationary forces. The question that suggests itself is whether the particular vulnerability of these countries to inflation is due to a mere monetary mismanagement or whether the trouble lies deeper. Are these social, institutional or structural factors that render the development process of these countries more open to inflation?

One possible reason for the strong inflationary bias in most of the underdeveloped countries derives from the fact that their growth process, unlike those of North America or Western Europe, does not arise from the entrepreneurs spontaneous production drive (profit being the motivating factor). But, rather, it is a deliberate effort by governments of these countries to speed up the rate of economic growth in a relatively short spur of time. H. C. Wallich has made an interesting analysis on the inflationary

bias in the development process of the less developed countries¹⁶ by referring to the attitudes of people in those countries. His analysis is based on the assertion that, in general, people of the less developed countries "tend to expect their standard of living to improve by outside events by government, by labour or by the growth of the economy in general¹⁷. This could be interpreted to mean that in the less developed countries individuals in general expect to benefit from saving and investment, not as owners, but as users and consumers of what that investment produces. Another way of saying the same thing would be that people in the less developed countries expect benefit from the economy more than what, through domestic production and international trade, it is capable to yield.

A similar explanation is offered by Nurkse¹⁸ by the concept of the "demonstration effect". It refers to "the attraction exerted on the consumers of underdeveloped countries by the high standard of living of the advanced countries, and by the goods available there, which makes them

16 H. C. Wallich, Some Notes Towards a Theory of Derived Development, in Agarwala and Singh Ed., Op. cit., p. 189-204.

17 Ibid., p. 203.

18 R. Nurkse, Problems of Capital Formation in Underdeveloped Countries, Oxford, Basil Blackwell, 1953, p. 58.

desire the fruits of economic progress, but does not prepare them for the sacrifices necessary to obtain them¹⁹. Beyond these theoretical explanations of Wällich and Nurkse, one may mention other factors, more observable and practical, that tend to an increase of prices in the domestic market. It is already indicated earlier that most of the less developed countries tend to discourage the volume of consumer imports in favour of goods and services essential for the implementation of their economic growth, particularly capital goods. This contributes to higher prices of consumption goods in the domestic market. Furthermore, one of the immediate effects of economic development and rising incomes is an increase in the demand for food. However, the food producing sector in most less developed countries, particularly those producing for the domestic market, are characterized by a rather 'primitive' technology. The implication is that domestic supply of food may be short of the rising demand for it²⁰. Under such conditions, one of the first impact of rising incomes is, therefore, rising domestic prices for food. It is true that inflationary pressure of this nature can be lessened by an increase in imports of food (or other

¹⁹ A. O. Hirschman, Op. cit., p. 156.

²⁰ This is particularly true in the case of quality foods such as canned meat that are demanded by the rising middle class.

consumption goods). But the need to finance current economic development programmes and accumulate sufficient reserves against future falls in export incomes may not permit that type of inflationary control. In other words, for most of the less developed countries, unless they are prepared to limit the rate of their economic growth according to their ability to finance it on their own, the significance of foreign capital inflow becomes obvious. It permits a country to sustain a level of imports of goods and services beyond its capacity to finance them out of current earnings and at the same time achieve a more rapid rate of investment and economic growth than would be permitted had the country to rely solely on domestic savings. There is the further point that foreign capital inflow is often accompanied by an inflow of skilled labour and efficient management. However, foreign capital inflow may result in heavy financial burden or service costs at a later stage (e.g. interest and dividend payments). The experience of Canada where the cost of servicing external debt now imposes a comparatively heavy burden in its balance payments may be cited as an illustration. Therefore, when appraising the long-run benefits of foreign capital inflows for economic growth one has to take into consideration whether or not these benefits outweigh the service costs.

The less developed countries could, through appro-

appropriate policy measures, prevent or, at least, minimize the impact of increased prices in world markets on the level of internal prices. A usual approach is through the maintenance of flexible export duties²¹. That is, by means of variations in rates, export duties could be used to siphon off excess purchasing power when prices of exports are high and to afford relief when export conditions turn unfavourable. Moreover, the government may even go further and introduce a stabilization fund which would guarantee to its domestic producers a certain fixed level of price; irrespective of the fluctuations which may take place in world markets. This system could at least reduce some of the adverse effects of fluctuating world prices for primary products on the internal stability of the primary producing countries.

At a time when economic development leads to substantial increase in the purchasing power of the population, which cannot be met by increased domestic supply of goods and services, governments could increase domestic taxes. The increase in taxes will help to neutralize the inflationary

²¹ When the export duty is a specific tax, i.e. is imposed per unit of quantity of the commodity exported, it naturally has no flexibility in relation to changes in export prices unless the rates are variable. When the export duty is an ad-valorem tax, i.e. is imposed per unit value of the commodity exported as in the case of coffee exports in Ethiopia, there is some flexibility in the duty, since the tax receipts per unit of the quantity of the export commodity increases (or decreases) when the export price rises (or falls).

effect of excess purchasing power. As P. A. Baran pointed out, "The saving thus enforced could be channelled by the government into productive investment. Power stations, highways, irrigation systems and soil improvements could be organized by the State with a view to creating an economic environment conducive to the growth of productivity".²² However, domestic taxes raised under the above conditions will raise the domestic cost of living. If this is to be avoided the only way out is to increase the flow of imported goods and services to match the increase in domestic demand or purchasing power. Thus, a country may face a clash between its fiscal policy attempting to hold the cost of living from rising and its trade policy attempting to hold down the flow consumption goods and services, particularly luxury items.

The most drastic approach to prevent inflation is of course an indiscriminate scaling down of import duties or illimination of quantitative restrictions. However, this is not a practical approach , particularly for the less developed countries. The main reasons, of course, are the difficulties which these countries would face in terms of severe shortage of foreign exchange required to implement

²² P. A. Baran, "On the Political Economy of Backwardness", in Agarwala and Singh Ed., Op. cit., p. 86.

their more ambitious programmes.

It seems to this writer that some degree of inflation is inevitable as long as the less developed countries attempt a rapid rate of development beyond their capacity to save and finance such development. This disequilibrium could at least be reduced "by less internal inflation and less exchange regulation than prevail at present if the gap were filled by capital imports to a greater extent than is now generally the case"²³. It may be concluded that in view of the development problems of the less developed countries, a rapid rate of economic growth requires a stable flow, on a much larger scale than since the war, of long term capital exports (including grants-in-aid) by countries with relative surplus of savings.

In the last decade countries such as Western Germany and France with rapid economic growth have developed large payment surpluses. Countries with slower rate of economic growth, for example, the United States, have developed deficits. The situation in the United States has been further strained because it had assumed a relatively heavier burden of international economic aid and military expenditure than any other developed country in the Western World.

²³ E. Lundberg, Op. cit., p. 225.

Therefore, such developments in the payment position of the developed countries have to be taken into account when calling for increased loans and grants to the less developed countries. Countries such as France and Germany could assume relatively much greater assistance to less developed countries than is the case at the present time. This would contribute to easing the problems of the less developed nations as well as the persistent deficits and surpluses accompanying variations in economic growth of the developed nations.

CHAPTER IV

COMMODITY STABILIZATION

A. Principles and Methods of Stabilization

As we will see below the basic purpose of international commodity stabilization agreements is that of "achieving a reasonable degree of price stability". This calls for a clear notion of when we consider prices unstable. A group of experts reporting to the United Nations regarded prices as unstable "if they show discontinuities in behaviour - sudden jumps from day to day or from week to week". They went further to state that "clearly, there is a continuous progression from prices which show violent jumps up and down to those which move by little jumps, mostly in the same direction and which appear to be following a smooth trend line"¹. The idea of excessive fluctuations in prices seems to have two aspects:

- (a) changes in the direction of price movements are 'frequent', and
- (b) the amplitude of fluctuations is 'large'².

¹ UN, Commodity Trade and Economic Development, New York, 1953, p. 19.

² Ibid., p. 19.

This distinction raises a further issue, namely what is the standard by which we judge whether the price changes are "frequent" and the amplitude "large". This comparison is provided in part by the behaviour of other prices. As the experts put it "prices of primary commodities are highly unstable when judged against the standard of domestic retail prices or the prices of manufactured exports as a whole"³. In an attempt to provide a subjective standard they call the attention of the reader to the fact that a large part of production and consumption, particularly of basic commodities, can be expected to show "...the stability and continuity of growth of uncorrelated mass phenomena. In other words, such magnitudes as productivity and population usually show gradual and continuous changes; variations in harvest, though serious for particular countries, are not often large for the world as a whole; consumption, insofar as it is a function of income, moves only slowly from year to year"⁴. From these observable phenomena the following conclusion has been drawn:

It is possible ... that the desirable results of price changes - the encouragement of better allocation of economic resources - ought to be capable of achievement without violent instability. Indeed, if prices had to change by 15 per cent or 20 per cent from year to year in order to achieve minor

³ UN, Op. cit., p. 20.

⁴ Ibid., p. 20.

alterations in resource allocation, this would raise serious doubt about the effectiveness of this method of securing desirable allocations⁵.

The basic point in this statement is that price movements or fluctuations should be held within much narrower limits without creating the probability that their long allocative function would be frustrated. Higgins makes a further point when he suggests: "If an international stabilization agency is established it should not be expected to shore up economies of underdeveloped areas, which have become shaky through failure to adopt to a clear-cut and irreversible long-run trend"⁶. However, like most economists he is not altogether against intervention with the free play of demand and supply forces. In fact, it is his opinion that "a properly planned intervention will improve rather than worsen the resource allocation of underdeveloped countries". While he does not provide in a clear and concise manner what this "properly planned intervention"⁷ should be, he contends that it will require, among other things, the

⁵ Ibid., p. 21.

⁶ B. Higgins, Economic Development, W.W. Norton and Co., New York, 1959, p. 558.

⁷ Higgins states that "regional planning among countries in Asia and Africa is long overdue. Industrialization is not tantamount to every country's endeavouring to produce everything, and some integration of national plans to avoid overlapping is surely desirable." Ibid., p. 558.

cooperation of underdeveloped countries with regard to foreign trade.

But, there are those who are rather pessimistic as regards such cooperation. Myrdal, for instance, while maintaining the usefulness of such cooperations, is inclined to believe that "...the scope of such cooperation is naturally limited, as almost by definition partnership is more natural between underdeveloped and developed countries than between underdeveloped countries themselves"⁸.

The views summarized above could be considered as an adequate explanation had the basic problem been the reduction of "frequent" and "large" fluctuations in prices of primary commodities in international trade. Price fluctuation is but a reflection of structural disequilibrium in the demand for and supply of primary commodities entering international trade. The real and more fundamental problem is to come to grips with the factors causing disequilibrium and the means to remedy it. In the words of Perroux, "Our task is to determine what conscious and systematic measures can and must be applied if the effect of real instabilities is to be lessened"⁹.

⁸ G. Myrdal, An International Economy; Problems and Prospects, London, Routledge and Paul Kegan, 1956, p. 206.

⁹ F. Perroux, "The Quest for Stability: The Real Factors", in Stability and Progress in the World Economy, London, Macmillan, 1958, p. III, D.C. Hagues Edition.

The most significant factor on the demand side is "cyclical instability of the richer countries"¹⁰. The primary factor responsible for cyclical fluctuations is the instability of private investment, including investment in plant and equipment, business inventories and residential construction which will be reflected in even greater fluctuations in employment and income¹¹. In other words, fluctuation in aggregate demand for primary commodities in the industrial countries is the basic problem. Furthermore, non-economic factors may to some extent reinforce the economic factors which contribute to cyclical variations exaggerating both the upswing and downswing of the cycle. For instance, the high price level of primary products attained in 1956 was largely the result of the Suez crisis. When the crisis was resolved international price level of raw materials dropped sharply in 1957 and aggravated the world recessionary influences in that year, particularly for the less developed countries.

¹⁰ J. Vinir, "Stability and Progress: The Poorer Countries' Problem", Ibid., p. 60.

¹¹ The relatively greater fluctuations in national income is due to the fact, that in the course of cyclical movements, not only production and employment but also the levels of wages and prices tend to vary. See UN, National and International Measures for Full Employment, New York, 1949, p. 23.

As far as reducing demand fluctuations in the markets for primary commodities is concerned there is little the less-developed countries can do to resolve this problem. It lies primarily with the industrial nations "which, by virtue of their size, their share in world production and world trade and their financial strength, are able to initiate policies of world economic expansion in a manner that is not open to less favourably situated nations"¹².

In other words, the industrial countries should strive to maintain a high level of effective demand sufficient to absorb primary exports at competitive prices on a continuing basis. Two different ways have been suggested by a group of experts: (1) by stabilizing the level of demand directly in those sectors of the economy which are primarily responsible for the fluctuations; (2) by neutralizing the effect of such fluctuations through compensating variations in the rate of expenditure on other goods and services"¹³.

As Haberler points out, even investment stabilization may not, however, solve the problem entirely since expenditure of consumers on durable goods may show features similar to the expenditure on capital goods¹⁴.

¹² UN, Ibid., p. 29.

¹³ UN, Op. cit., p. 33.

¹⁴ G. Haberler, "The Quest for Stability: The Monetary Factors", in D.C. Hague's Ed., Op. cit., p. 152.

But, there can be little doubt that fluctuations in business investment represent the major cause of economic instability. The effectiveness of the second method suggested, no doubt, depends on the size of the public sector of the economy which determines the scope of public investment. It also implies that governments obtain advance information on the investment plan of private firms so as to be able to use public investment as a stabilizing tool effectively.

Perroux has gone further to explain international disequilibrium in terms of "unequal growth" in the world economy. He says: "...different rates of growth of real output in different countries contribute one of the most important causes of instability"¹⁵. In other words, it is essential for the less-developed countries to speed up their rate of economic growth so that the gap between these countries and the non-developed ones will be narrowed. Therefore, financial and technical assistance by the developed nations to the less-developed ones is of great importance for the attainment of equilibrium in the world economy. It is this essential point the United Nations report, quoted above, makes when it says:

The major requirement for the establishment of a sound basis for international economic relations is the creation of conditions under which the flow of international investment could be stabilized over

¹⁵ F. Perroux, Op. cit., p. 121.

COMMODITY STABILIZATION

143

substantial periods. This is essential both for the attainment of structural equilibrium in international trade and for the efficient development of the world's under-utilized resources¹⁶.

In the search for appropriate action in dealing with commodity instability it should be emphasized that the sources of this instability are not entirely a matter of change in demand. The contribution of variations in the exportable surplus of the underdeveloped country itself or in the supply offered by competing exporters towards commodity export fluctuations has already been noted in Section E of Chapter II. However, at this point, it is important to discuss further a basic element in commodity instability, namely the relative irresponsiveness of supply to changes in demand. In the first place, autonomous changes in supply resulting from such factors as bad weather and crop pests are unrelated to the dictates of demand. Such factors are particularly important in African or underdeveloped countries in general where they remain largely uncontrolled. On the other hand, deliberate changes in the supply of primary commodities in response to demand conditions are often difficult. This is particularly the case with many agricultural products; and agricultural products dominate the composition of Africa's exports. Thus, once a crop has been sown there is little room for increasing its harvest, regardless of how

¹⁶ UN, Op. cit., p. 54-55.

much the price rises between sowing and reaping. Only an extreme drop in prices would induce cultivators not to harvest their full crop, since a large portion of the cost of production has already been incurred. Furthermore, the time lag between planting and harvesting such tree crops as cocoa and coffee may be five years or more so that variation in output in response to market conditions are extremely difficult.

Even where short-term variations of supply may be possible, as with most mineral products of Africa, any expansion of output beyond a certain amount may call for a significant amount of new investment which may not materialize within a short period of time. In fact, even if such expansions are possible, it may not be worthwhile if current market conditions are not expected to last. Therefore, in the case of mineral products, although supply may be responsive to small changes in demand, it may be irresponsive, within a given time period, to a sharp rise in demand.

Furthermore, whether in the case of tree crops or in the case of minerals requiring large scale investment, instability may be the result of previous long-term adjustments in response to market conditions of earlier years. Thus, a decision to increase investment may have been made when demand was highly favourable so that if demand conditions becomes unfavourable or fails to expand in later years the

market may be incapable of absorbing the increased supply. On the other hand a reduction in productive capacity in response to weakness in demand may lead to conditions of insufficient supply at a later period.

It is because of the above conditions in the nature of primary commodities in general that Viner emphasizes structural changes through diversification of production and trade¹⁷. More specifically, he says:

...the wider the range of primary commodities exported by a country the greater is the probability that the average cyclical fluctuations in their prices in real terms will not greatly exceed the average cyclical fluctuations in the prices of primary commodities in general in world markets¹⁸.

He went further to suggest that

...if these poorer countries tried to diversify their economies and reduce their dependence on uncertain export markets, 'Lord Justice Comparative Cash' had no reason to be angry. These countries simply had to produce import substitutes, even if this meant a loss of efficiency in terms of the international division of labour. It was essential for their stability and the stability of their rate of growth¹⁹.

The implication of the above analysis is that commodity trade instability is a structural problem of disequilibrium in demand for and supply of those commodities. Thus to treat only the stability of money prices of primary

17 J. Viner, Op. cit., p. 59.

18 Ibid., p. 59.

19 Ibid., p. 59.

commodities as the main objective of policy would be an oversimplification of the issue at hand. Nevertheless, the achievement of greater stability of primary commodity prices through the various national and international measures, could at least reduce the undesirable implications for economic development that has been shown in Chapter II. These measures, therefore, could play a significant role in the objective of greater stability in the trade of primary commodities, not as a substitute, but supplementary to the basic solutions of greater international equilibrium in demand and supply.

B. International Measures

1. Multilateral Contracts

One of such measures is what is usually referred to as "Multilateral contracts". It may be defined as "an arrangement, specifying prices and quantities between more than two countries"²⁰. The United Nations report, which contains this definition, takes this concept as having special application to contracts of the type of International Wheat Agreement. Thus, the workings of multilateral contracts

²⁰ Economic Commission for Asia and the Far East, Economic Survey of Asia and the Far East (1957), Bangkok, 1958, p. 132.

may be better understood if we confine our analysis to the principles embodied in the International Wheat Agreement. This type of agreement does not involve provisions for quantitative control of production or export quotas. But, it involves an agreement whereby each exporter (i.e. participant to the agreement) sells a specified quantity of the commodity within an agreed price range, and an agreement by each importer to purchase specified quantities within the same price range. Thus, when the free market price falls within this specified range, the multilateral agreement will have no effect on the trade that takes place. However, if the free market price rises above the agreed price range, it would mean that the exporters yield a part of the advantage which they might have gained by selling at competitive prices in the free market. And when the free market price falls below the agreed range, the importers forego a part of the advantage which they might have gained. Apart from this limitation, such a multilateral arrangement offers some advantages expressed as follows:

It is a form of mutual insurance policy... balancing the interests of exporters and importers. It involves a minimum interference with the market operations and the pattern of trade; it sets no limits on production and does not prevent the emergence of lower-cost producers. It can work without being universal; though the stability is obviously affected if major producing countries find that they can do better by staying outside²².

²² UN, Op. cit., p. 43.

COMMODITY STABILIZATION

148

However, there are a number of reasons why the International Wheat type of agreement cannot be used as a model for other commodities²³. It may be noted that although a commodity like wheat is produced in many types and qualities, it is technically possible to relate the prices of these varieties by a prescribed differential to a single basic price. Without this simplification it is difficult, if at all possible, for an agreement to be reached. That is to say, it is technically difficult to come up with multilateral agreement of the wheat type for commodities which are marketed in a number of varieties with widely fluctuating price differentials between them and partial substitutability of one type for another. For commodities such as coffee and tea, however, the wheat type of agreement could reasonably apply. Even there there are some differences in quality (for instance, "coffee Arabica" is of higher quality than Brazilian coffee) they can easily be differentiated so that some kind of provision can be worked out to compensate for price differentials that may exist. In contrast, for commodities such as fiber significant price differentials exist. In 1959, for example, the price level for three different grades of fiber stood at about 11.6, 8.4, 30.6 cents per pound respectively. For commodities

²³ Some of the reasons dealt with here are mentioned in The Report by Economic Commission for Asia and the Far East, Op. cit., p. 138.

of this nature, the wheat type of agreement is technically difficult to institute.

2. International Quota Agreements

This type of an arrangement refers to the regulation of the quantity of a commodity to be produced or exported by each participating country or the quantity which may be imported by each using country. It usually involves fixed percentage allocation for each country.

A committee of experts studying measures for greater international economic stability has criticized the quota approach for commodity stabilization. In their opinion, based on intensive study,

... the allocation of maximum production quotas should be avoided so far as possible. These tend to freeze the geographical pattern of production and may lead to unnecessary unemployment of resources; where possible it is better to stockpile a commodity in time of reduced demand than to limit its production. Only where surpluses cannot be dealt with by stockpiling, and where the working of the price mechanism would restore a balance between supply and demand only painfully and slowly, should restriction of output be considered. In an expanding world economy restriction of output is likely to be both unnecessary and undesirable for most commodities. Likewise restriction of output by the allocation of import quotas should be avoided except in cases of national emergency²⁴.

²⁴ UN, Measures for International Economic Stabilization, New York, 1951, paragraph 71.

While agreeing with the above statement that quota restrictions of production are fundamentally a response to a year of surpluses, it may be appropriate to go a step further and distinguish between two types of such surpluses. We have surpluses which may emerge from time to time, but which may be eliminated by a rise in demand. On the other hand, there are those usually referred to as "Chronic Surpluses" that may appear in a production sector which for some reasons (.e.g. technological changes or changes in tastes for the product) is disintegrating or contracting. Thus, quota agreements may have their place in the orderly reduction or readjustment of sectors in the latter case. As a United Nations report puts it: "The emergence of temporary surpluses should be a signal, not for restriction, but for a search for means of expanding demand"²⁵. In the words of H. J. Bruton, the danger of quota restriction is that "the foreign trade sector would ^t tend to make difficult the attainment of a higher allowable rate of growth"²⁶. This may be interpreted to mean the quota restrictions of production and trade have an inherent disadvantage in that it fails to provide for the requirements of an expanding economy.

²⁵ UN, Commodity Trade and Economic Development, New York, 1953, p. 45.

²⁶ Stability and Progress in The World Economy, edited by P. C. Hague, MacMillan, London, 1958, p. 277.

3. An International Buffer Stock Agency

The purpose of such an agency would be that of "maintaining price stability or insuring future supplies by purchasing and withdrawing supplies from the market when prices are weak and selling stocks when current supplies fall short of demand"²⁷. In principle, therefore, this approach is similar to the practice of foreign exchange stabilization funds which are set up to maintain stability in a free exchange market. The accumulation or release of stocks by the buffer agency thus operates in a stabilizing manner.

As may be evident from the definition quoted above, a buffer stock does not of itself involve interference with the pattern of production and trade. As Professor Lundberg maintains: "The buffer stock schemes would maintain incomes automatically without individual governments to take action"²⁸. This, he says, is its great virtue. A buffer stock approach to commodity stabilization has an advantage in that it permits expansion of production as much as is wanted. As such, it would satisfy the critics of the "quota restriction" approach we examined above. Furthermore, if

²⁷ UN, Op. cit., p. 46.

²⁸ E. Lundberg, "International Stability and the National Economy" in D.C. Hague's Edition, Stability and Progress in the World Economy, London, Macmillan, 1958, p.239.

there is confidence in the successful operation of buffer stocks, the mere expectation that prices will be maintained within an agreed range will discourage speculation or panicky purchases or sales in the anticipation of possible market movements. However, there are some technical difficulties for the successful operation of buffer stocks. These are discussed in detail by a committee of experts of the United Nations referred to earlier. The committee raised two main questions:

- (a) How is the price range to be fixed initially, how is it to be varied?
- (b) What is to be the source of finance?²⁹

Buffer stocks are intended for the purpose of counteracting short-term variations, but not to resist long-term price trends. The problem is, therefore, that long-term price movements can only be distinctly recognized ex-post and after a considerable interval. The price range maintained by the buffer agency can only be fixed on past experience and in the light of reasonable forecast of future trends. It is because of this problem this suggestion is made: "The degree of doubt about this level (the price range³⁰) will be very great, and it is important for the success of the schemes

²⁹ UN, Op. cit., paragraphs 74 to 84.

³⁰ Brackets mine.

that no attempt should be made to place on the buffer stock the additional task of shifting the terms of trade"³¹.

Higgins explains the problem somewhat differently. He maintains that "...people in underdeveloped countries, no less than in advanced countries, tend to think of the 'fair' price as the highest price in the memory of living man. Yet, if prices are maintained at peak levels the danger is that an international stabilization authority would find itself accumulating continually increasing stock-piles"³². He also emphasized the basic problem referred to above when he says "...that distinguishing cyclical reductions in demand, which will be compensated before long by cyclical increases, from long run downward trends, is difficult enough statistically and analytically for any group of objective experts"³³.

As we have examined in Chapter I, economists, such as Prebisch and Singer, maintain roughly the opposite view. Moreover, Professor Lundberg, while recognizing the technical problems of long-term analysis, believes that "it cannot be said it is the technical difficulties which have

³¹ UN, Commodity Trade and Economic Development, New York, 1953, p. 47.

³² B. Higgins, Op. cit., p. 558.

³³ Ibid., p. 558.

prevented agreement"³⁴. In his opinion, "the obstacle has been rather the unwillingness of powerful industrial countries to incur the financial cost of stabilizing measures especially those countries which do not themselves depend much upon foreign trade"³⁵.

In the light of capital shortages in most of the less developed countries in relation to the requirements of a rapid rate of economic growth, one cannot expect these countries to assume the burden of financing the accumulation of stocks. In fact, as Kindleberger points out, it could affect their balance of payments stability. In his words: "If the volume of exports fluctuate widely, foreign exchange receipts will vary despite the added stability of price. To maintain imports in these circumstances by financing unsold exports through deficit financing will inevitably exaggerate the fluctuations in the trade balance"³⁶.

The above technical problems have prompted a group of experts to propose that money should be subscribed or lent by importing and exporting countries and by the Inter-

³⁴ E. Lundberg, Op. cit., p. 240.

³⁵ Ibid., p. 240.

³⁶ C. P. Kindleberger, International Economics, Richard D. Irwin, Inc., Homewood, Illinois, 1958, p. 248.

national Bank for Reconstruction and Development³⁷. They further point out that the Bank has been reluctant to assume this function because prevention of short-term price fluctuation is distinct from long-term development and lies more clearly in the orbit of International Monetary Fund. Therefore, they recommended that "a new international agreement is needed if funds for the scheme are to be channelled through either the Bank or the Fund or through a new international agency. We cannot offer estimates of the amounts of finance which buffer stock might need for the sums required depend on many factors such as initial buying price, the range of permissible price fluctuations"³⁸. This recommendation was made as early as 1951 but no concrete proposal for implementation has been worked out up to the present time.

4. Compensatory Payment

The above stabilization measures are intended to influence the market price for the commodity concerned. A different approach would be that exporting and importing countries may protect themselves from violent market fluctuations by entering into a contract in which the exporters are

³⁷ UN, Measures for International Commodity Stability, New York, 1951, paragraphs 79 to 84.

³⁸ Ibid., paragraph 84.

guaranteed a market if prices are weakened and conversely, the importers are assured of a supply when prices are high. In other words, this involves a compensatory payment from the exporters when they are called upon to supply at a price below what might otherwise be obtained, or a payment from the importers when the terms of contract require them to purchase at a price higher than the ruling market price. This approach has received favourable support from experts reporting to the United Nations when they stated "If undesirable repercussions of excessive fluctuations in primary commodity markets are to be minimized, there is one broad alternative to the direct stabilization of prices by means of commodity agreements. This is to arrange for compensatory international flows of money in the event of large fluctuations in primary commodity markets"³⁹.

The general principle on which this approach to stabilization is based is the fundamental identity of interest between exporters and importers in international trade. This is perhaps best expressed in the statement that "in this modern world of interdependence no one is any better off because other people are worse off"⁴⁰. F. G. Olano, who

³⁹ UN, Commodity Trade and Economic Development, New York, 1953, p. 67.

⁴⁰ L. E. Gordona, National Measures for Safety and Stabilization, London, 1939, p. 116.

made a particular study of the "Compensatory" approach to commodity stabilization has given it his full support because "stabilization of price can interfere with a more efficient allocation of resources that a variation of these prices would promote"⁴¹.

Such a scheme will, no doubt, help the exporters of primary commodities to have a more stable flow of export proceeds over the period of the agreement. But, the question is whether it is simple to bring exporters and importers to sign long-term contracts. It is difficult precisely because of the fact that the terms of future deliveries are predetermined so that one party may feel, in the long run, that it had a poor bargain in having had to subsidize the other. The problem becomes particularly serious if the compensatory payment should flow from the less developed to the more developed countries since it amounts to a subsidy paid by the poorer countries to the richer ones. Furthermore, it should be pointed out that although the above arrangement does not involve any interference with the operations of the market, it does nothing to remove the causes of market fluctuations.

5. The Role of Bilateral Agreements.

This may be defined as an agreement between two

⁴¹ F. G. Olano, "Mutual Insurance Scheme", given as an Appendix in UN, Commodity Trade and Economic Development, New York, 1953, p. 97.

countries whereby an exporter is assured of a given market in return for guaranteed purchases from the importing country. If we examine such agreements concerning African countries, we find that it has been fairly common between them and European countries that have been or still are colonial powers in Africa. In a large number of cases exports from African countries under bilateral agreement with a European country have been at higher prices than the world market price. Most of important of all such agreements concerning African countries are the special arrangements between the Franc Zone African countries and France, which include a long list of commodities such as grain, sugar, wine, oil seeds, coffee, bananas, cotton, sisal and jute. However, in assessing the gains of the African countries in selling at prices higher than the world market price, it should be remembered that these African countries have also been obliged to import from the European country at a higher price than the world market price⁴².

⁴² It is reported that "The Six view the treaty as an instrument affording reciprocal advantages to themselves and the associated countries, and expect to obtain in the latter's markets advantages that will compensate them for the concessions they grant on primary products." See Economic Commission for Africa, The Impact of Western European Integration on African Trade and Development, Addis Ababa, December 1960, p. 84.

In so far as a particular exporter is concerned, bilateral or regional agreements such as the one mentioned above may be just as important as broad international agreements in so far as it insures an exporter a stable market for its important products. However, in order to influence the world market formal international agreements should preferably be world wide in scope. This has been the case with coffee exports where the majority of African exporters in collaboration with Latin American exporters have agreed to restrict the volume of their exports. The dramatic decline of the price of coffee in the last few years was associated with a high degree of fluctuation as well as with growing surpluses. This has been why the major emphasis of the coffee agreement has been placed on the restriction of supply. Thus, the coffee agreement has been of interest primarily to those exporters who are confronted with the problem of surplus production. For those countries who are exporting all that they produce or who could increase production without the problem of surpluses, the coffee agreement would bring no benefits. In fact, by remaining outside the agreement they are in a position to increase the production and exports of their coffee at the expense of countries bound by the coffee agreement to restrict the quantity of their coffee exports. For instance, countries that include Ethiopia and Uranda Urundi export largely "coffee arabica" which is of superior quality

than most Latin American coffee. Furthermore, the former countries have no serious surplus problems as is the case with most Latin American exporters. Therefore, because of the superior quality and absence of surplus problems, they are in a position to sell all that they produce without much difficulty. This fact illustrates the extent to which conflict of interest among producers binds the realization of broad international agreements to stabilize the prices of primary commodities.

In comparison with bilateral agreements the development of international commodity stabilization has been far too small. Apart from the international coffee agreement we have stabilization arrangements for a few commodities which include sugar, tin and wheat. In the latter three cases participation has been limited among the major producers and importers, so that it does not affect most of the African producers. At this point, one might ask if, as we already examined, there has been no lack of proposals for dealing with the instability of primary commodities, why are at present only few - for wheat, sugar and tin? The reasons have already been mentioned above as the wide range of varieties and price differentials among primary commodities as well as conflict of interest among producers and between producers and importers. The future prospects, particularly for international commodity stabilization will be the next point for examination.

6. The Future Prospects for International Commodity Stabilization.

The future prospects for concrete actions or arrangements of commodity stabilization depend largely on the extent to which nations perceive the common interests they have which are best served by joint action. It is difficult to forecast how soon it may be possible since such international arrangements have political as well as economic connotations. As a group of experts put it, "we have no way of predicting the future state of trade, the rate of economic expansion or the policies of governments"⁴³. Nevertheless, it may be helpful to mention some areas in which both exporters of primary commodities and industrial countries, representing the major markets for those commodities, have common interests.

Unstable commodity prices have disadvantages for both exporters and importers. For example, a fall in primary commodity prices could result in a reduced capacity for the exporting countries to import goods and services from the industrial countries. Thus, the advantage of lower commodity prices for the industrial countries, may well be offset by reduced exports to primary exporting countries and unemployment in the export industries so affected. The problem of

⁴³ United Nations, Commodity Trade and Economic Development, New York, 1953, p. 13.

shifting resources from export to home industries applies to both the industrial and less developed countries. A general statement to the effect that more advanced economies have a higher capacity to make structural in the use of domestic resources may not stand the test of experience in every case. For instance, Canada had a lot of trouble to shift labour from one area of the country to another or from one industry to another. There was the problem of moving coal miners from Cape Breton Island in Nova Scotia where coal mining was closed to Steep Rock, Ontario, where iron ore mining was expanding. The problem of shifting resources becomes even more difficult when sudden changes in demand for the product of an industry require such shifts to be made within a short period of time.

When primary producers experience violent short-term slumps in export incomes they will generally be unable to maintain production capacity properly. For example, in the field of mineral production temporary depressed prices often result in production cut backs, although quantities not produced may be needed when boom conditions suddenly replace the fall in demand. This is not in the interest of both primary producers and the industrial countries.

The above examples will have served to indicate that both less developed primary exporting countries as well as industrial countries will be better off-in terms of real incomes and balanced growth, if the instability in primary

commodity prices were moderated.

It remains for all countries to recognize and appreciate this identity of interest. If they do the basis for joint action may be established and the problem becomes only one of choosing the proper means.

C. The Role of Africa in Commodity Stabilization

1. Africa's Role in International Action for Commodity Stabilization

In view of the predominant role of primary commodities in their economies, African countries have naturally a keen interest in any action for commodity stabilization. The role of Africa in international action depends partly on the statistical position of the commodities concerned in international trade, the existing institutional arrangements and broad considerations of future economic developments.

First of all, it is important to review the part paid by African countries in world production and trade of primary commodities. As indicated in Tables XIX and XX, for a number of commodities such as palm products, sisal, cocoa, and some minerals, Africa's share in the world production is dominant. The list would obviously multiply if we differentiate various grades or qualities of commodities. Thus, although the shares of Africa in world production of

COMMODITY STABILIZATION

164

TABLE XIX

Africa's Share in World^a Production of
Selected Agricultural Commodities
1934-1938 and 1950-1958

(Percentage)

Commodity	Average 1934-1938	1950	1958	Average 1950-1958
Palm Kernel	..	86.5	82.1	82.9
Palm Oil	..	83.2	82.1	81.0
Sisal	63.6	69.8	64.8	67.5
Cocoa beans	66.2	65.7	64.2	64.2
Sweet potatoes and yams	53.8	60.8	49.2	50.8
Cassava	..	52.7	49.3	50.6
Groundnuts	29.9	26.7	32.6	33.8
Millet and sorghum	38.4	36.1	25.3	32.7
Coffee	5.9	12.8	16.3	16.0
Cotton	11.3	14.1	13.8	11.6

Source: Economic Commission for Africa, International Action for Commodity Stabilization, Addis Ababa, 1960, p. 17. (Computed from UN, Statistical Yearbook; FAO, Yearbook of Food and Agricultural Statistics).

a) World excluding Eastern Europe, USSR and Mainland China.

COMMODITY STABILIZATION

165

TABLE XX

Africa's Share in World^a Production
of Selected Minerals
1936-1938 and 1950-1958

Commodity	Average 1936-1938	1950	1958	Average 1950-1958
Diamonds	97.3	88.8	96.4	96.3
Cobalt ore	..	78.8	62.0	72.8
Gold	47.1	55.8	65.2	60.0
Manganese ore	33.4	53.5	39.8	42.2
Chrome ore	44.3	49.8	43.6	39.3
Antimony ore	5.0	29.4	38.9	39.0
Phosphate rock	..	36.3	35.5	33.8
Copper ore	19.8	22.7	24.4	24.7
Copper metal	17.5	22.0	23.2	23.8
Asbestos	1.8	16.2	22.8	18.7
Tin concentrates	11.8	14.2	17.0	15.1
Lead ore	3.9	8.3	12.7	11.9
Zinc ore	2.1	7.0	10.2	9.1

Source: Economic Commission for Africa, International Action for Commodity Stabilization, Addis Ababa, 1960, p. 20, (Computed from UN, Statistical Yearbook, Various issues; UN, Commodity Survey, 1957, New York, 1958).

a) World excluding Eastern Europe, USSR and Mainland China.

COMMODITY STABILIZATION

166

cotton and coffee are relatively small, those of extra-long staple cotton and 'robusta' coffee are significant.

Furthermore, Tables XXI and XXII show Africa's share in world exports of selected primary commodities. The data in these Tables reveal the fact that for a large number of important commodities traded in the world market, such as cocoa, groundnuts, palm kernels, Africa's share in world export is significant. Moreover, the Tables indicate that compared with pre-war years, Africa's share in trade for most of the commodities under consideration has increased in the post-war years.

It would appear from the above facts that Africa is in a strong position to initiate international action for stabilization of a large number of its commodities. One might, therefore, ask why African countries did not as yet take such a step. There are a number of reasons the most important of which are as follows:

- 1) In most African countries, the ownership, control and management of export industries are in the hands of foreign enterprises. This is particularly the case with the mining industries. Therefore, the freedom of most African countries to take positive action and initiate international measures for stabilization appears to be limited.

- 2) For some commodities the share in world exports is not matched by an equally high share in world production

COMMODITY STABILIZATION

167

TABLE XXI

Africa's Share in World^a Exports of
Selected Agricultural Commodities
1934-1938 and 1950-1958

(Percentage)

Commodity	Average 1934-1938	1950	1958	Average 1950-1958
Groundnuts	43.2	74.0	94.3	..
Palm Kernels	91.5	93.9	92.4	93.0
Palm Oil	52.8	69.2	61.7	65.3
Cocoa Beans	67.2	65.1	66.8	67.9
Sisal and Other Fibers	42.1	51.5	60.3	59.2
Cotton	18.6	22.8	23.7	22.8
Citrus Fruits	7.9	24.5	25.8	22.0
Coffee	7.9	15.3	24.4	19.4
Tobacco	6.6	13.8	12.7	13.1
Bananas	5.8	9.1	11.3	11.0

Source: Economic Commission for Africa, International Action for Commodity Stabilization, Addis Ababa, 1960, p. 22. (Computed from FAO, Yearbook of Food and Agricultural Statistics, several issues).

a) World excluding Eastern Europe, USSR and Mainland China.

COMMODITY STABILIZATION

168

TABLE XXII

Africa's Share in World^a Exports
of Selected Minerals
1936-1938 and 1950-1958
(Percentage)

Commodity	Average 1936-1938	1950	1958	Average 1950-1958
Diamonds	52.6	53.8	51.7	51.9
Lead ore	35.6	54.8	49.7	48.0
Manganese ore	46.9	56.4	42.2	45.4
Chrome ore	43.3	47.0	45.6	41.8
Antimony ore	3.9	32.1	46.1	39.9
Iron ore	19.6	24.9	40.7	31.6
Tin concentrates	22.4	24.1	27.5	25.3
Zinc ore	11.5	17.9	13.0	19.4
Copper ore	5.2	10.0	16.0	14.2
Bauxite	..	2.0	3.8	4.6

Source: Economic Commission for Africa, International Action for Commodity Stabilization, Addis Ababa, 1960, p. 23. (Computed from UN, Yearbook of International Trade Statistics; various issues; United Kingdom, Statistical Summary of the Mineral Industry, various issues).

a) World excluding Eastern Europe, USSR and Mainland China.

COMMODITY STABILIZATION

169

so that the potential for actual control of the world market tends thus to be overstated by export figures alone.

3) For some commodities action to be taken by African countries for commodity stabilization involves accumulation of surplus production and this may present important technical difficulties, particularly lack of storage facilities and inability to finance the accumulation of stocks.

4) The major cause of commodity fluctuations has been the instability in demand in the markets for primary exports so that despite the apparent strong statistical position of Africa in the production and trade of many commodities it is in no position to control demand conditions abroad.

5) For many commodities exported from Africa close substitutes exist. Thus, oil from corn may be substituted for those of groundnuts and palm and non-food uses of oil may be supplied by detergents and petroleum products; cotton may be substituted by synthetic fibers. Therefore, any unilateral attempt by African countries to influence the world market must be approached with extreme caution.

It becomes clear, therefore, that broad international commodity stabilization schemes require the cooperation not only among the primary producers but also between the primary producers and the major importers of primary products, namely the industrial countries. The industrial countries could

help the primary exporting less developed countries by maintaining a more stable demand for their primary imports. In other words, a process of steady economic growth in the industrial countries would in itself greatly diminish the short-term instability of primary commodity markets and lighten their burden placed on international stabilization. It should be noted, however, that it is not only short-term fluctuations in demand that must be feared for their effects on commodity exports. Economic stagnation in the industrial countries, even at a relatively high and stable level of employment and demand, would be of far less benefit to primary exporters than economic stability combined with steady progress in the highly industrialized countries.

At the same time, to the extent that consumption of many primary commodities are still restricted by high tariffs, domestic taxes, and quotas in importing countries, speedy dismantling of such restrictions would undoubtedly help to alleviate the surplus problem and ease the difficulties of the African and other primary producers. For example, import duty on coffee amounts to 20 per cent, 25 per cent and 10 per cent while other fiscal charges amount to 40 per cent, 47 per cent and 77 per cent respectively in France, West Germany and Italy. Import duty on wine charged by the European countries averages about 100-120 per cent. Similar high rates are also applicable to other exports from Africa

such as wheat, barley, rice, vegetables and many others. In this connection, it is perhaps useful for the developed countries which have been unanimous in pledging aid to the African countries, to extend the concept of aid to include commodity import policies that would help African economic development.

2. National Measures for Stabilization⁴⁴

Whatever international measures are required to curb extreme fluctuations in primary commodity markets, African countries could still play an active role in commodity stabilization by their national policies. In fact, excessive concern with international measures might be dangerous in that it might distract governments from the proper attention to the consequences of their action in the field of economic policy. It will be difficult to realize international measures with sufficient impact on commodity instability unless African and other primary exporting countries place a high priority to the objective of stability in their domestic policies. This they will hardly do in their foreign economic policy unless they do so in their domestic policy.

The special vulnerability of African countries to extreme fluctuations in primary commodity markets and the

⁴⁴ For a detailed analysis of national commodity policies, see UN, World Economic Survey, 1958, New York, 1959, p. 66-111.

low capacity of these countries for coping by national measures the internal consequences of external disturbances are the reasons for primary exporting less developed countries to advance strong claims to have the extreme instability of primary product markets moderated by means of international measures. But this cannot be an adequate excuse on the part of the less developed countries to take appropriate national action for their own internal stability.

When foreign markets enjoy boom conditions and export earnings of African countries rise, inflationary forces must be kept in check through appropriate monetary and fiscal measures. There is no reason to assume that when boom conditions prevail a policy of monetary ^{outlays} restraint, if carried out on a selective basis, would retard economic growth. Furthermore, when boom conditions prevail in commodity markets and African export earnings rise substantially, it is necessary for these countries to curb investment projects, which though profitable to the investor, do not contribute to real economic progress. It is wasteful to start, in boom times, investment projects if they may have to be interrupted or abandoned when the boom collapses. What counts is not the start but the successful completion of investment projects.

Increases of export earnings by African countries afford only an opportunity for financing more rapid economic

development. They do not automatically increase net investment. It is important for the African countries to realize that the rate of development is a function of two factors: the productivity of new investment and the proportion of income that is saved and invested in the country. An increase in export earnings may increase consumption rather than investment. Economic development will be furthered only to the extent that the increase in export income is saved and invested in productive projects. To seize this opportunity is entirely up to the African countries themselves. There is nothing that international action can do in this respect.

Domestic policies designed to prevent uneconomic use of investment funds, public revenues and foreign exchange earnings at boom times and hence to assure continued investment at times of falling export proceeds, may be reinforced by the establishment of buffer funds. The buffer fund will be managed by a government agency which buys primary commodity at a fixed price and sells at varying world prices. This will help to stabilize the prices received by the primary producers. The buffer fund has an important advantage in that it does not involve the accumulation of commodity stocks; it accumulates money reserves in good years, which are drawn on in order to maintain the price paid to the producers above the world price in bad years. This policy has already been adopted by West African countries such as Nigeria and Ghana

through the establishment of government marketing boards for some products such as cocoa and groundnuts. One important danger of the above policy is that there may be a tendency to accumulate large reserves by paying domestic producers' prices lower than the world market price and this might discourage domestic production. But if this problem can be minimized and short-term fluctuations in producers' income properly moderated, it is not only the producers that benefit. It will also contribute much to the maintenance of domestic monetary policy.

The conclusion that can be drawn from the above discussion may be as follows. Fluctuations in export earnings of the primary producing countries tend to have a very considerable impact not merely on their balance of payments but on the internal economy as well. The various stabilization measures considered above aim at cushioning the impact of export instability on the internal economy. To reduce the export instability itself and thus reduce the pressure on their balance of payments may require further measures. As has been seen, international measures of commodity stabilization may afford some relief to the balance of payment problems. Furthermore, primary exporting countries themselves, as indicated already in Chapter II, can also gradually reduce export vulnerability by diversifying

their production and trade and thus becoming less dependent on a narrow range of export commodities.

SUMMARY

The following are the highlights of the analysis in the preceding chapters:

1. The African economy is characterized by the existence of a large sector of subsistence economic activities whose successful transformation into the framework of the market economy is a major objective of national economic policy.

2. The prices and volumes of many of Africa's primary commodities entering into international trade have been and continue to be subject to violent short-term changes.

3. The money proceeds realized from primary production, whether considered as the incomes of individual producers or as foreign exchange earnings of producing countries, have also been subject to major fluctuations.

4. The above variations have been serious for the less developed primary exporting countries because some of these nations are highly specialized in their exports on one or a few products; most have a high ratio of foreign trade to national income.

5. Economic development in Africa as well as in other underdeveloped countries depends heavily on current export proceeds to finance imports. But, frequently such

SUMMARY

177

export earnings are used to pay for imports of essential consumer goods so that it diminishes the capacity of these countries to import machinery and equipment and other services for purposes of economic growth. The results are: (a) a strain on the balance of payments and (b) a slowing down in the rate of economic growth.

6. On the other hand, restriction of imports of consumer goods, particularly essential goods such as food, could result in increased domestic prices and cost of living. Thus, in the absence of adequate inflow of capital from abroad, African countries may be forced to choose between a more rapid rate of economic growth or the expense of inflationary pressure at home or a less rapid growth with relatively less inflation at home.

7. In view of the above trends in many African countries, a strong case has been made for international commodity stabilization measures so that the less developed countries would at least be assured of a more stable flow of foreign exchange earnings.

8. However, the role of the less developed countries themselves in the objective of development and greater economic stability cannot be underestimated. Most countries of Africa recognize the need for greater diversification of production and trade as a long-run objective of economic development.

SUMMARY

178

It has been attempted in this thesis to indicate how trade policy could assist economic development. The ultimate objective of trade policy is clearly the same as a policy aiming at continuing domestic economic development. There is no need to fear a conflict between these two objectives of national economic policies. The problem of economic development in Africa is not the lack of projects; there is, however, a lack of capital and foreign exchange resources. Trade policy will be of assistance in the selection of those development projects which are most profitable in relation to availability of capital and foreign exchange. The value of that contribution, however, depends to a large extent on the practical arrangements made in relating trade policy with the formation of development policy.

At present there does not appear adequate coordination at the policy level in many African countries between those who formulate economic development policy and those who formulate trade policy. There is need for closer integration at the policy level so that the combined effects of trade and general economic development policies facilitate the achievement of the national objectives of the African countries to speed up their rate of economic growth and pay increasingly for their development out of export earnings.

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APPENDIX A

TABLE XXIII

International Bank for Reconstruction and Development:
Loans to African Governments^a, by purpose
cumulative as of December 31, 1958

Purpose of Loan	Millions of Dollars
Electric power	178
Transportation	296
Railroads	228
Ports and inland waterways	3
Roads and highways	65
Communications	
Telephone, telegraph and radio	2
Industry	
Development banks	2
General development	40
TOTAL	518

Source: UN, Economic Survey of Africa Since 1950,
New York, 1959, p. 227.

a) Net of cancellations and refundings; not including
1951 loan to Belgium for the Belgian Congo.

TABLE XXIV

British Colonial Development Welfare Schemes
(Excluding research); Total issues for
period April 1, 1946 to March 31, 1958

(Thousands of pounds sterling)

East Africa

East African High Commission Territories....	2474
Kenya.....	9754
British Somaliland.....	1454
Tanganyika.....	7963
Uganda.....	3059
Zanzibar.....	1257

Central Africa

Northern Rhodesia.....	2874
Nyasaland.....	4610
Federation of Rhodesia and Nyasaland.....	1286

West Africa

Gambia.....	1266
Ghana.....	3592
Nigeria	
Pre-federation.....	16302
Federation.....	1809
Northern Region.....	5512
Western Region.....	1273
Eastern Region.....	1112
Southern Cameroons.....	588
Sierra Leone.....	3591

South African High Commission Territories

Basutoland.....	1658
Bechuanaland.....	2076
Swaziland.....	1760

Source: UN, Economic Survey of Africa Since 1950,
New York, 1959, p. 233.

TABLE XXV

United States Grants and Loans to Independent Countries in Africa
1950-1954 to 1957-1958

Region	1950-1954		1954-1956		1956-1957		1957-1958	
	Grants	Net Loans	Grants	Net Loans	Grants	Net Loans	Grants	Net Loans
North Africa	9984	7048	69547	-7626	37451	3188	40700	22200
East Africa	3506	1135	5943	-241	3762	-012	5600	3700
West Africa	3859	2590	3225	1252	1639	1501	2300	4400
Central Africa	-	22929	-	26744	-	3431	-	-

Source: UN, Economic Survey of Africa Since 1950, New York, 1959, p. 236.