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Sessional Committee II

DRAFT REPORT OF SESSIONAL COMMITTEE II

Rapporteur: Mr. Rénald Clérismé (Haiti)

INTRODUCTION: AGENDA ITEM 5

Speakers:

Chairperson
Secretary-General of UNCTAD
Secretariat
Nigeria (for African Group)
Morocco
Indonesia (for Asian Group and China)
Luxembourg (for European Union)
China
Republic of Korea
South Africa
Ghana
Senegal
Japan
Cuba
Norway
Egypt
United Republic of Tanzania
OAU

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments to statements of individual delegations - to be submitted in English or French - should be communicated by **Friday, 31 October 1997, at the latest** to:

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INTRODUCTION

1. At its 886th (opening) plenary meeting, on 13 October 1997, the Trade and Development Board decided to establish a sessional committee of the whole (Sessional Committee II) to consider and report on the following agenda item:

> "UNCTAD's contribution to the implementation of the United Nations New Agenda for the Development of Africa in the 1990s: performance, prospects and policy issues" (agenda item 5)

2. At its first meeting, on 20 October 1997, the Sessional Committee elected Mrs. Agnes Yahan Aggrey-Orleans (Ghana) as its Chairperson and Mr. Rénald Clérismé (Haiti) as its Vice-Chairman-*cum*-Rapporteur.

3. At the first part of the Board's forty-fourth session, Sessional Committee II held 1 formal meeting.

Chapter I

UNCTAD'S CONTRIBUTION TO THE IMPLEMENTATION OF THE UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT OF AFRICA IN THE 1990s: PERFORMANCE, PROSPECTS AND POLICY ISSUES

(Agenda item 5)

4. For its consideration of agenda item 5, Sessional Committee II had before it the following documentation:

> "UNCTAD's contribution to the implementation of the United Nations New Agenda for the Development of Africa in the 1990s: performance, prospects and policy issues" (TD/B/44/12)

5. The **Chairperson** alluded to the heartening process of African recovery in recent years. She noted, however, that there was little room for complacency in that matter. Recovery had been fragile and prone to the vicissitudes of the weather and commodity markets. The opportunity should not be missed of placing growth and development on a firm footing in Africa. Among other things, armed conflicts in Africa had a tendency to perpetuate instability and divert resources from long-term development, as well as to threaten regional peace and create massive human dislocation and suffering. At the same time, and as pointed out by the Security Council, African States had made significant strides towards democratization, economic reform and respect for and protection of human rights. She recalled that the G8, in their recent declaration entitled "Africa: Partnership for Development" at the G7 summit in Denver, had committed themselves to support African countries through, among other things, greater market access, support by international financial institutions, and increased levels of ODA.

6. The **Secretary-General of UNCTAD** said that the differences between Africa and the least developed countries (LDCs) from other regions justified the need for a separate treatment of both groups of countries. Among the characteristics of Africa was the existence of extreme forms of civil strife and the decline in the ability of the state in that region to perform its basic duties. One of the consequences of these tendencies had been the destruction of physical infrastructure in some of the African countries concerned. Given the circumstances, it would not be reasonable to assume that market forces alone could rebuild the necessary physical and social infrastructure. Such a task required assistance from the international community. He also pointed to differences in ecological conditions between African LDCs and other LDCs. He noted that the green revolution technologies, which other regions had adopted, were not easy to replicate in Africa, given that region's climate and soil

conditions. He added that the El Niño phenomenon was currently dimming the agricultural prospects of much of the Sahel region. A third way in which LDCs differed from other regions was that most of Africa lacked economic linkages with nearby, more prosperous countries. Unlike the Asian LDCs, for instance, a "flying geese" type of development paradigm was not an option for most of Africa. In concluding, the Secretary-General of UNCTAD said that, despite the fact that Africa was experiencing an economic upturn, and that the international community was showing signs of renewed willingness to take up the issue of African development, there should be no underestimating the magnitude of the task that lay ahead if economic growth in Africa were to be sustained over the long run.

7. The **UNCTAD Coordinator for Africa** provided a brief overview of the UNCTAD report entitled "UNCTAD's contribution to the implementation of the United Nations New Agenda for the Development of Africa in the 1990s: Performance, prospects and policy issues" (TD/B/44/12). He pointed out that the recent economic upturn had not been accompanied by increased productive investment, and that the need for African countries to service their external debt had placed a claim on export receipts that otherwise could have gone into productive investment for sustainable growth. The decline in official development assistance (ODA) had also made it harder for African countries to convert the benefits of the recent upturn into improved prospects for longer-term growth. Also in this document, the point was made that, with industrial structures typically weak, policies of rapid import liberalization could not be counted on to enhance productivity and promote competitiveness. As for the opening up of capital accounts, there had been a tendency for currencies in Africa to appreciate as a result of larger capital inflows, which in turn reduced export competitiveness and increased consumer good imports. As for agricultural policies, the weakening or dismantling of marketing boards had resulted in improved relative prices being captured by traders rather than producers. It was emphasized in the document that increased investment in tradeable goods and physical infrastructure was a prerequisite for sustained growth, and therefore that debt relief and higher levels of ODA were necessary. Export promotion in non-traditional sectors had to be pursued, and in agriculture a balance had to be struck between food self-sufficiency, surplus extraction and income security for producers.

8. After speaking about Africa's economic upturn and the reasons behind it, the representative of the **African Group** (Nigeria) turned to the issue of structural reforms in Africa. He pointed out that, despite major efforts at liberalizing prices and exchange rates, privatizing state-owned enterprises, instituting tighter discipline over public expenditure, and removing barriers to trade and investment, there had been very few successful stories of

adjustment. Moreover, as pointed out in the *World Investment Report, 1997*, despite the reforms put in place to encourage foreign direct investment (FDI) inflows to the continent, Africa had continued to receive a limited and narrowly directed amount of FDI. Drawing on the *Trade and Development Report, 1997*, he noted that the income gap between African countries and the developed countries had continued to widen, and that market access and more investment in physical and human resources would be necessary to reverse that trend. He proposed that a genuine partnership of the international community with Africa was needed, in which growth and development would be placed at the core of the African economic objective. Development partners would complement the efforts of the African countries by encouraging investment flows to Africa and by providing effective financial assistance in infrastructure and the promotion of commodity diversification and non-traditional exports that would enable the region to sustain its recent growth. A speedy and substantial reduction in the debt overhang problem was also critical if the present upturn were to be followed by sustained economic growth. Such relief, combined with increased ODA, would ease the balance-of-payments constraints, induce increased private investment and growth, and free resources needed for government investment in physical and social infrastructure. It would help, however, if the number of conditionalities related to the transfer of resources were reduced and limited to the attainment of directly relevant objectives.

9. With respect to the Uruguay Round Agreement, he noted that Africa was likely to incur some losses in the short and medium term as a result of the Uruguay Round. These would arise from the erosion of preferential treatment of African exports under the Lomé Convention and the generalized system of preferences (GSP), as well as the higher import cost of foodstuffs likely to be experienced by net food-importing countries. He proposed that the product coverage of preferential treatment should include sensitive products of export interest to African countries, and that restrictive rules of origin should be relaxed.

10. The representative of **Morocco** focused on the importance of adapting the recent economic upturn to a path of sustained economic growth. He pointed out that relying on traditional exports for continued growth would not be sufficient. Export receipts should serve to generate new productive investment in the export sector. While recommending the promotion of horizontal and vertical diversification strategies, he emphasized that the major obstacle to capital accumulation and investment for that purpose was the debt overhang and the resources needed for its servicing. He also pointed out that a strong and evident link existed between debt servicing and the difficulty in reducing poverty in Africa. Moreover, he said, a solution to the debt problem had to be found if the continent was not to be marginalized. He welcomed the initiative

of the heavily indebted poor countries (HIPCs) but stated that it was important that it be implemented rapidly and that its criteria be made more flexible. He also stressed that Africa would continue to depend on ODA. FDI could only complement the role of ODA. Even if FDI were increased, it would not be sufficient in and of itself. In this connection, he regretted that agreed-upon targets for ODA not only had not been met, but that overall ODA levels had been declining in recent years. That trend must be reversed if Africa were to embark on a path of sustained growth. Finally, he said that clear objectives for Africa in particular, as distinct from LDCs in general, should be established. He noted with appreciation the support expressed for Africa at the G7 summit in Denver by the United States, Japan and the European Union.

11. The representative of the **Asian Group and China** (Indonesia) spoke about the notable growth that had been recorded recently in a number of African countries. He attributed much of this progress to the liberalization of their trade and investment regimes, the adaptation of their economic structures and the strengthening of their export capacity. He noted, however, that the recovery would be short lived if the present economic expansion were not translated into new investment in physical and human infrastructure as well as in industry and agriculture. Moreover, persistent problems were likely to remain, such as these countries' access to markets, the volatility of commodity prices, and their difficulties of access to capital and technology. He argued that developing countries' comparative advantage had continued to be partly nullified by the continued presence of non-tariff barriers, the misuse of anti-dumping measures and countervailing duties, and the erosion of preferences. He joined others in stressing the need for increased levels of ODA and for debt relief, and welcomed the HIPC initiative in this connection. He pointed out that since nearly all the major problems of development were global in nature, they could only be effectively dealt with through a new global partnership for development involving both developed and developing countries.

12. The representative of **Luxembourg**, speaking on behalf of the **European Union**, took issue with a number of the findings of UNCTAD document TD/B/44/12. She felt that the conclusions of the report overstated the risks inherent in countries' liberalization options and underestimated the positive effects that could be derived from certain liberalization policies. She also said that the advocates of liberalization policies in no way supported blanket and undifferentiated approaches. She moreover expressed regret that the question of regional integration had not been addressed in the report in connection with liberalization policies. In this regard, she mentioned that regional integration could facilitate the exploitation of economies of scale and create an economic space that was more competitive, stable and attractive to foreign investors. While acknowledging the risks associated with volatile capital flows and exchange

rate movements, she pointed out that the challenge for Africa of attracting FDI was of greater significance than any problems that might arise from volatile short-term capital flows. She also went on to say that the document should have analysed in greater depth the political and macroeconomic constraints that inhibit investment in Africa. More attention in this connection should have been given to the questions of "good governance", such as appropriate regulations, market competition, transparency, an independent judiciary, and strengthened customs services, financial institutions and other intermediaries. On the other hand, she agreed with the report regarding the negative repercussions that could accompany, within the framework of agricultural liberalization, the dismantling of marketing boards. Like the report, she expressed concern that exporters and middlemen, rather than producers, had been the main beneficiaries of such policies. She also agreed that debt relief through the HIPC initiative was an indispensable ingredient for enabling qualifying African countries to aspire to sustainable economic growth. However, the economic dimension was only one aspect crucial to African development. She said that there was need for an integrated approach to African development that included political, social and environmental dimensions as well as purely economic objectives.

13. The representative of **China** spoke about his country's ties with Africa. Between 1956 and 1995, he said, China had provided assistance in the form of over 500 projects in 52 African countries. That assistance had included training as well as material and technical assistance. In 1996, China's aid to Africa had exceeded US$ 4 billion, which was more than four times the aid provided in 1990. Also, Chinese trade with Africa had grown rapidly in the 1990s. He predicted that total Sino-African trade in 1997 would exceed US$ 5 billion. In order to facilitate trade, the Chinese government had set up "investment and trade promotion centres" in 10 African countries, and a "Chinese industry development zone" in one of these countries. He said that China would continue to foster modes of cooperation with Africa that would contribute to the latter's efforts to achieve sustainable growth.

14. The representative of the **Republic of Korea** noted that African countries in the past, despite their plentiful natural resources, had not been able to benefit from the globalization process due to supply-side capacity constraints, infrastructure shortcomings and political instability. Although ODA had declined in real value, he felt that FDI could play a positive role in the development of African and other LDCs. He also mentioned that his country had been giving over 20 per cent of its ODA to Africa. This assistance consisted of grant projects, in-kind assistance and the dispatch of medical teams and other volunteers to Africa. While ODA from the international community was important, he stressed that the achievement of Africa's development goals depended primarily on their own efforts. They should have their own vision and the political

determination to bring it to fruition. International assistance could play only a secondary, supportive role.

15. The representative of **South Africa** spoke of Africa's economic upturn largely in connection with the adoption by many African countries of sound macroeconomic and liberalization policies that had enabled them to integrate more effectively into the global economy. He stated that the private sector, though still nascent in most African countries, was thriving; that the public bureaucracy had been streamlined; and that more attention was being given to efficient human resources management and development. He also pointed out that peace had been re-established in a number of formerly strife-torn countries. However, African governments needed to do more in terms of adopting stable macroeconomic policies, creating an investment-friendly environment and making their economic practices more transparent. At the same time, he pointed out, in addition to the primary responsibility African governments have for their own development, a conducive external environment was also necessary. In particular, the international community needed to deal on an urgent basis with the onerous debt burden that practically all African countries faced. The international community also had a responsibility for ensuring that the integration of Africa into the world economy would be beneficial to Africa. This latter objective could be accomplished by allowing favourable access for African commodities; by facilitating the transfer of productive investment, technology and know-how to Africa; and by providing assistance regarding the negative consequences that might arise from volatile short-term capital flows.

16. The representative of **Ghana** spoke about Africa in terms of the region's competitiveness in the world economy. He pointed out that despite claims by some observers that Africa could derive certain gains from liberalization policies, there were no automatic rewards for weak economies. The liberalization policies adopted by many African governments had exposed these countries, he thought, to severe competition from imports and services, often with extreme repercussions for domestic industries. African governments therefore needed to adopt concrete policies that would increase their competitiveness. They should work with the private sector to develop a congenial atmosphere for the domestic production of essential goods and services. Moreover, the private sector, governments and the international community should work together to develop the infrastructure and entrepreneurial skills necessary for domestic enterprises to become more competitive and able to withstand the onslaught of a liberalized economic environment. To avoid the pitfalls of overprotection, protection measures should be selective and combined with financial support and access to relevant technologies. This was also true for export sectors where countries had a natural competitive potential. Local business role models should be promoted to foster the emergence of effective and efficient production units, while core

business groups, with full government support, should be supported as part of an effort to entrench an entrepreneurial culture. All private sector participants, irrespective of political affiliation, ought to be encouraged by African governments to participate in the development of local entrepreneurial bases. International agencies could support these efforts to boost the competitiveness of African economies by providing concrete assistance aimed at enhancing this entrepreneurial development process.

17. While congratulating the UNCTAD secretariat on the preparation of document TD/B/44/12, the representative of **Senegal** regretted that the document had not addressed the question of the effectiveness of the United Nations New Agenda for the Development of Africa in the 1990s (NADAF) technical assistance in contributing to the economic upturn of Africa. He agreed with the statement concerning the need of Africa for more investment, and indicated that the reason why more FDI had not entered Africa was because of the lack of legal safeguards and other measures that were consistent over time and thus could enable investors to be confident of what to expect. The absence of such safeguards for FDI could not be overcome by the attractions of tax-free holidays and other fiscal inducements. With this in mind, Senegal had joined two other African countries to create an African institution called the Organization to Harmonize the Rights of Businesses in Africa (OADA). In noting that France, Japan and the United Nations Development Programme (UNDP) had financially supported the establishment of the OADA project, he expressed hope that the UNCTAD secretariat would look into ways to assist the setting up of OADA in Africa.

18. The representative of **Japan** spoke about his country's support and technical assistance activities for Africa. He said that in 1995 his country had provided more than US$ 1.3 billion of bilateral ODA to Africa, of which US$ 748 million was in the form of grant aid. He also mentioned a number of initiatives undertaken by his government to increase general awareness of African problems and to consolidate cooperation on the part of the international community towards the region. This included the 1993 Tokyo Conference on International Development, the 1997 Okinawa Conference for Development, as well as several international seminars in Tokyo on new development strategies. He mentioned that a second Tokyo International Conference on African Development would be held in 1988 to review developments since the first conference and to formulate a programme of action. The delegate also spoke of his government's support of a project under implementation by UNCTAD in which the lessons from the East Asian development experience were to be examined in terms of their applicability to African countries.

19. The representative of **Cuba** focused on the issues of globalization and interdependence. He expressed appreciation and full support for the findings

of the *Trade and Development Report, 1997*. He went on to comment on the widening global inequality and marginalization of African and other poor countries as a result of globalization. He spoke about the growing polarization of incomes within developing countries that was attributable to globalization. He pointed out that it was wrong to justify growing income inequality as a price worth paying for participating in the globalization process. It was regrettable that the paradigm of liberalization policies forming part of the globalization process had pushed to the margins other concepts and models of development. UNCTAD in this respect had an important role to play in analysing and providing technical assistance enabling developing countries to understand and manage the implications for them of changes in international trade, investment and finance. He also noted that his country had suffered from the Helms Burton Act and other measures taken by the United States to hinder Cuba's development.

20. The representative of **Norway** stated that the recent economic upturn in Africa was fragile since it had remained vulnerable to fluctuations in commodity prices. To achieve sustained growth, it would be necessary to utilize the increase in export earnings to upgrade industrial capacity and invest in both physical and social infrastructure. That would eventually increase Africa's competitiveness in export markets and reduce its dependence on imported goods. The debt burden and diminished flows of ODA, however, rendered those prospects remote for many African countries. The HIPC initiative was essential for reducing the debt burden, but its success depended on all parties involved to accept the share of the burden that corresponded to them: i.e., creditors had to be prepared to grant debt relief in line with the proposals of the Bretton Woods institutions; donors had to provide the funds required; and debtor countries had to undertake sound economic policies. He said that his country would continue to press for 90 per cent debt relief in the Paris Club within the framework of the initiative, and had urged all donors to meet the agreed ODA target of 0.7 per cent of gross domestic product (GDP).

21. The representative of **Egypt** noted that there were grounds for cautious optimism regarding the improved economic performance of Africa. In turning to document TD/B/44/12, he was of the opinion that, besides differentiating between North Africa and sub-Saharan Africa, it would have helped to have disaggregated sub-Saharan Africa into distinct subregions, given that the performance of this group had been diverse. He agreed with the statement in the document that the dearth of detailed data and information on African countries made analysis of the region more difficult. Moreover, he would have liked to have seen more attention given to the role of the international community in the sectors of interest to African countries. In this connection, he welcomed the various initiatives on Africa launched by the United States, Japan and the European Union. He regretted that the conclusions of the document had not been more

detailed with respect to the fall in investment in the region, the competing demand for resources presented by import and debt-servicing requirements, the deterioration in Africa's terms of trade and the decline in manufactured goods in many African countries. Future analytical work on Africa by the UNCTAD secretariat, he felt, should include the role of the terms of trade, export performance, market access and investment flows on African development, including what further actions should be taken at the domestic and international levels. Other important areas, he said, were an analysis of the information infrastructure in Africa, and how regional integration could contribute to development in Africa. The approach adopted in the document of asking what could be done to make the recovery in Africa sustainable should be continued in the future analytical work of UNCTAD on Africa.

22.   The representative of the **United Republic of Tanzania** emphasized the importance of infrastructure to the development of African economies. He pointed out that investment would not take place and that market access was not an issue if products could not reach the markets in the first place. He noted that despite recognition by the international community that inadequate infrastructure was a bottleneck to African development, the problem of undependable infrastructure remained. He then shifted his attention to agriculture, which he noted continued to suffer from price volatility. More support of the Common Fund for Commodities by the international community was needed. In this connection, he went on to emphasize the need for African economies to diversify horizontally and vertically in agriculture.

23.   The representative of the **Organization for African Unity** stated that any attempt to implement an initiative that does not take into full consideration the circumstances of small island developing countries in Africa would be futile and counterproductive. Also, the Common Fund for Commodities should play a crucial role in providing special financial assistance for the promotion of commodity diversification in Africa. He endorsed the analysis provided in document TD/B/44/12 relating to investment issues since investment represented a priority area for African development. However, he was also of the view that the interactions between trade, investment and environmental policies should be added to Africa's priorities with regard to the implementation of UN-NADAF. UNCTAD should conduct a study to pinpoint where investment is needed in order to strengthen the institutional capacity that is necessary to implement environmental policy in Africa.