Center For Economic Research on Africa
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Europe 1992, Africa and the U.S.

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Europe 1992, Africa and the U.S.
Proceedings of the Fourth International Conference
Kops Lounge, Russ Hall, Montclair State University
May 7, 1990

Conference Program

8:15 - 8:45 a.m.
Registration and Refreshments

8:45 - 9:00 a.m.
Introduction:
Phillip LeBel, Director, CERAF, Chair, Department of Economics
Montclair State University
Irvin D. Reid, President,
Montclair State University

9:00 - 11:30 a.m.
Panel Presentations:
Brian McDonald, Economic Counsellor, Delegation of the EC to the UN,
New York, New York

Stephen Adei, Senior Economist, United Nations Development
Programme,
New York, New York

Daniel Bond, Vice-President, U.S. Export-Import Bank
Washington, D.C.

Gerald Feldman, Director, East-West Africa Division
U.S. Department of Commerce
Washington, D.C.

Michael Sarris, Division Chief, Trade and Finance, Africa Division,
The World Bank
Washington, D.C.

12:30 - 2:00 p.m.
Luncheon in Rooms 411-414, Fourth Floor of the Student Center

Keynote Address:

Tekle Gedamu, Vice-President, Finance and Central Operations
African Development Bank and Fund
Abidjan, Cote d'Ivoire

About the Center For Economic Research on Africa:
The Center for Economic Research on Africa seeks to foster closer understanding of economic relations between the United States and Africa. Through its research program, it is concerned with examining the scope and consequences of economic policies within Africa, United States economic policies toward Africa, and how specific policy alternatives bear on economic relationships between the two regions. The Center operates with financial support from academic, government, professional, and business organizations, and works in close collaboration with the Department of Economics of Montclair State University.

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The African-American Studies Program of Montclair State University; The Economics Club of Montclair State University; The International Studies Program of Montclair State University; Office of the President, Montclair State University; Office of the Dean of the School of Business, Montclair State University; Office of the Dean of the School of Humanities and Social Sciences, Montclair State University;

Ida S. Fazio, Secretary to the Department of Economics and Administrative Assistant, CERAF; Dr. Glenville Rawlins, Associate Director, CERAF; the faculty of the Department of Economics, and Peter Blake, Lynn Brown, Christine Cleary, Jonny Covington, Jennifer Dorn, Caswell Ewan, Chris Ferrara, Ntumba Futa, Leticia Garcia, Gerard Gomez, Elizabeth Hall, Delight Henry, Marios Ioannides, Rochelle LaRossa, Carolyn Macintosh, Grace Madondo, Salpi Tchalikian, Robert Trainor, and Lynda Wiedmann of the Department of Economics.

Introduction

Europe 1992, the commitment by the member countries of the European Economic Community to full economic integration, represents an historic turning point in global economic relations. How will European economic integration affect economic relations between the EEC and Africa, between the U.S. and Europe, and between the U.S. and Africa? Since the EEC represents Africa's closest trading partner, for African countries engaged in structural reform, prospects for renewed growth and development will depend considerably on the shape and pattern of EEC integration and its effects on international trade and investment.

Europe 1992 poses a dual challenge to the world economy. On the one hand, it promises substantial improvements in economic growth, and thus the potential to stimulate trade and investment with both Africa and the U.S. On the other hand, if European economic integration becomes inward focused, the trade and investment benefits to other regions may be limited by protectionist barriers. Given Europe's major role in international trade and investment, how EEC integration evolves thus carries major consequences for both Africa and the U.S.

Leaders of both African and international institutions realize that Europe 1992 represents a new departure for the world economy whose potential is only now being fully grasped. How will economic integration affect economic rates of growth in the EEC, in Africa, and the U.S.? Will economic integration alter existing patterns of trade and investment between Europe and Africa, between the U.S. and Europe and between the U.S. and Africa? What are the implications of German unification on EEC economic integration? How will events in Eastern Europe affect the shape and speed of EEC integration, and Africa's ties to Europe and the U.S.? As these trends become clear, new policies may be needed not only within Africa, but also within the EEC and the U.S. so that the world economy can expand in a globally productive fashion.

To focus on the impact of Europe 1992 on Africa and the U.S., the Center for Economic Research on Africa, working in conjunction with the African Development Bank, BCEAO, the U.S. Department of Commerce, the U.S. Export-Import Bank, the Delegation of the EEC to the UN, the United Nations Development Programme, and the World Bank, is convening this conference to address current and evolving policy initiatives. Officials from these institutions are providing important leadership for Africa. Their insights will help shape policy directions for Africa, for the EEC, and for the U.S.

Europe 1992, Africa, and the U.S.

Phillip LeBel, CERAF. Good morning. On behalf of the Department of Economics and the Center for Economic Research on Africa, welcome to today's conference. This is the fourth annual conference sponsored jointly by these institutions and which addresses an issue of contemporary concern in Africa.

As you can see from our program, this conference is focused on a very important theme, which is to examine the implications of the EC 1992 decision to provide full economic integration of its member countries. What we propose to do today is to examine the impact of this process on Africa, on U.S. ties to Africa, and on U.S. ties to Europe. In doing so, we have assembled a panel of very distinguished experts who can speak from these various perspectives. I am sure that the insights which they will provide this morning will be very crucial to clarifying our understanding of the economic transformation now underway.

We do have a few changes from our initial program. First, I regret to report that Mr. Alassane Ouattara, the Governor General of the Central Bank of West Africa, who had accepted our invitation, was called on urgent business and could not be with us this morning. Second, we received a comuniqué from President Babacar Ndiaye, of the African Development Bank that Dr. Rwegasira, Deputy Director for Development Research and Policy, was called on an important mission and thus could not be with us this morning. However, President Ndiaye very kindly provided a well-qualified replacement, Mr. Tekle Gedamu, Vice-President for Finance and Central Operations of that institution. Let me also take this opportunity to introduce a colleague of Mr. Gedamu's, Dr. Oladedeji Ojo, who is a principal economist in the Research and Policy Division of the African Development Bank. Before I introduce our panelists, let me now present Dr. Richard Lynde, Provost of Montclair State University, who would like to extend greetings on behalf of the University.

Richard Lynde, I am delighted to be able to be able to be with you this morning. I have had the distinct pleasure for two of the previous three meetings to be able to welcome to conference participants and I am delighted to be able to do that once again this morning.

Dr. Reid is disappointed that he could not be with you today. As some of you know, Dr. Reid came to Montclair last fall from the deanship of the School of Busines at the University of Tennessee at Chattanooga. As Montclair's seventh president, he brings to the campus a distinctly international flair and, obviously, a great interest in business and economics. In fact, one of the five major initiatives of Dr. Reid has enunciated for the University is the development of global education.

This morning, you are going to be looking at a major international economic triangle. Many of us in the United States have a tendency to focus on two of the vertices of the triangle, that is, Europe 1992 and its effect on the U.S. Today, I think we are enriching everyone by looking at a very important third vertex, and that is, how will Europe 1992 affect not only the U.S.-European relationship but also the economies of the countries of Africa. I am delighted that Phil has been able to put together such a very distinguished panel. This is a great deal of work and they do an excellent job. Welcome to our distinguished panelists and welcome to Montclair. Thank you.

Phillip LeBel, CERAF. Thank you, Provost Lynde. Before I introduce our panelists, I want to acknowledge some of the people who have helped to put this conference together. In addition to the acknowledgements in the conference program, I would like to acknowledge Mrs. Ida Fazio, secretary to the department of economics and administrative assistant to CERAF. The other person I would like to acknowedge is Dr. Glenville Rawlins, our Associate Director of CERAF. The third acknowledgement is the student volunteers of the Montclair State Economics Society, and in particular its president, Caswell Ewan.

Our procedure this morning is straightforward. I have arranged the panelists alphabetically by name, as opposed to institutions. I am going to ask each of them to speak initially for approximately twenty to twenty-five minutes. Given the title of our conference, I am going to ask Mr. McDonald to speak first. We will then proceed alphabetically by individual, as opposed to institution. Dr. Adei, of the UNDP will thus follow Mr. McDonald, then Dr. Bond, Mr. Feldman, and then Mr. Sarris. When we finish with each panelist's initial presentation, we will then provide them with a five minute opportunity for reaction to presentations made by the other panelists. Once we have completed that process, I will then open up the questioning to you, the members of the audience. By that time, we will then continue our deliberations at lunch, following the keynote address by Mr. Tekle Gedamu, Vice-President for Finance and Central Operations of the African Development Bank in Abidjan, Côte d'Ivoire.

Brian McDonald, Delegation of the European Community to the United Nations. Thank you for your hospitality. We have received a truly warm welcome. You have quite a lovely campus here at Montclair, especially after the concrete jungle of Manhattan.

I would like to concentrate on the last leg of the triangular relationship of which we have been speaking, to try to examine recent developments in our relations with Africa, especially through the Lomé conventions, and in particular the recently Lomé IV convention negotiations and then to touch on some of the implications of the 1992 single market programme, and to a certain extent our developing relations with Eastern Europe.

The Framework of the Lomé Conventions

I should like to start with a description of the Lomé conventions in general. Over the years, the Community has built up a network of cooperation relations with the whole of the Third World. As the Third World's leading trading partner, the EC administers some ECU 12.5 billion per year. The ECU, or European Currency Unit, is roughly equivalent to an old Smithsonian dollar, approximately the same as the current dollar with a few percentage point differences. This figure represents some 12 to 14 percent of the total aid of the EC member states.

The Lomé convention is the best known and complete example of the Community's development cooperation policy. It expresses at a Community level the interdependence woven by history, trade, economics, and culture between Europe and the South, and in particular with the African continent. Of course, it also covers the Caribbean and the Pacific Islands, but the bulk of the aid goes to the African continent.

In 1975, Lomé I took over from the two Yaoundé Conventions, and ushered in what soon came to be known as Lomé policy. The second convention, signed in 1980, assured continuity and Lomé III, concluded in 1985, defined new ambitions centered on the objectives of rural development and food security.

Lomé policy rests on four basic pillars. The first is cooperation between two regional groups, based on respect for the political and economic interests of each partner. Secondly, it rests on stable, sustainable, and predictable relations based on legally binding arrangements. Each of the conventions lasted for five years, and the last convention is due to last for a decade. This sets out a legal framework that is designed to ensure predictability in our relationship over the period. Thirdly, the conventions rest on comprehensive cooperation defining a whole range of aid, trade, and development instruments. Finally, Lomé provides for an ongoing dialogue in the framework of free and joint institutions. The ACP, that is, the African, Caribbean, and Pacific associated states, and the EEC Council of Ministers, have a joint assembly and secretariat in

Brussels which provides the forum of discussion and implementation of the Lomé conventions.

Innovations Under Lomé IV

Lomé IV, for which we have just completed the negotiations in December of 1989, contains a number of important provisions. First, it is an agreement between the Community and 66 of the ACP states. The financial content to which I just referred is for the next five years. After five years, we will negotiate another financial protocol within the basic framework of the convention. Two new states, Haïti and the Dominican Republic, have just joined the convention. Finally, Namibia, which has just acceded to independence from South Africa, is expected to become part of the convention in the near future.

Financing under Lomé IV has risen from ECU 8.5 billion under Lomé III to approximately ECU 12 billion for the first five years of Lomé IV. This is broken down into ECU 10.8 billion for the European Development Fund, EDF, or FED, as it is known in French, which is the main development and aid granting agency. It represents an increase of 46 percent in nominal terms over Lomé III, and 25 percent in real terms. The other element of Lomé IV is approximately ECU 1.2 billion which goes into the European Investment Bank, EIB, and is transmitted by them in the form of loans.

At the same time, a stronger effort has been made under Lomé IV to improve the policy of Community aid by making it more concessional. Apart from risk capital managed by the European Investment Bank, all of the development fund financing will be in the form of grants. Special loans, which were soft, or subsidized loans under the previous conventions and the requirement to replenish Stabex, which is the Stabilization of Export Earnings Fund, have been abolished. These elements, which required some payback from the developing countries have now been eliminated. This effort to improve financing may seem inadequate compared with the scale of the needs to be met, but it should be noted that no other official development asssistance budget has enjoyed an increase on this scale. Plus 25 percent in real terms is a very substantial increase.

Compared with the previous conventions, the innovations under Lomé IV are significant. The most important of them is the inclusion of provisions for policies supportive for economic reorganization, i.e., structural adjustment, assistance. Of the ECU 10.8 billion for EDF for which I spoke, something like ECU 1.15 billion will be going for structural adjustment loans. This is a completely new chapter. We had some structural adjustment loans under Lomé III, but they were not formally a part of the convention and there was a limit to what we could do under the old arrangements. Under the new convention, a new chapter will allow us to put a substantial amount of money into structural adjustment programs.

The other important innovation is the provision of a chapter on debt. This is an issue to which the ACP countries have attached a great deal of importance throughout the negotiations. Without overstepping the limits of Community competence in this sphere, and by this I am stressing the fact that Community by itself is not a creditor institution and has a limited role to play in the debt field, we have, however, the possibility of providing specific technical assistance to ACP countries. This initiative shows the willingness of the Community to foster communications on this issue within the appropriate context, i.e., our participation in international conferences. Above all, special loans, Stabex transfers and Sysmin (the Lomé mining rehabilitation fund) have become grants. This is a tangible response to the ACP's debt problems.

The areas of ACP-EEC cooperation are also increased in number. They include new fields such as population, which has always been a sensitive issue, but which is getting more formal recognition in intergovernmental agreements, as well as more comprehensive treatment of services and environmental protection. There is also a whole chapter devoted exclusively to the environment which lays down a rather comprehensive approach to the subject and contains some important specific provisions such as a ban on the movement of toxic radioactive wastes, i.e., we are not going to export any more waste of that nature from Europe to the African continent.

The new convention also places more emphasis on the private sector and the role it should play in stimulating growth and in diversifiying ACP economies. Lomé IV, following the lines which were already set out in previous conventions regarding private sector investments, drawing on our experience in industrial cooperattion, notably in the small and medium-sized enterprises sector, contains provisions on investment protection and support and in particular, provisions regarding risk capital. The latter is defined in a manner which is more comprehensive and operationally oriented.We have had some interesting experiences in Central America with what has been known as the Cheysson Facility, (after Claude Cheysson of France, who was a member of the last European Commission), regarding risk capital ventures, which has been rather successful and we are keen to draw on that precedent in the Lomé context as well.

One of the areas where this cooperation will focus is on the upgrading of the value of ACP commodities through the development of processing, marketing, distribution, and transport. We think that diversification is vital to the survival of some ACP economies and we have to make some progress in this area, which has been thus far rather difficult.

There are also new provisions under the convention on human rights and respect for human dignity. Again, this is a politically sensitive issue on which we have managed to get agreement on some declarations of principle and which are now in the body of the convention. These are accompanied by other declarations, for example, on the elimination of apartheid and on ACP migrant workers and students in the European Community.

We have also made a further opening in the direction of decentralized cooperation. We have tried to facilitate wider cooperation and participation by the populations affected by these agreements, and especially by non-governmental organisations, or NGO's. We have had a lot of success with NGO's under the previous convention and we are trying to expand our cooperation through them.

The convention builds on elements already present in previous conventions. I should like to mention a few of them. One is Stabex, which is the Community Export Revenue Stabilisation Fund. Here there has been an increase of about 62 percent of the funding, which is a greater increase than in the convention overall. We consider this still to be an important feature of the convention, given the weaknesses of commodity markets. There have also been improvements in Sysmin, which is the program for the rehabilitation of mining operations, which had not been working very well. We have reformed the procedures there to make it respond more flexibly to needs.

In terms of trade, which has been an important element in each of the Lomé conventions up to now, we had reached a point where liberal treatment was given to a wide range of products. This has been extended even further to a new range of products.

In terms of financing innovations, we have stepped up support for non-project aid to supplement traditional investment aid. This will facilitate a dialogue in regard to structural adjustment policies and national policies designed to improve national economic efforts.

The Significance of Lomé IV for EEC-Africa Economic Relations

I should now like to touch on a few points which I think are of particular importance. The trade provisions have created a situation where something on the order of 95 percent of exports from ACP countries now have duty-free access to the Community. This open access to the Community is almost complete in the area of industrial goods and there has also been considerable progress to give free access for tropical products which are not usually produced in the Community, but also for some products covered by the CAP. Obviously this has not been without difficulty. This liberalisation has been a continuous part of the Lomé process and Lomé IV takes it one step further.

The latest Lomé negotiations have improved the treatment of some 40 products, some of which are very important for ACP countries such as sorghum, millet, yams, rice, molasses, fruit and vegetables, and processed agricultural products. There have also been some very important improvements concerning rum, beef, and veal.

The Community has also made an offer in the context of the GATT Uruguay Round negotiations regarding tropical products. One should remember, in parallel to all of this, the multilateral negotiations taking place under GATT. Some of the concessions regarding tropical products are of more direct benefit to the ACP countries than to others and we have chosen to implement some of our tropical product concessions early, often in regard to products which are mainly of interest to countries under the Lomé convention.

Despite these concessions, there has been a rather poor performance by ACP countries regarding exports to the Community. In the last few years, their exports to the Community have fallen by approximately 50 percent in value terms, from approximately ECU 26 billion to ECU 13 billion. This has been due essentially to the drop in commodity markets, and in particular to the softening of commodity prices, and not to any lack of access to the EEC market. This, of course, creates some serious problems for some ACP countries. The Community is the major client of these ACP countries, taking something on the order of 80 percent of their exports. Clearly, with the major drop in commodity prices, it will be increasingly important in the future for these countries to seek other markets and to diversify their production. Diversification should be seen in terms of both existing products into new markets but also diversification in terms of the types of products that ACP countries are trying to sell to the Community.

We still think it is important to maintain Stabex. While most economists would agree that this type of arrangement is not the optimum in economic terms, and that perhaps it doesn't encourage people to diversify their production sufficiently, but we think that in the meantime, until diversification of production takes place, we need some sort of stabilisation mechanism, if only to take up some of the serious revenue shortfalls, especially of the least developed countries who are having great difficulty converting themselves to production of more sophisticated products. Given the difficulties of some of the poorer countries in being able to replenish Stabex funds under the previous conventions, we view the conversion of Stabex funding into a grant mechanism as an important step in the recovery process. It is also, obviously, a recognition of what had already become a practice.

The Sysmin system, which is designed to help mining industries, has also been improved. Primary financing will be increasingly done through grants. We think that this is an important element in trying to alleviate the debt problems of certain ACP states.

While the convention does not allocate a specific amount of money for diversification projects, it clearly puts a stronger accent on this process. Within the overall envelope, there is no doubt that more funds will be allocated to help upgrade processing within ACP member states themselves. Getting such processing activities and diversification activities to take hold in ACP countries has proved to be very difficult, sometimes almost intractible. In a large measure, the success of this convention will depend on our ability to resolve these problems. This is one of the areas in which we will be devoting a lot of effort and energy.

The Economic Outlook for Europe 1992

In terms of the EEC's single market exercise, as you know, the program for a single market by 1992, which is due to come into effect on January 1, 1993, is progressing rapidly. We have now reached the point where approximately 60 percent of the 279 measures which form part of the program have been adopted. They have not all been implemented, but they have been adopted by the EEC Council of Ministers. We have made a lot of progress and we are confident that the 1992 deadline will be respected. I think that politically we would find it difficult not to achieve this goal. We have gone so far down the road and have raised such expectations now that we really have to get the program through and up and running by the deadline.

We have calculated that the completion of the single market could give rise to ECO 220 billion in improved efficiencies and could add up to 4 to 6 percent to Community Gross Domestic Product, to which of course one should add the dynamic competitive effects of a fitter and leaner industrial apparatus. We hope that the impact of the program and the surge of investment activities to which the program is giving rise will cause the Community economy to move permanently onto a higher growth path from about 2.3 percent growth per annum over the last decade or so to between 4 and 5 percent. This trend already appears to be in evidence as Community economic growth performance is showing signs of moving above its historical parameters.

Contrary to what has often been written in the press, we are not constructing a "fortress of protectionism". If anything, the Community market will be much easier to penetrate, if only because a lot of customs regulations will have disappeared, because product standards will have become more uniform throughout the Community, and of course, because our external trade regime will be more liberal. While it will be a challenging environment in which to operate, it will also create substantial opportunities for new trade for all concerned. This means not just the industrialized countries, but the the single market will also create substantial opportunities for our ACP colleagues.

Studies on the impact of the 1992 program on ACP exports range from the neutral to the optimistic, although a few pessimistic assessments have been made. The most neutral analysis would suggest that for ACP exports, the trade diversification and trade creation effects of the single market will more or less cancel each other out. There should be an increase in the exports of tropical and non-processed goods. In the case of processed agricultural goods, I have mentioned the difficulties that exist in this area. In the case of manufactured exports, there may be some weakening of ACP performance in the short-run, though in the medium and long-term, prosperity will improve, given that demand elasticities for manufactured goods tend to be higher than for commodities.

The EC market itself will become more competitive and will contain in it a series of low cost producers, the result of which may well be a slowing down of ACP manufactured exports at least in the initial stage. However, this will depend in part on where we come out in the context of the Uruguay Round in regard, for example, to textiles and agriculture. As you know, the objective of the Uruguay Round is to bring textiles progressively back under the normal GATT trade regime and this should open up more opportunities for ACP exporting activities.

Agricultural subsidies will also be phased down. In the EEC, we have already taken a number of steps to reform our agricultural policy. You may remember the beef and butter mountains and the milk and wine lakes - well, they are all a thing of the past.

We have also done much to control prices and to reduce production to the extent that we now do not have enough to export to Eastern Europe. Our record with regard to agricultural subsidies has been better over the past several years and I would be quite prepared to address it in the question time.

It should also be recalled that the idea of a fortress Europe is in contradiction with our role in the Uruguay Round. It was a contradiction in terms. We have put a great part of what we are doing in the single market exercise on the table for negotiation in the Uruguay Round with our multilateral partners. It is clear that we are not going to automatically give all of the concessions we are giving to each other within the Community to our main trading partners without some degree of reciprocity. In other words, we have to negotiate the same sort of advantages with our trading partners as we are making available to the members of the Community. The important thing to keep in mind is that they are on the table for negotiation.

The advantages from the single market exercise will accrue to all parties active in the Community, whether they be native producers or exporters to that market. It is sometimes feared that we are not going to treat our African country partners favorably in the process. As I have mentioned, our commitments through the Lomé IV convention provide concrete evidence of the openness of the EEC to our African partners and our commitment to them. This is especially true for the least developed countries.

EC Policy on African Debt and Structural Adjustment

On the question of debt, I have mentioned that while we are not a major player, there are three aspects to Lomé which have significance. I have said that there are no longer any special loans, no longer any requirements to replenish Stabex, and we are also going to give significant support for technical assistance in debt management and through structural adjustment support to correct the imbalances which are the root cause of the indebtedness. I should also note that there has been some progress on debt at the UN Special Session negotiations at which I have participated in the last few weeks. I think we have better recognition of the problem and this will be followed by a conference on the least developed countries in September which will also take up the issue of debt.

On structural adjustment support, if I can just touch on this again, we have allocated very substantial funds, which in looking at my notes stands at ECU 1.6 billion, which is a very substantial amount of money. Our participation here will be based on a series of principles.

The first principle is that adjustment should not only be economically viable, but also socially and politically bearable. It must be based not only on growth but also on equity, i.e., it has to take some account of the impact on the poorer segment of the population and try to adjust the program in a way which will make it more liveable with.

Second, the allocation of these funds will be automatic. In principle, it is automatic for a country with an IMF adjustment program in place. Where an IMF program does not exist, we are open to considering structural adjustment loans, but our staff is limited in this regard, as also our expertise. Therefore, what we can do outside the IMF and World Bank framework is relatively restricted.

Europe 1992 and Eastern Europe

On the question of Eastern Europe, our opinion is that the opening up of Eastern Europe is going to be an advantage for everybody, particularly in the trade field. I think that this will be particularly so for the developing countries. You may recall those press stories about East Germans going to Berlin for the first time and the only things they wanted to buy were oranges and bananas, and they have little or no consumption of cocoa. It would thus appear that there is a huge market for tropical products to be begin with and the sooner we get the Eastern European economies going, the better for everybody.

In our opinion, developments in Eastern Europe will not create a diversion of official development assistance from the developing world. This has been a major concern of the developing world. We have gone on record several times at the highest political levels to say that any funds we put into Eastern Europe will be additional to what we give to the developing world. I think, if anything, that if we provide aid to Eastern Europe that this may well increase the willingness of EC member countries to consider additional support to the developing countries. Under Lomé IV, it is clear that we have increased our funds. Thank you.

Stephen Adei, United Nations Development Programme. Mr. Pierre Claver Damiba, director of the Africa Division of the UNDP, regrets not being able to be with you this morning.

The Impact of Europe 1992 on Africa and the U.S.

We are considering the impact of Europe 1992 on Africa and the U.S., especially in terms of trade and investment. This is the first time that I have seen the U.S. and Africa coupled in such a discussion. Basically, we are concerned about the coming together of the 12 basically developed economies of the European Community to form one single market. Under the current framework of the EEC, of course there has been some amount of cooperation, but there still remains a lot of controls at the level of intra-European trade. I am told that there are about 257 areas which they are discussing as part of this initiative. This shows the level of negotiations which are taking place at this stage. We therefore hope to see at the end of 1992 that there will be a synchronization of their economic policies, product standards, and environmental concerns, and they will be speaking with one voice.

Even though 1992 will be still short of a full monetary union, it is the beginning of a process which eventually will lead to a full European monetary union. What does this mean for the world? First, it means a big integrated market of about 320 million people with one of the highest standards of living in the world. At the moment, between the 12 countries, they have about U.S. $1.4 trillion in terms of external trade. That is quite large and it is growing annually at a significant rate. The Europeans themselves have stated quite clearly that they envisage that integration will lead to cost reductions in their productive system through an efficient allocation of resources, greater competition, increased economic growth and employment and hopefully, technological advancement, though I am wondering at the moment whether the existence of 12 independent states has constrained their technological progress that much.

Estimates vary as to the likely growth that will be achieved by a combined Europe. I think that the consensus by the EC, by UNCTAD, and by other research centers all point to the fact that there would be between 4.5 and 7 percent increase in GNP of these countries when they come together. How much this will translate into sustainable long-term growth one can not predict, but we have been told that it may lift it from the current 2.to 3 percent to 4 or 5 percent. I think that this would be possible within the medium term. Long term it would depend on what happens in the other trading blocs of the world and on the competition that the Europeans will face.

Europe 1992 in a Global Context

What about the actual outcome? It is certain that Europe 1992 will lead to economic growth, an expansion of the European market, which is already substantial. In that regard, it should be good news for Europe and for the world generally. What will happen will be affected by other developments around the globe which are taking place concurrently. At the moment there are other regional blocs in the north. We can think of America and the north American trading zone. The impact is likely to be positive on regional integration in the Pacific rim and on Japan. To the extent that Europe induces these types of developments, there would be an increase in growth in these blocs, which will in turn have repercussions on Europe even more than the expected growth within Europe itself.

Because the European single market initiative is likely to have a demonstration effect on the world, it is likely to induce similar efforts at regional integration among other trading blocs. Such growth and integration, especially in Southeast Asia, is thus likely to accelerate.

One must also mention that even before Europe 1992, there had been a lot of integration among the world's financial markets, especially after the "big bang" of London two years ago that accompanied the structural reforms of the U.K. financial market. This is likely to continue. My informal prediction is that even though the North in the 1990's will be much more regionally grouped, because of the need for reciprocal negotiations, there will be an increase in universalism, i.e., regional groupings will not be contradictory to much more opening of the markets of the North to each other in view of the fact that no single bloc will have the economic muscle to go by itself. I think that sometimes the worry of the United States is not whether they are going to lose out but because their relative power is in decline over the past decade and this would continue to erode as global integration proceeds. What is significant from the process is that there will be a world of equal partners and European domination may not be as high as anticipated.

After the EEC, North America, and the Pacific Rim, there is likely to be another fourth bloc in the north that will come out of a reconstituted Russia, and which may well line up with China. This may seem to be a somewhat wild speculation, but one which should not be ruled out. I don't see the USSR becoming a western-style capitalist country, nor for that matter, China, but there will be a more opening up of their economies. For their own survival they are likely to team up, unless Japan is able to lure China towards them earlier than Gorbachev will be able to solve his own problems, which no one can tell how long it will take.

Another factor which will have an impact on Europe 1992 is the scope of events taking place in Eastern Europe, and which has been referred to this morning. Apart from the possible diversion of aid and resources from the developing countries, I think that generally what is happening in Eastern Europe will be another source of growth for Europe after 1992. They are closer in terms of markets. They do have cultural links. Despite the 40 years of the closed regimes, those countries have highly developed manpower and economic infrastructure. In short, this is a ready-made zone for investment, and the Europeans are going to cash in, unless America is able to jump that line faster. One would expect that there would be another impetus to the existing predictions to European growth as a result of recent events in Eastern Europe. Germany is also going to be united and will be the first installment of this type of growth coming from the East which will have an impact on the West.

Lastly, one may like to mention a development which has been taking place over the past 15 years or so, and that is the role of the transnational corporations. For the North this may lead to a redistribution of the gains of Europe 1992. During the past 15 years, there has been a shift in the strategy of transnational corporations to meet the challenges of economic groupings or blocs. Before then, the parent company would be based in, say Europe or America, with subsidiaries throughout the world. Now they establish autonomous institutions or branches within each bloc. I was listening to a commentary on the radio not long ago that at the moment, you can not even buy an American car and be sure that it is an American car because almost 90 percent of the cars have a Japanese interest or a European interest and though they are still carrying the same labels, now you are buying what is in effect a world car. I don't know whether it has touched Cadillac, but I am sure that it will happen very soon. What I am saying is that Europe 1992 must be seen in this global context.

The Impact of Europe 1992 on Third Party Groups

There is a world of difference between what is happening in the North and what may be taking place in the South. The South, of course, has had several attempts at regional groupings, especially in Africa, but so far there has not been that much success. Moreover, many regional institutions have been at least as much political as economic. The Organisation of African Unity is one such example. It is only such regional groups as ECOWAS (the Economic Community of West African States), and SADCC (Southern African Development Coordination Conference) which are much more oriented toward economic integration. One would expect that what will happen in Europe will give an impetus to such efforts at regional integration in Africa, especially in the SADCC region, even though the major determining factor will be the political solution to the southern African question other than Europe per se.

How are third parties going to benefit from Europe 1992? I think that one can work with certain assumptions. First of all, we have stated that growth is likely to be higher in Europe than it would have been otherwise. On the question of barriers, even though I agree with the Commissioner from the EEC that despite the possibility of "ganging up" and a "fortress Europe", that is not likely to happen. The combined external protection of Europe will not exceed that of the individual countries at this stage. That does not mean that the individual third party countries will benefit more by the integration process. Africa may be such a case, even though the degree of overall protection is lower. This is because the ability of third parties to benefit from Europe will depend on at least three factors.

First, it will depend on the capacity of the third party in terms of economic power, to be able to negotiate with reciprocity as well as political leverage. Second, and by far the most important, and this will make a distinction between the U.S. and Africa is the technological capacity of the third party to respond. I know that there is much concern in the U.S. about agricultural standards implemented in the EEC which have limited agricultural imports from the U.S. No matter what standard Europe raises, it can only have a short-term adverse impact on American agriculture basically because America has the technological capacity to respond and to adapt in the long-run. The African countries do not have such capacity.

The third factor that would determine whether Africa and the U.S. would be able to benefit from the Europe 1992 processs or not would be the present state of their trade and investment relationships with Europe. Let me just give you a passing comment on the U.S. relationship as a result of this process. A prosperous Europe can only benefit the United States. I think the net result should be postivie. Europe will not dare, initially at least, to come into an open trade war with the United States. I think that this should be recognized. The U.S., and by this I mean individual U.S. companies, have the technological capacity to deal with any challenge that will be raised.

Another factor to the advantage of the U.S. is the capacity of transnational corporations, which is always far ahead of political changes. Again, I think that the U.S. stands, including in terms of any fallout from democratization in Eastern Europe, to gain from the economic integration taking place in the EEC.

Europe 1992 and Implications for Africa

How about Africa? Here, I think that the impact is likely to be great but not necessarily for the better. At the moment, there is a strong economic relationship deriving from the colonial and post-colonial heritage between Europe and Africa, especially among the francophone countries. The link between francophone countries and France is very strong, with the CFA franc being tied to the French franc. About 75 percent of all sub-Saharan exports go to Europe. The value is about U.S. $20 billion to the 12 EEC countries. The imports from these countries are slightly less, but still quite significant.

At the moment, most African countries have between 25 and 75 percent of their stock of foreign investment in the modern sector coming from western Europe. I am giving this wide range because it varies quite significantly, depending on the country. I think that what happens to Europe will therefore have a significant impact on Africa. Of course, even though political independence in the 1960's resulted in a loosening of some of these links, yet these ties are still quite strong.

I have also mentioned that one of the biggest problems is not so much what will happen in Europe, but the capacity of African countries to respond, given the low level of technological development, the supply inelasticities of many of their products and also the undue price inelasticity of their primary exports. These are underlying factors which will affect their capacity to benefit from any increase in the economic gains projected from European economic integration.

I should also mention that almost half of ODA (Official Development Assistance) going to Africa comes from the 12 member countries of the EEC. This is another area where I think that the link is quite strong, although I am not optimistic about the aid because EEC by itself is not likely to deal with African countries beyond the ACP framework of the Lomé conventions, which, if integration leads to a reduction in individual countries' assistance to the African countries, it will be a net loss to the African countries in that regard.

There are some areas where one can draw tentative conclusions with regard to the likely impact of Europe 1992 on Africa. In the question of trade, one does not yet know the outcome of the GATT Uruguay Round negotiations now under way, but which will have a major role to play on Africa. My general impression is that Africa will first of all lose on the present protocol arrangements and preferences received from the European countries and that is not likely to be compensated by the increase in trade that will be generated by higher demand in Europe.

Since the specific protective machinery which the EEC is operating with agriculture may be removed in time, African countries will have to compete with other developing countries, especially the Southeast Asian countries, e.g., Malaysia and Indonesia in terms of such products as palm oil and cocoa. Technologically, these Southeast Asian countries are low cost producers. They are likely to undercut African countries in these areas. Even though there will be an overall greater demand for African exports, it does not necessarily mean that the African countries will gain an adequate share of the market. This possibility is due more to the fact that individual arrangements will be replaced by uniform ones. African countries will have to compete with other developing countries on their own terms, and African countries have a relatively weaker productive capacity in comparison to many other countries.

I do not think that the Common Agricultural Policy, or CAP, of Europe is going to change in any significant way for the near future. The European agricultural market is likely to remain largely protective, even after 1992, except that it will not be worse than it has been before. This suggests that African countries should be thinking at this time about the possibility of negotiating higher quotas for their exports within the framework of 1992.

One concern to African exporters is the type of standards that may be adopted by a unified Europe. Given the environmental concerns now being voiced and the fact that there is a variation of standards applied among individual countries, I think that Europe 1992 will lead to the adoption of relatively stiffer standards rather than going for the opposite. In that case, it will become much more difficult for African countries to compete, though in certain areas such as cocoa, if they adopt the French standard for chocolate (which is almost pure chocolate rather than the British one which is mixed with vegetable oil), then the Africans will gain. It is a matter of balance.

Policy Implications of Europe 1992 for Africa and the U.S.

What are my conclusions from all of these remarks? At this stage, Europe 1992 seems to offer an impetus to growth both within the EEC itself and for the world generally. This should be good news for world trade and investment flows. The ability to benefit from this process depends on what the Europeans do with regard to protectionism, the technological capacity of third countries to match production efficiency, success in negotiating concessions, and reciprocal arrangements. The industrial countries such as the U.S. have both the capacity and the political and economic clout to benefit from 1992. Furthermore, 1992 will lead to further strengthening of regional trading blocs of the world which by themselves should generate other pockets of growth.

The story is different in the case of Africa. Capacity is weak. Trading patterns are still very much defined by concessional trading arrangements dating from the colonial experience, and which are likely to undergo drastic changes after 1992. The possibility that their comparative advantage will be eroded through multilateral arrangements is high. Even though Europe 1992 will present opportunities, Africa may not fully benefit from the process. If, on top of this, Europe 1992 leads to trade and investment diversion to the poorer segments of the Community and Eastern Europe, then the net impact of trade and investment in Africa could be even negative. The Lomé convention is therefore inadequate for Africans to negotiate with the EEC.

Europe 1992 may spur the Africans to take their human resource development and technological capacity-building more seriously and against all the odds strive for greater integration themselves. If, on top of that, the events of Eastern Europe lead to better governance (not Western-style democracy per se, but openness, accountability, popular participation in development, etc.), then the long run gains may be more than any short-tern economic consequences may suggest. However, as is evident in Lomé IV, if the EEC encourages adjustment within short term time frames and supports unduly the IMF and the World Bank, which work less at the regional level, and mainly with individual countries, and which to date have not made national capacity building and technological development the focus of their policies, then the losses to Africa may be compounded. Thank you.

Daniel Bond, U.S. Export-Import Bank. Thank you very much. It is a pleasure to be here. I would like to make comments based on my own experience at Export-Import Bank. I think it is best to talk about what you know best. As you know from the introduction, I am not an African expert. Before I came to Exim Bank, I worked mainly with the Soviet and East European economies. Since coming to Exim Bank, while my responsibilities now cover 150 countries around the world, I am once again focusing on Eastern Europe because of recent developments in that region, and the U.S. government's response, part of which is to allow Exim Bank to operate in the countries of Eastern Europe where we have not operated in the past. We have had legislation that has prohibited us from operating in several of these countries and these restrictions are now being lifted and we are once again focusing on Eastern Europe.

Concessionary versus Non-Concessionary Financing

In general, my comments this morning will focus on non-concessionary external financing. By that, I mean financing that is based at market rates, supporting trade and investment, because that is what the Export-Import Bank is involved in. The Exim Bank is a special creature. It is called an export credit agency as a general term. We are an independent agency of the U.S. government. Most of the industrialized countries around the world have a comparable organization. There are differences in how they operate, but they are all called as a group export credit agencies. The names vary a great deal. There is COFACE in France, SACE in Italy, HERMES in Germany, and so forth.

The one that is easy to recognize is the Exim Bank of Japan, which the Exim Bank of the U.S. helped to set up and therefore the Japanese adopted a similar name. There is also an Exim Bank of Korea which we also helped to set up in the postwar period. Each of the major industrial countries, with their export credit agencies, set policies to help support that country's exports to other countries. Over time, the focus of this support has shifted and today in most cases, it is to help support exports to developing countries.

Why do governments get involved in financing of this type? The reason is that most governments feel that they can help increase their own country's exports to other countries by the government providing some assistance in financing. I started out by saying that I am talking about non-concessionary financing at market rates.

Export credit agencies basically are operating at or near commercial terms. The government provides a special incentive in the financing by taking on risk that private banks or companies are often not willing to assume, or what we call "country risk". If you are lending money to a country like Argentina today, you do not want to use your own money. You want your government to come in and say, "O.K., if you do this and help to increase our exports to Argentina, the U.S. government will stand behind you and if the Argentine government doesn't pay, we will pay." Argentina is a high risk market and that is about the only way you will get financing for Argentina.

The same thing holds true for many African countries. The country risk is considered to be very high and so to maintain financing for exports and for investments in these countries, the government steps in and assumes a lot of the risk. Of course, when I say the government, I mean you, as the taxpayer, assuming the risk. At some point, someone has to pay the bill and it is the taxpayer when it is an export credit agency involved. Now the export credit agencies are in general a very important source of financing for developing countries for this reason.

You can look at the non-concessionary financing and divide it up into various blocs. You have the multilateral organizations such as the World Bank. Although there is some concessionality in the World Bank, they do some financing at near market rates.They expect to be repaid, and to be paid both principal and interest. They do not expect to forgive debt. We consider such arrangements to be non-concessionary. As you know, they are very important in Africa and elsewhere among developing countries.

In addition, commercial banks, who in the past, particularly in the 1970's, were very active in third world countries. At their own risk, they did take a lot of exposure in developing countries. But now commercial banks are backing out of the third world and are saying that they essentially can not take any more risk in the third world. That means that the export credit agencies, or ECA's, with their government financing as backup, are becoming increasingly important because ECA's can work with the commercial banks.

In a sense, there is a partnership between the ECA's and the commercial banks. It is a partnership in which commercial banks can provide the funds while the export credit agency provides the guarantee of repayment. It is contingent liability for the governments involved, even though the financing still comes through the commercial banks.

Increasingly, what we hear today from the commercial banks is that they want the governments to assume the risks in developing country lending. The commercial banks want to provide the financing and to get paid and make the profits, but they want the governments to take the risk. I think this will be the case in the future, particularly in areas like Africa which are high risk. The export credit agencies will be backing almost all of the financing, whether it is from the governments directly or indirectly through guaranteeing commercial bank loans. Export credit agencies thus have a very important role to play in developing countries and particularly in the poorer developing countries. You find that the percentage of non-concessionary financing provided by these various groups is very substantial. The export credit agencies are the most important sources of financing. Exim Bank, for example, has U.S. $4 billion in Africa at this time in outstanding loans we have made in the past. We have a fairly high exposure in Africa, especially considering the level of U.S. exports to Africa, which are not that great.

Non-Concessionary Financing and Eastern Europe

I have focused thus far on what the export credit agencies actually do because I want to talk about the impact of Europe 1992 on this particular source of financing, and to talk about the potential for diversion of these funds. What is happening now in Eastern Europe and in the EEC itself is attracting a great deal of attention. The uniting of the European market makes that a very attractive market for exports and investment. If you are looking at relative growth and trade, I think that the European Community and the EC 1992 process is attracting a lot more trade and investment to Europe. The addition of Eastern Europe and the potential of even larger markets someday in the future is again attracting attention to this area. The financing for this trade and investment will be coming in large part from commercial banks and from export credit agencies.

Is there a diversion because of the events now unfolding in the EC and in Eastern Europe? Not necessarily in the first instance. As I mentioned, export credit agencies provide their financial assistance in various forms and I think that the two principal ones are through direct loans on their own and through guarantees of commercial bank financing.

Ex-Im Bank Financing and the U.S. Budgetary Process

In the area of guarantees, it turns out that governments usually are very generous in their budgets in allowing for guarantees. Taking the U.S. as an example, we have a crazy way of budgeting our capital account. Any guarantee that we provide is not treated as an expenditure. It is a contingent liability, i.e., if you guarantee a loan, it means that you are not providing the money today. You are making an obligation that if at some point in the future the obligor doesn't pay, the government will step in and assume the liability, and will pay the U.S. bank or company, and then will try to collect from the debtor country or from the company if it were with the private sector.

A contingent liability is not in our current budget, which is very convenient in one sense. Today, we in the U.S. consider ourselves to be relatively weak in our economic programs because of the budget problems we face. The desire to reduce the federal deficit now means that it is difficult to get new expenditure items in the budget. Since contingent liabilities do not go into the budget, they do not affect the deficit today. If you have listened to Richard Darman, director of the U.S. Office of Management and Budget, recently, he warned about the fact that in the last decade we have seen a tremendous growth in the U.S. government's contingent liabilities. He characterized these liabilities as something like the little gremlins in the computer video game "Pac Man" - they are gobbling up future resources. They are doing so in the form of student loans, farm loans, as well as the current controversy over savings and loan bailouts. All of these programs have been based on contingent liabilities assumed by the U.S. government.

So far, even though Mr. Darman and others see these contingent liabilities as little monsters out there causing problems for the future, because it is a future problem and not a problem today, the government really has not cut back on its guarantee programs. Exim Bank has a lot of what we call "headroom" in our guarantee program. This means that each year the amount of guarantees that we provide is well below what Congress will allow us to take on. On the other hand, the other way we count the beans in the budget, any loan is counted as a direct expenditure.

If we lend U.S.$1 to a foreign country, that is considered to be the same thing as spending a dollar on a school program or highway construction. For this reason, in recent years, as we have been concerned with our budget deficit, we have cut back rather dramatically on loan programs. Exim Bank in particular has suffered a rather drastic cutback. In 1981, at our peak, we had a U.S. $6 billion annual loan program. This past year, we had between U.S. $600-700 million, one-tenth of what we had a decade ago. So you can see that the government has pulled back rather dramatically in its loan programs.

In other countries you do not have as dramatic change as has occurred in the U.S. However, other countries face the same kind of financial problems. The more generous the guarantees, the stingier the conditions are likely to be when it comes to loans.

The Positive Long-Term Effects of East Europe for Africa

What does all of this matter when looking at possible diversions in Eastern Europe away from Africa? The export credit agencies all compete with one another. If each country is trying to support its own exports to a foreign country or its own investments in a foreign country, they of course are competing with one another. They have learned over the years that cutthroat competition among the creditor nations is not wise. They have gotten together and through a process of negotiations, have reached agreements. These agreements are designed to limit the degree of financial subsidy involved in the export programs of all the creditor countries.

Through these agreements export credit agencies have set up a formula where they divide up all of the countries of the world into three groups: rich countries, intermediate countries, and poor countries. They treat each of these three groups differently. There is presently very little subsidization for rich countries, that is, the guarantee of the government backing is about all you get from having government export credit agencies for financing of trade and investment to rich countries.

Most of the financing by export credit agencies is directed to the intermediate income countries and the poor countries. All of Africa essentially falls into one of those two categories. Much of North Africa falls into the intermediate income category and much of the rest of Africa is in the poorer country category. Now in these two groups there is some subsidization in that the export credit agencies are allowed to provide lower than market rates of interest, maybe two or three hundred basis points in terms of interest rates. This means that if the market rate is ten percent, then they will charge eight and a half percent on their loans. In short, these rules have limited the degree of subsidization, while at the same time contributing to the segmentation of various programs toward countries.

It is very important to note that Eastern Europe and the Soviet Union all fall into the rich or intermediate country categories. The Soviet Union, Czechoslovakia, and East Germany were placed in the rich category in 1982. The remainder of Eastern Europe is considered to be in the intermediate country category. Because of this classification, most of the export credit agency activities in the region will probably be in the form of loan guarantees. In fact, at Ex-Im, we intend to operate only with guarantees in the Eastern European region, unless we are forced to provide loans. This is to say that we will only provide a guarantee for commercial bank lending to these countries.

The export credit arrangements for the EC and for Eastern Europe are very important because it means that there is not direct competition really with the type of funding that is normally needed in Africa. Most of what we find in Africa is demand, not for guarantees, but for loans. This demand is for loans that have some modest degree of subsidization. Fixed interest rate loans at three to ten years with a little bit of subsidization is the kind of financing that African countries are seeking. They are trying to get the best terms. Most of these countries are strapped for hard foreign currency. They already have heavy debt problems. They seek to get the lowest cost financing. They would first like to have concessionary financing and they can get that from various sources, preferably direct grants. But when they come to the more commercial financing, they are seeking concessionary loans.

Because of the agreements among the export credit agencies in general, and because of the differences in the ways in which we treat countries, the increased trade and investment by the United States in other countries of Eastern Europe is not going to directly compete with the pool of funds that normally would go to Africa. One can perhaps feel good on this issue insofar as Africa's access to funds is concerned.

In terms of what is going on in Europe, then, and in terms of the programs we have, there is not a great deal of danger to Africa at this time. In fact, I can say for the U.S. government, what we see today is that the U.S. government has become more concerned with our economic power, our relative economic position and because of the change in Eastern Europe which has in a way has made us feel like security concerns are less important, I think what you will have in the budgetary process is a shifting of resources, the "peace dividend", which should actually help Africa.

Exim Bank, after a period of almost a decade of steadily declining direct loan authority, is now beginning to get increasing direct loan authority. This will help in terms of our ability to support U.S. trade with Africa. It will provide Africa with a source of somewhat less expensive financing. One of the advantages is that with less concern for security in Eastern Europe, this will allow us, even with a constrained budget, to reallocate within that budget to the advantage of such regions as Africa.

The Short-Term Outlook for Africa

This outlook reflects a long-tern development. I think that the immediate impact of Europe 1992 is going to be quite negative for Africa. The really scarce resource today in terms of trade and investment is people. The attention of heads of corporations is limited, particularly in U.S. companies. The U.S. has not been all that aggressive as a global trader and investor. We are beginning to become more aggressive, but the number of people who are involved in this are small.

The opening up of Eastern Europe has really captured their attention. It is exotic. It is interesting. It is in the newspapers. There are a lot of good, concrete reasons why this is an area they have to look at. They have to at least investigate it. That is what they are doing. If you try to book a plane to Warsaw, as I recently did, you can't get on a plane. You have to wait three weeks. Getting a hotel once you get to Warsaw, unless you have the U.S. embassy willing to put you up, you are in trouble. Why? Because all of the American businessmen are flying to Warsaw checking out the opportunities. I think this will go on for the next few years. There will be a great deal of attention being paid by a limited number of people who make these types of decisions and this is going to detract attention away from other areas of the world, not just Africa. People in Portugal and Spain, who were looking forward to the development of the European Community and in their being viewed as a low cost production base for entrée into Europe are also faced with the same problem. They are not getting the attention from the few decision-makers who now are suddenly are very interested in Eastern Europe. And this is likely to go on for the next few years.

U.S. Interest in Europe 1992, East Europe, and Africa

East Europe does have certain advantages, which even in the long run will make it a preferred location for investment over Africa. I think this is a negative message for Africa. Maybe the message can actually be very good. Before coming to Exim Bank two years ago, I was an economist working for the Congress. When Paul Sarbanes became the Chairman of the Joint Economic Committee, he was concerned about how little international economic analysis was being done and so I came on the staff to head up the international analysis for the Congress. When I came on staff, I was told to look forward several years and see what is important to the United States and focus on those issues.

The Joint Economic Committee is not a legislation committee. It doesn't write laws or get involved in legislation writing. Supposedly we had the luxury of looking forward. That was in 1987. At that time, I thought that EC 1992 was really a hot issue, that this was something that Congress should pay attention to and to be educated on and think about what it meant for the United States, and I started working on that, trying to set up hearings and it was a big yawn. No one was interested in EC 1992 in 1987.

It wasn't until about a year and a half later that some journalists began talking about "fortress Europe" which began to scare lawmakers into wanting to learn more about the issue, to have hearings. So a little bit of scaring won't hurt Africa, I think. They should be scared a little bit about the diversion of attention because attention is really the limited resource - there are so few people who make these decisions, and they should be concerned about what they themselves can do to counterract the shift in attention.

Ex-Im Bank Operations in Africa

In terms of Africa, although Exim Bank operates in several African countries, we are also closed for business in many others. Why? Because of country risk. The risk of operating in Africa is very high. Because of the debt crisis, we see that many of these countries can not pay their debts. While we are a government-backed institution, and have all of your money to rely upon ultimately, we can not take risks that are too extreme when everybody knows we are throwing the money away. For that reason, if you look at Africa now, there are only about seventeen countries out of fifty-three where we really are active and these are countries that have managed to have fairly reasonable servicing of their debt and to maintain normal business practices.

What Africa has to do today is to emphasize the development of the private sector. We have found that we can not operate very effectively in Africa relying on the governments of Africa for repayment. This has been a fairly sorry story: Repeated reschedulings by governments that have not been able to service their debt. Now part of the present situation is our own fault in that for many years we and other export credit agencies felt that a government guarantee of repayment was all that we needed. The general assumption was that governments didn't go bankrupt. As long as the government gave us a piece of paper committing themselves to servicing their debt, that seemed sufficient.

We have all found out that written government pledges on loans are not adequate. For most of governments in Africa, the public sector is very overburdened with debt. Now there is an effort to address this issue through Paris Club reschedulings, that is, all of the export credit agencies have provided extended and repeated reschedulings of debt. As you know, for a number of countries in Africa, there has been outright debt forgiveness, that is, extremely long-term repayments, or reduction of principle, reduction of interest. The 1988 Toronto Summit Agreement that have been put into place through Paris Club negotiations is one such example.

Where we find an increase in economic activity is in the private sector. We can go into countries where we are not able to deal with the government, but we can deal with the private sector. This requires simply a few things that governments must do. First, they need to create a good environment for the private sector so that there is a viable private sector to work with. Secondly, they need to provide a foreign exchange regime that allows us some expectation that if a private sector company is successful and makes money, it can get the foreign currency it needs to pay debt. There are various mechanisms such as the CFA franc, which is very important in that respect. In the CFA countries in Africa, we can operate with the private sector even though we are completely closed with the public sector.

As we work with the private sector, it is essential that we can do the credit analysis for the private sector. These companies have to be operated in a way and have accounts that can be objectively evaluated. We are not taking just the country risk, what we call the political risk or transferability or stability in a country, but the commercial risk that we actually face, relying on some company or bank in the country for repayment.

Finally, the banking sector is essential. In most cases in Africa, private companies are so small that we can really deal with them directly. We have to rely on their local banks, the local commercial banks in many cases as the intermediaries. Perhaps I should end my remarks at this point. Let me conclude in suggesting that we may talk more on some of these issues during the discussion period. Thank you.

Gerald Feldman, U.S. Department of Commerce. Thank you. It is really a distinct pleasure to be here this morning to talk about an issue that has preoccupied many of us in the Department of Commerce and throughout the U.S. government. In fact, when Dr. LeBel first contacted me about this symposium, I accepted with great enthusiasm and was very eager, although I did mention at the time that I am afraid I may have many more questions than I have answers as to the future of Africa, to the U.S. role in Africa, and Africa's place in the world economy stemming from Europe 1992.

African, Caribbean, and Pacific Country Concerns over Europe 1992

I would like to preface my remarks with a few general observations about the apprehensions that the 66 ACP, or African, Caribbean, and Pacific, countries have expressed about the future of their long-standing preferential agreements through Lomé with the EC. As I understand the principal fears of the ACP countries, I think they can be divided into four major categories:

The first is with regard to commodity exports of the ACP countries to the EC as a group, namely, that they could decline owing to future harmonization of product standards for health, public safety, and sanitary considerations within the EEC;

Second, that the manufactured exports from the ACP countries, things such as textile products and other goods could find themselves perhaps less competitive with those flowing from some of the southern European countries;

Third, that investment capital flowing from the EEC could be channeled more to EEC countries, or, as we have heard, channeled to Eastern Europe; and

Fourth, the possibility that France's ability, or intention, to maintain the parity of the CFA franc with the French franc (at its current ratio of 50 to 1) could come into question if France eventually becomes firmly anchored into an EC-wide monetary system.

The preponderance of evidence indicates that the fears of the ACP countries at large may be somewhat exaggerated, that is, they will probably be better off after the EC becomes a unified market than they have been up to now. This is largely because, as we have heard from some of the speakers, that the EC should become a much stronger economic unit after its market is unified, and therefore more able to fulfill the responsibilities that it has undertaken to the ACP countries with respect to aid and general economic support, as well as in the area of trade. I would hasten to add that this does not mean, such as Dr. Adei has already mentioned, that every ACP state will benefit from the effects of Europe 1992, or that there won't be some short-term economic dislocation in the process. Certainly I believe that the less competitive ACP countries may need some additional help.

I might add here parenthetically that in my own discussion of this process with African government officials and business leaders as well, I have found them somewhat relaxed about their prospects under Europe 1992. They do not appear to believe that they are going to be closed out of Europe, or adversely affected. I would add that the sample with which I have had the opportunity to interact may have been somewhat limited, and in which we have not always had the opportunity to discuss these issues in depth.

Of the four areas of concern that I just mentioned, I think that two may have greater validity and may be of somewhat more importance than the others. They are: the potential loss of markets for Africa's commodity exports to Europe and second, the issue of Eastern Europe as a new competitor. I believe that Africa's extreme economic difficulties over the course of a number of years have stemmed in many ways from the region's rather narrow economic base.

Africa's Fragile Economic Base

At least twenty-five countries in Sub-Saharan Africa depend on a single commodity for at least a third of their total export revenues. In sixteen of those countries, a single commodity supplies more than half of their export earnings. For example, in Ghana, cocoa accounts for some 70 percent of total earnings of hard currency. In Niger, uranium supplies three quarters of total hard currency earnings. Zambia looks to copper for some 90 percent of their total earnings of foreign currency. In Uganda it is coffee that is supplying 95 percent. In Nigeria, it is oil that provides 95 percent of export earnings. And this list goes on an on. So with commodity prices at the depressed levels that they have been for a number of years, African countries have been deprived of the foreign exchange lifeline that they need so desperately for their development. It is logical for them to fear any further erosion of their market position in Europe for sales of primary commodities.

Africans are emphatically concerned about the new competition coming from Eastern Europe. Specifically, they are concerned that the rapid political and economic changes that are underway in that part of the world might cause donor countries as well as the private sector in most countries of the developed world to turn away from Africa in favor of financial aid and private investment in Eastern Europe. I believe frankly that this fear may be a far more legitimate concern than any fear of European market unity, and very much agree with Daniel Bond's assessment in this respect. Indeed, if our focus on Eastern Europe does deprive Africa of resources or diverts our business attention from otherwise investigating opportunities in Africa, I think this would be most unfortunate.

To those unanswered questions, I might add two more that we at the Department of Commerce have been grappling with and to which we do not as yet have any good answers. One is whether U.S. products are likely to suffer in third country markets such as in Africa, that is, U.S. products which do not adhere to the new EC product standards - are they likely to find themselves at a competitive disadvantage in the markets of those more dynamic African countries which in their own process of adjustment to Europe 1992 go about adopting European product standards. Secondly, will the United States come under pressure as an alternative market for whatever African exports are displaced from Europe because they themselves do not conform to EC standards?

Having said all of this, I would like to turn basically to the context in which Africa is attempting to adjust to the new market realities both in Western and in Eastern Europe. Certainly all of us have heard a great deal about Africa in recent years in terms of deep crisis and continued suffering. The media have been just full of stories of famine and disease, war, overpopulation, escalating foreign debt, and general overall economic stagnation. Clearly, Africa has been faced with a daunting set of problems during the 1980's. As is well known the overall economic situation has been steadily deteriorating. For example, per capita GDP in the region fell by 17 percent between 1980 and 1987. Food production per capita declined to a level 20 percent below that of two decades ago. The region's collective current account deficit swelled to more than U.S. $60 billion. Total foreign debt has grown to more than U.S. $140 billion, with anticipated costs of servicing that debt approaching something on the order of U.S. $72 billion over the next five years.

Positive Changes for Economic Growth in Africa

Lately, I am happy to say, some of the news has been a bit more encouraging. Namibia has just gained its independence after 75 years of South African colonial rule. The new country holds considerable promise for a multi-party political system and a mixed economy. South Africa itself, for that matter, is moving toward the dismantling of its apartheid regime, and toward a new social and economic equity. Lately, Zaïre, Gabon, and Côte d'Ivoire have just announced plans to adopt a multi-party political system, and each is to hold free elections. Literally, throughout Africa, countries have implemented programs of economic reform based on free enterprise policies.

Africa, I think it is fair to say, is undergoing truly historic change as the decade of the 1990's unfolds. Economic reform has spread to some 30 nations in the region. It appears to have helped Africa to bottom out and to begin its long-awaited economic recovery. While the revolutionary political and economic transformation of Eastern Europe has truly captured the world's imagination, Africa has been undergoing the same sort of transformation but in relative obscurity.

Africa's movement away from state-centralized economic control toward the free market has been going on for a period of five years or more. In many ways, it has been just as radical as that going on in Eastern Europe. Yet we hear very much less about the results of Africa's reform movement or its implications for the region's long-term future as a trade and investment site for American business. It is against this sort of background that Africa is now being forced to deal with the new reality of Europe's unified market.

U.S. Economic Relations With Africa

In 1988, the 46 or so countries in Africa exported just about U.S. $60 billion worth of merchandise to the rest of the world. That does represent a rather impressive growth of 21 percent in just two years, especially in view of the fact that world prices for Africa's primary commodities remained depressed during that period. The trend does indicate that Africa is having some success in diversifying its limited export base. In fact, we in the United States have seen some stark evidence of that diversification in two ways. First, we have seen it in a steady decline of our own exports of U.S. farm products to Sub-Saharan Africa as well as in a major increase in African exports of cotton textiles from certain countries which have been pursuing the economic reform.

Over that same two year period, that is 1987 and 1988, Sub-Saharan Africa's total imports from the rest of the world grew even faster than their exports, that is, nearly 27 percent, up to U.S. $56 billion. That means that Africa has finally restored a small but significant trade surplus in its international account. It also means that the region is a growing potential market for U.S. exporters. I emphasize "potential" because it has hardly been touched. The U.S. purchases approximately 15 percent of Africa's total exports, but supplies less than 7 percent of the region's total imports. In fact, U.S. exports to Africa totalled just U.S. $3.8 billion in 1989. That is only 2 percent above the 1988 level, largely because the gradual strengthening of the dollar over the course of 1988 finally started to affect U.S. export performance. Basically, it cut off the sales upsurge that we enjoyed during 1987 in 1988.

The sudden slowing of U.S. shipments to Africa points out the fragility of Africa's growing marketplace. We expect that this year, as in 1989, will be a year of adjustment between the strong sales of the relatively recent past and a moderate growth pace ahead. During the rest of 1990, I think we can look forward to U.S. exports continuing to meet very stiff competition in Africa's very highly price sensitive markets. Liberal financing is going to continue to be a key to export success.

In spite of the relatively flat performance that U.S. sales experienced in 1989, particular product lines performed extremely well and I think we can look forward to a continuation of this pattern for the immediate future. Among them I would put at the head of the list aircraft and associated parts. Also, one should add pumps and drilling machiner for the oil industry, as well as certain types of computer equipment and materials handling machinery. All of these are bright prospects as Africa continues to rebuild its deteriorated infrastructure and its weakened export base. Earth-moving equipment and telecommunications gear may also find good strong potential, provided they can meet the price competition of European and Japanese suppliers. Agro-business equipment and food processing machinery should continue to perform quite well, along with medical equipment. These are all areas where U.S. technology remains pre-eminent in the world.

On the agricultural side, wheat and rice sales are continuing to show strength in spite in the general decline in sales of farm products. In fact, during Africa's drought years of the mid-1980's, our exports of agricultural products ballooned to nearly a third of our total shipments to the region. That compares to a traditional portion of just about 18 percent.

Since the drought drought broke in 1986, farm exports have been in a rather steady decline. Last year they accounted for less than 13 percent of our total sales. The good news in all of that is that the Africans are left with substantially more foreign exchange to purchase the capital goods from us that they need for their development.

Turning for a second to U.S. imports from Africa, suffice it to say that they are surging. Our purchases were nearly U.S. $11.8 billion in 1989. That is 35 percent above a year ago. The big growth item was crude oil, which accounted for 70 percent of our total imports from the region. Overall, the U.S. runs consistent trade deficits with Sub-Saharan Africa. In fact, during the decade of the 1980's, our cumulative imbalance totaled U.S. $75 billion dollars in Africa's favor. That means that U.S. $75 billion was transferred from the United States to Sub-Saharan Africa during the 1980's. Obviously, this was a major stimulus for economic growth in an area that sorely needs it. Unfortunately, the narrowing of our trade base, with oil taking an ever larger share means that the growth benefit is not being spread evenly throughout the region. Instead, it is being confined to a handful of major oil exporters. Nigeria, as we can well imagine, is the major beneficiary. In fact, in 1989, Nigeria moved into second place among foreign suppliers of oil to the United States, behind Saudi Arabia.

Prospects for Closer U.S.-Africa Economic Relations

At the Department of Commerce, we often refer to Africa as one of the last frontiers for U.S. business overseas. It is clearly a region long neglected by U.S. business and one about which we are largely ignorant. Americans are equally ignorant about the widespread economic reforms under way in Africa, but it is the success of these reforms that is going to determine the degree of Africa's success in adjusting to the new challenge of market unity in Western Europe.

During the past five years, an increasing number of African countries have managed to dismantle their system of state centralized economic planning, which had contributed to heavily to their economic decline in the 1980's. Today, virtually across the map we see efforts to do things like raise producer prices, particularly in agriculture, to trim back or divest inefficient state enterprises, to devalue overvalued currencies, to maintain tighter discipline over government expenditures, to end costly internal subsidies and to remove barriers to trade.

The results of these measures have clearly started to show themselves. A joint study by the World Bank and the UNDP concluded that countries which had implemented reform programs have experienced stronger economic performance than those which have not. Specifically, the reformers have reduced their fiscal deficits and inflation. They have raised their rates of saving and investment, and they have attracted more foreign capital, including concessional aid.

In Ghana, for example, economic reforms now in their sixth year helped to yield an unexpectedly large cocoa harvest last year, which partially offset a further sharp decline in world prices. Guinea's reform program brought gains in farm output and employment in the informal sector of the economy, which has benefitted both small farmers and the poor. In Nigeria, as a result of its structural adjustment program, there has been a vast increase in agricultural production as well as in exports of cotton textiles. Uganda's reform program has resulted in economic growth of 4 percent each year since 1987. That compares to stagnation and negative growth in earlier years.

This reform lesson has not been lost even on Africa's formerly hard-line socialist countries. Congo has implemented an economic liberalization and just recently concluded a bilateral investment treaty with the United States which guarantees the sanctity of foreign private ownership. Just last February, Benin announced a major restructuring of its economy in favor of the free market. Even in Ethiopia, which formerly declared itself a Marxist-Leninist state in 1987, recently announced plans to replace their Soviet-style economic system with a mixed economy, including private ownership of assets and land.

In adopting measures such as these, Africans have removed constraints on their own private sectors and made their business climates much more open to foreign participation. New investment codes have been or are being written in Cameroun, Tanzania, Madagascar and Malawi. These codes will encourage foreign investment by providing for profit repatriation, one-stop investment centers, and more freedom to set prices at the market. Meanwhile, Botswana, Lesotho, Zimbabwe, Nigeria, and Kenya have implemented changes in their investment regulations in an effort to ease the investment process and help foreign investors to cut through all of the red tape.

Economic reform in Africa has certainly not come without pain. Structural adjustment has been undertaken in most cases only after the countries have fallen into deep crisis, with large trade and budget deficits, and growing debt. The reform could not proceed solely on growth-oriented policies, but first had to bring spending into line with the productive base of the economies through forced austerity and rigid belt-tightening. Those countries which have faced the rigors of adjustment and stayed the course now are hoping to attract private investment capital in an effort to make their economic growth truly self-sustaining. Ironically, just as Africa appears to have bottomed out of its long economic malaise, it faces another set of challenges from the economic unification of its principal benefactors in Europe and perhaps more ominously, from a new set of competitors in Eastern Europe.

As I said at the outset, the long-term effects of Europe 1992 are likely to be more positive for Africa than negative. That certainly does not mean that every African country is going to benefit or that there won't be some very difficult adjustment lying ahead. A few of those adjustments could even have implications both for the U.S. as a donor and as a supplier.

Part of Africa's economic problems up to now have been due to its own inability to adjust to global economic realities. I think it is incumbent on us, those of us in the developed world, to help find ways to help Africa to reinforce and strengthen its ongoing economic reform agenda. We need to make this effort to increase the ability of African countries to withstand the challenges of today's modern global economy. Thank you very much.

Michael Sarris, The World Bank. I am very happy with the opportunity to be here, to share with you some thoughts on the current situation and future prospects for Africa in a fast changing world. Events in Eastern Europe and in Western Europe, the focal point of this conference, will without doubt have important implications for Africa. As far as both

Western and Eastern Europe are concerned, these events may well represent opportunities for Africa to regain its lost share in the world market for traditional exports. These events also include significant lessons of critical importance for legitimate and accountable government. They provide examples of how to deal decisively and swiftly with major distortions and how to unleash the powerful initiative of the private sector. They will surely provide an attractive alternative destination for private sector investment and possibly for international and bilateral development assistance.

The World Bank Approach to Trade and Investment Policy

At the World Bank, we are committed to supporting Africa to seize these expanded trade and investment opportunities and to make the transition to better governance while mitigating the impact from the possible diversion of official and private capital flows to Eastern Europe. This will likely require a deepening and extension of the adjustment effort in Africa, greater selectivity and concentration on countries with strong adjustment programs, while at the same time remembering that beyond structural adjustment, action is needed on Africa's longer term development problems. Urgent action is required to deal with poverty, population growth, environmental stress, human and institutional constraints, and excessive market fragmentation.

As Phillip LeBel has indicated, we at the Bank have undertaken considerable preliminary analysis on the possible impact of Europe 1992 on Africa. This research suggests that there may well be considerable opportunities for Africa to expand its trading and investment relations with Europe. Currently, more than 50 percent of Sub-Saharan African exports go to the European Community, while more than 65 percent of Africa's imports come from the EC. As far as Europe is concerned, trade with Africa represents about 4 to 5 percent of its total exports and imports. Although exact numbers are not available, the bulk of the very limited private foreign investment in Africa originates in Europe.

There are two possible sources of increased activity between Africa and the European Comunity. The first relates to changes in general trade regulations, technical barriers, and testing procedures, as well as provisions relating to specific products. As Stephen Adei has already pointed out, some of these changes will favor trade with Africa and others will not. Pressure to open up European markets, for example, to non-African countries will work to the disadvantage of African exports. On the other hand, harmonizing and unifying testing procedures for all European Community members will make it easier for Africans to satisfy these standards. And there may be gains from untying bilateral aid and putting procurement on a European-wide basis.

The second avenue of increased African exports to Europe may come from income growth resulting from greater economic integration in Europe. This may be important for some income elastic goods and services such as tourism and crude oil. As Mr. McDonald pointed out, European markets are already virtually open to African exports, with rather poor results. The inability of African countries to take advantage of open European markets contrasts sharply with the relatively rapid growth of Latin American and Mediterranean exports to Europe. This reflects the emphasis on export-led growth and adjustment followed by these countries in the Mediterranean and in Latin America.

If we add Eastern Europe to the equation, it is difficult to be optimistic about prospects for Africa to increase its exports to Europe. With respect to investment in Europe, there is talk about pollution-intensive industries moving to Africa, but this clearly will be in conflict with growing awareness of environmental problems in Africa. Clearly, then, the key to the actual outcome of what happens with all of these events in Europe will depend really much more on what happens in Africa itself. Let me then turn to what is happening in Africa.

The Current Economic Outlook in Africa

How should one describe the current situation? Looking at the statistics, it is easy to see why many people regard the 1980's as the lost decade for Africa. Per capita GDP of Sub-Saharan African countries declined by almost 3 percent per year. Last year, this region of some 450 million people had a GDP about the same as Belgium, which has only 10 million people. Average per capita income in Africa is about U.S. $300. Overall, Africans are poorer today than they were 30 years ago. Population has doubled since independence, and with present trends, it will double again in the next 20 years to reach about 1 billion. The pressure of people, combined with traditional agricultural methods, is resulting in environmental degradation at an alarming pace. Its outstanding debt of about U.S. $140 billion roughly equals its Gross National Product. Latin America's debt amounts to around 60 percent of its GNP and one hears a lot more about that problem than one hears about Africa's debt.

Debt servicing absorbs about half of African export earnings. Africa's terms of trade, that is, the amount of imports a given amount of exports will buy, have declined by about a third in the 1980's. The drop of the prices in basic commodities such as coffee, cocoa, and sugar, has been a large part of this problem, but an even more serious problem has been Africa's loss of competitiveness in world markets. With export volumes barely growing in the 1970's, Africa's share in world markets has fallen by about one-half.

At least as important as debt and the loss of export earnings is the fiscal crisis, caused in large measure by years of poor public administration, unwise spending, and a simple disregard for tomorrow. Perhaps the single most serious problem is the weakness of human and institutional capacities, poor economic management, and weak and flawed political structures. Because of the lack of an economically enabling environment, the entrepreneurial instincts and skills of the African people have not flourished. Not surprisingly, private investment has all but dried up and net transfers to the region are negative.

Signs of an Economic Turnaround in Africa

These broad averages of key variables and overall trends show a disappointing performance, but they also hide a very diverse record. This record includes several countries in a very tragic situation. They face further deterioration in their economic activity. Some are plagued by warfare, political turmoil, racial conflict, and some have suffered from natural disasters. Many have corrupt and inefficient systems of government.

A second group of countries, which also has deeply entrenched economic problems, the legacy of many years of ill-conceived development strategies, shows continued reluctance to embark on the path of structural adjustment, even though it is clear that eventually they too will have to change their economic systems fundamentally. Part of the reason why these countries have been slow to embark on programs of reform is the presence of a strong class who live off economic rents, the direct result of distortions and associated controls.

Then, there is a promising third group of countries, mainly the thirty or so countries that have started the process of structural reform in recent years. They are implementing credible policies, despite some occasional slippages, and are aiming at a steady path of medium-term growth through structural reforms backed by sound macroeconomic and financial policies. Many of these countries, helped by the World Bank and other donors, are at last showing some positive per capita income gains after many years of disappointing results.

Fourthly, there are a few countries that are showing distinct success as a result of several years of determined implementation of sound policies. This group provides an example to others that there is light at end of the tunnel, that the resolute application of well-conceived policies will produce results. Yet even for these countries, which include

Gambia, Ghana, Kenya, Senegal, Mauritius, Togo, and more recently, Madagascar, success remains fragile.

Continuing low levels of investment, both domestic and international, suggest that memories of recent mismanagement die hard and that a long period of stability is required before the private sector begins to play the important role it has to play. Economic progress could run out of steam and be lost if there were to be a failure of political will to persevere with sound policies, as has happened through the years in Zambia, Zaïre, and more recently in the Côte d'Ivoire, or if there is an interruption in the flow of financing.

Africa's Prospects: The Role of Governance

The record of economic performance and policies in Africa, then, is quite diverse. Now all African countries face a global economic environment that is mixed. There are difficulties, to be sure: high real interest rates, adverse terms of trade due to declines in world prices of some of Africa's key exports, a slower growth in export markets as the expansion of the industrial countries moderates, and the possibility that assistance to Eastern Europe and other countries that are implementing reform programs, including several in Latin America, will lead to a reduction in the flows that might otherwise go to Africa.

Against this background, there are also some positive features in the global environment. Three of them stand out. First, the reduction in international tensions and the resulting prospect for an even small part of the so-called "peace dividend" to be directed towards development assistance is a promising sign. Hopefully there will also be some detente within Africa as a result of the winding down of the Cold War and the changes taking place in South Africa. This should set the stage for reduced military spending which has been a source of considerable waste in many African countries.

Secondly, as I have already indicated, there is a growing consensus in Africa on what is a workable economic strategy. There is a greater and growing recognition that there are no easy solutions and a welcome rejection of the mirage of a solution trough a return to state intervention. There is now a much more realistic approach to economic management in many African countries.

Thirdly, the spreading demand for more democracy in Africa is a welcome feature that can be counted on to sustain current and future economic reforms. For some this may be a debatable point because of the risks of political turmoil that the process of democratization can entail. Yet the move to a more pluralistic and accountable form of government and a return to the rule of law with less arbitrariness in decision-making should help these reforms to succeed even if there are temporary costs. It is no accident that the region's most successful economies, Mauritius and Botswana, are also multi-party democracies.

Our experience suggests that strong economic policies succeed best when the political leadership is able to build a popular consensus in favor of its economic strategy. This can be achieved through a process of public dialogue in which the government shows that it is fully committed to its own program and can explain to the population why it is necessary and how it will eventually produce benefits for them in the form of a sustainable improvement in their living standards. Unfortunately, this process has taken place in far too few African countries.

The development of many, perhaps the majority of Sub-Saharan African countries, has been quite unnecessarily constrained by their political systems. Africans can and must tackle these issues. Nobody can tackle it for them. The sensitivity of this issue is perfectly understandable. So are the difficulties of the colonial legacy and the adverse economic conditions under which many African countries and rulers must contend. In the end, people make their own history, even if they do not choose the circumstances.

Indisputably, three decades after independence, too many African countries have failed to produce political and economic systems in which development can flourish. All too often there is a lack of government accountability to the governed; a lack of encouragement which could liberate entrepreneurial instincts, a lack of fair competition between farmers and firms, and a situation in which open political participation has been restricted and even condemned. Those brave enough to speak their minds have too frequently taken grave personal risks. It is regrettable that many African leaders have been more concerned about retaining power than about the long-term development and interest of their people.

The costs to millions of African men and women that all of us here have had the privilege to know has been unforgiveably high. Most of the three thousand parastatal organizations created since independence cannot support themselves. They fail to deliver adequate services. Patronage and nepotism have thwarted the formation of professional public servants. Investment in human development has lacked both direction and commitment. Such practices are direct causes of Africa's economic growth rate in the 1980's failing to keep pace with population growth. The debilitating brain drain from the region, the extraordinary fact that there are now more expatriates in Africa than there were at the end of the colonial period, and that technical assistance to Africa costs U.S.$4 billion a year, are all symptoms of this imbalance.

Most African countries know very well what are the right policies to apply. If you consider that the thirty countries that the World Bank is supporting in close collaboration with the IMF and other donors, you will find that they are implementing programs that combine structural reform with macroeconomic discipline in a medium-term framework. The reforms are in many cases quite fundamental: and they have to be, because most of these economies were hamstrung by inefficient state-owned enterprises and overextended bureaucracies along with a regulatory framework that crippled private initiative and fostered corruption.

The reforms that are being introduced almost always involve giving more scope to market mechanisms and to the private sector and dismantling an outmoded paraphernalia of administrative controls. They involve getting the government out of many activities such as marketing of crops and industrial production, and the distribution of agricultural inputs. This is not the manifestation of a conservative ideology. Rather, it is a pragmatic recognition, underscored by the limited human resources in Africa, that good government requires doing a few essential tasks well instead of attempting to do everything and ending up doing all of them badly.

Implications of Eastern European Reforms for Africa

Despite progress in some African countries, the way Eastern Europe has gone about putting its house in order has important mesages for Africa as a whole. The emerging East European leaders drew clear conclusions from what has worked well in the developed world. They did not look for new theories. They quickly recognized, as Czechoslovakia's Minister of Finance put it, that the "third way is the surest way to the third world".

There are five principles that an increasing number of East European nations are beginning to follow:

1. Partial reform is worse than no reform. There can be no 'half-measures". To be credible, a program has to go far enough so as to have a good chance of producing early results;

2. Comprehensive reform does not mean waiting for a complete blueprint. What it does mean is to identify the major, most glaring distortions and attack them early;

3. Several steps are needed in a proper sequencing, but we do not have to have all the details at the start. Like a chess game, you know the principles of the game, the opening strategy, but not what happens after the fifteenth move;

4. There is an urgent need to introduce immediate transparency in both property rights and prices. Reforms must proceed at both the macroeconomic and microeconomic levels. A sound macroeconomic framework is important for successful economic reform. But providing incentives for productive activity through microeconomic reform is essential. As the experience in the Soviet Union shows, decentralization brings more problems without market liberalization;

5. Reforms of state enterprises - to make them commercially viable - must receive immediate attention. The first beneficial result of this policy is to reduce pressures on public finances.

These are well known features, but there are also several unknowns. One is especially important and complex: When a country's maladjustments are deeply rooted, the optimal pace of reform and its best sequencing may be difficult to specify. The sequencing choices relate mostly to external versus domestic liberalization, and to improvements in the quality of the market structure and price liberalization. There are complementarities in both areas and timing can be crucial. With respect to the optimal pace of reform, simply put, the choice is between a head-on approach and a more gradual one.

This choice has to be made, in each individual case, by the Government itself, in exercising its sovereignty. In practice, also, some degree of gradualism is inevitable, due to human constraints or the complexity of the reforms that are to be introduced. However, excessive gradualism carries very high costs:

- economic costs through the persistence of distortions, and
- political costs through the "adjustment fatique" of the population and of the bilateral aid donors, when faced with the slow pace of progress.

The more gradual the reform process, the more costly it may be. Clearly, the correct pace for introducing reforms needs to be thought out carefully. But we should ask ourselves two questions before suggesting more gradualism: does the country have the necessary economic and financial resources to permit this approach? And are the donors and the international financial institutions ready to contribute to the smoothing out of the adjustment process and, in particular, the softening of its human costs? These considerations reinforce the need to be very careful in targeting our support. In this respect, what the IMF's managing director said recently about Eastern Europe applies also to Africa:

"What is most essential for the transitional period, is creation of the kind of social safety net that we use in the west to cushion the impact of unemployment by supporting and retraining the unemployed, and to alleviate the human cost of adjustment for the most vulnerable parts of the popuplation. This stems from a sense of human and national solidarity. It is also part and parcel of a coherent strategy for transition to a new economic system. The stronger the safety net, the stronger will be the case for Governments to stand firm in resisting pressures to maintain controlled prices for basic goods, or to postpone the liquidation of unviable entreprises."

Before leaving the subject of Eastern Europe, let me say a few words about two related areas: first, possible gains for Africa arising from trade liberalization and income growth in Eastern Europe, and second, competition for direct foreign investment. Trade liberalization in Eastern Europe could generate an additional U.S. $1 billion in imports of commodities which are currently produced by African countries. This represents about 3 to 5 percent of African exports. Although Africa could not expect to be the only beneficiary of this increased demand, it could use part of this demand to regain the market share it has lost since the 1960's.

Based on its past peak market share, Africa could aspire to supply 12 percent of the additional demand, that is, about U.S. $120 million worth of exports. In addition, Africa could benefit from the expected increase of demand for commodities arising from the income gains from Eastern European economic liberalization. While the expected annual increase in demand of U.S. $24 million a year is modest and Africa's share would probably be smaller, the cumulative impact over a ten-year period would be significant. Nevertheless, even if Africa can only reap modest gains from exports to Eastern Europe, the main benefits for Africa will be through the demonstration effect of the combined impact of political and economic liberalization.

As the attention of international private investors turns increasingly towards Eastern Europe, liberalization in Africa becomes even more crucial for creating a climate of credibility and belief that ongoing reforms can be sustained. In this "beauty contest" for foreign investors, Eastern Europe appears to have the short-term advantage coming from its maturity. However, if Africa could display all of its assets at its coming out, then this could overshadow the current fascination with Eastern Europe.

A Consensus on What Needs to Be Done

Let us now turn to what needs to be done in Africa. There has been a great debate on what the strategy for Africa's development should be. Although disagreements persist, there are several areas where agreement for concerted action has emerged:

- Recognition that people are both the ends and the means of development and, therefore, that programs of human resource development, of food security, and of employment must be placed on center-stage of any economic development strategy, both in the short-run and in the long-run. As a recent World Bank study on Africa's long-term perspective puts it, "Everything else - economic growth, fiscal policy, exchange rate management - is no more than the means to achieve the fundamental objective of improving human welfare".

- Recognition that whatever the ultimate population of Africa might be, if there are 3-4 percent more people each year to be fed, educated, made healthy, and to be provided with jobs and with tools and equipment to be more productive, then the task of development becomes that much more difficult - maybe impossible for some countries. Both families and countries have to run even to stand still.

- Recognition that agricultural growth and improved agricultural productivity have to be the basis of production growth more generally and for alleviating mass poverty, but that this growth has to be based on the development of new technologies which are sustainable environmentally.

- Recognition that both production growth and the availability of human resource services require the development of adequate physical infrastructure - roads, telecommunications, energy, etc. - and that the maintenance of this infrastructure is as important as its initial construction.

- Recognition that without improved governance, development with equity will never occur because of the lack of accountabilitiy, the diversion of resources to self-serving groups, the growth of military expenditure, etc.

- Recognition that women are discriminated against by law, by custom, and by access to services, etc., and yet they are the primary workers and lead managers of household productive activities and for the provision of services (education, health, water, family planning, etc.). More importantly, women tend to spend on their children while men tend to spend on themselves.

- Recognition that the fragmentation of much of Africa makes it essential that African countries cooperate and integrate their economies much more fully than at present. Greater mobility of goods and services, as well as factors of production across African frontiers, is an important element of Africa's development strategy.

- Recognition that the trends and fluctuations in commodity prices, the flow of commercial loans and equity funds, international interest rate levels, and other adverse features of the global economic environment combine with Africa's special development problems to require the continuation and expansion of special programs of debt reduction and of aid. At the same time there is a recognition that aid-dependency has its own very dangerous implications for African countries.

Areas of Ongoing Debate on Africa's Development

Beyond these areas of agreement, there are also areas where a full consensus has yet to emerge on Africa's development. One such example is the area of industrialization policy on which I would like to say a few words. Consensus exists on the importance of industry in any development strategy. Of course, without a prosperous agricultural sector, no growth or development with equity is possible. But industry has increasingly to contribute to GNP, to the diversification of African economies, to employment opportunities, to the balance of payments on the export and import-saving sides, and to other macro-development objectives. The question is what are the specifics for the achievement of these objectives of industrial development and especially what are the areas of consensus and of disagreement on these specifics.

There is broad agreement on the importance of the informal sector and the small-scale sector of industry, and the weakness of previous import-substitution industrialization policies in many African countries. There is also agreement on the importance of the creation of an enabling environment for stimulating such small enterprise activities.

Where differences appear to arise is in relation to the development of the modern sector of industry. There is agreement that this requires the build-up of industrial capabilities - cadres of skilled and semi-skilled workers, entrepreneurial and managerial capacities in finance, marketing, etc. There is also increasing agreement that closer links with foreign firms can assist and hasten this process.

Consensus beyond these fundamentals has yet to be worked out. The Bank's analysis of Africa's longer term perspectives starts from the position that markets should determine the pattern of modern sector industrial development through a more liberalized approach to external trade policy. Only in this way is it likely that African countries will develop over time the sub-sectors in which they have a comparative advantage. Moreover, it is only through a more open trading system that African firms will be subject to the competitive pressures required for increasing their efficiency, both in the short-run and in the long-run when they need to stay abreast of technological and market changes.

We at the Bank also recognize that liberalization can be pushed too far too quickly. Modern African industry is an "infant sector", which requires "nurturing" as well as competition if it is not be overwhelmed by international competition. This need for nurturing can, we believe, best be provided through "generalized protection", which is provided by an appropriate exchange rate rather than through highly selective tariffs and import licensing systems which feather-bed inefficient firms. Moreover, the progressive liberalization of intra-African trade can provide the initial steps towards the generation of a competitive environment. This is particularly important in Africa, where there are few countries which have a large enough domestic market to permit adequate competition to be generated domestically.

Some African groups reject liberalization of external markets as the basis for industrial policy. These groups see this liberalization as leading to greater and more entrenched external dependence; intensifified foreign exchange constraints; jeopardizing national priorities; and eroding capacity of infant industries and thereby slowing industrialization.

The alternative strategy proposed by some African groups is the so-called "production" approach. The most fundamental objective is the development of "core" industries - "essential goods and services, critical intermediate inputs and industrial raw materials". Selective fiscal, exchange rate and credit measures are proposed to achieve these objectives. Moreover, special action to increase intra-African trade are proposed, including "the removal of trade barriers, encouragement to barter trade, and differential export subsidies". In addition, "there must be bilateral and multilateral agreements among African countries on industrial rationalization".

It is difficult to avoid the characterization of the modern sector industrial strategy suggested by the Bank as bottoms-up and market-determined and the alternate strategy as top-down and Government-determined. The gap between them is clearly significant, despite the qualifications to external trade liberalization policies which the Bank proposes. However, some determination of the high ground could be possible at the pragmatic level. For instance, the alternative strategy of selective rather than generalized fiscal, exchange rate, credit, and other measures is highly qualified by the issue of the administrative feasibility and cost of selective policy measures. Thus, on a case-by-case examination, agreement might easily be reached that highly selective policies are inapproprate in some, if not many, countries.

Likewise, the Bank's preference for generalized macro policy measures does not rule out the desirability of specific measures. For instance, the Bank's aproach would stop short of advocating that Governments should "pick winners" from an array of industrial investment options. However, it would not deny the important role of Governments in anticipating that certain sub-sectors of industry (say, for instance, cotton textiles) are likely to offer comparative advantage to a country; and therefore agree that special programs of skill training, technical research, marketing, etc. are desirable, possibly with Government money, in order to support and complement private investments in this direction. Thus, "bottoms-up" and "top-down" approaches are not presented by either side in any purist or ideological manner. On the contrary, a pragmatic country-by-country analysis is likely to demonstrate considerable areas of agreement.

A further basis for reaching some high ground between the two approaches could possibly be found by distinguishing between two major sub-sectors within the modern sector. First is the broad range of modern manufacturing industry represented by light engineering and metal working, textiles, furniture, food processing, leather working, etc., and second, the highly discrete and large-scale sub-sector represented by iron and steel, chemicals, and heavy engineering.

For the first of these, a highly flexible, bottoms-up approach is probably essential if African industry is to be responsive to technological change and to market opportunities at home and abroad. This flexibility in approach should certainly be consistent with the avoidance of the high-cost import-substituting industrial investments which have been widespread in the past and which we all agree should be avoided in the future.

The flexible approach should certainly be within a set of incentives which reduces import dependency and encourages exports as well as meeting the need for increased employment opportunities and for essential consumer goods rather than for luxuries. All these objectives are agreed upon, including the imposition of high excises on luxury goods, whether imported or domestically produced.

For the second category of modern industry - the big plants requiring heavy investment - it is equally unrealistic to assume that a bottoms-up approach will or should be adopted. Governments will clearly be involved in making decisions on whether these industries should be comenced or expanded - including decisions on which countries should proceed with such investments to serve a regional market. Of course, such top-down decisions would, presumably, still be made with efficiency considerations in mind, otherwise, the high cost of iron, steel, fertilizers, machinery that would arise would hold back the development of agriculture and of industry itself. Thus, while markets would provide the data for making efficient decisions, the investment decision-making procedure would, because of their size and importance, almost inevitably be top-down.

The conclusion that emerges from this review of approaches to industrial policy is that the apparent gap between them is possibly less than might at first be seen to be the case. Undoubtedly, in principle, there is a marked difference in the respect which each shows for market forces, on the one hand, and Government decision-making in regard to industrial investment and output policies on the other hand. But each report has moved the discussion to a more pragmatic level. In so doing, a basis for consensus-building is emerging which can be furthered by more detailed examination of particular aspects of industrial policy and by examining these in specific country contexts.

The Role of the International Community

Assuming that the reform process in Africa continues to become deeper and wider, what else then can we all do to help those African countries that are willing to help themselves? We all can work to ensure that the global economic environment is conducive to their progress, by keeping markets open and accessible to Africa's exports, by reducing protectionist barriers, and by ensuring that the Uruguay Round of trade liberalization worldwide is a success.

Also, the donors and the international financial institutions must recognize that it takes time for structural reforms to produce their full results. In particular, it takes a long time to replace the institutional arrangements of a highly regulated economy with all that is needed for a market-based economic system to operate efficiently and responsively. So donors' technical and financial assistance must be committed for many years.

Creditor Governments will also need to take a more generous approach to debt relief, otherwise the heavy overhang of official debt may undermine the chances of success. All this will confront the developed country Governments with some uncomfortable choices. A welcome measure of debt forgiveness has been extended to the poorest African countries by the industrial countries following the Toronto Summit of 1988, but more will undoubtedly be needed. In addition, the problem of the middle-income countries with a heavy burden of official debt should be addressed meaningfully.

An Agenda for Recovery

When translated into required policy changes, the reform agenda for recovery is demanding but critical. The objective would be to achieve economic growth of at least 4-5 percent per year - the minimum necessary to stay ahead of the population curve. To do this, Africa must:

- Have better governance for development. There is a need for political reform to accompany economic reform. This is a difficult but essential dimension in which few of us have much experience. However, this may not be a serious constraint since domestic forces for change are more relevant than foreign expertise;

- Convince domestic and foreign private investors that reforms are credible and durable by implementing sound policy frameworks and maintaining financial discipline through continued adjustment;
- Focus on capacity-building, particularly increasing investment in human resources and institutions;
- Create an enabling environment for private sector entrepreneurship, particularly harnessing the dynamism of the informal sector;
- Develop a sustained approach to long-term development, and;
- Support meaningful regional cooperation and integration.

Donors are not divorced from this process. While they must increase assistance for Africa, they must also be more disciplined and selective about assistance. They must ensure that assistance is not squandered on military spending, luxury consumption, and capital flight. Rather than create dependency, they must encourage self-reliance.

The Role of the World Bank in Africa's Recovery

All of us will need to do more, including the IMF and the World Bank. Let me add a few words on what the Bank should do, and how this relates to other forms of assistance.

Because of the severe nature of the development crisis facing Africa, the World Bank has given the region special priority. Clearly, the Bank's main role must be to promote sound policies in each country, through policy advice and technical assistance, economically viable project investments, and through the conditionality of its financial assistance. It should then act as a catalyst in attracting financial support from Governments and private investors for countries that implement strong policies.

The Bank's main financial instruments for helping Africa are structural adjustment and investment loans. The former are particularly appropriate for promoting structural reforms in low income countries, while the latter have an important role in addressing longer term development problems. The Bank is currently the single largest donor to Africa, committing about U.S. $4 billion a year. A full half of IDA resources, which carry no interest and have a 40-year term, go to Africa. We also act as a catalyst in mobilizing other donors. We hope to do much more, but this will only happen if more countries are able to adopt the strong economic programs that qualify for this assistance.

In conclusion, Africans often express a fear that they will be forgotten, or marginalized: this fear is not unreal, in view of the heavy demands of Eastern Europe and Central and Latin America on the interest and resources of the donors and the multilateral institutions. Our answer to them should be that indeed the problems of Africa are enormous, and call for a strong and sustained effort by all. Provided the Africans themselves accept the challenge, they should be confident that the donors and the Bretton Woods institutions, that is the World Bank and the IMF, will be constant in supporting Africa. Thank you very much.

Discussion

Stephen Adei, United Nations Development Programme. I should like to give some general remarks, basically in response to the World Bank's presentation. I think that it is becoming lamentable for the World Bank to think that they have already worked out the solution for Africa's development. That is not to say that I do not agree with some of the economic measures. However, with all the variables, the unknown variables, I can not understand how the World Bank at this stage is able to say that "These are the five principles on which Eastern Europe is succeeding, and which Africa must follow".

Coming from Ghana, there is a lot of good one can say about structural adjustment. Let us not forget that there have been five years of growth in Ghana. At the same time, the attitude and the approach of the Bank requires serious attention. Impressive as it is, Ghana's experience is unexemplary for the whole of Africa. The reason for this statement is simple: No African country is going to get the amount of commitment and resources which have been poured into Ghana to ensure relative success, no matter what reform one has chosen.

The rigid attitude of the Bank is even more difficult to understand in light of the fact that the World Bank within the past ten years has modified its agenda somewhat. Five years ago, they told us that the social dimensions of adjustment were irrelevant distractions. Now we are told that this is necessary. When, a few years ago, the World Bank was being told that that structural adjustment must be within a long-term perspective, they said that economic growth would ensure development. Today, the World Bank has come out, fortunately, with a long-term perspective study. However, before they would discuss it in detail and get Africans to comment on it, they were first making sure that they had Western and European support. The lack of sufficient African input places it at the risk of failure.

I think that there are certain things we must recognise. When you look at the economic development of every country which has "made it", two things are characteristic: Firstly, they have been successful in learning from other countries. On this point, there is no doubt at all. Secondly, each one of them has blended what they borrowed with a unique national flavor. This is true of Europe, and it is true of America. For example, the United States drew from British capitalism certain elements and adapted them to local conditions. Scandinavians are following a different pattern of development. The Japanese chose a different path with a good dose of cultural input.

On what you can borrow - and on this I have no doubt that Africa has a lot to learn in terms of the efficient allocation of resources, in terms of mobilizing the private sector, there is much to be learned. However, the second element can only come from within. Unfortunately, the World Bank model treats this aspect as of little importance. Thus, when the Bank talks about capacity being weak in Africa - I accept it, but the World Bank has deliberately discouraged the use of the limited local capacity to frame its policies.

By way of conclusion, during the past two months, I have heard five World Bank officials speak at conferences such as the one we are participating in today. Each occasion has served as a time for the World Bank to sell structural adjustment. Yet, the development strategies of Africa which include the input of Africans need to be addressed with greater open-mindedness. It is, in short, wrong for the World Bank, or any external institution, to presume that it has all of the answers for Africa.

Daniel Bond, U.S. Export-Import Bank. I am glad that Exim Bank is not involved in such discussions. We do not have conditionality. But I do think that Dr. Adei's remarks are well taken.

I would just like to make the following remark. I think that most of the speakers have stated that they think that the development of the private sector is very important in Africa, and that a lot depends on the strengthening of the private sector. In this regard, I think it is important to realize that the West has great expectations for Eastern Europe, not on the existence of a private sector, because this does not exist, but on the expectation that with the political changes, there will be a private sector. I think they are going to be disappointed in that expectation very quickly.

It is very difficult to develop a private sector, even if you do move to a more democratic Eastern Europe. It is going to take a lot of time. In this respect, I think that also in Africa, we need to ask what is necessary there for the continuation of the development of a private sector. There are not very many democracies in Africa. Is a more democratic structure necessary for the private sector to flourish or are there other routes? In Eastern Europe, we have great expectations because we in our own thinking feel that as they become more democratic, they are going to move to greater private sector emphasis, and I think that in this regard they are going to be disappointed, because it is a very difficult process.

In Africa, I think that Africans need to ask themselves could they get greater support for what they are doing in the private sector if they were to combine economically liberalizing change toward greater political democracy. I do think the two go together, private sectors and democracies, but the causality there is very unclear. It is thus a matter for policy discussion.

Gerald Feldman, U.S. Department of Commerce. I would just like to say that I see a close connection between liberalization of political institutions and liberalization of economic institutions. As Michael Sarris and Daniel Bond have both alluded, I think they go hand in hand. If, in fact, it is the case that we are going to be somewhat disappointed with developments in Eastern Europe privatization, maybe there is a ray of hope in this, to the extent that they are direct competitors for attention with Africa. I think Africa has gotten a four to five year head-start on the process and I would agree that the future looks brighter for Africa based on the growth of both democratic and liberal economic institutions.

I would also like to say very briefly that I think I am no clearer insofar as any answers to Africa's basic questions are concerned. This is certainly not the fault of any of the panelists, but just based on the fact that there are so many variables here. Things could go in so many different ways, depending on the interplay among them, that I am not certain that we will be able to draw any firm conclusions.

Brian McDonald, Delegation of the European Communities. The crux of the debate has just been touched on by Dr. Adei, because I think that this is probably one of the more important issues, namely, how we manage our dialogue with the African countries.

Under the Lomé Convention, we have tried to establish a middle ground in the sense that we have left it up to the countries themselves to provide us with an economic plan and of course we have not always agreed with it. And, based on those discussions, we have sought an entente on the middle ground.

I think Dr. Adei may be coming down a bit hard on the World Bank and the multilateral institutions who were faced with a rather difficult situation and with a shortage of resources and who had to make tremendous efforts to get the necessary resources for structural adjustment programs that were obviously needed. One of the mistakes made in the past by donor institutions was the tendency to adopt formula-based approaches. Since that time I think the Bank has moved very much closer to the sort of requirements that African governments themselves would recognize as being important. I thus think that there has been a fair amount of progress toward better understanding of what is required.

Michael Sarris, The World Bank. Obviously, no one has a monopoly on virtue or wisdom. However, I do think it is important to put on the table the issues in such a way that the debate can be focused. To my mind, what will happen in Africa has very little to do with what happens in Europe or in Washington, or anywhere else, but has a lot to do with what happens in Africa. We are talking about Africa taking advantage of export opportunities. Unless you make it profitable for someone to export, unless you tell somebody, as the Mauritians did, "I don't mind if you make money. I do not want to check on what you do with that money. Just go out any make money, employ people, sell our goods abroad, and that is the end of the story.", then we are not going to get very far. If Africa is to succeed, then such measures have to be in place.

I did talk about structural adjustment, but I would like to remind you that the word "adjustment" was not invented by the Bank, or, for that matter, by anybody else outside the developing world. What it means is that after you have lived for an extended period of time beyond your means, and after people, whether this means private individuals, governments, or international institutions, are becoming more reluctant to sustain this discrepancy between expenditure and generation of incomes, you have to bring the two closer together - to reduce your demand to meet what can come from supply. Hopefully, in the end, you increase your supply so that you can afford greater demand. That is the essence of adjustment. It has nothing to do per se with the World Bank.

The World Bank has been engaged in the long-term and continuing process of transferring resources, making the adjustment easier, and, to the extent possible, giving advice that comes from the experience of other countries, as the previous speakers have talked about. So, we think that there are some encouraging signs, but we also think that there is also a very long way ahead before we can look forward with optimism to Africa regaining what was theirs in export markets.

The answers lie both in the political and in the economic sphere, as everyone here has emphasized. Anybody in this room who closes his eyes to the very serious problem of misgovernment in Africa is just not doing a service to Africa. It is very simple. Ask yourself, in your own country, are you comfortable with what is going on? I think that the typical answer is "no", that there has to be change, that there has to be accountability, to be legitimate government that can introduce credible reform. To me, it is very clear. Thank you.

Amiri Omara-Otunnu, University of Connecticut. I am from Ghana and have thus been pleased to see a colleague from my country participate in these deliberations. Most of the analysis seems to based on current events rather than taking into account the heavy burden of history. I glad to see that we are talking about democracy now. We should perhaps not forget that Africa's political systems are a direct product of the colonial system, and that the lack of accountability can be traced to no small extent to the fact that the point of colonial rule was control rather than democratic participation.

Africa's problems are so enormous, so tragic that in fact, we need to devote much more attention than we have been able thus far to do to some of the underlying structural issues which have been raised here this morning. Despite our time constraints, could the panelists discuss the terms of trade of Africa, particularly for the period after 1978, and put this in a global context, i.e., how the global recession and the gyrations of international oil prices, to whether in fact the debt crisis, more specifically, the inflow of capital relative to the outflow of capital for Africa against a backdrop of dramatically rising real interest rates might be an indicator of the fact that we have become worse off from these events than domestic policies alone could explain. Was not the aid to Africa in the 1980's merely an offset rather than a net positive factor to the region's development?

Secondly, could the panelists address the issue of how internal conditions in Africa, more specifically the lack of democratic forces in Africa and the willingness of external creditor agencies to deal with them can raise Africa's economic growth and development?

Daniel Bond, U.S. Export-Import Bank. Let me try to address one of the questions if I may. On the interest rate question, as you know, in the 1980's, the debt crisis really came about in large part because of changes in the United States' monetary policy, which helped to drive up interest rates. While interest rates have now come down a good deal since that time, they still are at historically very high levels.

One thing I think the industrialized countries have a responsibility to do is to recognize the cost of high interest rates on the developing world. Right now, with what is happening with East Europe, this becomes a very important issue and something that should be discussed explicitly at the summit meeting this summer. Germany is making a major decision now in the financial arena, the reunification of East and West Germany.

There are basically two ways of proceeding with German unification. The West German government can finance it by increasing taxation in Western Germany and finance it through increased total savings in the Germany economy to pay for the cost of reunification. The other way is to choose not to increase taxes, to borrow from the capital markets and to drive up interest rates. They are choosing the latter route right now. I think this is something that should be discussed at a global level to see if we could find a route through which the unification not only of East and West Germany, but East and West Europe could be done without keeping real interest rates high, which really the Third World pays for.

The United States is part of this problem, too, of course. We are just as much the culprit here in keeping real interest rates high and that means taxing you more as a way of increasing global savings and helping to bring interest rates down so that the Third World will have access to capital at lower cost, and I think that this is a very important issue. It is often glossed over because it can get very technical when you get into monetary policy, but it is an issue that I think will be on the agenda for the summit this summer. It is probably going to have more of an impact on Africa, on the Third World in general. It does tie together the East-West integration issue and Africa, and it is probably is one of the biggest, one of the most decisive elements for the long term for us to decide.

Michael Sarris, the World Bank. You are right in highlighting the debt issue. There are important programs in dealing with debt. The Bank has a Special Program for Assistance to the poorest, most indebted countries that is being renewed now. I would like to emphasize that debt relief has to be in the context of increasing confidence that you are not going to return some years from now with the same problem. So it has to be accompanied by sound policies.

The question that you raised on the importance of a democratic framework - I don't know what kind of analysis you would require, but at a very simple level, politicians are likely to behave better if they have the suspicion that they may be voted out of office. Secondly, as an economic agent, if you know that there are predictable rules and regulations, that there is a rule of law, that your fate does not depend on the arbitrary decisionmaking of somebody who can not be moved from where he is no matter what he does, that is really to me the fundamental point as it applies to development possibilities.

Gerald Feldman, U.S. Department of Commerce. I believe that we would generally recognize that democratic government is clearly not a sufficient condition to bring about economic growth or economic betterment. Without it, however, I think that the chances of achieving any sort of realistic sustainable economic growth are substantially reduced. The African record in this respect is illustrative.

Stephen Adei, United Nations Development Programme. I share the general opinion that African development will require a lot of internal adjustment, including the form of government and governance. In fact, in the last paragraph of my presentation, I mentioned accountability and popular participation as crucial pre-requisites for development.

In regard to my comments on structural adjustment, I addressed only the attitude and the approach of Bank operations and not the substance of their programs. I think that African countries will have to sustain adjustment for a long time, but with a modified type of adjustment which doesn't adjust solely to international conditions, which is basically the thrust of the current adjustment effort. Rather, structural adjustment must also deal with the internal structure, including the technological capacity, the development of infrastructure, and of human resources, which only in the last quarter of 1989 did the World Bank start talking about.

The reason why Western investment is going to Eastern Europe does not have to do with democratization alone. Investment is going to Eastern Europe because the level of human resource development there is high, and because there is a relatively well developed infrastructure. The communists, despite all of their shortcomings, developed their infrastructure. What they have left is that there is opportunity already in place and the democratization is functioning as the catalyst in attracting the current wave of investment interest.

In Africa, you need both now, not only the democratization, but also the basic infrastructure that has to be developed in terms of human resources and the rest. We are therefore talking about fundamental capacity-building and not just adjusting to external conditions. Obviously, if something is also done about reducing the burden of Africa's debt, then things can also move along faster than at present.

Brian McDonald, Delegation of the European Communities. A lot of the issues that were touched on in the last intervention are in fact being addressed. It would be a misunderstanding to think that terms of trade have gone unnoticed. I mentioned in my initial presentation that Stabex funding has now been changed in response to the rising debt burden, and that this reflects a recognition that the adjustment process is going to take some time. It would be a mistake to leave the impression that nothing is being done about debt. There is the Brady Plan, and of course, there are debt cancellations for the least developed countries in Africa, for example. We are going to have a UN conference for the Least Developed Countries in September in Paris which will again address some of these issues, perhaps in a more complete manner.

Yemi Agdeyegbe, Director, Africana Studies Program, Queens College, City University of New York. My question relates to the social costs of structural adjustment. I have heard reference to the safety net and I fear in the context of the discussion that the weight of the volume of people falling through this net will not be heard.

Stephen Adei, United Nations Development Programme. Let me spare the World Bank on this issue. I think that first of all that equity is sometimes pressed too much in Africa at the cost of long-term development. Any structural adjustment will be very costly in terms of some segment of society.

At the moment, the design of the structural adjustment programs should include the social costs of adjustment. They should also be designed in such a way as to mobilize support from the people so that they are prepared for the long haul. Twenty years plus of planned sustained adjustment effort will produce a lot of pain. For most of the countries who will inevitably have to go through it, with or without the World Bank's support, can it be mitigated? Yes, it can be mitigated by having some compensatory measures targeted at certain groups, but this can be done only to a limited extent.

The UNDP and the World Bank are putting in place some Social Dimensions of Adjustment, or SDA, programs aimed at certain specific sectors of the community which are being adversely affected by the programs, which hitherto had not been addressed. Although the World Bank initially would not admit consideration of the social costs of adjustment, but now they are trying to see how the issue can be dealt with in a more systematic way. Unfortunately, nobody can avoid certain costs of adjustment and, for that matter, even costs of development in general.

Michael Sarris, the World Bank. I think the real point of emphasis should be the social costs of mismanagement. Put yourself in the situation that, for a variety of reasons, there is a decline in the economic fortunes of everybody. Incomes per capita are going down. Consumption per capita is going down. There is no investment, no exports, no foreign exchange. Then you begin to correct that situation. All of a sudden, then, you remember that somehow you have to take care of those who have suffered from years of degradation.

The real test of structural adjustment programs is what would have happened without adjustment. If you focus your attention only on the discomfort caused by the medicine, you are missing the point. Unless there is adjustment, the dramatic, constant, long-term degradation which we have seen will continue. This is the real issue.

In our work with African countries, we try to redirect public spending in the direction of social services, irrespective of adjustment. There are countries in which health and education receive two percent of the budget. That has nothing to do with adjustment. This is an unacceptable pattern that has to do with existing biases against development prospects.

I would also submit that the first victims of adjustment are those who benefitted from a corrupt system. It is not really those who have suffered under the system. When you introduce a system of allocating foreign exchange through the market, and not through licencing, the first to suffer is the guy who has been bribed for years in order to give you the foreign exchange. The beneficiary is the guy who has never been allowed inside the central bank, the taxi driver who wants a tire for his car and who has been told under the old system that there is no foreign exchange. In a free market, the taxi driver can come in and buy the foreign exchange so that he can get on with contributing productively to the country's economy. This is what adjustment brings.

Tyrone Ferdnance, Connecticut College. I have a problem in terms of blaming Africa for all that is wrong. We live in an international economy in which Africa's participation has been brought about in a certain way. How can you blame Africa for the current economic crisis and call for reforms only in Africa? What about the international economic system which helped to bring Africa to its current crisis? Why are you ignoring that totally? You have talked about reforms in terms of the terms of trade. What about reforms to increase the transfer of wealth to the developing countries? What about Europe and the U.S. living beyond their means? Have they not lived beyond their means for hundreds of years on the backs of Africans?

Brian McDonald, Delegation of the European Communities. I think it is wrong to suggest that we are not trying to reform the international economic environment and that we are not trying to get it under control. I think this is a mistaken impression. We do our level best, for example, to try and ensure that interest rates come down, although there is a particular problem in the United States which relates to the fiscal deficit. For us, it has been one of our primary concerns. We talk about this repeatedly among developed countries.

We are very worried about high interest rates and we are worried about the poor terms of trade. We try to do what we can to help. In the case of ODA, Official Development Assistance, for example, I mentioned that the Lomé convention has increased the level of resource commitment by 25 percent, which is a major achievement. We are also hoping to do something in the Uruguay Round which will also substantially benefit developing countries throughout the world. Then there are the various debt initiatives. One can argue about whether these things are sufficient, but I think that there has been a very definite attempt to tackle these issues and they are continually on the international agenda.

Michael Sarris, the World Bank. In response to the comment about the transfer of resources, let us take the example of Nigeria. As a result of the oil boom, Nigeria has received the equivalent of what all of Europe received under the Marshall Plan. Europe was able to reconstruct itself, Nigeria has been able to decrease its rate of growth with the same amount of money.

Gerald Feldman, U.S. Department of Commerce. I think that Michael Sarris' point is an essential one. I mentioned that just looking narrowly at U.S. trade with Sub-Saharan Africa over the decade of the 1980's, the United States just through the trade mechanism transferred something on the order of U.S. $75 billion dollars to Africa based on our trade deficit. The fact is that this was not evenly distributed. Much of it went to Nigeria. Much of it was then exported from Nigeria. I think that it is fair to say that there is a continuing transfer of resources into Africa.

John Kuforiji, DARE, Inc., Boston, Massachusetts. At one time or another, Africa was robbed of the resources for development. Nobody cried. Today, Africa is in debt. We have been accusing Africa of misgovernment. With apologies to some people, the mismanagement of government in Africa is largely the work of some powers in the Western world. They know that they can bribe officials to get what they want.

In terms of a specific question, in Africa, as only twenty percent of the economy is monetarized, how can one speak meaningfully of structural adjustment, which occurs through monetary mechanisms, when eighty percent of the population is excluded. How is this vast majority of the population to benefit from structural adjustment? What this suggests is that without an emphasis on rural development, structural adjustment will not come to much. Will the World Bank, or the powers that be, be ready to help in this process, and in a way in which interest charges are not a burden?

Brian McDonald, Delegation of the European Communities. In my intervention, I think that I made it clear that under the Lomé convention, that under the European Development Fund, we give a great deal of money for rural development. This is also part of World Bank programs, to increase rural wealth by having fairer prices for production and to reduce the subsidy which was implicit in previous systems whereby the urban population alone benefitted. Certainly it has been one of our main emphases in the last two conventions to try to promote agricultural development as best as possible to try to reach a fair level of food self-sufficiency, or at least food security. These activities, at least insofar as the European Development Fund is concerned, are interest free.

Smile Dube, San Francisco State University. My question is a very simple one. It seems to me that we are talking about Europe as an organized power, with the United States and Canada included. The context for Africa needs to focus on the collective ability of African countries to negotiate trade and investment terms with these large economic blocs. It seems to me that the emphasis on individual African countries overlooks the vast disparities in negotiating strengths that are so central to the outcome. Are international institutions prepared to support initiatives that could enable Africa to fashion stronger economic trading blocs?

Michael Sarris, the World Bank. As you know, there are many annual events in Africa where heads of state get together. At these gatherings, they often embrace each other and they make resolutions about what is going to happen during the year in terms of expanded cooperation and integration among those countries. Nothing happens until the next meeting by and large. There are, however, a few things that go on.

I agree with you that there has to be more integration. Markets in Africa are too fragmented, too small, and for most of them you can not put into place import substitution industries on a scale that is large enough to give you average costs that are competitive with the rest of the world. Obviously, integration could help remedy this situation. But for that, you need meaningful exchange rates. Zambia can not trade with Zimbabwe at the current exchange rate.

We have been discussing some ideas and they are becoming increasingly accepted by a few countries that have reached a level of macroeconomic stability at which they can allow freer international trade within their borders. More importantly, there is a need to allow the free flow of investment - there are investors in Zimbabwe who should be investing in Malawi and in Mozambique. There are investors in Mauritius who should be investing in Madagascar. There are investors in Kenya who could help expand and develop the tourism industry in Tanzania.

In none of the countries is the citizen of another country accepted as the businessman of the country itself. That is a key thing. You have to allow mobility of capital and labor among those countries. You have to treat firms from a neighboring country as firms that are originating in your country. These are the kinds of meaningful, tangible things that have to happen, not a declaration that some years from now there will be some common market, nor, I submit, the reduction of tariffs, because tariffs are irrelevant if you prohibit the importation of something, or if you make it contingent on the availability of foreign exchange when your foreign exchange is totally regulated and your currency is severely overvalued. What is the point of reducing tariffs with one's neighbor if one forbids the importation of goods from one's neighbor?

Stephen Adei, United Nations Development Programme. I think that the question of African integration is a long-term necessity which is not easy to achieve. Certain African economies are much more integrated than others today, which reflects the uneven impact of the colonial system. For some, railways systems and other infrastructural investments have increased the possibility of faster integration. However, most of the countries in Africa are still struggling with statehood. They are preoccupied with trying to become integrated nations. I think that this has constrained further outward-looking integration.

If Europe becomes a monetary union, and therefore loosens the umbilical cord of the CFA countries with France, it may be easier in West Africa to move toward more authentic regional integration. Although the Anglophone countries of West Africa are fewer, there is the giant of Nigeria, which could provide leadership through such institutions as ECOWAS.

East Africa is a bit of a problem because there are now too many divisions and other factors which make any hope toward integration within the 1990's as fairly remote. I think also that if there is a solution to the problem in South Africa, then the OAU, which has up to now focused on political liberation, would start thinking more about economic cooperation and integration. Having said all of this, If I live to see some form of Pan-African trading union, I would be very glad. I am just facing reality.

William Vickrey, Columbia University. I would like to see if there isn't some middle ground between the doctrine of "everything will be fine if we can only get the free market" and on the other hand, "everything ought to be controlled" approaches to Africa's growth. There is, for example, a case for saying that activities like utilities that have economies of intensity cannot be run efficiently at a profit. Efficiency requires that in order to take advantage of the economies of intensity, that prices should be set at marginal costs, and these prices will not cover total costs, and thus require some degree of subsidy.

Another element is the question of what to do about the urban rents that are generated by the availability of various services in the urban community. How can one capture urban rents for the development of the country? This is not a matter of bringing in capitalists from the outside. It is making use of what is inherently within the country. We have a long history going back to the Physiocrats, from Ricardo to Henry George, with examples in Africa, of the use of rents for public purposes, but never to the extent that would reflect the fact that these rents are generated not by the efforts of the landlord, but by the resources that come in to foster the development of the community. What I am referring to in this context is the setting of a tax structure that focuses on land values rather than structures.

Michael Sarris, the World Bank. Nobody has really advocated that the government get out of everything, including those utilities that you referred to. As regards infrastructure, this is a legitimate role for government. Beyond that, in productive activities, history points in the other direction.

With respect to urban rents, the issue is how can you devise an equitable taxation system that is equitable and also efficient from the point of view of not discouraging the construction of dwellings. It is a complicated issue, and while I am not pretending to be a fiscal expert, there are issues of both revenue raising, equity, and also the provision of services that have to be taken into account.

Stephen Adei, United Nations Development Programme. It is easy to come up with a red herring such as "let's tax the land", but not everywhere in Africa is land the real cause of inequities. In fact a lot of the regulations which are now being removed have caused a lot of inequity in the accumulation of capital. There is an inherent redistribution in structural adjustment which is taking place and let us hope it is for the better.

I would say that one has to combine some sort of indicative planning with adjustment. Actually, what is happening is that the locus of the planning is being done in Washington rather than in Accra or Lagos or Harare. In the World Bank and the IMF I am sure that everybody agrees now that there must be some degree of coherent long-term framework within which adjustment takes place.

Sometimes we confuse planning with statism, or with the state owning direct production. Given the present state of dilapidation of basic infrastructure in Africa, there is no way that you can simply allow the market to function without some planning to deal with this infrastructural issue. I don't see planning as contradictory or opposite to that of improving the potential of the market. As I see it, the only way forward for Africa is for government to exercise some positive economic leadership. On this issue, I do not think we are in disagreement with the post-1989 era World Bank philosophy, as described in its long-term perspective study on Africa, *Sub-Saharan Africa: From Crisis to Sustainable Growth*.

Monde Mnyande, Port Authority of New York and New Jersey and the New School for Social Research. Foreign aid is one of the ingredients that would help countries to develop their infrastructure. Many countries in Eastern Europe have just received vast amounts of aid, with Poland having just obtained almost U.S. $1 billion in aid. On the other hand, Namibia has just received U.S. $500,000 in aid. Why is there such a disparity? Can you explain this?

My second question pertains somewhat to economic theory. Adam Smith put forth the absolute advantage theory. David Ricardo put forth the notion of comparative advantage. All of these theories argue that there are benefits from trade, and that from free trade, all the countries stand to benefit. This has not been true. These are the theories that have been used historically by industrialized countries for their development, but for African and other developing countries, we see that there is no free trade. There is now throughout the world what is called "managed trade". What is Africa going to do under managed trade and more specifically, how can managed trade serve as a means for African growth and development?

Gerald Feldman, U.S. Department of Commerce. I really cannot address the origins of so-called "managed trade" in the Africa context, but I would emphasize that within the context of the Uruguay Round, we have made continuous and repeated efforts to involve the African countries, whether you would say as a bloc or as individuals, in the process.

This involvement has focused on the rules of the international trading network. In point of fact, within the Uruguay Round, there are several issues which are really of intense interest to the African countries: trade in agriculture, trade in tropical products, to some extent the trade in services. Yet, almost without exception, African countries have declined to take an active role. We do see a great deal for them either individually or as a group to come out of this.

There is still very much a suspicion that the GATT process, and the Uruguay Round negotiations are nothing more than another attempt to divide up the spoils and to exclude Africa. Economists are constantly accused of being able to support any set of conclusions, but the fact is that this is a difficult conclusion to support. As we go into the last few months of the Uruguay Round, we are still waiting for the Africans to adopt a more activist role.

Daniel Bond, U.S. Export-Import Bank. I was at a conference at Brandeis University last week on Eastern Europe. I said then and would like to repeat here that one should always look a gift horse in the mouth. The billions of dollars for Poland - well, it is just not there. You have to be very careful. When governments start announcing these programs of assistance, there is a lot of hyperinflation in the numbers. Almost all of the assistance going to Poland are coming from organizations such as my bank.

Export credit agencies, providing non-concessionary terms, constitute the bulk of such financing commitments. There are lines of credit that then become real only to the extent that there are exports going into Poland and that the Poles are willing and can be able to contract for such imports at market rates. So I would not feel too bad about the large numbers in Eastern Europe because at present they are fairly soft.

Poland will never use the lines of credit being offered to it by export credit agencies. There is just not that much trade with Poland. The U.S. $200 million Exim Bank short-term credit appropriation in the SEED (Support for East European Democracies) bill that Congress passed last fall is totally non-proportional to the real volume of U.S. trade. At present rates, it would take us ten years to generate U.S. $200 million worth of short-term trade credits with Poland.

What Africa is talking about is very different, namely, concessionary assistance. I think we have to be careful when we compare the numbers. As to Namibia, our executive board will make a decision tomorrow to offer our programs in Namibia. Namibia is starting out with no debt. It will be a member of the South African currency union for the next couple of years, which gives us some confidence. It is a new situation, and yet we are opening up all programs in Namibia and we are treating it as a good credit risk, which means that the exposure fees will be low. The terms will be at near market interest rates. To the extent that Namibian companies and the government wish to buy U.S. goods, they will be able to get Eximbank support for the financing.

Brian McDonald, Delegation of the European Communities. I think it is also true that we do not know how much Namibia is going to get. We are in the early days, yet, though it will be inscribed in the Lomé provisions for assistance. You will certainly see a lot more aid coming in with time. I think that if there is only a figure of U.S. $500,000 mentioned at present this is only a beginning.

In the context of the Uruguay Round, we have not made any substantial demands on Africa. We have made more demands on middle income countries in Central and Latin America, and in particular on more developed Asian countries, in particular, the NIC's, or newly industrializing countries. Under Lomé we have made all of these trade concessions on a non-reciprocal basis, i.e., we have not asked for reciprocal concessions. We recognize the economists' argument which says that infant industries need to be protected, but we also think that beyond some point, free trade must be universally embraced if there are to be global benefits.

Keynote Address

Tekle Gedamu, African Development Bank It is a pleasure to be with you today on the occasion of this conference. The theme is an important one for the African Development Bank and for Africa. Dr. Delphin Rwegasira, the originally scheduled keynote speaker from the ADB, has asked me to express his regrets at not being able to be with you today. He has just been asked by President Babacar N'diaye to head up an important task for the ADB and I was asked to serve as his replacement.

The theme of Europe 1992, Africa, and the U.S. is indeed being addressed at a most auspicious time. As you know, and as I am sure the panelists this morning have pursued in some detail, Europe 92 represents a major change in the world economy. Since

Europe represents Africa's largest trading partner, we view these changes as positive for both regions. What I would like to do with you today is to review some of the changes now taking place in Africa in response the EC 92 process and to look at what the future may hold.

Policy Choices for Africa in Light of Europe 1992

First, it is clear that for Africa to benefit from the changes now taking place in Europe, there must be renewed emphasis on expanded African trade. Togo, Cameroun, Madagascar, and a few other countries have initiated actions for the establishment of export processing zones. In the ADB and in OPIC, the Overseas Private Investment Corporation, a conference is being organized in September for several African countries to demonstrate what the policy of export promotion in this area can do. With a replication of this policy, the prospects for African manufactured export to Africa are looking up. By the time 1992 becomes a reality, much more so than today, by the time growth generates new markets for exports, I hope that many African countries will be in a position to export manufactured items to Europe in a volume that will be much more significant than they have been doing in the past.

A second area is in the domain of resource flows. As you know, Europe is a major donor of concessional aid to Africa and to other areas in the Third World. The prospects of a Europe growing more so than it has in the past should also provide the possibility of more concessional resources coming to Africa after 1992. If Europe 1992 stimulates growth in the Community, and if the fiscal and other constraints are eased, ODA (Official Development Assistance) may see the prospect of growth, because over the past several years, ODA to Africa has not grown by much.

Of course, there will be other claimants of aid coming from Europe. There will be Eastern Europe today, and perhaps other countries tomorrow. Vietnam, Cambodia, Laos, Nicaragua, and who knows these days, Cuba, each come to mind. The prospects for increased concessional resource flows to Africa will face this competition from potential claimants. I do not believe that this will be a very serious problem because of the limited number of claimants and also because in the case of Eastern Europe, the concern we have in Africa is that it is not concessional resources that will be diverted to Eastern Europe, but rather it will be investment resources which will be diverted. At any rate, we view 1992 as a process which should produce an increased flow of concessional resource flows to the African region, which would be a positive development.

There may also be other advantages from Europe 1992. Greater efficiency and competitiveness in the European economies might conceivably work to the advantage of African countries in terms of relatively cheaper export prices, better quality of plant and equipment from the Mediterranean members of the European Community with which African countries have had long years of contact and whose greater integration into Europe is bound to improve the quality of their exports.

More employment opportunities might also be created for African immigrant workers in Europe. Thus, there would be improved prospects for salary remittances, which is an important source of income for many countries in Africa, particularly those in West and North Africa. These and other prospects seem to hold promise for African growth, but there are major concerns in Africa today in regard to two key areas of development. First, the export of primary products from Africa to Europe, and second, European investment in Africa.

Constraints on Africa from Europe 1992

Europe 1992 might adversely affect African exports to the region. Why? There are, I believe, three reasons for this. First, a phenomenon you all know is that the income elasticity of demand for primary products is low. While some growth in African primary commodity exports might be expected, such growth is likely to be limited. Over the period 1987-1988, for example, European imports grew by some 80 percent in total, while those from Africa, which constitute largely primary products, grew by just over 40 percent. This resulted in the decline of Africa's share of European imports from 6 to 5 percent of total European imports.

Secondly, for reasons other than the inelasticity of demand for primary products, Africa is losing its markets share in world exports of key primary commodities. Cocoa, groundnuts, and other oil grains are the leading examples. In a few countries, this has been due to the neglect of agriculture following large oil revenues in the 1970's and early 1980's, a phenomenon which has not been entirely reversed by the decline in oil prices.

More importantly, the decline in Africa's exports has been due to the fact that other countries have become more competitive and have increased their market share at the expense of Africa. Malaysia is a very good example of this type of competitive presssure. Cocoa was a major African export, and the leading exporter of cocoa was Côte d'Ivoire. That situation is no longer true. Malaysia has surpassed Côte d'Ivoire in the export of cocoa products to Europe and elsewhere because of a serious program of export promotion which that country followed and because of competitive prices which they were able to bring about. We do not see major changes in Africa that could reverse this trend, this trend in Africa losing its market share in its leading primary commodity exports.

Thirdly, the trade preferences which ACP countries had from primary products might be eroded by the recent developments in the Uruguay Round of trade negotiations. Efforts in the Uruguay Round are under way to achieve global liberalization in commodity trade. Exports of primary products to Europe face a fairly bleak future.

To this rather discouraging outlook should be added the possibility of reduced European private investment in Africa. This is the second major concern of African countries which I mentioned a moment ago. With a more integrated market in Europe will come greater opportunities for investment within Europe. The political and business climate in the majority of African countries today is such that investors might find it more attractive to look inward rather than to explore opportunities in Africa.

Eastern Europe has also, as you all know, become a major pole attracting European private investment. Over the last ten years or so, private investment in Africa has declined considerably. With policy reforms in many countries focusing on privatization, and a greater role for the private sector both foreign and domestic, it had been hoped that this trend in private investment would be reversed. With Europe 1992, and no effective coordinating efforts from the African countries, this hope might not be realized.

Finally, there is a question in reference to the franc zone. As you know, a number of French-speaking countries in West and Central Africa have had a long period of common currency regimes. Common currency has also been coupled with common convertability into the French franc at a ratio of CFA 50 to FF 1. The system has been criticized for, among other reasons, the limited role it gives for monetary and exchange rate management among individual countries. Yet it has been a key instrument in attracting foreign investment and promoting intra-regional trade. Of course, it has also served as a force for financial stability.

The big question now is what happens after 1992. No one knows, I do not think, notwithstanding the occasional assurances given by French and Community ministers. If Europe 1992 cannot accommodate this system of a common currency for a number of African countries, with convertibility to leading European currencies, if that system can not be accommodated, members of the group would face a new set of fiscal and monetary problems and would naturally set setbacks in inter-African trade and investment.

I suggest that we should try to look at the net impact of these factors on Africa. When you have considered both the negative and positive factors, what is the net result on African trade and African investment? I do not know if anyone knows, but it is clear that we need to continue our dialogue in forums like this, our research on these problems in the African region in the 1990's.

Finally, Mr. Chairman, let me take up the question of what the African Development Bank is doing to sensitive opinion-makers on the issue of Europe 1992 and what actions it is taking by way of assisting its member countries to exploit the opportunities which Europe 1992 will create as well as to respond to some of the major challenges that this development will bring forth.

I should start with what I have said about private investment. One possible impact of Europe 1992 and of current developments in Eastern Europe is, as I suggested before, to divert private investment from Africa away to Europe and to Eastern Europe. This will undoubtedly happen if coordinated efforts in Africa are not taken by African governments. With this in mind, the African Development Bank is sensitizing private and public officials in Africa, in Europe, America and Japan, of the growing opportunity for private investment in our continent.

The Role of the Private Sector in Africa

Believe it or not, there are opportunities for investment in Africa. In 1987, the President of the African Development Bank created a Round Table of leading African businessmen to reflect on what should be done to stimulate the private sector in Africa. what the African Development Bank can do to promote private initiative, and what they themselves as leading actors of economic development in the continent could do. As a result of this initiative, a campaign was launched to bring information on African investment opportunities to the attention of investors in Japan, in Europe, and North America. Visits by these leading African businessmen were made to these regions. We are seeing the early returns from these initiatives in terms of joint ventures and other types of business deals.

Last month, the African Development Bank sponsored a major development conference in Europe, together with the *International Herald Tribune* at which leading European, African, and Japanese businessment, along with government officials exchanged views on the changing climate for business in Africa. The purpose of this symposium was to expand awareness of the growing investment opportunities and the comparative advantage Africa offers as a place for doing business.

These efforts to promote improved awareness of business opportunities in Africa should continue if the bleak prospects outlined a moment ago on foreign investments are to be avoided. Indeed, the Roundtable has grown into an Association of African Businessment, with two major objectives: first, of promoting domestic private investment, and secondly, of attracting foreign investment.

Policy Initiatives of the African Development Bank

The African Development Bank is about to launch its own program of encouraging the private sector in Africa. In the next year or so, the Bank expects to establish a fund of about U.S. $100 million to make direct investment in the private sector in Africa. As many of you know, the African Development Bank has in the past not been an active supporter of the private sector. What we have done in the past several years is to basically fund investment projects in agriculture, industry, social services, but more or less neglected programs in the private sector. It is this emphasis that we want to change.

An improved climate for business and a vigorous domestic private sector are essential conditions for attracting foreign investment. If these efforts are sustained, the decline in private investment which has taken place over the past several years in Africa will hopefully be reversed.

In closing, let me say, Mr. Chairman, that there is going to be one major challenge, a very serious challenge which Africa will face with Europe 1992. Can African countries hope to deal individually with a unified market such as will be taking place in Europe 1992? The answer is obvious: no.

What have African countries done in the past to bring a greater degree of coordination in their economies, of pooling their markets and their resources? There have been efforts to create regional markets. There are several examples with which you are already familiar. In West Africa we have ECOWAS, the Economic Community of West African States. In East and Southern Africa, we have the PTA's, or Preferential Trade Areas. We have customs unions in Central Africa and elsewhere. We also have clearing houses for payments, such as the West Africa Clearing House, and also in East Africa. We now have a scheme sponsored by the Economic Commission for Africa, which is to create an African Common Market by the year 2000.

It is clear that African governments and institutions appreciate the economic benefits of regional and ultimately continental common markets. The question is not really whether they are sensitive to this question, or whether they appreciate the benefits from common markets. The interesting question is whether these efforts so far have brought commensurate results, whether the efforts themselves have been adequate, and whether current developments as such that by 1992 African countries will be in a position to face Europe with a unified economic group. To none of these questions can we say "yes".

The challenge for African governments of accelerating the process of economic integration remains basically unmet. What can we do? There are obviously very objective reasons why all of these efforts have not so far borne fruit, and I am not the one to minimize these objective reasons and obstacles. National interests predominate over multinational group interests. If you look at the development plan of a country what you see in that plan are national projects. You don't see projects which bring the economy of one country closer to the economies of its neighbors. There are objective political problems, objective economic problems, and objective practical problems.

I think that one problem which we have in Africa is the manner with which we approach a fundamental issue such as economic integration. We have for more than twenty-five years given lip service to economic integration. You hear African ministers, heads of States, even African heads of institutions speaking about economic integration, about the wisdom to bring economies together. That kind of lip service, that kind of almost Pavlovian reaction to invitations you hear about, in my judgment tends to weaken action.

One way for us to proceed, Mr. Chairman, would be to impose a moratorium on talk on economic integration in Africa over the next two years. If we could stop talking about abstract generalizations for two or three years and begin to look for concrete ways of gradually building an African economic community by the year 2000, I think we will have done something. Once again, I thank you for giving us this opportunity to discuss with you major problems facing our continent. I thank you for your kind attention.

Discussion

Brian McDonald, Delegation of the European Communities. We did not give much attention this morning to the question of monetary union. It has been suggested that European monetary union might somehow be incompatible with the sort of arrangements that exist in West Africa. I think that the answer is that there is no incompatibility with the form of what is likely to eventually come out of European monetary integration.

Secondly, on the question of regional integration, this has been a problem for for developing countries and progress has been slow. Yet I think one can go about it only in a very incremental way and I think it is worth the effort in the end. One does have to start small and try to build things up gradually. We have had moves toward political integration under a series of internal and external political pressures. Such pressures do not exist in Africa to the same extent and I think that this makes the urgency of the situation somewhat different, at least in terms of motivation.

Robert Allison, National Bureau of Economic Research. I am glad to be here for a second year. I wanted to make two quick observations, and then a question. I have noticed, partly from having spent four years of my life as an undergraduate in economics, and in working with professional economists for twelve years of my life that they are a special breed of character. By the time they are pumped through graduate school, they have a very interesting style of thinking. I think that this is the kind of person that the World Bank tends to hire to do its economic thinking.

The other observation is that this kind of forum is interesting to us all because it gives us an opportunity to have others with different perspectives to address issues such as those raised by the World Bank. I think that these perspectives are valuable and you can see this value from the energy we had going this morning, particularly in the kind of potential dialogue which was unfolding.

What is wrong with all of this is that we go away from here and we say, "Well, we will see you next year", or in some cases, there is a little follow-up if we are lucky. What I am wondering is whether the World Bank is at all interested in trying to incorporate in some way, perhaps through a series of visiting scholars and researchers, some of the people who for lack of a better term represent the loyal opposition. These people would come in on perhaps a semester leave from academic life or a year away from teaching and research out of their institutions to provide what I think is a useful perspective on economic history, political science, and practitioners.

My question, albeit somewhat rhetorical, is: In hiring the same sorts of people all of the time, is the Bank getting a well-rounded picture, particularly if those individuals are all trained just in macroeconomic analysis? It seems to me that there is a need for a little more enrichment along the line.

Michael Sarris, the World Bank. Let me say that the World Bank does not just work with its own staff, but does employ a large number of consultants to address specific issues. Only last week, for example, we had two important conferences at the Bank on the transition from stabilization to growth, a question that puzzles us. As you know, we have supported many programs of adjustment in many countries, and we have succeeded in introducing some stability, but the elusive step of moving from controlling demand to increasing supply is not as forthcoming as we had hoped. We hope we have learned something from our conference.

We also just had a meeting on governance and capacity building, two issues which are of concern to us. I would also like to emphasize to you that although some of our pronouncements sound somewhat one-sided because as you said, it is important to state that side in order to hear the other one, in most of what the Bank puts out, it does it in close cooperation with organizations like the African Development Bank, African governments, institutions such as the European Community, academic institutions. There are many who have spent time in the Bank, up to a year or two and then return to academic posts. I think that the dialogue is ongoing.

David B. Levine, International Management Consultant. Much of what I do focuses on what happens in the local environment after the macroeconomic policy design has been set. I would like to ask a question that may take us in a somewhat different direction.

It seems to me that in many ways we all continue to inherit and struggle with the legacy of colonialism and of racism as it affects our interactions with Africans. The status quo pretty much lends itself to being used as proof of the inability of the vast majority of African nations to manage their economic development. Now, with that being true, it seems to me that we wind up making assumptions about the competency and about why African countries are in many cases in the situations that they are currently in that I think wind up affecting what are the kinds of stances that we take.

We don't seem to be so concerned about whether the Eastern Europeans will be able to demonstrate the competency in managing a totally different economic system than they now have. We take it as a given that they will indeed be competent at it and with the right kinds of support, they will be able to move ahead. Yet we take it is a real question as to whether the competencies exist within Africa to do the management. We wind up setting up a lot more rigid conditionality, a lot more rigid means of accountability. This reflects the fact that we just have a lot less trust, and it also says that Africans need to prove themselves. Yet he very situation we are in precludes that proof from being demonstrated in any kind of powerful way.

My question is: Those of you working inside these institutions, in particular, those working not in the African institutions represented here, but the multilateral or U.S. institutions, do you in any way experience your institutions as behaving colonially or racistly in terms of the assumptions that get made in policy development and implementation plans?

Tekle Gedamu, African Development Bank. I realize that the question was not for me, but I said to myself, "Why not?" It is good to be in a university atmosphere like this because this kind of thing would not happen in the course of our regular deliberations.

Two quick comments. First, there is a colonial heritage in Africa. Nobody denies that. I speak now as an African, not as a representative of the African Development Bank. I think that one of the problems we have in Africa is to use pretexts and reasons for not taking action, for not developing our own approach and that this is due to a tendency to constantly invoke our colonial heritage.

The longer we talk about the colonial heritage, the more we talk about it, the less energy we have to devote our attention to major issues of development. We have been independent for approximately thirty years. This colonial heritage must come to an end sometime. I think this argument was very powerful in the first five, ten, fifteen, perhaps twenty years, but you cannot continue to speak of the colonial heritage. Our people have had self-government for thirty years. We can discuss about the problems we have, with our leaders, with political parties, and so on, but don't let us say that it is the colonial heritage which prevents African countries today from facing these problems.

David B. Levine, International Management Consultant. I did not mean to imply that colonialism provides a rationale for the institutional behavior we are experiencing, i.e., to excuse the difficulty and the problems that African countries are in and to blame it on the colonial heritage. I absolutely agree with you on the basic thrust of your response and my day to day experience in operating on the ground in Africa gives me continued demonstrations of ineptitude, corruption, inefficiency, as well as incredible strength, effort, and sense of purpose.

The issue is not whether we excuse what is going on on the basis of the colonial heritage, but to acknowledge that we are in a situation now where African debt service, for example, - if we take away the Nigerian case along with countries with marketable primary commodities, - African debt service takes larger amounts of the export earnings of African countries than is possible to deal with. The situation as it now exists puts Africa, to use the analogy, not on a level playing field.

The question is not what do we do to excuse what is going on, but what do we do from the side of the donors to acknowledge that that the colonial heritage precludes just taking off and moving forward and how will we better manage our processes. It is not the heritage of the current situation. It is the assumption that Africans can not manage their way out of it. It is part of what Stephen Adei said this morning about the need to somehow involve Africans in much more powerful ways of taking country specific situations in a way that the general macroeconomic remedies can be better applied.

Please do not take this as a polarization question as to whose fault it is. You and we suffer from that heritage. I am asking people who are representing the western donor institutions what are the behaviors that in acknowledgement of that heritage what are they prepared to do in demanding the same kind of performance and outcomes in Africa as elsewhere.

Tekle Gedamu, African Development Bank. I think you are right in saying that the capacity, human and technical, to manage economies in many African countries may be there. This may have something to do with the colonial heritage, but I think that the problems we have in many African countries are problems of weak bureaucracies which do not have enough research capability and the result of this situation is that when African countries negotiate with the IMF, or with the World Bank, they negotiate from a position of weakness.

It is not a genuine negotiation in the sense that they can confront the IMF with options to what they or the World Bank is saying to them. In that sense I think African bureaucracies are weak. This is in my judgment the responsibilitiy not only of African governments, but institutions like ourselves and the World Bank to help African countries to build up this capability for policy analysis, for showing alternative policy measures that can be taken in response to suggestions that come from outside. Maybe I should stop here without going on.

Daniel Bond, U.S. Export-Import Bank. I represent one of the U.S. agencies involved. As I mentioned this morning, we have U.S. $4 billion outstanding in exposure in Africa. I think your question is a very good one and let me try to answer it as specifically as I can.

There are, you know, several ways in which we can help the African countries get out from underneath the burden of debt servicing. Some of them are being applied today. For example, the most traditional mechanism is through debt rescheduling such as through Paris Club negotiations.

When the debt crisis hit, the official creditors, including the export credit agencies, through the Paris Club, which is the informal negotiating forum for debt rescheduling, faced the difficult problem of how do you forgive or reschedule debt and continue to have a new flow of resources into these countries. They established a very useful procedure called the contract cutoff date. This means that they established in one of the earlier reschedulings a certain date in history, a certain time period for which we will treat all old debts in the same manner and all subsequent debt in another manner. This approach has held quite well. It has been the reason that Exim Bank and the other export credit agencies continue to operate in African countries even though they are rescheduling on a repeated basis.

There are some countries, for example, that have had nine or more reschedulings. I think that this is a good indication that we are willing to separate past problems, debt overhang accumulated before the debt crisis in the early 1980's, to in part recognize that high interest rates generated by U.S. macropolicies, from subsequent lending.

My job at the bank is that I am the head of the research department that does the country risk analysis. When we do this analysis and we advise the board, we never talk about whether this country will repay its old debt. We know they won't in some cases. The question is: Will they be able to service any new credits that we give them today? As I mentioned this morning, we have creditworthiness problems in a lot of African countries. In fact, in all but seventeen out of fifty-five or so African countries, we have quite a few restrictions, either that we are closed out completely or that we can only do very short term transactions.

When you are making that decision about whether they will be able to service new debt, you are not talking so much about the debt overhang, as about the current regime and its policies and whether an additional increment of debt is what is going to be able to create the ability to service that debt. I think that this is one way where there is an effort to base what is the important decision on the continuation of financing exports to these countries on current situations. Forget about how inept the governments might have been or how poorly they ran the country - Are they doing a good job today? This is one way.

Also, I mentioned this morning that we are in the process.of actually offering some reduction in debt on a permanent basis, either through very long extension of payment terms or outright forgiveness of principal and interest. The sad truth is that it does provide very little assistance today because most countries which are getting that kind of assistance weren't paying their debts anyway. So forgiving you for not paying something is not helping you that much, but it is from the side of the creditors a concession, an attempt to recognize that debt overhang can be a problem.

The story clearly is not over. I think that the Toronto Summit terms for debt forgiveness represent a useful first step. I am sure that if other steps are needed, they will be taken. I don't think that in the decisions that an organization like Exim Bank makes, we are failing to recognize the current situation in terms of how African countries have changed and how prospects are in the future. However, I do accept your argument in the sense that we do not also do any special assistance because of the past. I am afraid that under our charter, the way that Congress and the administration lets us operate, we can not treat Africa in any special way, and perhaps this is what you are talking about. Perhaps we should made special consideration because of the past history of Africa, but frankly, the export credit agencies around the world do not do that. The commercial banks do not do that. I am afraid that we just work with the situation today.

I would also admit that perhaps we aren't as knowledgeable about what Africa is doing. Ex-Im Bank operates with a staff based in Washington, D.C.. We travel, we try to stay in contact with countries. We have our embassies give us information. But I would admit that perhaps we are not as sensitive to developments in Africa because these are not major markets. Most of our business is in Latin America and in Asia and Europe, and so we do not pay as much attention because we do not see the decision as being as critical. So speaking up and letting us know and prodding us is useful. There are some deficiencies. I admit that. Thank you.

William Vickrey, Columbia University. It seems to me that Africa is suffering an acute degree of what is endemic to the entire world, namely, high interest rates. It is in part the insistence of the Federal Reserve and other banking institutions in attempting to control inflation by high interest rates that is at the root of the trouble. This is engendered by the fact that high interest rates control inflation through the medium of unemployment. That is the only way they work.

While inflation can be thought of as a form of embezzlement, umemployment is a form of vandalism. Inflation redistributes things unfairly, but unemployment is nonproduction. Ever since the oil shock, the developed countries have been obsessed, at least the financial centers, with the control of inflation, whereas far more important is control of unemployment. The result is high interest rates and high interest rates mean not only that the burden of the debt becomes difficult to finance but high interest rates even in the context of continuing inflation of 5 percent means that in real terms the burden of the debt is front-end loaded, that is, you expect an earlier repayment with 10 percent interest and 5 percent inflation, than you would with 5 percent interest and no inflation. How can we break into this worldwide high interest phenomenon?

Michael Sarris, the World Bank. The reason why inflation is such a target for everybody who tries to manage economic policy is precisely to get to interest rates because the only way to bring down nominal interest rates is if you manage to bring down the inflation rate. Also if you have high inflation, there is no way you are going to get the change in relative prices which will allow resources to move from where they are to where they should be. Control of inflation is precisely important so as to avoid unemployment in the next round.

John Kuforiji, DARE, Inc., Boston, Massachusetts. What we now have today is high inflation. We have got inflation and unemployment. What are the next alternatives?

Farahmand Rezvani, Department of Economics, Montclair State University. In much of the discussion worldwide on Europe 1992, it seems to me that too little attention is being given to the positive aspects of economic integration. By constantly looking at the African market as a substitute to the European market in terms of capital, but the African market is not necessarily a substitute, i.e., if European integration proceeds in a way that economists are predicting to higher economic productivity, then with the attendant increase in demand, then at least African countries will be able to take advantage of this increase in demand. And even if in the short-term there is a reduction in capital flows to Africa because of events, let us say, in Eastern Europe, but there may be at least an offset through a broadened demand for African exports. If there is going to be an increase in the relative price of labor in Europe, this may work to the advantage of Africa in terms of comparative advantage in certain lines of production.

Brian McDonald, Delegation of the European Communities. I should like to say that in our view, we see Europe 1992 very much in a positive light, not just for the member countries, but for the countries with whom Europe has traditionally engaged in trade and investment.

Stephen Adei, United Nations Development Programme. As we Perhaps this is an appropriate time to look at some of these matters within a lighter framework. Let me offer you the following story. An African chief was worried that men were following the advice of the women, contrary to the chief's directives. He called all of the men together and said that all of the men who listened to the advice of their wives should go to the right and all those who did not should go to the left. All but one of the men went to the right. The chief then asked the man who had gone to the left and said, "And why have you gone to the left?" He replied, "My wife told me never to follow the crowd." Sometimes one wonders who African leaders listen to when they are fashioning their development strategies. While it is true that there is a very bleak world outlook as it relates to several aspects of African development, I did say this morning that opportunity still exists, even though the capacity to respond to them in Africa is another thing.

So far, we see that African countries are weak, technologically, and in terms of institutional capacity. Even within the developing country context, Africa is not able to compete with the Southeast Asian countries, as we have seen, in the cases of such commodities as cocoa and palm oil. The capacity issue is where I think that the policy of complete liberalization as is being proposed by the World Bank can not by itself solve Africa's problems. How can one not stifle efficiency and productivity such as has occurred in the past and at the same time pursue certain fundamental structural reforms in which much of the basic infrastructure and technical capacity is weak or absent?

Africa's development is clearly a long-term process. There must be complementary investments and commitment in both the public and private sectors if development is to be successful. At the same time, the lack of confidence is clear everywhere. We see Africans wanting to invest in Europe rather than in their own countries.

Despite all of the efforts thus far, there is no African country where the modern sector constitutes more than thirty-five percent of the economy. The rural sector makes up the bulk of economic and social structures. It is here that we must concentrate our efforts in capacity-building. Capacity-building will enable countries to formulate appropriate policy choices with the participation of the broad mass of the population and without whose support any policy is doomed to fail over the long term.

The typical planning office, the typical finance ministry, in any African country is woefully incapable of making the kinds of policy analyses which are essential if successful development strategies are to succeed. The research departments of the central banks are generally a litle better staffed. Unfortunately, this results in countries having to resort to external agencies and institutions to undertake policy analysis. Because these external agencies often have so little connection with the indigenous institutional structure, they often make policy choices with little understanding of their full ramifications on the local economy.

This meeting today represents about the sixth meeting of this kind in the U.S. in which I have participated over the past several months, and not one such conference is being held in Africa. The lack of such conferences in Africa is a serious indication of the imbalance in policy dialogue on Africa. This is why we at UNDP have placed such emphasis on capacity-building and institutional development within African countries themselves.

Nii K. Bentsi-Enchill, Deputy Editor, *Africa Recovery*, United Nations. Two observations. One is that Africa has been beaten today and continues to be so on this question of mismanagement. We must bear in mind how things may be different in degree, but not different in nature. I am thinking of the incomparable, that is, the United States here and the countries of Africa, in terms of corruption and mismanagement.

I am thinking of the HUD scandal, of the savings and loan crisis. In terms of the friction on the African continent of the principles of economic liberalism which presupposes certain things to exist when they do not, I think that this is not very pertinent for Africa. It is a question of subsidies by governments and the fact that the U.S. and Europe also apply vast subsidies, particularly to agriculture, which raises the question of why, if these subsidies are so acceptable in Europe and America, then they are so unacceptable in Africa?

I should also like to note that I found an extremely high level of political content in the presentation of the representative from the World Bank. I wonder if in the future, the World Bank is going to pursue future structural adjustment lending according to not only economic criteria, but also political ones, i.e., the degree of democracy. What is the state of thinking within the World Bank on this score?

On privatization and stimulus of the private sector, I think that Dr. Adei made an interesting side point just now about how most African producers are in the private sector, in small-scale agriculture. It is important to go beyond what is normally made as a very important policy statement, that is, that the private sector must be stimulated. By this, I mean that the international economic environment, as it is now, in what sectors can there be stimulus of the private sector which will lead to growth and development in the countries concerned? Thank you.

Michael Sarris, the World Bank. You have asked a very fair question as to whether there are considerations of good and legitimate government being part of conditionality. Frankly, we do not have an answer. We recognize that this is a problem. We recognize that this is a factor we have to introduce in deciding where a program will be successful or not. We have been trying to think about it. It is an area where we do not have comparative advantage. We have had dialogue with political scientists and others who perhaps can throw some light into this issue. It is a very real problem.

For the time being, we go with much stronger support to countries where we have faith that the program will succeed. That faith is conditioned by our judgment of what is happening in the political and other government structures in a country. Whether that will be translated into specific conditionality as it is in the economic area is very difficult to say. It is an area of challenge, where one can very easily get badly burned, if you like, because it is a very messy area to decide what is legitimate and what is illegitimate. At some point, somebody has to face that issue and make some judgments. We would prefer that that be done internally.

Phillip LeBel, CERAF, Montclair State University. Our time is now running short. In much of the deliberations today, I have noticed how much policy perspectives have been shaped by the time period in which events or choices are to be made. This reminds me of an Ethiopian proverb, which when translated into English, may symbolize some of the dilemmas we all confront: "If you wait long enough, even an egg will walk."

We have raised a lot of difficult questions today. I share with many of you the frustrations that we do not have more time, or more ready-made answers to these questions. What I hope is that from this conference we have had some increase in our understanding of the impact of Europe 1992 on Africa and the U.S..Thank you for coming.

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Appendix A

Table 1

Basic Economic Development Indicators

	Population 1988, millions	Annual Growth Rate, 1987-2000	GNP per capita $U.S.1987	Annual Growth Rate, 1980-1987	Life Expectancy at birth, in years
Sub-Saharan Africa	451.2	3.10%	$330	-2.8%	51
Excluding Nigeria	344.5	3.10%	$330	-1.2%	50
Low-Income Economie	397.3	3.10%	$270	-3.6%	50
Excluding Nigeria	290.6	3.10%	$240	-2.2%	50
Ethiopia	44.8	3.10%	$130	-1.6%	47
Chad	5.3	2.60%	$150	2.4%	46
Zaire	32.6	3.10%	$150	-2.5%	52
Guinea-Bissau	0.9	2.10%	$160	0.8%	39
Malawi	7.9	3.50%	$160	0.0%	46
Mozambique	14.6	3.20%	$170	-8.2%	48
Tanzania	23.9	3.40%	$180	-1.7%	53
Burkina Faso	8.3	2.90%	$190	2.5%	47
Madagascar	10.9	3.00%	$210	-3.7%	54
Mali	7.8	3.00%	$210	0.7%	47
The Gambia	0.8	3.00%	$220	0.8%	43
Burundi	5.0	3.20%	$250	-0.2%	49
Zambia	7.2	3.50%	$250	-5.6%	53
Niger	6.8	3.20%	$260	-4.9%	45
Uganda	15.7	3.30%	$260	-2.4%	48
Sao Tomé & Principe	0.1	2.50%	$280	-6.0%	65
Somalia	5.7	3.00%	$290	-2.5%	47
Togo	3.2	3.10%	$290	-3.9%	53
Rwanda	6.4	3.80%	$300	-1.0%	49
Sierra Leone	3.8	2.60%	$300	-2.0%	41
Benin	4.3	2.90%	$310	-0.6%	50
Central African Republic	2.7	2.60%	$330	-0.7%	50
Kenya	22.1	3.90%	$330	-0.9%	58
Sudan	23.1	2.70%	$330	-4.3%	50
Comoros	0.4	3.40%	$370	...	56
Lesotho	1.6	2.60%	$370	-0.9%	56
Nigeria	106.8	3.00%	$370	-4.8%	51
Ghana	13.6	3.00%	$390	-2.0%	54
Mauretania	1.9	2.70%	$440	-1.6%	46
Liberia	2.3	3.00%	$450	-5.2%	54
Equatorial Guinea	0.4	2.30%	...	...	46
Guinea	6.5	2.40%	...	...	42
Middle Income Countries	53.9	3.20%	$870	0.3%	53
Cape Verde	0.3	2.70%	$500	1.2%	65
Senegal	7.0	3.10%	$520	0.1%	48
Zimbabwe	9.0	3.00%	$580	-1.3%	58
Swaziland	0.7	3.20%	$700	1.2%	55
Côte d'Ivoire	11.1	3.60%	$740	-3.0%	52
Congo People's Republic	2.0	3.60%	$870	1.7%	59
Cameroon	10.9	3.20%	$970	4.5%	56
Botswana	1.1	2.30%	$1,050	8.0%	59
Mauritius	1.0	1.10%	$1,490	4.0%	67
Gabon	1.1	2.60%	$2,700	-3.5%	52
Seychelles	0.1	3.00%	$3,120	1.3%	70
Angola	9.2	3.00%	...	...	44
Djibouti	0.4	3.00%	...	...	47

Source: *Sub-Saharan Africa: From Crisis to Sustainable Growth* , A Long-Term Perspective Study (Washington, D.C.: The World Bank, 1989), pp. 221, 269.

Table 2

Growth and Geographic Distribution of World Exports

in $U.S. Billions of current dollars, FOB

	1970	1980	1984	1987
Developing Americas	**$17.00** (6.2%)	**$104.10** (6.2%)	**$112.90** (6.9%)	**$88.93** (3.7%)
Africa	**$11.80** (4.3%)	**$97.30** (5.8%)	**$60.30** (3.7%)	**$72.63** (3.0%)
Asia	**$21.60** (7.9%)	**$224.50** (13.5%)	**$236.30** (14.4%)	**$341.67** (14.3%)
Others	**$4.30** (1.6%)	**$26.20** (1.6%)	**$28.00** (1.7%)	**$102.30** (4.3%)
Industrial Market Economies	**$218.70** (80.0%)	**$1,217.00** (72.9%)	**$1,200.30** (73.3%)	**$1,784.70** (74.7%)
Total	**$273.40**	**$1,669.10**	**$1,637.80**	**$2,390.23**

Source: *Commodity Trade and Price Trends, 1987-88* (Baltimore: The Johns Hopkins University Press, 1988), p. 2, and the World Bank, *World Development Report 1989* . (New York: Oxford University Press, 1989), p. 190. Africa's share includes countries of North Africa and South Africa. For 1987, Sub-Saharan Africa accounted for $U.S. $28.47 billion inexports, or one percent of global exports.

Table 3

Africa's Share of Global Commodity Exports

	1970	1980	1987
Total Non-fuel	9.1	5.3	4.1
Live animals, meat	3.7	2.3	1.6
Bovine meat	2.6	0.9	1.0
Fishery commodities	3.1	2.9	4.1
Coarse grains	1.5	0.7	1.7
Bananas	12.2	12.6	13.0
Sugar	4.5	5.2	5.5
Coffee	33.6	24.1	19.9
Cocoa beans	72.6	61.6	58.7
Tea	9.5	9.9	10.6
Spices	15.0	6.7	5.8
Groundnuts	27.7	24.3	21.1
Palm oil	57.3	27.3	18.4
Tobacco	3.4	5.2	4.8
Natural rubber	7.5	5.2	5.7
Non-coniferous timber	7.1	6.7	5.9
Cotton	11.0	8.3	7.9
Sisal	47.7	31.8	25.5
Bauxite	5.6	17.0	19.6
Bauxite (actual weight)	5.2	15.6	18.5
Alumina (aluminum oxide)	2.9	2.0	1.5
Aluminum	1.6	2.2	2.5
Copper ore	17.9	14.8	12.9
Unrefined copper	18.2	14.3	12.9
Refined copper crude	10.6	8.2	7.3
Iron ore	7.7	4.0	3.7
Phosphate	22.5	21.5	23.4

Source: *Africa's Commodity Problems: Towards a Solution* , Report by the United Nations Secretary General's Expert Group on Africa's Commodity Problems. (New York: United Nations, 1990), p. 120. Data are based on UNCTAD sources and include both North Africa and South Africa.

Table 4

Export Concentration Ratios for Africa

1985

	Number of Commodities Exported	Concentration Ratio	GDP per capita in $U.S., 1987 (non-PPP value)
Algeria	44	0.54	$2,633
Angola	17	0.87	$1,000
Benin	23	0.43	$665
Burkina Faso	23	0.54	$500
Burundi	13	0.78	$450
Cameroon	47	0.40	$1,381
Cape Verde	9	0.57	$500
Central African Republic	13	0.45	$591
Chad	9	0.62	$400
Comoros	9	0.78	$850
Congo	25	0.89	$756
Côte d'Ivoire	120	0.37	$1,123
Egypt	83	0.54	$1,357
Equatorial Guinea	12	0.58	$423
Ethiopia	28	0.62	$454
Gabon	28	0.79	$2,068
The Gambia	14	0.52	$420
Ghana	33	0.54	$481
Guinea-Bissau	11	0.56	$420
Kenya	104	0.34	$794
Liberia	20	0.63	$380
Libya	29	0.92	$7,250
Madagascar	43	0.44	$634
Malawi	33	0.53	$476
Mali	25	0.58	$543
Mauretania	14	0.62	$840
Mauritius	42	0.66	$7,150
Mozambique	46	0.27	$500
Morocco	95	0.26	$1,761
Niger	27	0.74	$452
Nigeria	87	0.94	$668
Reunion	38	0.71	$588
Rwanda	8	0.81	$420
Sao Tomé & Principe	14	0.70	$425
Senegal	54	0.31	$1,068
Seychelles	8	0.81	$3,010
Sierra Leone	22	0.39	$390
Somalia	18	0.76	$1,000
Sudan	43	0.34	$750
Tanzania	53	0.36	$405
Togo	22	0.46	$670
Tunisia	107	0.41	$2,741
Uganda	17	0.93	$511
Zaire	44	0.42	$220
Zambia	30	0.84	$717
Zimbabwe	82	0.29	$1,184

Source: UNCTAD, *Handbook of International Trade and Development Statistic* s, 1988. (New York: United Nations, 1989), Table 4.5. The concentration ratio is defined as the square root of the aggregate commodity shares and normalized to yield an index ranging from 0 to 1 with higher values representing greater concentration.

Table 5

U.S. Exports to Africa

(in $millions, F.A.S.)

	1987	1988	1989
Angola	$94.6	$101.0	$97.6
Benin	$18.0	$20.9	$17.6
Botswana	$28.4	$41.0	$30.1
Burkina Faso	$10.3	$15.5	$10.8
Burundi	$1.7	$1.3	$0.8
Cameroon	$45.2	$31.4	$35.8
Central African Republic	$1.7	$3.2	$5.6
Chad	$4.0	$4.9	$35.2
Comoros	$1.5	$0.7	$0.2
Congo	$9.3	$20.8	$12.1
Côte d'Ivoire	$82.1	$75.1	$79.2
Djibouti	$3.6	$4.4	$3.1
Equatorial Guinea	$0.1	$0.5	$0.2
Ethiopia	$136.4	$180.6	$68.5
Gabon	$52.5	$53.9	$46.4
The Gambia	$11.9	$166.0	$10.3
Ghana	$114.6	$117.3	$122.7
Guinea	$35.2	$34.7	$40.0
W.Africa, N.E.C.	$24.4	$17.6	$88.0
Kenya	$88.5	$91.3	$133.0
Lesotho	$6.9	$4.4	$4.1
Liberia	$68.9	$67.3	$98.3
Madagascar	$18.3	$12.2	$7.3
Malawi	$10.2	$19.9	$10.7
Mauretania	$8.2	$16.8	$12.5
Mauritius	$26.1	$149.7	$12.4
Mozambique	$50.3	$56.5	$40.9
Namibia	$1.4	$2.1	$12.7
Niger	$2.4	$7.9	$9.5
Nigeria	$294.5	$355.8	$491.8
Rwanda	$4.3	$2.2	$2.4
Senegal	$49.0	$69.1	$68.7
Seychelles	$1.0	$2.1	$82.3
Sierra Leone	$26.2	$17.1	$25.1
Somalia	$36.5	$27.1	$20.9
South Africa	$1,281.2	$1,690.3	$1,659.1
Sudan	$145.7	$102.5	$80.8
Swaziland	$5.7	$4.8	$3.0
Tanzania	$34.5	$27.5	$28.9
Togo	$19.6	$20.5	$27.9
Uganda	$18.7	$15.9	$23.1
Zaire	$103.0	$122.2	$121.9
Zambia	$47.2	$26.0	$49.6
Zimbabwe	$75.4	$34.3	$120.8
Total	**$3,099.2**	**$3,836.3**	**$3,851.9**

Source: U.S. Department of Commerce, Africa Divison, Washington, D.C., 1990. N.E.C. Includes Gujinea-Bissau, Cape Verde Islands, and Sao Tomé & Principe. For 1987, Africa accounted for 1.2 percent of U.S. Merchandise exports, and the U.S. Accounted for 4.2% of African imports.

Table 6

U.S. Imports from Africa

(in $millions, F.A.S.)

	1987	1988	1989
Angola	$1,372.1	$1,343.1	$1,863.3
Benin	$15.8	$15.6	$7.1
Botswana	$7.1	$9.0	$16.7
Burkina Faso	$0.4	$1.6	$0.4
Burundi	$5.0	$1.3	$4.5
Cameroon	$442.9	$249.7	$414.8
Central African Republic	$4.9	$3.3	$2.9
Chad		$0.1	$0.1
Comoros	$6.1	$13.5	$7.9
Congo	$456.7	$404.8	$505.6
Côte d'Ivoire	$0.2	$0.5	$0.2
Djibouti			
Equatorial Guinea	$77.9	$57.2	$70.5
Ethiopia	$379.4	$199.0	$417.6
Gabon	$0.3	$0.2	$1.7
The Gambia	$259.6	$209.6	$127.5
Ghana	$120.8	$139.3	$133.0
Guinea	$2.6	$2.0	$2.0
W.Africa, N.E.C.	$85.2	$69.4	$68.3
Kenya	$5.3	$14.3	$18.9
Lesotho	$100.5	$115.5	$107.0
Liberia	$73.1	$50.5	$37.7
Madagascar	$27.1	$41.2	$35.3
Malawi	$4.9	$4.9	$7.2
Mauretania	$20.0	$17.3	$10.2
Mauritius	$153.9	$165.7	$159.1
Mozambique	$30.1	$22.5	$19.7
Namibia	$9.2	$5.6	$14.8
Niger	$7.5	$5.8	$2.2
Nigeria	$3,766.7	$3,535.5	$5,226.5
Rwanda	$11.7	$12.9	$6.8
Senegal	$7.4	$8.2	$41.4
Seychelles	$14.2	$5.0	$5.6
Sierra Leone	$21.1	$43.8	$53.2
Somalia	$4.2	$1.4	$0.3
South Africa	$1,399.0	$1,588.9	$1,529.0
Sudan	$23.2	$24.2	$19.8
Swaziland	$10.9	$22.1	$26.8
Tanzania	$14.3	$19.0	$53.8
Togo	$25.9	$5.8	$2.9
Uganda	$85.4	$62.1	$40.0
Zaire	$320.8	$383.7	$331.6
Zambia	$51.3	$20.1	$24.1
Zimbabwe	$74.5	$126.7	$127.0
Total	**$9,499.2**	**$9,021.9**	**$11,545.0**

Source: U.S. Department of Commerce, Africa Divison, Washington, D.C., 1990. N.E.C. Includes Gujinea-Bissau, Cape Verde Islands, and Sao Tomé & Principe. For 1987, Africa accounted for 2.3 percent of U.S. Merchandise imports, and the U.S. Accounted for 18.9% of African imports.

Table 7

Foreign Direct Investment in Africa

in currents $U.S. Millions

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Africa	$770.8	$1,549.7	$1,410.8	$1,206.7	$1,378.9	$2,570.6	$1,751.3	$2,227.2	$2,853.4
Africa									
Oil Exporters	$458.9	$1,133.0	$1,011.5	$1,186.2	$1,143.6	$2,237.3	$1,571.4	$1,759.3	$2,370.0
Non-Oil Africa Exporters	$311.9	$416.7	$399.4	$20.5	$235.3	$333.3	$179.8	$467.9	$483.4
Africa's Share of World Direct Foreign Investment	0.6	2.7	3.2	2.7	2.7	5.3	2.3	1.9	2
Africa's Share in Developing country Foreign Direct Investment	2.7	10.3	9.9	11.6	11.4	19.3	12.6	9.5	11.4

Source: United Nations Commission on Transnational Corporations, as reported in *Africa's Commodity Problems: Toward a Solution* (New York: United Nations, 1990), p. 129