Center For Economic Research on Africa
School of Business
Montclair State University
Upper Montclair, New Jersey 07043

Floating Exchange Rates and Economic Development in the Nations of Central Africa:

The Case of Cameroon, the Congo, and Gabon

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Albert Ondo Ossa
Chef du département des sciences économiques
Maître des conférences
Faculté de droit et des sciences économies
Université de Libreville
République du Gabon

Abstract

In a world floating exchange rates that has evolved since the end of the Bretton Woods system in 1973, the question for developing countries with a pegged system such as the CFA zone in Central Africa, is whether this will work to their benefit or whether they should seek an alternative currency regime. We find that for these countries, the linking of the CFA via the French franc to the dollar raises growing questions of currency and economic instability. Thus, CFA zone countries should seek a new fixed exchange rate system.

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Introduction

The crisis in the International Monetary System caused by the Bretton Woods led the principal officials of the O.E.C.D. to accept floating their currencies in 1973[1]. According to a good number of economists, notably the monetarists, abandoning a fixed currency should have increased the autonomy of national economic policies. It should also have permitted an automatic rebalancing of external claims and liabifities. Unfortunately, since 1974, foreign imbalances have, in reality, only multiplied and been intensified. Yesterday's solution has become today's problem.

Certainly it is difficult to attribute the disruption of world economies to the mechanisms of floating exchange rates alone. They are probably neither the primary cause nor the determining factor. The fact remains, however, as Lévy-Garboua and Weymuller have noted, that "in an economy in which inflation and floating currencies are the rule, economic units are tightly linked one to the other and a gentle shock can sufflce to set off movements which build until brutal and painful remedies are called for to halt them.[2] "

Regarding the developing nations one might have thought that the mechanisms of a floating currency would have led to improved management of their foreign balance and constituted a defense against excessive debt?[3] In any case, the majority of them, voluntarily or under constraint, continued to practice a system of fixed parity. Among them there are those which fix their exchange rate based on the rate of a parent currency.[4] It is the situation of these countries which we shall analyze.

It appears that in an international context of unfixed exchange rates the linking of one currency to another does not have the same consequences as the adoption of a, fixed rate of exchange in a world of fixed parities. In a context of floating currencies the rate of exchange is stable vis-à-vis the parent currency which floats in relationship to the aggregate of other currencies. One may wonder if this type of situation does not involve

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[1] The system of fixed exchange rates then in place ceased to be viable because of differing national policies which were poorly chosen and from divergent economic performacne which caused considerable inflationary differentials and chronic balance of payments disequilibria

[2] Se Vivien Lévy-Garboua, *Macroeconomie contemporaine* (Paris: Economica, 1980).

[3] For countries with strong specialization in the export of primary products for which the demand is characterized by major fluctuations, the system of floating exchange rates was better in terms of the capacity to absorb external shocks.

[4] In 1982, of 125 devloping countries, 90 had adopted a single currency such as SDR's or a currency basket; 33 had adopted a regime of limited flexible exchange rates and only Argentina and Lebanon had a system of wholly independent exchange rates.

an accumulation of disadvantages associated with fixed parities without allowing the full profit of the advantages of a system of flexible exchange rates.

The aim of this study is to examine the effects of linking currencies in a general framework of flexible parities. The study will deal more precisely with the evaluation of the effects, both positive and negative, of the implementation of a system of floating exchange rates on the economic development of the African nations within the CFA.

Initially made up of France and the French dependencies, the CFA zone is today largely formed of nations that have been independent for more than twenty years.[5] These countries share three principal characteristics: open trade among the CFA nations, and common regulated exchange rates with the countries outside the CFA; the existence of a fixed parity between the currencies of the CFA zone and the French franc (1 CFA = 0.020 FF); and the pooling of reserves in an "operating fund" created by the French Treasury and available to four independent treasury institutions (Banque Centrale des Etats de l'Afrique de l'Ouest, Banque des Etats de l'Afrique Centrale, Banque Centrale du Mali, Banque Centrale des Comores).

The problem which arises here is a fairly recent one, i.e., that of the instability of the CFA franc in relationship to those currencies outside of the CFA zone. In fact, from the independence of francophone African states (1960) to the floating of their currencies (1973), the linkage of the CFA franc to the French franc was marked, as Patrick and Sylviane Guillaumont have noted, by a good degree of stability vis-àvis the currencies of states outside of the CFA.[6] During the 1970's the franc held a moderate position in relationship to the principal world currencies.[7]

It was not until after 1981 that the French franc underwent a devaluation in relation to the mean of the strong currencies of the industrialized nations. It was necessary to decrease the value of the franc within the European Monetary System in 1981, 1982, 1983 and 1986. At the same time during this period the dollar-the currency upon which

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[5] The franc zone includes, other than France, French departements, or overseas territories, the collective zone of Mayotte, the Principality of Monacu, and 14 independent African states and the Comorro islands.

[6] Patrick and Sylviane Guillaumont, *Zone franc et développement africain* (Paris: Economica, 1984), p. 21.

[7] Even if the franc experienced a certain degree of instability from 1973 to 1976 in relation to the European monetary “snake”, the franc left the “snake” regime in January 1974, then re-joined in July 1975, and leaving again in March 1976, its stability from 1976 to 1980 was greater than for other currencies during this period. This permitted the franc to play an important role in the evolution of the European Monetary System which began on March 13, 1979.

the prices of the principle African exports are based-experienced great instability. Almost doubling in value from 1981 to 1985, the dollar has been in decline since January 1986.

Under these conditions, what inducement could there be for a country to participate in a monetary zone considering the system of unfixed currencies? This study focuses essentially on several Central African economies: Cameroon, the Congo and Gabon; three nations which a priori, because of the potential of their resources, have a relatively large degree of autonomy. We shall first analyze the effect of the establishment of a floating currency on these economies. Then, in. the second section, we shall examine how the system could evolve towards a better development of these economies.

The Effects of the Establishment of a Floating Currency on the Economies of Central Africa

One of the arguments presented in favor of a floating currency was that it would permit an automatic equalization of foreign claims and liabilities. However, nothing of the kind is observed in the industrialized nations which opted for this system. The system of floating currency has, to say the least, coincided in the past few years with great instability of exchange rates, if it has not provoked it. In the countries of Central Africa this instability has contributed to the acceleration of inflation and to the increase of foreign debt.

The Increase of Inflation in Central Africa

The mechanism of the float system can only play a stabilizing rote if the devaluations and reevaluations which it brings about do not cause negative reactions. In the present international situation, it seems that every depreciation of a currency has a dynamic negative effect. In other words it causes a worsening of the commercial balance which in turn causes a depreciation of the currency. The "J" curve, which represents the dynamic adjustment of fixed currencies takes on the form of an "I" of flexible currencies (cumulative depreciation).

This sequence is demonstrated by France's recent economic history. France's currency has had to be devalued several times since the beginning of the 80's. Now, these readjustments of the mother-currency, being exclusively the price of a specific policy (that followed by France), they translate into an acceleration of the rate of inflation in the currencies which are linked to the franc.

In Central Africa, the average annual rate of inflation which was 4.2 percent between 1965 and 1973 rose to 7.1 percent between 1973 and 1985 for Cameroon; from 6.8

percent between 1965 and 1973 to 8.1 percent between 1973 and 1984 for the Congo, and from 5.8 between 1965 and 1973 to 15.5 percent between 1973 and 1984 for Gabon.[8] From 1980 to 1985 in these countries the rates of inflation were as follows:

Table No. 1
Rate of Inflation in Cameroon, the Congo and Gabon from 1980 to 1984

	1980	1981	1982	1983	1984	1985
Cameroon	9.52	10.70	13.27	16.66	11.34	1.28
Congo	7.29	17.00	12.82	7.80	12.64	6.11
Gabon	12.35	8.70	16.65	10.41	5.85	7.35

Source: I.M.F., "International Financial Statistics", vol. XL, no. 1, Jan. 1987.

The highest rates of inflation were recorded in 1981, 1982 and 1983, three years during which the French franc was devalued.

Two mechanisms explain in general terms the influence of an imbalance in the exchange market on the rhythm of inflation of a country: the mechanical effect, which arises from the increase in price of imported products, and the psychological effect, the brokers reactions which are based on their expectations considering past data. The national devaluation of the French franc raises the price in home-country currency of imports from countries not included in the CFA (Japan, Federal Republic of Germany, Benelux, Denmark, Ireland, United States, Canada). The mechanical effect is all the more likely because the countries of Central Africa have been proceeding with the geographic diversification of their commercial exchanges for several years. Thus, imports from France represented no more than 37.9 percent of the total imports of Cameroon in 1980 compared to 50.23 percent in 1970. In the Congo in 1980 they accounted for 47 percent of total imports compared to 50 percent in 1970, and in Gabon 50.45 percent in 1980 against 52.92 in 1970.[9]

Normally a rise in the price in national currency of imported goods should reduce the demand for imports thus benefiting locally produced goods (substitution effect). Likewise, devaluation should lower export prices for any given level of prices in the national currency. Unfortunately the foreign commercial structure of these countries

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[8] See *World Development Report 1986* (New York: Oxford University Press for the World Bank, 1986).
[9] See BEAC, “Etudes et Statistiques”, number 120, March 1985, p. 77.

leads to very low supply and demand elasticities, which does not allow the effects of devaluation to be relieved through any of these normal channels.

In fact the goods substituted for imports are, in these countries, also largely imported, a factor which obviously reduces their competitiveness. Furthermore, the imported products that are in highest demand are equipment and consumer goods not produced locally. In 1982, imports in these two categories represented, respectively, 18.8 percent and 43.50 percent of the total imports of Cameroon (i.e. 62.3% of total imports), 39.8 percent and 36.3 percent in the Congo (76.1% of total), and 38.3 and 36 percent in Gabon (74.3% of total).[10] Because of the high percentage of imported goods, the demand for imports is inelastic. As for the products that these countries supply, they are principally ores and agricultural raw materials, the demand for which on international markets is fairly inelastic. These are: wood, coffee, cocoa, petroleum, uranium, manganese, and cotton.

The favorable effects of the devaluation of the franc on exports are in fact null for a number of reasons. It can be noted first that the prices of the principal basic commodities exported are quoted in dollars. Next, activities that might be stimulated by a devaluation are rare, even nonexistent. Finally, the raising of the intermediate costs of transport and sale by corporations which have monopolies on the international markets drain off the profits of devaluation, thus further negating the positive effects of a devaluation of the franc.

The devaluation of the franc on the exchange markets which brings about an increase in the value in the countries of Central Africa-directly and indirectly-does not cause the other anticipated result, substitution, because there can be no substitution of raw materials produced locally for the imported manufactured products.[11] It seems rather that a misdirected substitution is the result. In other words, a substitution of imports of French origin for the imports of third party countries. As Mr. Samuelson has said, "the diversion towards CFA currencies is intensified as the fluctuations of relative rates of exchange between international currencies increase"[12].This could explain the recovery of French imports to these countries that has been recorded over the past few years. French imports have climbed from 37.9 percent in 1980 to 47 percent in 1984 for Cameroon, from 47

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[10] See BEAC, *op.cit.* pp. 90-91.

[11] The direct valuation is based on products outside the franc zone from third countries, while the indirect valuation is based on imports from France which have direct repercussions on import costs.

[12] Alain Samuelson, *Economie Monétaire Internationale* (Paris: Dalloz, 1982), p. 164.

percent in 1980 to 58.6 percent in 1983 for the Congo, and is holding at 45.3 percent in 1983 for Gabon although it represented 50.4 percent of the total imports of this country in 1980.[13] The floating of their currencies thus impedes the countries of Central Africa from proceeding towards more extensive commercial diversification.

One can then note that the surplus of resources from which these countries benefit as a result of a devaluation of the franc is entirely absorbed by the elect of revaluation - direct and indirect - and by the serving of the foreign debt, because the price of their raw materiel exports is quoted in dollars.

1.2 The Increase of the Burden of the Foreign Debt

The foreign debt of these African nations constitutes a crucial problem in regard to changes of interest rates, arrears, and repayment, in hard currency, of capital borrowed from the industrial nations. Since the beginning of the 1970's, this indebtedness has been on average much higher in the CFA countries than in the rest of the African continent.[14] In 1980 the Ivory Coast owed more than one third of its debt, 35.6 percent, followed by Cameroon with 14.8 percent, Gabon with 10.5 percent and Togo, Senegal and the Congo respectively with 7.5 percent, to industrialized countries.[15]

The specific problem which the foreign debt poses for these countries is connected to the variation of the franc exchange rate with the currencies in which the debts are payable. This problem did not appear until the beginning of the 1980's, following the increase in value of the dollar and the devaluations of the franc. Previously, the floating of currency had not had any important impact on the foreign debt of these countries, essentially because the effective rate of exchange of the franc CFA, balanced by the structure of the debt and the servicing of the debt, was relatively stable.[16] In fact, because the debt was based on foreign currencies, devaluation of the franc did not change the value of the debt as expressed in these foreign currencies. The value of the debt and the

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[13] See BEAC, *op.cit.*, pp. 77-79.

[14] This situation could be explained by the restriction of local finance which causes member countries of the franc zone to seek additional external financing obtained initially at relatively low cost butultimately relatively expensive.

[15] See The World Bank, *World Debt Tables 1981* (Baltimore: The Johns Hopkins University Press for the World Bank, 1981).

[16] This stability seems to have been reinforced by the fact that the French international finance development agency, or Caissse Centrale de Coopération Economique, or CCCE, borrowed inmarkets with strong currencies such as West Germany in order to re-lend to African countries. See Patrick and Sylviane Guillaumont, *op.cit.*, p. 262.

servicing of the debt is modified by devaluation only if one expresses it in French francs or in CFA francs.[17]

There is no doubt that fluctuations of exchange rates recorded in these last years have had a notable influence on annual variations in the overall amount of the debt and service of the debt. But this influence varies from one country to another because it depends principally on the currencies which compose the respective debts and in particular on the percentage of the total debt payable in dollars.

We certainly have no complete or precise information about the currencies in which the foreign debt of these three countries is payable. But according to a study by the O.E.C.D the proportion of the debt that is payable in dollars, which has remained significant for all of the African nations throughout the 1970's, rose from 1980 to 1982 before declining in 1983.[18] There is no doubt that the appreciation of the dollar exchange rate had an unfavorable effect on the real value of the debt in dollars. It has thus been possible to prove, from 1976 to 1984, that it has become less expensive for the African states to have debts in other currencies than the dollar. An inverse tendency has been observed since 1985. The fall of the dollar has caused a reduction of the interest rate on the debt payable in dollars.

In Central Africa, foreign debt has continually increased since 1980. Cameroon's debt, for example, rose from 2,510.9 million dollars in 1980 to 2,870.7 in 1985. The service of the public debt increased from 186.1 million dollars in 1980 to 238 million dollars in 1985 whereas the service of the private debt which was 2.3 million dollars in 1970 reached 47.2 million in 1980. It rose to 301.9 million dollars in 1985. In the Congo, the foreign debt rose from 1,365.7 million dollars in 1980 to 1,730.2 millions in 1984, then to 2,420.4 millions in 1985. The total servicing of the debt which increased to 93 million dollars in 1980 reached 323.1 millions in 1985.

Only Gabon's foreign debt settled during this past period. From 1,565.4 million dollars in 1980 it fell to 921.7 millions in 1984 before climbing again to 1,133.7 millions

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[17] According to an estimate of the Gabonese Ministry of Economics and Finance, the increase in external public debt caused by devaluation was on the order of 82 million CFA francs in 1981 and 400 million CFA in 1982, while borrowings in West German marks, in Dutch Guilders and Belgian Francs only represented 8 percent of the total level of public debt. See Direction de l'Economie, *Impact du reamenagement des parités monétaires du S.M.E. sur le Gabon,* mimeo, 1981, pp. 3 and 8.

[18] OECD, *Foreign Debt of Developing Countries* (Paris: OECD, 1984), p. 45.

in 1985. The total payment of interest for Gabon fell from 408.8 million dollars in 1980 to 211.1 millions in 1983. It reached 222.6 millions in 1985.[19]

The burden of the debt payable in hard currency grows heavier all the more because there is no way for these countries to equalize the debt like guaranteeing exchange rates of foreign assets in operating accounts. Hence the movement towards diversification of the foreign loans taken by these countries.[20] This diversification should help in all ways to offset the negative effects of indebtedness vis-à-vis hard currencies and the positive effects due to indebtedness in relation to currencies.

2 How Might the System Evolve

The principle effects of flexible exchanges that we have just examined leads us to present, in this second part, the possibilities for an evolution of the system toward better development of these economies. In order to protect their economies against the effects of the variations of exchange rates inherent in flexible exchange systems, the African nations of the CFA and consequently the countries of central Africa must above all protect themselves against variations in the value of the dollar. They should also bring themselves into closer contact with Europe in order to set the monetary problem in a broader context: the Lomé convention.

2.1 Protecting Themselves Against Fluctuations in the Value of the Dollar

The prices of most raw materials are fixed in foreign currencies on international markets. Every variation in the invoicing currency necessarily has a financial impact on the economies of the countries in which the materials are produced. As Mr Samuelson notes, there is "interaction between the fluctuations of exchange rates of the currency in which prices are quoted and the setting of the prices of basic commodities. The effects of speculation on currencies is accompanied by arbitraging on the purchases and sales of raw materials according to the currency in which the prices are fixed and the variations of cross rate prices between currencies in which prices are quoted".[21]

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[19] See *Marchés tropicaux et meditérranéens*, number 2156, March 6, 1987, pp. 569-573.

[20] In 1984, Gabonese external public debt stoood at 339.8 billion CFA and was classified in a dozen currencies: 37.31 percent in French Francs, 24.3 percent in Dollars, 7.23 percent in West German Marks, 4.8 percent in British Sterling, 2.08 percent in Japanese Yen, 1.5 percent in Dutch Guilders, 0.97 percent in Swiss Francs, and 7.32 percent in other currencies. See the National Sinking Fund, or *Caisse Autonome d'Amortissement*, Report of 1985.

[21] A. Samuelson, *op.cit*., p. 163.

The dollar, as the currency in which prices are quoted, is predominant and exports of the Central African nations are quoted in dollars. As we have said above, the dollar has experienced strong fluctuations since 1980. In fact, from 1981 to 1984, the dollar has more than doubled in value, rising from 4.20 ff to more than 9 ff. After its record level in May 1985 (10.099 ff), it has now begun to fall off, staying in the range of 7 vff since January 1986.

It is difficult to evaluate the macroeconomic effects of the fluctuations of the dollar. Three reasons for this difficulty may be raised.[22] First, we do not know the economic cost represented by the instability of a currency in terms of uncertainty, of foreign exchange risk for the financial asset exchanges and for goods and services exchanges. Secondly, it is not easy to integrate, without being arbitrary, the effects of economic policies consequent to the movements of the dollar, or their repercussions on internal economic conditions. Finally, the movements of the dollar are inseparable from other modifications of the economic environment.

We may, nevertheless, evaluate the influence of the variations of the dollar on the economies which concern us. We propose to do this by taking into account only some effects in the short, medium and long range from the two following sub-periods, notably that period from 1980 to 1984 for the high and that from 1985 for the low.

Table No. 2:
Evolution of the GNP of Cameroon, the Congo and Gabon
(in millions of francs CFA at current price)

	1980	1981	1982	1983	1984
Cameroon	1365.4	1744.1	2153.7	2552.9	3089.3
Congo	360.4	541.7	711.5	804.3	907.0
Gabon	904.5	1049.6	1188.8	1292.6	1535.8

Source: Zone franc, report 1984.

During thé first period thé rise of thé dollar remained inflationary for these three countries, though recessive for thé French activities to which these countries contribute to a large extent. This is indicated, in table 2, by thé growth of their GNP during this period (in francs at current value).

The rate of average annual growth, which for Cameroon was 3.7 percent between 1960 and 1970, rose, according to thé above figures, from 6.3 percent between 1970 and

[22] See François Mounier and Katheline Schubert, "The Effects in France of Dollar Fluctuations: Certainties and Uncertainties", in *Economie et Statistique*, No. 189, June 1986, p. 4.

1981 to 22.64 percent between 1980 and 1984. This rate, which was 2.3 for thé Congo from 1960 to 1970 and 5.1 percent from 1970 to 1981, rose to 27.60 percent between 1980 and 1984. As for Gabon, thé rate rose from 5.5 percent between 1960 and 1980 to 14.14 percent from 1980 to 1984.

Based on thé figures of thé International Monetary Fund, we can calculate thé différent average annual rates of inflation between 1980 and 1984: 12.95 percent for Cameroon, 12.45 percent for thé Congo, 10.30 percent for, Gabon. This gives a real average annual growth rate for thé GNP of 8.57 percent for Cameroon, 13.47 percent for thé Congo, and 3.48 percent for Gabon.[23]

As for thé second period, thé fall of thé dollar, which has a deflationary effect in France because thé lowering of thé costs of raw materials and of petroleum is more recessive for these economies. The situation is all thé more disconcerting because of thé scénario which developed since thé end of 1985 in these three dollar dependant oil producing/exporting countries. As a consequence, financial difficulties and a decline in activity have occured. In Gabon thé budget revenues (65 percent of which come from petroleum) which rose by 7.5 percent in 1985, experienced a drop of 22.3 percent in 1986. The GNP also fell 25.6 percent in 1986 after a rise of 7.16 percent in 1985.

The fall of thé dollar also brought about a recession in Cameroon and thé Congo. In Cameroon revenues from petroleum experienced a drop of 40 percent between 1985 and 1986 leading to a drop of thé GNP of 2.6 percent. This situation leads to thoughts of thé benefits of abandoning thé dollar as thé invoicing currency for thé exports of these countries.

Would it not be more advantageous to have thé prices quoted in thé parentcurrency? This would take away any possibility of playing on thé exchange rate. Unfortunately such an initiative which would engage all of thé producing countries would be difilcult to impose, if only because thé prices of raw materials are set on thé international market where thé dollar plays a primordial role.

It seems as though the only way for a given country to protect itself against a fluctuating dollar is to link its currency to basket of currencies. A common practice today, linking a currency to a basket of currencies has, in general-we shall discuss the specific Central African applications presently-the principle aim of limiting the fluctuations of

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[23] IMF, *International Financial Statistics*, volume XL, number 1, January 1987.

exchange in relationship to all currencies.[24] This problem is of such complexity that to solve it these countries must, as much as they can, engage in general negotiations with the European nations with a view toward gaining more control of their own economies.

2.2 Getting Closer to Europe

Faced with the generalized floating of currencies, the nations of Central Africa, like other members of the CFA, have the fundamental choice between a fixed or a floating currency, to which is added, if a fixed currency is choosen, the further choice of the type of fixed currency, either linked to a single other currency or to a basket of currencies. The role played by the foreign sector-and thus by the rate of exchange-in the realization of the objectives of the economic development of these countries must be considered as these fundamental choices are made.[25] The true problem is to know how to permit the Central African countries to have more sovereignty in a world in which nations are growing more and more interdependent.

Given that a floating currency is a relatively expensive arrangement for smaller countries, because of their small volume of transactions in foreign currencies, of their inelastic commercial flow and the Jack of financial markets, it appears logical that these countries would be led to choose a fixed rate of exchange rather that a floating one.[26] It is of the utmost importance to them to carefully define the modes of application of the linkage of their currency taking into account the problems with which they find themselves confronted today.

Certainly the public authorities have always preferred a link with a single currency because it offers certain advantages. First, it is more practical, for the state as well as for the businesses, especially when a currency greatly used in international exchanges is concerned. Second, it contributes, it seems, to assuring confidence as much nationally as internationally. Third, it often permits one to have ready funds for the implementation of other policies.

Because of the geographic diversification of their commercial traffic and the in-stability of their parent money on the exchange market, would it not be desirable for the

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[24] At the end of 1985, 43 member countries of the IMF had pegged their currencies to a monetary basket such as the SDR

[25] See Samuel Nana Sinkam, *Les pays candidats au processus de développement dans la jongle du nouveau système international de taux de change* (Paris: Economica, 1979), p. 40.

[26] Given that this choice tends to reinforce one's own currency relative to all other floating currencies.

African nations of the CFA and consequently the Central African nations to link their currencies to a basket of currencies? Besides the fact that it allows more control of fluctuations of exchange in relation to all currencies, attachment to a group of currencies has among other advantages the benefit of allowing countries who adopt this policy to choose their own long term rate of inflation according to the make-up of the group to which they have attached their currency. This is unlike the attachment to a single currency, where the inflation rate is determined by the country of the mother currency. The advantages of attachment to a group of currencies are all the greater if the country's production is relatively undiversified, if it is tightly meshed in the world economy and therefore more vulnerable to foreign disturbances, and if it is lacking in leaders competent to administer a more discretionary trade system.[27] This is the situation in practically all of the CFA nations.

Would it not be better for these countries to adopt an S.D.R. basket, an E.C.U basket or a basket made to order, the composition of which would depend on the objectives envisaged. As it is always preferable to attach ones currency to that of the country (or countries) with which one deals primarily, so as to reduce the need for reserves for trade with other partners, it would be desirable for these countries to open negotiations with a view towards creating a direct liaison of the CFA franc with the European E.C.U., because their principal commercial partners are members of the European Economic Community (E.E.C.).[28]

In 1983 for example the majority of the imports of these three countries came from the E.E.C. (to the amount of 67.32 percent for Cameroon, 72.1 percent for the Congo, and 60.59 percent for Gabon). Exports in 1983 were directed towards Europe in the amount of 63.5 percent for Cameroon, 21 percent for the Congo and 36.4 percent for Gabon.[29]

The linking of the CFA franc to the ECU will have, among other advantages, the benefit of allowing these countries to preserve their assets. Yet, to gain greater independence for their economies, negotiations should be more generalized, because one can no longer view the problem from the monetary standpoint only. To this end it would be judicious to profit from the possibilities opened by the Lomé Convention, which

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[27] See Shinji Takagi, “Ting In To A Currency Basket”, *Finance and Development*, September 1986, vol. 23, no. 3, p. 44.

[28] See Albert Ondo Ossa and A. Tchibouaboua-Lapiquonne, “Faut-il reformer la zone franc?” in *Le Mois en Afrique*, number 215-216, december-january, pp. 59-71.

[29] See BEAC, *Etudes et Statistiques*, number 120, amrch 1985, pp. 77-79.

supplies the ideal framework for negotiations with the members of the EEC for a general accord dealing not only with the direct liaison of the CFA franc with the ECU, but generally also with raw materials, debt and foreign aid.[30]

The objective of the negotiations should be the modification of the Convention with the purpose of making it better suited to promote the economic development of the countries concerned. This assumes that the convention could, in the financial and monetary areas, stabilize the rate of exchange of their different currencies and aid the African nations in obtaining the financial means necessary to realize their plans for development. On the economic front, negotiations could encourage the production of manufactured goods from raw materials and could aid the transfer of technology. Furthermore, it could, at the same time, promote regional integration and permit more autonomy by favoring multilateral aid instead of bilateral aid, in such a way that the donating countries would have less influence on the direction of that aid. All of which supposes the acceptance by the African countries of a stricter control of the international bodies on the different actions to be taken.

3 Conclusion

As we have just seen, the general floating of currencies has compromised the objectives of the Central African countries with regard to their growth, stability and structural diversification. In fact, the fluctuations of exchange rates in a system of floating currencies provoke insecurity all the more as they accent rate uncertainty about the profitability of investments. They also bring about a deterioration of the terms of exchange of these countries, an increase of the burden of their foreign debt, and greater difficulty in the administration of their public finances.

One might think in this regard that the solution to this problem is the restructuring of the production apparatus of the African nations in general, guided by the predictable development of world demand. But, everything leads to the belief that to achieve a lasting solution in this domain one must solve the current crisis which has shaken the International Monetary System and of which, according to Mr. Rondenent, floating

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[30] The Lomé Convention signed on the 18th of February of 1975 between the EEC and 46 African, Caribbean, and Pacific countries followed the Yaoundé Conventions of 1963 and 1969, which established favored economic relations among 18 Associated African countries and Madagascar (EAMA), all former French colonies. The last agreement, Lomé III was signed on December 8, 1984 in Lomé among 12 EEC countries and 67 ACP countries.

exchange rates are only a phase.[31] Only then will the solution of this crisis permit the industrialized countries to recover a stable exchange rate environment.

This stability should stimulate the demand for raw materials from the developing nations because it will encourage, among other things, an expansion of commerce. In the second place stability should lessen the instability of the exchange rates and should limit the fluctuations of purchasing power. Finally, stability should stimulate international movements of capital. It is therefore highly desirable that the European Monetary System, which is already a stabilizing factor in Europe, become an instrument for reconstruction of the International Monetary System.

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[31] Rondenet, *L'expérience contemporaine des changes flottants* (Paris: PUF, 1981), p. 15.