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Sessional Committee II

DRAFT REPORT OF SESSIONAL COMMITTEE II

Rapporteur: Mr. Petr Havlík (Czech Republic)

AGENDA ITEM 6 (continued)

Speakers:

Kenya	Cuba
United States	China
Japan	Nigeria
Austria (for EU)	Ethiopia
Norway	Senegal

Note for delegations

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

Requests for amendments to statements of individual delegations should be communicated by **Friday, 30 October 1998, at the latest** to:

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UNCTAD's CONTRIBUTION TO THE IMPLEMENTATION OF THE UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT OF AFRICA IN THE 1990s: PROSPECTS FOR AGRICULTURE, TRADE AND INDUSTRIALIZATION

(Agenda item 6)

(continued)

1. The representative of **Kenya** said that investment was critically lacking in Africa and that domestic investment rates had to be increased. The deficiency in investment had led to difficulties in the provision of social and physical infrastructure, which had in turn caused productivity to remain low. It was important to recognize the complementarity between public and private investment. Foreign investment should act as a supplementary source of investment. In this way, a greater degree of stability and sustainability in the investment pattern could be ensured.

2. Furthermore, there was a need to strengthen Africa’s supply capacity. Efforts had to focus on improving agricultural supply capacity, which formed the backbone of the African economy. In pursuing this goal it was important to take into account specific local conditions. In development projects and technical cooperation activities locally available human and physical resources should be used to the maximum extent possible.

3. The representative of the **United States of America** said that the UNCTAD secretariat had provided a very thoughtful and comprehensive analysis of the challenges facing Africa. While there had been signs of economic recovery since 1994, it was not time for Africa to rest on its laurels. Africa's poverty rates were still much too high, and human development indicators remained unacceptable. Moreover, levels of investment and productivity in both agriculture and industry were unacceptably low. It was very discouraging that 70 per cent of privately owned African wealth, apart from land, was held outside the African continent. Accordingly, the principal policy challenge in many countries was to create a pro-investment climate, underpinned by democracy, respect for human rights and good governance. Investment in basic human resources needed to be a top priority.

4. The international community had to do more to broaden economic opportunities for all Africans. Through the "Partnership for Economic Growth and Opportunity in Africa" the United States was trying to help expand its trade and investment ties with Africa, to support indigenous business development and to strengthen transportation infrastructure.

5. In the area of debt relief, the United States had supported extinguishing bilateral concessional debt owed by qualifying governments, and reprogramming local currency earnings from commodity assistance programmes to encourage human development and agricultural reform.

6. The representative of **Japan** said that his country had continued in recent years to provide ODA loans of more than $1 billion a year as well as substantial aid for debt relief, and it had cooperated with Africa in the area of human resources development in various forms.

7. Japan had sponsored the UNCTAD International Conference on African Development in a Comparative Perspective, which had been hosted by Mauritius in September 1998, following similar conferences in 1996 and 1997. Of particular significance had been the First Tokyo International Conference on African Development (TICAD I), organized jointly by Japan, the United Nations and the Global Coalition for Africa in October 1993. The concepts of ownership of sub-Saharan African countries and partnership with the international community, which had been emphasized at the Conference, had been subsequently incorporated into the Development Partnership Strategy adopted by the Development Assistance Committee of the OECD, and the G-7 countries had made a firm commitment to these concepts at the Lyon Summit in 1996 and to translating them into concrete action at the Denver and Birmingham Summits in 1997 and 1998, respectively.

8. Japan, the United Nations and the Global Coalition for Africa were also co-organizers of TICAD II, to be held in October 1998. That Conference would address wide-ranging issues in the areas of education, health, private sector development, agriculture, good governance and environmental management. It would formulate an agenda for action for African countries and their development partners.

9. The various difficulties faced by African countries in recent years had been partly compounded by the Asian financial crisis. But given Africa's richness in natural and human resources, its future was not bleak. The emerging new generation of able African leaders was committed not only to the cause of democracy or national reconciliation but also to nation-building and to raising the living standards of their countries' citizens.

10. The representative of **Austria**, speaking on behalf of the **European Union**, said that UNCTAD's examination of Africa's development problems came at a time when growing optimism about the region's economic prospects coincided with increased pessimism about global economic conditions. The key question was therefore how to sustain the recent upswing in African economies in the face of a deteriorating external environment associated with the recent financial turmoil. The *Trade and Development Report, 1998* offered some helpful suggestions in the area of local capacity-building. In other areas, however, its proposals were leading in the wrong direction.

11. The earlier poor performance in sub-Saharan Africa was to be explained by both internal and external causes. Recent institutional and policy changes had encouraged an environment for enterprise, strengthened the confidence of local and foreign investors, and reinforced supply-side capacity and competitiveness. The *Report*'s emphasis on creating a "developmental state" for African economies was a useful framework for further improving local capacities. The policies of this state should be simple, predictable and transparent, and equity and the rule of law should prevail.

12. A particular emphasis of such policies should be on encouraging the efficient and fair operation of markets. In certain respects, the *Report*'s advocacy of a return to policies such as interest rate controls and discretionary changes in the business environment were not appropriate and could deter African countries from furthering their integration into the world economy.

13. Capacity-building should include the ability to supervise and regulate the financial sector, to discourage imprudent lending, to enforce credit discipline and to build the confidence of savers in financial intermediaries. However, the

Report's call for rigorous preconditions for capital account liberalization might discourage investment flows to African countries.

14. The world financial crisis had had an adverse impact on African economies through declining commodity prices. This in turn had made it more difficult to attract investment into commodity production, thus setting back growth prospects in the medium term. Technical assistance to weather the crisis was therefore needed.

15. Substantial debt relief had already been granted to a number of countries. The Naples terms and the HIPC Initiative had paved the way for a significant debt write-down and were consistent with the pursuit of sound policies. Improvements to the HIPC Initiative would be best pursued with the collaboration of the multilateral and regional financial institutions to which most outstanding external debt was owed.

16. The representative of **Norway** said that African governments had to take the lead in establishing the preconditions for attracting private capital. These included peace and political stability, sound macroeconomic policies, respect for human rights, good governance, openness and transparency. However, sound policies at the national level were not by themselves sufficient to foster sustained growth and development.

17. A greater integration of African economies into the world trading system should be on the international agenda. Market access was a crucial issue. Despite some promising trends, it was evident that most African countries had so far been unable to take sufficient advantage of the globalization process. One of the main obstacles to economic and social development in Africa was the heavy debt burden. International efforts to provide debt relief were therefore of paramount importance. The HIPC Initiative was the most far-reaching scheme for debt cancellation ever launched, but there was potential for its improvement in terms of including more countries, speeding up implementation of the mechanism and attaching higher priority to social issues.

18. Another critical issue was the need for African countries to foster a dynamic private sector. Local authorities and donor agencies had to cooperate

with the private sector to create a favourable environment for attracting private investment. Innovative public-private partnerships were therefore greatly needed.

19. In agriculture, it was vital to adapt pragmatic policy approaches to the specific context of each country. Strengthened regional and subregional cooperation to enhance trade would help to promote growth and development. Developed and developing countries should make a mutual commitment to allocate 20 per cent of ODA and 20 per cent of national budgets, respectively, to basic social programmes.

20. The representative of **Cuba** said that the unpayable external debt, the impact of decreasing ODA and low prices for primary commodities were crippling the African and other developing economies. The enormous needs in terms of infrastructure, financial resources and human capital could be met only within the framework of a strengthened role of the State in development. Institutional development and caution in market liberalization were important principles of the development strategies to be adopted by African countries, while the international community should uphold the advantages accorded to the poorest countries in the WTO Agreements. UNCTAD could undertake a complete evaluation of the sustainability of African external debt, possibly in collaboration with other organizations.

21. Cuba itself had had severe economic problems since the end of the cold war, but it had a clear historical commitment to support development in Africa, especially in health and education. If the international community’s efforts and promises failed to produce concrete results, a severe threat would result from Africa’s misery, particularly for the developed countries.

22. The representative of **China** said that while the recent economic recovery in Africa was a promising sign, it should not give rise to undue optimism regarding development in the region. Growth in most African countries remained extremely fragile, and although some countries had achieved satisfactory growth rates in the order of 6 per cent in recent years, they would have to maintain these rates for many years to come in order to regain lost ground.

23. Much needed to be done to overcome internal difficulties and to consolidate African growth. Savings and investment rates were insufficient, the agricultural sector lagged behind, and the levels of exports and industrialization were low compared with those of other regions. Declining ODA, the external debt burden and lack of access to FDI were all factors hindering a sustained recovery in Africa. In order to overcome these problems, African countries had to continue domestic economic reforms, but this process needed external support. The international community, particularly the major donor countries, could help by creating a favourable external environment and providing effective financial and technical assistance, especially to sub-Saharan Africa.

24. China, although a developing country itself, had constantly increased its assistance to Africa. Its trade with the region was also expanding, and there remained considerable potential for economic cooperation between China and the African countries.

25. The representative of **Nigeria** said that the challenge for African policy makers, highlighted in the *Trade and Development Report, 1998*, was to turn the recent recovery into a stronger and sustained economic take-off. Meeting this challenge would require the full and active support of the international community. In Africa, overall economic growth depended critically on the performance of agriculture. The experience of African economies had shown that liberalization of agriculture was not by itself a sufficient condition for improved performance. Structural constraints and institutional weaknesses were still pervasive problems and had contributed to the undercapitalization of agriculture. Market access difficulties and declining commodity prices had added to the problems facing African agricultural producers. Structural factors were also a cause of Africa's weak trade performance. Constraints on expanding and diversifying productive capacity and ensuring better market access for increased output were the greatest challenges to policy makers in this area. In the light of these, a gradual approach to trade liberalization was desirable.

26. The poor performance of Africa's agricultural and trade sectors had been responsible for the slow pace of industrialization on the continent. Matters had not been helped by low rates of capital accumulation, inadequate flows of foreign direct investment and technology, continual capital flight, scarcity of dynamic

indigenous entrepreneurs, and instability and distortions in macroeconomic policies and strategies.

27. In the light of these challenges, the reflections on policy options and selective strategies in the *Trade and Development Report* should be pursued further and serve as reference for a rethinking of market fundamentalism.

28. The representative of **Ethiopia** said that despite the pursuit of economic reform programmes in many African countries the marginalization of Africa in the globalization process continued unabated, as illustrated by Africa's small share in the foreign direct investment flows to developing countries. This was due to a number of constraints on the ability of African countries to achieve accelerated growth and development.

29. The external environment, with declining export prices and reduced inflows of official development assistance, was not conducive to recovery in Africa. In addition, the heavy debt burden in many African countries had impeded investment in physical and social infrastructure and discouraged private capital inflows. Furthermore, tariff escalation in major export markets had diminished the effectiveness of African countries' export diversification and industrialization efforts.

30. The HIPC Initiative represented a more comprehensive approach to the resolution of the debt crisis in Africa and other heavily indebted poor countries, but its implementation had to be more rapid, and its eligibility criteria had to be relaxed further. The proposal for a comprehensive assessment of the sustainability of African debt by an ad hoc independent group of experts merited serious attention.

31. The international community should now bridge the remaining gap between the commitments contained in the United Nations New Agenda for the Development of Africa and their actual implementation.

32. The representative of **Senegal** said that in 1997 there had been unanimous satisfaction with Africa’s progress towards economic stabilization, democracy and the rule of law, which were all important elements of a development-friendly

environment. The *Trade and Development Report, 1998* warned of the risks of an early end to Africa's recovery. It was a fact that structural adjustment programmes had led to improved macroeconomic equilibria only at the cost of severe sacrifices and of a weakening of the role of the State. It had become clear that the State had important functions as regards development, and its role had therefore to be fully restored. However, domestic policy efforts had no chance of succeeding if the present trend towards diminishing development assistance was not reversed and if the debt problem was not resolved. This had been recognized by, for example, President Clinton. UNCTAD's analysis, and particularly the proposal to establish an independent committee to evaluate the sustainability of African external debt, was to be supported. However, even a solution to the debt problem would bring little long-term benefit if it was not accompanied by an opening of developed countries' markets.

33. The existing regional and subregional trade integration schemes in Africa should be consolidated. African economies were suffering particularly from a lack of human capital, especially in the field of international trade; for its part, Senegal was preparing a new proposal in this connection. Finally, while attention was now focused on UNCTAD X, the West African Economic Community was still waiting for the financing promised by the European Union at UNCTAD IX for the implementation of a programme aimed at integrating its members into the world trade network.