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Development policy option for Africa in the context of the World Trade Organization (WTO) agreements

by

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1. Introduction

The world is changing and with it ideas about African development strategy. Developments in economic theory and research, coupled with empirical experiences both within Africa and in the rest of the world, are shaping African perceptions of the continent's development options. From the dirigism of the 1960s and 1970s, there is an evolution towards a market-friendly approach. There is increasing acceptance of a shift from a state-led, import substitution-based development strategy to a private sector-led, outward oriented development strategy.

Shifting technological and market conditions influence the position of Africa and the role it may play in the world economy. Globalization has been characterized by changes in patterns and organization of production, distribution, marketing and financial flows. All this has led to greater openness and intensification of competition in the world market. Many of the negotiations in the Uruguay Round (UR) were an attempt to come to terms with these globalization trends. The agreements reached at the Uruguay Round and the formation of the World Trade Organization (WTO) signify to a large extent the formalization of the processes of globalization.

These developments have implications for both the requirements and the development policy options available to Africa.

In this paper, we provide a brief summary of the emerging challenges for African development options and the implications of the emerging external environment for these options. In Section 2, we discuss the background of the African development strategy of the 1960s and 1970s as an input into the appreciation of the extent of change taking place in Africa. In Section 3, we review the emerging consensus on the current development policy options/strategy, and in Section 4 we discuss the WTO and the implications of the agreements for the African development policy options. Section 5 addresses regional integration in the WTO world and Section 6 concludes.

2. The old development strategy and the current challenges

Whatever the method by which African countries gained independence, it occurred on the basis of promises of economic transformation presumed to have been hindered by colonialism. Rapid transformation of their economies was therefore an imperative of post colonial African states. The emerging development strategy was based partly on certain premises in development economics theory as well as on the colonial heritage.

Development through outward orientation, it would appear, was ruled out because of the new states' production structures or world market conditions. The production structure of African countries, as in other developing countries, was heavily concentrated on primary commodities. Engagement in free international trade, it was presumed, would lead to a specialization in these products. Prospects for expansion and development through such specialization were deemed dim because of the low income elasticity of demand for them in the industrial countries (Nurkse, 1961) or because of a tendency for their terms of trade to decline (Prebisch, 1950; Singer, 1950). Exports of manufactures were also considered impossible because of either the perceived difficulties of producing them efficiently domestically or the protectionism of the industrial countries. "Pessimism about the trade prospects of developing countries was soon formalized into so-called 'two-gaps' models of development" (Lal, 1983: 24). These models, combined with the presumed non-responsiveness of African peasants to incentives, provided a rationale for fixed exchange rates, exchange controls and the need for external aid inflows. Capital accumulation was seen as the predominant means to growth and development. The traditional microeconomic concern with the efficient allocation of resources became irrelevant.

In any case, the price mechanism or its working was to be replaced by various forms of direct state involvement. Either the workings of the price mechanism would be too slow for the rapid transformation desired, or "market failure" justified state intervention.[1] In the specific case of Africa, because of its colonial history, we did not have either accumulated capital or the entrepreneurial class. The state was therefore to play the role of both entrepreneur and regulator.

The resulting development strategy involved industrialization through import substitution behind high protective barriers. With almost no exception, African countries adopted this strategy, which appeared so justified it also secured exceptions under international trade rules:

> The premises underlying import-substitution policies were so widely accepted that developing country exceptions were even incorporated into the General Agreement on Tariffs and Trade (GATT) articles. Article XVIII explicitly protected the developing countries from the "obligations" of industrialized countries and permitted them to adopt tariff and quantitative restrictions. They were also entitled to "special and differential treatment" in other regards under GATT. (Krueger, 1997: 5)

The failure of this development strategy to generate the much hoped for economic transformation and improvement in the standard of living led to economic crisis in one African country after another. At the same time, the experience of other countries, in particular the East Asian countries, that pursued an outward-oriented development strategy provided evidence of the success of an alternative path. Interpretations of this experience, of course, differ.[2] However, the rapid growth, transformation and improvements in the standard of living of these countries were attributed, among other things, to the pursuit of policies designed to encourage exports, the reversal of import-substitution strategies, the opening up of their economies and the uniformity of incentives across the board (Krueger, 1997).

At the theoretical level, the breakdown of the Keynesian consensus, and the rise of monetarist and rational expectations schools, led to questions about the efficiency of policy interventions and greater faith in the superiority of markets (Killick, 1989). The findings of Little et al. (1970), the theory of rent-

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[1] See Killick (1989) for the theoretical basis and shifts with respect to the role of the state.

[2] See Wade (1990) for the different theoretical underpinings of different interpretations of the experience.

seeking (Krueger, 1978) and the growth retarding effects of rent-seeking in Africa (Gallagher, 1991) all demonstrated the high real costs of the state-led import substitution strategy of development.

As economic crises deepened, African countries increasingly turned to the Bretton Woods institutions for economic reform programmes. The commonality of the source of the advice and similarity in policy instruments led Williamson (1994) to describe this view of the set of policy prescriptions as "the Washington Consensus".

3. Emerging consensus on development policy options?

The change in development strategy in Africa from the dirigism of the earlier period to a private sector based, outward-oriented development strategy implies the acceptance of a number of principles. Though subject to debate, the emerging consensus suggests that Africa has accepted:

- That a market-friendly approach will be taken to development and economic management. This means a roll back of the state and wherever possible and practicable, greater reliance on the market. The extent to which the state should be rolled back is subject to debate and in particular the role of the state in industrial policy is contentious.

- That the private sector will be the engine of growth.

- That growth will be export led, implying an internationally competitive production base and in particular a diversified export base.

- That a growth-based approach to poverty alleviation in the long run will supersede the consumption/distribution based approach of the earlier period. In the short to medium term, however, programmes and projects may be designed to provide some safety nets.

There is broad consensus on the need for fiscal and monetary prudence and an outward-oriented trade policy combined with a commitment to maintain a competitive exchange rate. Thus the maintenance of macroeconomic stability and the avoidance of real exchange rate misalignment are considered the fundamentals for the success of this strategy. Various forms and measures of trade liberalization are essential to trade policy. In general the objective is to avoid domestic policy distortions, open up the economy to world markets and achieve a neutral trade regime. This implies that in the long run, trade policy aims to create uniform incentives for all industry whether producing for domestic or foreign sales.

The extent of trade liberalization and the speed with which the process takes place will naturally vary according to different local conditions. Many sub-Saharan African countries depend, to a considerable extent, on trade taxes. It has been argued that substantial import liberalization will lead to fiscal revenue losses that might reduce governments' capacity to function and threaten the reform process as a whole. At the same time, import liberalization in an import compressed economy could lead to a surge in imports with possible adverse effects on the balance of payments (Oyejide, 1997).

The consensus on the extent and speed of liberalization will also vary from country to country. This consensus is broader than the Washington Consensus, which recommends specific levels of tariffs. In view of the differences in the sensitivity of the balance of payments and dependence of individual countries on trade revenues, no specific levels of tariff can be recommended. The basic guiding principle is to pursue what may be called sustainable country-specific trade liberalization.

Africa's experience with inward-looking import substitution strategies points to the need to re-conceptualize the development problem. The challenges of a more open world economy suggest that the process of restructuring African economies will also need to take a more open approach. In the context of new technologies and rapidly changing world market conditions, the process of restructuring for export orientation is going to pose a challenge to African countries. The questions that need to be addressed are what constraints are likely to be encountered and what opportunities could emerge for these economies in this restricting process.

African countries, it is argued, are justifiably concerned about the survival and future development of an efficient manufacturing sector as an important component of their development. In this context, some level of temporary, time-bound protection may be needed for traditional infant-industry reasons (Oyejide, 1997). There are also additional arguments for protection in the presence of scale economies and imperfect competition arising from developments in the new trade theory.

Whatever position one takes, the general levels of protection implied would be much lower than during the earlier period of import substitution. The general principle of the emerging development strategy is to keep the levels of protection low.

While the macroeconomic controversy has been resolved largely in favour of orthodoxy, there is still debate over the scope for beneficial intervention within an orthodox policy framework (Auty, 1994). Some extremists will argue that macroeconomic management is the key to industrialization and will eschew any form of sectoral targeting or intervention. This will imply that financial markets will determine the pattern of investments. The past experience of state intervention in industry and agriculture, the dangers of adverse selection, and the political use of resources would seem to justify minimal state intervention. There is, however, increasing recognition that an important component of the East Asian miracle was the extensive use of inducements to domestic firms based on satisfactory export performance. It is now accepted that governments contributed in a variety ways to facilitate the process of industrial and economic development (Wade, 1990). In applications of these lessons to Africa it must be recognized that the issue of state capacity and institutions to ensure their effectiveness is of critical importance (Harrold, 1996).

The strategy and methods will have to differ from the import substitution strategy and move much more along the lines of what is referred to as competitive industrial policy (CIP). This strategy "provides a package of market information, credit, tax breaks and trade incentives for new entrants to set up infant industries" (Auty, 1994: 15). While providing support, the strategy demands that firms must rapidly achieve economic and technological maturity in terms of international competitiveness.

4. WTO and African development policy options

For a continent undergoing the kind of economic reforms taking place in Africa, a favourable external environment is a helpful development. In particular, for countries pursuing an export-led growth strategy, a favourable world trading environment provides a boost to their efforts. To that extent, the Uruguay Round of GATT negotiations seeking to generate a freer world trading system must be a boost to Africa's efforts. On the other hand, the extent to which any country can benefit from the external trading system, irrespective of how liberal, depends on domestic economic policies and their success in developing a competitive production base. It is in this context that this section examines the effects and issues raised by the WTO provisions and disciplines and their implications for African development policy options.

The provisions of the Uruguay Round Agreements

The Uruguay Round altered the world trading environment to a greater extent, many analysts believe, than any other agreement since the original General Agreement on Tariffs and Trade (GATT) talks in 1947. Africa must be sure that it is aware of the implications of the arrangements and that it has poised itself to take the best advantage of them.

The Uruguay Round Agreements (URAs) resulted in:

- Improvement of the rules of GATT and its associate agreements. The Round has brought about further liberalization of trade.

- The adoption of the General Agreement on Trade in Services (GATS).

- The adoption of agreements on trade related measures (TRIMS) and trade related intellectual property rights (TRIPS).

One of the other achievements of URA is the establishment of the WTO, which entered into force on 1 January 1995; GATT thus ceased to be a separate institution and became part of WTO. WTO is responsible for the surveillance of the implementation of the rules of URA by its members and is also responsible for arranging continuing negotiations for the liberalization of trade among its member countries.

In general, therefore, the WTO world is expected to be a world of an improved framework of multilateral rules governing international trade and further improvements in access to foreign markets for both goods and services.

Multilateral trade liberalization and market access

Market access negotiations reached agreement on:

- Cutting tariffs and instituting tariffication.
- Phasing out the Multifibre Agreement (MFA) in ten years.
- Bringing trade in agricultural products under GATT discipline and liberalizing trade in agriculture. The agreement on agriculture establishes a programme for a fair and equitable market-oriented agricultural trading system by requiring countries to adopt new discipline governing both the use of border measures to control imports and the use of export subsidies and other subsidies to protect farmers' incomes. Developed countries are required to reduce tariffs by 37% in six years and developing countries to reduce tariffs by 24% in ten years. Least developed countries are not required to reduce them.
- Reducing tariffs by developing countries and transitional economies for both industrial and agricultural products.
- Expanding the proportion of bound tariffs.

The agreement in general seeks to bring about further global trade liberalization and expansion of world trade in goods and services through improvement in access to markets by the reduction and elimination of tariffs and non-tariff barriers. It is estimated that on average, tariffs on developed country imports from all sources would decline from the pre-Round level of 6.4% to about 4.0%, representing a 38% reduction. Tariffs on imports from less developed countries are expected to decline from 6.8% to 4.5%, representing a 34% reduction. There is also expected to be an increase in duty free developed country imports from 20% of imports to 43% of industrial products (United Nations, 1994).

At the sectoral level, bindings on manufactures will rise from 68% to 87% of tariff lines, and almost 100% for developed countries, and tariffs on African industrial exports will fall by an average of 31%. Trade in agriculture will be more bound, as 100% of all agricultural products will be covered by bindings by both developed and developing countries. There is to be a "tariffication" of quantitative restrictions and a reduction of both export and domestic subsidies on agricultural products (Harrold, 1995).

WTO provides for specific needs of least developed countries (LDCs) and the adoption of positive measures to facilities the expansion of trading opportunities in favour of the LDCs. In order to ensure effective participation of LDCs in the trading system, the Ministerial Decision on Measures in Favour of the LDCs has rightly called for advancement of the implementation by developed countries of tariff and non-tariff concessions agreement in the Uruguay Round for products of export interest to the LDCs (UNCTAD, 1997).

The WTO agreement imposes obligations relating to tariff bindings that may result in higher import bills for basic foodstuffs in the medium term. In view of this possibility the ministers agreed to establish appropriate mechanisms to ensure that the availability of food aid is maintained at a level that continues to meet the food needs of LDCs and net food-importing developing countries. Among other measures it was agreed to provide technical and financial assistance to LDCs and net food-importing developing countries to improve their agricultural productivity and infrastructure. In addition, it was agreed to ensure that any agreement relating to agricultural export credits provides for differential treatment in favour of these countries.

The commitments by SSA countries in the Uruguay Round are summarized in Table 7.1; it can be seen that tariff bindings agreed to in the Round are quite high. Whatever the motive for the very high bounds by African countries, "Sub-Saharan African countries have not taken advantage of the opportunity offered by the Uruguay Round to bind domestic reforms to an international anchor to improve credibility of these reforms in Africa" (Harrold, 1995: 32). This could send a bad signal to potential third-country investors, creating greater credibility problems for the African reform effort than its actual policy stance will justify. The expected foreign investment required by Africa may not materialize in spite of the reforms and yet aid is falling off and savings ratios are low. Tying to an external anchor could also have reduced the pressures from domestic lobbyists (Collier and Gunning, 1994).

Table 7.1: Summary of commitments in the UR by sub-Saharan African countries

Country		Agriculture			Industry		
	GATT status	Average rate of tariff binding %	Average applied rates %	Previous bindings (% of lines)	Share of lines round in UR (%)	Average bound level in UR (%)	Average applied rates (%)
Benin	LD	80		29X	1.4	69	
Burkina Faso	LD	150		29X	1.2	150	
Cameroon	D	310		0	0.1	177	
Congo	D	30		0	3.2	15	
Côte d'lvoire	D	215		29X	0.4	257	
Gabon	D	260		?	1.3	206	
Ghana	D	98	22*	0	1.1	33	16*
Kenya	D	100	44*	0	1.6	54	35*
Madagascar	LD	280		?	11.1	280	
Mali	LD	110		29X	2.8	110	
Mauritania	LD	54		29X	1.3	45	
Mauritius	D	135		0	1.6	82	
Namibia	D	40		31+	68	17@	22!
Niger	LD	132		29X	65	100	
Nigeria	D	230	47*	0.1	7.0	128	36*
Senegal	D	180	44*	29X	2.4	180	34*
South Africa	IND	40	7*	31+	68	17@	22!
Swaziland	D	40		31+	68	17@	22!

Tanzania	LD	240		0	0.1	240	
Uganda	LD	80		0	2.7	50	
Zambia	LD	124		?	4.0	42	
Zimbabwe	D	161	24*	8	0.8	66	31*

* From GATT Trade Policy Reviews, latest available.
@ Reduced from 24% to 17%.
! Trade weighted average.
X Assumes countries with (x) applied same schedule as Senegal as former French colonies.
\+ Assumed same as South Africa.

Source: Harrold (1995); Table 7.15.

In general, these agreements should increase both market access and the security of markets for African exports. The bindings imply that tariffs in those lines cannot be increased but they can be reduced. If Africa's emerging development strategy is to succeed, it must result in increased trade with the rest of the world and in particular exports, since this is expected to be the engine of growth. The expected increase in total world trade, the increased market access and the enhanced security should provide markets and increase total African exports.

It is argued that the success of this development strategy requires a diversification of exports from the traditional raw material exports into non-traditional exports, particularly manufactured exports. Escalation of tariffs according to level of processing has been perceived as a hindrance to such exports. The WTO provisions will result in important reductions in tariff escalation with potential beneficial effects for African exports.

Diversification into manufactured exports in several cases started with the matured, relatively low-skill intensive industries of textiles, garments, leather products, etc. These sectors usually provide the springboard for exporting and for creating a disciplined workforce. While the Multifibre Agreement (MFA) is to be phased out and brought under GATT rules, average tariffs in these earlier lines of industrial export development remain high. These received below average tariff reductions, with rates standing at 10.2% for garments and textiles, 11.4% for fish products, and 2.1% for leather.

A major implication of the WTO agreement is that the preference margins that Africa used to enjoy will be eroded and there will be increased competition for African exports from other developing countries. The lowering of tariffs will decrease the preference margin for Africa from EU and other OECD countries from which Africa enjoyed some advantages. Consequently, on the basis of current costs, Africa will lose "competitiveness". This raises questions about Africa's development strategy relating to the role of the external environment in the development of African exports and to the nature of domestic trade policy to increase competitiveness.

The reductions of tariffs on manufactured goods, the tariffication of non-tariff barriers in agriculture and commitments to reduce the levels of agricultural protection as well as production and export subsidies, the phasing out of the MFA and the elimination of VERs are all designed to lead to a more liberalized world trading system.

Two issues are raised here: the role of demand-side concessions in African exports development and Africa's response to increased world competition.

First, in spite (indeed perhaps because) of the concessions received by Africa, her exports remain undiversified in terms of both commodity composition and direction. Africa's exports are dominated by food and raw materials. In extreme cases, such as Uganda, Somalia, Malawi and Chad, over 90% of exports are agricultural products. As Table 7.2 shows, over 50% of African exports go to Europe. The EU-ACP arrangements offering concessions to African countries are no longer consistent with the WTO requirements and will have to be brought in line with those arrangements after the year 2000. The principles underlying the agreement also imply that special cases will be increasingly difficult to justify.

Table 7.2: Sub-Saharan Africa: Structure of merchandise exports[a], 1995

	$ bn	% of sub-Saharan exports	% of world exports
Total[b]	103	100.0	2.1
Intra-regional	10	10.0	0.20.2
Inter-regional	90	87.0	1.7
Europe	57	56.0	1.1
North America	15	14.2	0.3
Asia & Australia	14	13.5	0.3
Latin America	2	1.7	0.0
Middle East	2	1.6	0.0

Notes:
a. Includes North Africa.
b. Includes unspecified destinations.

Source: EIU: *World Trade Report 3rd Quarter 1997*.

Second, Africa has also lost competitiveness in world markets, with her share of total world exports dropping by 50% between 1985 and 1995 in spite of the preferential treatment. From a share of 4.2% in 1985, Africa's share of total world exports was only 2.1% in 1995. The EU–ACP framework provides one of the most comprehensive sets of preferences to Africa. However, as Table 7.3 indicates, Africa lost competitiveness and market share even in the EU market. From 6.0% of EU imports in 1976, Africa's share of the EU market declined to 3.3% in 1992 (Hewitt and Koning, 1994). Africa, it seems, had cocooned itself within this framework into remaining specialized in primary products, in the event actually losing competitiveness in these very product lines as a result of more aggressive efforts particularly from non-ACP Asia.

Table 7.3: Value of EU imports from ACP states in billion ECU and share of total EU imports(1976- 1992)

	1976		1980		1985		1990		1992	
	bn ECU	%	bn ECU	%	bn ECU	%	bn ECU	%	bn ECU	%
Africa	9.4	6.0	17.2	6.3	24.3	6.0	20.1	4.4	16.0	3.3
Caribbean	0.8	0.5	1.6	0.6	1.6	0.4	1.4	0.3	1.5	0.3
Pacific	0.2	0.1	0.4	0.1	0.7	0.2	0.4	0.1	0.4	0.1
Total ACP	10.5	6.7	19.4	7.2	26.8	6.7	21.9	4.7	18.0	3.7
of which:										
ACP non-oil exports	6.6	6.1	9.7	5.3	13.9	4.8	13.5	3.5	12.3	2.9

Note: All EU imports mentioned in this study are extra-EU imports, excluding intra-EU trade.
Source: Eurostat data.

The role of bloc markets such as the EU has been argued elsewhere and their importance to African development has been overplayed. There has never been an explicit demonstration of the importance of these markets to African development. Ignoring extreme positions, the development of African exports has never been constrained seriously by tariffs and other world market conditions. Neither have African exports been promoted by the type of preferences sought and received.

The studies based on general equilibrium models have shown that the preference erosion resulting from the URA will amount to a loss of 0.1% in total African LDC exports to the European Union market (CIDA African Studies, 1995). The small size of the loss probably reflects the fact that most African exports are more supply constrained than market constrained. It should also be recognized that African economies are heterogeneous in both their economic structure and their trade interests. The average loss may conceal considerable differences depending on the extent to which a country is a net exporter of tropical products, a net importer of temperate products, an exporter of textiles and clothing, or a net food importer.

African economies are less barrier-restrained in exports and more restrained by domestic supply bottlenecks and capacity constraints. Most of them rely on preferential trade agreements such as the Lomé Convention and the Generalized System of Preferences (GSP) that include rights to export various products such as sugar and beef to the market concerned at well above world prices. Many countries in SSA are net food importers and may suffer higher import bills arising from increases in agricultural prices.

The impact of URAs would to a large extent be influenced by the way development policy options are used to create the preconditions by which Africa could exploit emerging opportunities and avert potential threats that may arise in the WTO world. In particular, the need to create the capacity for supply response to new trading opportunities will be a principal objective for most sub-Saharan African (SSA) countries whose major problem is supply capacity (as manifested in low quality products and lack of competitiveness) rather than market access.

An important aspect of building supply capacity and competitiveness is the improvement of infrastructure. Infrastructural deficiencies such as finance, transport, telecommunications, electricity and water supply hinder the growth of volume of exports and their competitiveness.

New investments will play a crucial role in the creation and realization of new trading opportunities in the WTO world. A substantial part of these investments could come from the private sector, provided the governments put in place appropriate policy frameworks for the private sector (local and foreign) to respond to and pursue the new trade opportunities. Given that primary products dominate exports from SSA, the greatest opportunities in the WTO world will mainly arise from new high value added products destined for new markets. Efforts to develop new export products on the basis of dynamic comparative advantage and to develop new markets should form an important component of the development policy options.

Africa's response to increased world competition will have to be further domestic policy changes, especially trade policy within a supportive or enabling macroeconomic framework, in order to develop a competitive production base and a change in the nature of the concessions it seeks from the world system. As latecomers into the world market the skills composition of African exports may have to be higher than those of the earlier developers. In other words, in view of changing tastes and technological developments, Africa cannot expect to benefit substantially from the export of unskilled labour intensive products, although the upward climb of the ladder by the early birds may provide easy opportunities. Furthermore, globalization may imply that cheap unskilled labour will become less important in firms' location decisions (Sander, 1994). African exports, even for the clothing and textiles industry, will have to be relatively more skill intensive. This will require, in addition to changes in trade policy, the development of human capital through appropriate education, training and research.

The nature of concessions that Africa requires from the world system will also have to shift from demand related to supply related ones. For example, Azita Amjadi et al. (1996) conclude that "transport costs have a significant negative impact on African exports or the location of manufacturing activity in Africa, which is more important than generally recognized. Freight rates for African exports are often considerably higher than those on similar goods originating in other countries and these charges often conceal very high rates of effective protection for processed goods. A point that significantly reduces incentives for new investment in export-oriented production activity". Concessions on the supply side will have to be identified and negotiated in the next round.

The experience of the past two years (1994–1996) has shown that the WTO system needs to improve the rate at which the substantive commitments on market access are implemented. Monitoring of implementation would be enhanced by the timely availability of trade and tariff data. In particular, greater transparency and follow up is needed for commitment on reduction of tariffs and tariffication of NTBs, the agriculture agreement, compliance of contingency protection measures with WTO principles, and the integration process relating to MFA. In view of the quasi-judicial nature of the Textile

Monitoring Body (TMB), greater transparency should be achieved in providing a rationale for TMB findings and recommendations. The responsibility of the Goods Council in overseeing the functioning of the Agreement on Textiles and Clothing (ATC), whose implementation is being supervised by the TMB, will need to be emphasized.

The phasing out of the MFA may affect textile and clothing production that has relocated to Africa from Asia as a result of quota restrictions under the MFA. As the MFA is phased out, quota restraints will be removed on large Asian exporters, a situation that could return the quota-hopping investment to those countries from which it originated. The emerging textile and clothing industries in Africa could be adversely affected by the receding investment and by intensified competition.

Subsidies and protection provisions

Much more critical to the emerging development strategy for Africa are the WTO disciplines that affect Africa's options for the development of a competitive production base. As indicated earlier, outward orientation may involve active policies in industry and agriculture. Temporary subsidies, whether in terms of credit or for purposes of socializing part of the risk associated with investing in Africa, may have to be used. The agreement on subsidies and countervailing measures imposes new disciplines on the type of incentive packages that can be used to encourage industry. The agreement prohibits export subsidies and subsidies that encourage local content. This prohibition is expected to apply to all countries except the least developed ones and other developing countries with per capita GNP below $1,000, except for products in which they achieve export competitiveness defined as a share in world trade of 3.25% for two consecutive years.

URA urges countries to keep protection of their industries at low levels and to provide it through tariffs. An important exception permits countries in balance of payments difficulties to restrict imports in order to safeguard their external financial position. This exception provides greater flexibility to developing countries to use quantitative restrictions if necessary.

URA also divides subsidies into prohibited and permissible subsidies. Prohibited subsidies include export subsides, but developing countries have a transitional period of eight years to conform to the rule. This rule does not apply to LDCs or to developing countries with GNP per capita of less than US$1,000. Permissible subsidies are not prohibited; they can be actionable (subject to countervailing duties if they cause damage to the importing country) or unactionable.

The agreement recognizes, however, that some subsidies may be required at the initial stages of development. As a result, the least developed and low income countries are exempted. As far as Africa is concerned, about 43 countries will be exempted from the disciplines of these provisions. These consist of the 33 countries in Table 7.4 and 7.10 other countries with per capita GNP below $1,000 (Cameroon, Congo, Côte d'Ivoire, Egypt, Ghana, Kenya, Morocco, Nigeria, Senegal and Zimbabwe). In the case of subsidies linked to the use of domestic inputs, these must be phased out in eight years by the least developed countries and five years by all others.

URA provides special flexibility to developing countries to take safeguard measures to restrict imports, for temporary periods, in order to promote the development of new or infant industries. A large proportion of the tariffs of member countries have been bound against further increases. Where more protection is needed, the government will be required to invoke the provisions on "safeguard actions for development purpose". WTO grants approval if member countries are satisfied that higher protection will help the industry to become internationally competitive within a reasonable period.

Agreements on safeguards also authorize importing countries to restrict imports for temporary periods to protect domestic industry from serious injury. The intention is to give the affected industry time to prepare itself for the increased competition that it will have to face after the restrictions are removed. The temporary period may not exceed eight years. Developing countries can impose such restrictions for up to ten years.

Table 7.4: Africa: Least developed countries

1	Angola	18	Madagascar
2	Benin	19	Malawi
3	Burkina Faso	20	Mali
4	Burundi	21	Mauritania
5	Cape Verde	22	Mozambique
6	Central African Republic	23	Niger
7	Chad	24	Rwanda
8	Comoros	25	Sao Tome & Principe
9	Djibouti	26	Sierra Leone
10	Equatorial Guinea	27	Somalia
11	Eritrea	28	Sudan
12	Ethiopia	29	Tanzania
13	Gambia	30	Togo
14	Guinea	31	Uganda
15	Guinea Bissau	32	Zaire
16	Lesotho	33	Zambia
17	Liberia		

Source: UNCTAD.

As argued here, the issue of subsidies is the one area that directly affects Africa's options in terms of developing its supply capabilities. While non-discrimination in the application of any subsidy schemes on the basis of nationality of the firm may be acceptable, it is doubtful that the same rationale should apply to source of input. It is clear that the early industries and the stepping stones to international competitiveness tend to be resource intensive. Government decisions to support such industries are constrained by these provisions. Africa may need to go back to negotiations to defend its right to encourage the use of certain domestic resources. This will also be consistent with other treaty provisions related to national treatment.

Concern has been expressed that anti-dumping actions were proliferating and risked becoming a problem for exports to both developed and developing countries. There was also a risk that increased use of countervailing actions would counter the special and differential treatment allowed to developing countries on subsidies. Countervailing and anti-dumping duties are permissible in response to unfair trade practices where exported goods benefit from subsidies or when exports are dumped in foreign markets.

There is pronounced fragility in most export manufacturing firms. Detailed enterprise level analyses suggest that the fragility and lack of competitiveness largely arise from the enterprises operational characteristics (or factors internal to the enterprises), although for some firms the external environment (trade and fiscal policy, markets) is more important. This distinction is important in determining how to support enterprises. What is clear is that reinforcement will be needed both at the level of the enterprises and in the environment within which enterprises are operating.

Agreements on Trade in Services (GATS)

The General Agreement on Trade in Services (GATS) consists of a framework of rules (most favoured nation and national treatment principles) and liberalization commitments specific to the service sectors. The objective of GATS is to promote the economic growth of all trading partners and the developing countries through the expansion of trade in services.

Other important provisions of the GATS framework are rules that require transparency in the regulations applicable to service industries and activities and those that aim to ensure the increasing participation of developing countries in trade in services. Increased participation of developing countries is expected to be brought about by:

- Giving priority to liberalization in the modes of supply and service sectors of export interest to developing countries.

- Allowing developing countries to have the flexibility to open fewer sectors to import competition and to liberalize fewer types of transactions.

- Allowing developing countries to impose conditions requiring foreign suppliers to set up joint ventures or better access to their technology.

Unlike goods, which can be protected through tariffs, services are protected largely by national domestic regulations on FDI and the participation of foreign service suppliers in domestic industries.

The challenge of Africa is to develop an efficient and competitive service sector.

Agreement on Trade-Related Investment Measures (TRIMs)

The agreement on TRIMs requires countries to phase out TRIMs that have been identified as inconsistent with GATT rules on national treatment and the rules against the use of quantitative restrictions. The phasing out period is two years for developed countries, five years for developing countries and seven years for transitional economies (with effect from 1 January 1995).

Four TRIMs have been identified in this context:

- Local content requirements

- Trade-balancing requirements (e.g., obliging imports to be equivalent to a certain proportion of exports)

- Exchange restrictions resulting in restrictions on imports

- Domestic sales requirements involving restrictions on exports

Countries are allowed to invoke the banned TRIMs only for balance of payments purposes (Agosin et al., 1995).

Under TRIMs, African countries must be prepared to pursue economic policies that attract investments and allow foreign investors to operate under conditions that are not less favourable than those of local investors. Negotiation of TRIMs concentrated on the GATT compatibility of measures imposed on investors with an effect on trade, i.e., domestic content and trade balancing requirements. This essentially widens the scope of international jurisdiction over domestic policies.

The TRIMs agreement does not contain rules to regulate flows of FDI, although it provides for a review of its possible extension to include investment and competition policies within five years of entry into force of the WTO. The pressure for action in WTO on these issues has increased following the decision of the OECD to negotiate a Multilateral Agreement on Investment (MAI). Attempts to harmonize country investment policies along the lines of MAI are likely to affect the scope of national policy objectives and overall strategies for a country's development. MAI could limit the formulation of policies relating to selective investment incentives, performance requirements for development of local technological capabilities and encouragement of skills training.

Concern has been expressed that the OECD's Multi-lateral Agreement on Investment (MAI)focuses more on the needs of the providers of investment. Host country problems such as increasing competition to offer concessions to attract investments are not receiving attention. African countries should identify and make more effective use of instruments that are permissible under WTO and coordinate their efforts to offer concessions. Because FDI is an important source of non-debt creating investment finance, transfer of technology, productivity increase and integration into the world economy, appropriate investment policy instruments should be used effectively to realize industrialization and enhancement of competitiveness in the WTO world.

The emphasis on enhancing and defining competition has come to the fore as a result of trade liberalization and the focus on private sector led development. There is need for African countries to formulate appropriate competition policies, yet most countries do not have domestic laws for such policy.

The narrow coverage of TRIMs has led some countries to argue that the agreement should be reviewed within five years and that the review should consider the desirability of complementing it with provisions on investment and competition policy. Africa should take stock of the experience with TRIMs so far and put forward its interests. In particular, problems experienced with restrictive business practices and other anti-competition behaviour that poses a threat to international trade should be put on the agenda.[3]

The abolition of local content requirements may have impact on ancillary industries that are benefiting from the protection provided. However, these industries are already facing competitive pressure under open trade policies. Those that deserve protection can continue to enjoy protection within the framework of the WTO rules.

Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

The TRIPS agreement lays down minimum standards of protection for intellectual property rights (IPRs) as well as the procedures and remedies for their enforcement. It establishes a mechanism for consultations and surveillance at the international level to ensure compliance with these standards by member countries at the national level.

The provisions of the agreement apply to patents, copyrights and related rights, trademarks, industrial designs, lay-out designs of integrated circuits, undisclosed information, and geographical indications.

TRIPs provides a transitional period of one year for developed countries and five years for developing countries and for transitional economies (up to 1 January 2000) to bring their IPR legislation into conformity with the provisions of the Agreement. For least developed countries the transition period is 11 years.

TRIPs has implications for the development of trade on three grounds:

- Manufacturers of research and technology intensive products are more willing to sell in markets where their patent rights are adequately protected to enable them to recoup their R&D expenditures.

- The willingness of investors especially FDI to manufacture patented products under license or within

[3] Business Guide to the Uruguay Round. Abstract for Trade Information Services. International Trade Centre, UNCTAD, WTO, Commonwealth Secretariat, Geneva & London, 1995.

joint ventures depends on how assuring the IPR system of the host country is.

- Weak IPR systems encourage production and trade of counterfeit and pirated goods.

One implication of TRIPS is that importers of technology would face increased royalty payments for the use of patented technology under license and higher prices for the products so manufactures.

TRIPS builds on existing international conventions on IPR and further provides higher protection. Five main groups of provisions are made under TRIPS:

- Basic principles and general obligations
- Minimum standards of protection
- Restrictive business practices
- Enforcement of IPRs
- Transitional arrangements for implementation of IPR rules at the national level

On the positive side, TRIPS may encourage transfer of technology on commercial terms by:

- Attracting FDI in technology transfer especially those producing products that are prone to imitation (e.g., electronic and computer products).
- Increasing the number of patents registered in Africa. Disclosure of technical information in the patents may enable local technical personnel to reconstruct the inventions and develop processes and products that differ from those patented.
- Encouraging FDI in joint ventures for R&D work in Africa.

These benefits, however, are tenable where the adopted development policy option favours building of technological capabilities (human, institutional and necessary infrastructure).

TRIPS may also bring under control trade in counterfeit goods. This may be an advantage where counterfeit and pirated goods are of dubious quality. It may also encourage subcontracting or production by MEs in Africa to take advantage of low labour costs. This would enable small and medium enterprises in Africa to produce such items under license and have them marketed internationally under known brand names.

TRIPS presents two challenges to African countries. First, African countries will have to build the capacity to put in place stronger IPR regimes and enforcement mechanisms. Patent protection systems will not only have to be instituted but will have to be extended to new areas, e.g., pharmaceutical and chemical products; the period of patent protection will have to be extended to 20 years for most cases and systems put in place for protection of plant varieties (sui generis systems). Second, TRIPS will make it more difficult to acquire and build technological capacities through reverse engineering and imitation, which have been an important source of technology for many small and medium enterprises.

During the transition period African countries would need assistance in the elaboration of judicial procedures for enforcing law and establishing a commensurate administrative framework including customs procedures. The task here will involve upgrading existing arrangements. In some cases it will also involve establishment of additional administrative arrangements for areas not currently covered.

African countries face the challenge of having to relate the IPRs to their development objectives and of fostering dynamic competition to cope with the requirements of globalization. The design and application of IPRs should be aimed at improving technological innovation systems, carefully striking a balance between incentives to invent and innovate and the need for diffusion of knowledge. Strong IPR that are sufficiently focused on promoting appropriate forms of investments can be a powerful instrument for encouraging many investments in technology.

Case studies carried out by UNCTAD in six developing countries (UNCTAD, 1996) came out with three main findings:

- The implementation of the TRIPS agreement would involve changes in existing IPR regimes. The extent and scope of these changes will be influenced by the level of development of current laws and regulations.

- The strengthening of IPR regimes will require substantial resources from the least developed countries.

- There is an urgent need for better understanding of the implications of implementing the TRIPS agreement.

A recent report of WTO on the Ministerial Conference in Singapore on 9–13 December 1996 indicated that during the previous 24 months (1994 to 1996) the efforts of the least developed countries to implement notification requirements and comply with other aspects of MTA were hampered by the paucity of human resources and weak institutional infrastructure.

The wide-ranging nature and complexity of concepts, principles and rules of the WTO instruments have contributed to the delay in putting into effect the provisions in favour of the developing countries (WTO, 1996).

Most African least developed countries have yet to incorporate provisions contained in the Uruguay Round agreements and the Marrakesh Ministerial Meeting in their favour into their trade policy measures and development programmes. Such failures imply that these countries would have missed some benefits ensuing from the agreements (WTO, 1996).

Article 31(b) (k) of the TRIPS agreement states that if there is a national emergency, patents can be ignored. What, then, constitutes a national emergency? In SSA, about a third of the population does not get enough food (170 million people), and 15% of newborn babies are underweight. Counterfeit pharmaceutical products from, for example, China or India, provided they are up to standard, could be considered, and defended with article 31 (b) (k). The economic consideration relevant to this observation is that the LDCs' hands are not as badly tied as might initially have been suspected. In effect, the government has the option of taking advance of this emergency clause. If this is treated carefully, it could be a strong bargaining point when negotiating licensing fees. There may be limits to its use, however, as its indiscriminate application is likely to invoke the disapproval of the World Bank, IMF and large corporations, damage important FDI and joint ventures accordingly, and reduce prospects of other sources of resource inflows into Africa.

There are other areas where the TRIPS agreement is open to some interpretation, especially articles 7 and 8. Article 7 talks of "mutual advantage", "social and economic welfare", and the "balance of rights and obligations". As Correa writes, "Under these provisions, national legislation can provide for a variety of measures that promote competition and balance, to some extent, the interests of the title holders with the users of the technology. Such measures may include parallel imports, non-patentability of substances in nature and of animals and plans; compulsory licences of various types; reverse engineering of computer programs, among others." Correa also points out that "it should be noted that the TRIPS agreement does not limit (except for semi-conductor technology) the grounds under which compulsory licenses can be granted, but only defines the conditions therefore". As mentioned before large deviations from the accepted WTO intentions are likely to result in retaliation in the form of barriers to trade, but their use is still an option.

There is need to harmonize competition policies relating to international transactions, including intellectual property issues, with efforts to counter restrictive business practices by TNCs.

5. WTO and regional integration

Regional integration according to the 1980 Lagos Plan of Action is not only a means for African development, but an objective in itself. Under Article XXIV, the WTO rules allow for regional free trade arrangements provided they cover substantially all trade and do not raise external trade barriers on balance, and that they achieve free trade within a certain period. In theory, therefore, the WTO rules are consistent with African regional integration aspirations. WTO monitoring should engender some pressure, but in practice it is doubtful that WTO would be effective in monitoring. However, the general rules making for freer global trade raise the broader issues of multilateral trade liberalism versus regional trade liberalization or regionalism (Bergstern, 1997).

In theory, the multilateral trade liberalization implied by the WTO rules will reduce the margin of preferences within a customs union. This reduces the extent to which concessions within the union would be trade creating and also reduces the extent to which they would be trade diverting. In the case of Africa, regionalism has never been effective in liberalizing trade among member countries. What has occurred in terms of increased intra-regional trade has been regionalization induced by unilateral trade liberalization.

The current geographic destinations of many SSA countries' exports of manufactured products underline the significance of regional markets for the growth of current exports and development of new export products (UNIDO Studies on Africa, 1996).

Africa has demonstrated the slowest progress in developing regional integration and cooperation arrangements (UNCTAD, 1993b). The challenge that emerges is whether regional cooperation arrangements can be designed for Africa to facilitate (through investment, joint technological activities and trade) the process by which firms and other institutions in Africa build up technological capabilities. The African Economic Community and existing subregional economic cooperation arrangements should accord high priority to promoting trade expansion, based on both exports and imports, by removing distortions, avoiding the duplication of large investments where national markets are small, reducing transaction costs (e.g., by trading arrangements that guarantee market access, regional marketing intelligence, improvements in the marketing infrastructure), and redirecting trade flows.

Regional cooperation may also be useful in importing technology. The collection of information on sources of equipment and technology is an expensive business; institutions to serve groups of countries could marshal more resources than those confined to the smaller individual economies. Once imported, the technology could be adapted to local needs by regional technology institutes. This would be a highly skill-intensive task, where the regional sharing of the cost and benefit would clearly make economic sense.

Africa needs to recognize these trends and respond to these changes by putting greater effort into exploring possibilities of beneficial inter-firm linkages with TNCs from the North and from the South. It would appear that if the potential benefits from TNCs are to be realized, domestic policies concerning development of the technological capabilities of domestic firms, education and vocational training, investment, trade, technology adaptation, and R&D can play a crucial role in that process. However, the context of the emerging work market and new technologies demands new forms of networking with TNCs. Identifying the conditions under which the role of TNCs could be complementary and supportive of SSA's efforts to develop international competitiveness deserves special attention. The guiding question here should be: In what ways can African firms forge inter-firm linkages and cooperation arrangements that are conducive to the development of the technological and other capabilities necessary for making gains in international competitiveness?

Promotion of South–South inter-firm linkages and cooperation arrangements should be viewed as complementary to the kinds of benefits that can be obtained from inter-firm networks and cooperation arrangements with TNCs from the North, and not necessarily as substitutes. The Abuja declaration on the establishment of the African Economic Community is an encouraging step. Its implementation, however, should involve taking first steps towards establishing the institutional framework to spearhead the development of these kinds of inter-firm linkages and cooperation arrangements not only within Africa but between Africa and other regions.

6. Conclusion

The emerging development strategy requires freer and growing world markets. The WTO agreements provide opportunities for African countries in terms of security and access to world markets. The emerging competition for African countries implies deeper economic reform including both unilateral and regional trade liberalization.

However, expected increased competition and the demand for reciprocity also imply that the nature of concessions that Africa needs will have to change. Hitherto, concessions have been in terms of the demand side. These are perhaps less important now, and in any case have not been effective. The greater requirements for the success of the African development strategy will be supply related. These will include among other things negotiated technology and investment related concessions and possibly negotiated agreements to secure lower transportation, freight and other service charges for African exports. Africa faces challenges of:

- Taking fuller advantages of opportunities in the WTO world, including more effective use of rights and compliance with obligations.

- Effectively pursuing the built-in agenda, particularly the further liberalization of trade in agriculture and services.

- Engaging more effectively in the WTO debate on the new trade agenda, especially relating to trade and investment and competition policy.

- Striving to bring about a better balance in the rules of the game in support of development. Greater access to markets should be accompanied by greater access to technology to develop competitive supply capacities. The state and the market must be actively used in a complementary manner to build effective supply capacities. The challenge is to develop the capacity to adjust government policy and engage policy options for national development within the framework of the WTO world.

It has been noted that most developing countries were largely unaware of potential gains from the active use of the dispute settlement mechanism as an option that could replace bilateral negotiations, where small countries often lack bargaining powers (UNCTAD, 1997). WTO has made some concessions and allows for support programmes targeted to sub-Saharan Africa (SSA). Yet SSA has not been taking advantage of such provisions probably for lack of information or for lack of the capacity to tap the advantages in those provisions. There is need to build the capacity to understand the rules and issues in WTO agreements and how best to benefit from the provisions and trade assistance programmes.

The experience of Uruguay Round (UR) negotiations shows that most developing countries were not adequately prepared (UNCTAD, 1997). One of the main reasons for the difficulties encountered with notifications is that it was only later that many developing countries realized the implication of what they had accepted and signed. In the Singapore Conference of December 1996 the same problem of lack of preparation surfaced again.[4] This suggests that there is need to build the capacity for preparation and understanding of the implications of developments in regional and world trade systems for the interests of developing countries. It also implies that the development policy options Africa should consider must reflect a positive agenda for trade liberalization in ways that are consistent with the interests of Africa in the context of the WTO world. This way Africa can achieve integration within the world trading system in relation to its ability to formulate and pursue development policy and strategy options within the framework of multi-lateral trade obligations.

Concern has been expressed about tendencies of developed countries to challenge developing country rights that had been provided for under URAs. For example, the right to apply quantitative restrictions as a defense for balance of payments if facing growing pressure. There has also been growing bilateral pressure on developing countries to draw up IPR legislation under which they would give up the right to apply special and differential treatment provided to them under the TRIPS Agreement. In addition, certain investment measures might face challenges, although they are not specifically prohibited under the TRIM Agreement (UNCTAD, 1997).

Many SSA countries have weak institutions for designing and implementing trade policies and are weak in monitoring the trade policies of developed countries and their implications for SSA. In this context, the WTO Trade Policy Review (TPR) mechanism could provide useful information with which SSA countries could make their own assessments of policy implications. The capacity for undertaking such analyses will need to be built and necessary technical assistance for that purpose may have to be sought in the area of policy advice to complement domestic capabilities—which should also be used more effectively.

Technical assistance (TA) is necessary to enable SSA countries to cope with some of the requirements of WTO. However, SSA should strive to have better coordinated TA that builds on local capacities rather than replacing them. The proposed integrated programme of TA by IMF, World Bank, UNDP, UNCTAD, ITC and WTO is a welcome initiative for attaining more coherent and better coordinated TA.

In response to WTO requirements there is need to strengthen policy coordination among government agencies and to improve liaison between government policy makers and the business sector.

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[4]Noted in the introductory remarks by Rubens Ricupera, Secretary-General of UNCTAD, as they appear in UNCTAD (1997).

The heavy debt burden is likely to limit SSA countries' ability to implement WTO agreements and build the capacity to compete. External debt relief and the transfer of new resources coupled with domestic policy efforts are the key to sustained recovery in Africa.

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