

## Industrialising Africa Using WTO Framework

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Perhaps the most enduring challenge facing Africa in the new millennium is not whether but how Sub-Saharan Africa (referred to in this chapter as Africa) can diversify its economies and achieve competitive industrialisation. So far, industry is largely underdeveloped, undercapitalised, and at a pre-industrial stage. In 1999, only five countries (Mauritius, South Africa, Swaziland, Zambia, and Zimbabwe) have a share of manufacturing in total GDP of over 20 percent, while the aggregate figures for the sub-regions are: North Africa 14 percent; West Africa 8.5 percent; Central Africa 10.7 percent; East Africa 8.1 percent; and Southern Africa 21.7 percent.<sup>1</sup> Africa's share in global manufacturing value added shrunk from 0.6 percent in 1970 to 0.3 percent in 1995. Exports of manufactures account for barely 18 percent of total exports compared to about 54 percent for other developing regions, and export of machinery account for a mere 2 percent of total exports. Africa remains the only region in the world that has intensified its concentration on primary commodity production and exports in the last two decades. Europe provides the dominant market for exports (82 percent), despite some increases in intra-regional trade.<sup>2</sup> Thus, even though the diversity of the region is recognised and few exceptions noted, it is safe to generalise that industrialisation and diversification into labour-intensive manufactures is yet to happen in much of Africa.

However, Africa has no choice but to diversify and industrialise. This is more so given that the region has the fastest growth rate of urbanisation in the world (requiring different kinds of jobs), as well as the volatile and declining terms of trade for primary commodities. Thus, a more productive debate is not whether Africa has static comparative advantages in industrialisation but *how* to achieve dynamic comparative and competitive advantages especially under the new rules of the game.

So far, the reforms undertaken under the structural adjustment programs (SAPs) and trade liberalisation schemes have had modest results. In some countries, the annual growth rate of non-traditional exports (NTEs) has been phenomenal in recent years (1994-98)—Ghana 42 percent; Uganda 72 percent; Mozambique 50 percent; Zambia 17 percent; Côte d'Ivoire 16 percent; and Senegal 9 percent.<sup>3</sup> Much of these performances are from a very low base, but they nevertheless go to demonstrate the possibilities that exist. The challenge is to deepen the reforms and to sustain the performance.

The potential catch-up effects of good policies and structural reforms are great.<sup>4</sup> The simulation exercise by Elbadawi and Soludo, based solely on 'domestic' policy and geography variables, indicates that the median African country could increase its manufactures and processed exports from a few hundred million dollars to over US\$50 billion if it were to benchmark its exchange rate policies, transaction costs, investment, educational level, and coastal population density to those of the East Asian countries. Such results hold out both a promise and a daunting challenge, daunting in the sense that it points to the magnitude of the domestic reform agenda that African countries need to undertake if they wish to realise the potentials. No doubt, many of the reforms are within the reach of the median African country, but most of them also require huge human, institutional, and financial resources, which are presently beyond the median country.

Even if the median African country can benchmark its policies and geography to the East Asian level, a major complication is that under the current WTO framework, much of the flexibility in the selection of policy instruments that started and sustained industrialisation in other parts of the world are no longer permissible. More specifically, Africa faces a different kind of global environment, which might frustrate the domestic reforms.<sup>5</sup> Most countries that are currently industrialised used protectionist policies. The British industrialisation between 1770 and 1830, the North Atlantic revolution between 1873 and 1914, and the South-East Asia miracle between 1950 and 1995 all occurred when tariff trend was on the increase.<sup>6</sup> Africa is thus going to be the only region in history that would have to industrialise and compete but without the preferential treatments available to earlier late industrialisers.<sup>7</sup> Is the WTO framework the problem or the solution? How can it help? This chapter attempts to answer these questions. We focus

more narrowly on the global trading system especially given the skewed attention in the literature on the domestic agenda.<sup>8</sup>

The chapter is structured as followed. In section 1, we briefly outline the nature of the reforms undertaken so far under the trade liberalisation /WTO rules and the outstanding issues. Section 2 evaluates how much of a problem the global trading system is to Africa. In section 3, we flesh out an agenda for action under the WTO.

### **Unfinished Agenda of Domestic Reforms**

While there is intense debate about the weights to be attached to the various factors that have stalled African industrialisation, the short list of the factors are coterminous to the ones that explain the region's failed growth and development. Such factors include: the brand of import-substituting industrialisation (ISI) strategy; the region's initial conditions (including its geography, peculiar history of colonialism, and its legacies of fragmented tiny national markets, weak private sector, and governance structure); poor technological base and low human capital development; deficient and expensive infrastructure (high transaction costs); poor macroeconomic environment; and risky investment climate.

Much of the first and second generations of reforms in Africa have tried to address many of these factors. There is now a greater recognition of the need for outward-orientation (as opposed to the ISI strategy), hence a greater convergence of views on the need for a competitive exchange rate regime, export promotion measures, tariffication of non-tariff barriers (NTBs), and simplification of the tariff structure. In addition, most African countries have implemented reforms focusing on changes in the regulatory framework governing investment, elimination of price controls and commodity marketing boards, privatisation of public enterprises, financial sector reforms, liberalisation of foreign exchange markets, establishment of export and investment promotion agencies, and establishment or review of 'investment codes.' The reforms accomplished in three specific areas, namely, import protection, direct export promotion, and exchange rate policies, are examined herebelow.<sup>9</sup>

#### **Import Protection**

Import protection has been a principal instrument of industrial policy in Africa.<sup>10</sup> As part of their WTO commitments, African countries are required to translate quantitative restrictions into tariffs, to bind their tariffs against further increases, and to reduce them over time. Transparency is also required on other duties and charges applicable to international transactions. These duties and charges are also required to be made public through the country's submissions at the WTO.

In general, most African countries have reformed their tariff structure aiming at reducing the number, level, and variance of tariff (although this is attributable to unilateral SAP-driven liberalisation rather than as part of WTO commitments). Sachs and Warner index (1996) reckons that a tariff level of 40 percent or more constitutes the 'distorting' range. Judged against this, most African economies could be considered 'open.' But the tariff levels on the average, except for South East Asia, remain higher than other developing regions. Given that African countries constitute the principal market for other African countries' industrial export, the applied intraregional tariffs also hinder African industrialisation.

However, members of regional integration schemes have moved toward a common external tariff (CET), which is complemented by some sort of VAT scheme for domestic taxation. These tariffs have further been consolidated and bound against further increases. For example, Cameroon and its other regional partners of UDEAC/CEMAC<sup>11</sup> have a CET, with a customs duty of four import categories at respectively 5 percent, 15 percent, 35 percent, and 50 percent. The CET is complemented by a temporary surcharge tax, used to alleviate the burden from elimination of protection formerly provided to firms via NTBs. The temporary surcharge is allowed to fluctuate but cannot exceed 30 percent. Regional industrialisation is encouraged by lower intra-CEMAC tariff structure.

A CET is also applicable in the Union Economique et Monétaire Ouest Africaine region (UEMOA). Average tariff in Côte d'Ivoire declined from 34.8 percent in 1993 to 27 percent in 1994-1995,

and 25 percent in 1996. The country consolidated its tariff on all non-agricultural products at a ceiling rate of 15 percent, except for a list of 29 products whose tariffs were to be bound at rates of 5 percent to 75 percent initially, then 4 percent to 64 percent in 2004. The country also committed itself to consolidate duties of selected industrial products between 10 percent and 25 percent. In Ghana, the import code comprises three rates of respectively 0 percent, 10 percent, and 25 percent. A limited list of 16 import categories is covered by a different, more protective, regime. A sales tax of 15 percent is applicable, with a higher rate (17.5 percent) for luxury goods. As part of regional arrangements, selected imports have special tariff privileges. In the case of Kenya, the number of tariff categories had been reduced as part of SAP, with the maximum tariff of 70 percent compared to 170 percent in 1987. Nigeria has improved from some of the most restrictive trade regimes to a much simpler regime (with tariffs ranging from 0 percent to 100 percent for the period 1995-2001). Tariffs were to be reduced by 50 percent over the period 1995-2001, although the escalation of tariff rates among capital, intermediate, and consumer goods is still pronounced.

A similar trend is observed in South Africa. Tariffs were in general lowered in South Africa prior to entering the WTO in 1994. The rate was lowered on textiles and clothing from 100 percent to 45 percent while the rate on cars was reduced from 100 percent to 50 percent. South Africa further committed to a faster liberalisation (over a five-year period) compared to WTO requirement of eight years. This also involved the reduction of the number of tariffs from over 100 to 6, ranging from 0 percent to 30 percent. This was part of a unilateral liberalisation trend that started before WTO. For example, the number of tariff lines under import tariff was reduced from 12,000 to 8,000 between 1992 and late 1994. Import tariff was lowered on most products by 50 percent. Consumption goods were reduced from 34 percent to 17 percent, intermediate goods from 8 percent to 4 percent, and capital goods from 11 percent to 5 percent. A specific feature of the URA binding was the possibility to include commitments not to raise the tariff over a ceiling determined by product, sectors, or across the board.

Despite the progress made as part of their unilateral liberalisation, quantitative restrictions are still used by several African countries as protective measures. Kenya regularly uses administrative controls to manage its balance of payments and to provide protection to some industries. As part of the WTO commitments, this practice is expected to be limited. The list of prohibited imports has declined significantly in Nigeria in recent years with a commitment of the government to phase out all the remaining import prohibitions by 2005. South Africa kept the option of using, over a limited period, import controls under special circumstances. These measures are to be used mostly against non-WTO members or on WTO members while waiting for the national anti-dumping and countervailing laws to be revised. Quantitative restrictions have been largely eliminated in Uganda and replaced with more transparent taxes that operate through the price mechanism.

#### Direct Export Promotion Policies

Various instruments of direct export promotion have been used in most countries. These include export subsidies and trade-related assistance to reduce cost for exporters. Most of direct export promotion instruments are not permitted by the URAs. Existing schemes such as export subsidies could not be increased. Most African countries are not affected by this clause, as their income level is lower than the US\$1000 per capita income threshold level. Countries are, however, allowed to introduce measures that can lead to reduction in the cost of export operations. The application of subsidies can be countervailed in cases they are judged to cause serious injury to industries of importing countries. Export restrictions are not, as a general principle, allowed by the WTO. A given country could exempt its exporters of indirect but not direct taxes; direct taxes are allowed only in exceptional cases such as an export processing zone (EPZ). In general, most countries have initiated reforms aiming at complying with these requirements.

In the case of Côte d'Ivoire, attempts at curbing the effect of the French franc appreciation against the U.S. dollar on the real exchange rate were made through a 'mock devaluation' consisting of simultaneous increases in import tariffs and export subsidies. A manufactured export subsidy had existed in Kenya until September 1993, when it was replaced by a duty/VAT remission scheme for intermediate

inputs. Other indirect supports to export activities have included manufacturing-under-bond and EPZs. Export promotion and diversification are promoted in Nigeria through such incentive schemes as government direct subsidies in production that are applied in a non-discriminatory basis to firms. Direct export promotion has been done in South Africa using export subsidies, and an export incentive scheme based on value-added and local content. Other productivity enhancing measures such as on research and development (R&D) and marketing have also been introduced. Exporting firms in Mauritius are mainly supported through the incentive package of the EPZ. An important framework for providing support to exporters in Cameroon is the industrial free zone, which allows investors to virtually operate outside the jurisdiction of the country's legal and regulatory system. An investment code management unit provides for a one-stop-shop for investors. Export promotion centres exist in several countries but their efficiency has been hampered by several difficulties.

### Complementary Reforms

Other policies for promoting industrialisation include the efficient supply of export support services (exchange rate, finance, infrastructure, insurance) and pricing of relevant goods and services. One important limitation to export activities is the shallowness of financial institutions and of capital markets, when they exist, due to their inability to raise sufficient funds to meet private sector's needs. In the Franc zone, the financial and insurance sectors have been reformed and private ownership allowed, although it is still very limited. Reforms have included regional supervision of financial and insurance institutions. Competition is constrained by the dominance of the state in these sectors. Financial reforms have significantly enhanced the efficiency of financial services in other sample countries, although credit remains a major constraint both in CFA and non-CFA countries. In all countries, the financial system needs further improvements to support an outward oriented trade strategy.

Compared to the 1980s, the exchange rate policy in African countries is currently more supportive of export-led growth. Ghana had, beginning in 1983, progressively moved to a flexible exchange rate regime through various undertakings that have led to an overall depreciation in its real exchange rate. The Kenya shilling has been managed according to market fundamentals, with complete float of the currency after the liberalisation of the current and capital accounts. On average, Kenya has maintained a fairly good foreign exchange rate policy with exchange rate misalignment consistently kept below 10 percent. The exchange rate has also been kept under close monitoring to avoid massive overvaluation in Uganda. In Mauritius, the authorities could succeed in stimulating exports through a careful coordination of EPZ provisions and an implicit policy of depreciation of the rupee. In Cameroon and Côte d'Ivoire, monetary and fiscal policies are limited by Franc zones rules according to which countries cannot autonomously change the nominal exchange rate, to the point that only indirect measures can be contemplated to change the real exchange rate. It is largely believed that the current institutional framework in the Zone can easily lead to exchange rate appreciation with little room for maneuver by national authorities.

In all countries, various institutional reforms have aimed at enhancing the performance of government departments servicing export activities; most of the time, some efforts are coordinated at the regional level. Trade liberalisation has been accompanied and supported by internal deregulation, restoration of expropriated assets, privatisation, and a supportive investment regime. Investment promotion centres exist in many countries and serve as a one-shop centre for investors. Overall, administrative supports to imports and export activities have been enhanced in most countries.

In spite of progress made in domestic reforms, several impediments still remain. Open trade regime in itself is not enough to ensure competitive industrialisation. Supply side constraints and institutional weaknesses still prevail. The first of these pertain to the inefficiencies of complementary measures to support industrialisation, particularly poor infrastructure. Poor basic infrastructure—transportation, water, electric power, waste disposal, storage, telecommunication, etc.—greatly raises the transaction costs faced by African firms and hamper their integration into international trade. Most public utilities are still under public sector control and, in general, the quality of services rendered is low. The customs clearance system is cumbersome in most countries and takes weeks to complete, while it now takes as low as 15 minutes in

some industrial countries. There is thus the challenge of how to reform the system of public service provision and delivery so as to give producers and exporters world-class standard services.

There are also problems such as weak technological capacity, lack of entrepreneurial, marketing and technical skills, paucity of long-term finance, expensive trade credit and pre-shipment finance, and inadequate legal and regulatory frameworks. These require policy reforms as well as long-term investment.

### **Structural and External Constraints to Africa's Industrialisation**

The domestic trade-related and supply-side reforms outlined above are only necessary but by no means sufficient conditions for Africa to diversify its economies and be globally competitive in industrial products. The nature of the global trading regime generally (WTO rules) and practices in the developed countries constitute another set of constraints. There are several channels through which the external environment imposes serious constraints to Africa's industrialisation efforts including: the insistence on reciprocity and erosion of preferences previously enjoyed by Africa; tariff peaks and escalation that bias incentives away from industrial exports towards primary commodity exports; terms of trade losses that drain away scarce investible resources; subsidies to agriculture that encourage dumping of agricultural products in Africa thereby hampering the fullest exploitation of the region's comparative advantages in the sector; and the lack of appropriate synergies/coordination between the operations of the WTO and other UN agencies.<sup>12</sup> We briefly examine some of these.

The WTO rules and the globalisation process are double-edged swords, providing both opportunities as well as constraints. On the one hand, they provide opportunities for freer (liberal) trading regime with potentials for increased market access. On the other hand, they limit the policy handles available for discretionary national policies and insist on the principle of reciprocity. As UNCTAD observes:

It is undeniable that the global economy is currently going through significant changes. The new trading regime under the WTO has reduced the scope for using some measures, which call for trade-related subsidies, lax enforcement of intellectual property rights, and strategic conditions imposed on foreign investments, which were integral parts of the East Asian development strategy. Certainly, the more generalized protection, which provided a backdrop for targeted policies in East Asia, is no longer possible, and many of the export promotion policies no longer permissible. It may also be true that the changes will reduce the scope for policy maneuver for developing countries, which wish to pursue a strategy involving vigorous infant industry protection and export subsidies.<sup>13</sup>

The SDT treatment for 'least developed countries' is listed in Annex VII to the Agreement on Subsidies and Countervailing Measures. Such measures are typically in the form of transition arrangements providing a certain length of time within which to bring policies into conformity with the WTO rules. The new rules have significantly narrowed the instruments for industrialisation and export promotion from specific to generic forms. African countries therefore have little scope to deploy instruments to target and develop specific industries. Furthermore, the rules are ownership-neutral in the sense that subsidies and local content protection do not distinguish between domestic enterprises and foreign affiliates. The 'trade-effects' of specific instruments must be neutral. Countries therefore lose much of the discretion to apply special policies to compel multinational firms to serve 'national interests.'

Furthermore, since MFN and national treatment is the cornerstone of the new rules-based system, reciprocity is a guiding principle. Africa is disadvantaged specifically because of the erosion of existing preferences it enjoys under the various arrangements. First, members of the African, Caribbean, and Pacific (ACP) group enjoy non-reciprocal preferences in the EU under the Lome Convention. According to this Convention, most African industrial products enter the EU market free of customs duties and quantitative restrictions. In addition, most non-oil exporting African countries benefit from the GSP that provides for preferential treatment in major developed country markets, including the USA, Japan, and

Canada. The single undertaking nature of the WTO framework will open these privileges to non-preference receiving competitors, thereby reducing the competitive edge of African producers. One conservative estimate suggests that complete liberalisation of MFN tariffs in the EU would generate total trade losses of over US\$250 million in Africa; and for 30 major African exporters, the losses could represent as much as 2 percent of their current export values.<sup>14</sup> Especially given the atypical supply and institutional constraints faced by African countries, the competitive disadvantage can be much larger than the conservative estimate.

Second, African industrial products are concentrated on low-tariff products for which liberalisation during the Uruguay Round of trade negotiations was not important. The average tariff is 3.2 percent on African industrial exports, compared to 7.4 percent and 8.3 percent for non-African low-income and low-and-middle income countries. However, the across the board reduction in tariff and restriction in the use of quantitative restriction led to larger reduction in trade barriers facing African competitors on the international market, which reduces the competitive position of African exports. For example, preference erosion on Mauritius exports will be associated with the future of the sugar protocol and the implementation of the phase out of the Multi-Fibre Agreement (MFA) and the entry into force of the Agreement on Textile and Clothing (ATC).

Another problem of the trading system is that tariff peaks and escalation constrain exports and bias incentives towards primary commodity production and exports. As African countries enter the 2000 negotiations, their exports of industrial products face high tariff barriers on selected markets. The generalised tariff reductions were less pronounced on some sensitive products, hence leaving the sectors concerned with significant tariff peaks and escalation that constrain Africa's industrialisation efforts. Tariff escalation encourages trade of raw materials and is particularly problematic since it limits the possibility of diversifying into higher value-added exports. After full implementation of the UR, the average applied tariff facing imports from developing by developed countries will exceed 12 percent and tariff peaks for some important products will reach 350 percent. These peaks will represent 20 percent in the USA markets, 25 in the EU, and 30 in Japan. Tariff peaks on industrial products of interest to African countries will prevail for fish, the food industry, textile and clothing, footwear, leather and travel goods, the automotive sector, and a few other transport and high technology goods. Tariff peaks on industrial goods are in particular important for textile and fish-exporting African countries including Kenya, Mauritius, and Senegal. With tariffs escalating as products under further processing, there is a clear bias of incentives against processed (industrial) products. Preferences are extended to unprocessed primary commodities, thereby encouraging African countries to specialise in these products with all the volatility in the terms of trade.

African industrialisation is also marginally constrained by non-tariff restrictions, and progress during the URAs was limited. Overall 26.6 percent and 25.5 percent of all imports in the EU and USA respectively were subjected to NTB in 1986; post-UR coverage is 19.1 percent and 16.8 percent. Among the NTB protection, coverage by quantitative restrictions was 19.5 percent in the EU and 20.4 percent in the USA in 1986; they were reduced to 13.1 percent and 10.9 percent by the UR negotiations. Its coverage on textile, which is an important industrial product for several African countries, increased from 74.9 percent to 75.4 percent on the EU market. It fell in the USA from 84.1 percent to 68.3 percent but still quite high.<sup>15</sup> For example, NTB coverage for SSA average in the EU and US markets are 13.1 and 19.7 percent. In the case of manufacturing exports, the SSA average is 5.6 percent. The industrialisation of Africa is even more constrained by non-tariff measures (NTMs) such as safeguards, SPS, and TBT, which are increasingly being used as surrogate for protection.

Safeguards have mostly been used by developed countries and predominantly on products of interest to Africa, especially on textiles. For countries that have less than 3 percent market share of a given commodity, safeguards measures are not a constraint in market access but they are likely to be the case if their market share increases. TBTs constitute another major form of constraint to the export of industrial goods. They could include technical aspects, packaging, and design. Contrary to standards that are voluntary, technical regulations are mandatory. If the system is either non-transparent or discriminatory, TBTs will have the same effects as any protectionist measure, hence a limiting factor to market access.

TBT could be a protective measure for the exporter since it limits possibilities of creating unnecessary obstacles to trade. The protection is done through internationally agreed standards. In the case of voluntary standards, national standardisation institutions are expected to conform, as far as possible, to the principles underlying mandatory standards. To make sure that these standards do not limit market access, member countries are required to establish an inquiry point where all relevant information can be obtained. If upon examination potential exporters find that measures are indirect barriers to trade, their home government can be invited to protest. The human and financial requirements, however, make TBT a constraint to market access for the African exporter of industrial exports. East African countries, for example, experienced significant losses in 1997 when fish exports to the EU were banned. The agreements on technical barriers and on SPS measures have constituted important market access constraints to Ghana as well. Out of 38 fishing and fish processing firms in Ghana, only 6 could meet the requirements for exporting into the EU market, and the financial and human resources to satisfy these requirements are beyond what the country can afford in the medium to longer terms.

The implication of these is the need for African countries to demand further dismantling of protectionist measures against Africa's industrial exports. Such a dismantling of measures is also needed in Africa's intraregional trade. Ironically, the protection that African industrial products face within African markets is, in general, higher than the level of protection facing developed countries' industrial products within the OECD countries. Reciprocal market access among African countries would go a long way in boosting economic efficiency.

Antidumping and countervailing aspects are also indirect protective measures. Members are allowed to impose a countervailing duty on an imported product that can be unfairly priced. This has been used for protection by rich countries mainly. Antidumping measures include unilateral decisions taken for protection once it has been determined that the import pricing disadvantages domestic producers. These measures can only be applicable after specific substantive and procedural requirements have been satisfied. Particularly, procedural requirements to ensure transparency and equitable treatment are crucial. Exports can be countervailed for developing countries supplying more than 4 percent. Hence expansion in trade will make these measures even more important aspects of African market access conditions of industrial products. All these non-trade measures have heavy human and financial requirements that include the strengthening of institutional capacity to maintain product quality, to test, and to certify products to international standards.

Two other features of the international trading environment that affect Africa's industrialisation efforts are the huge agricultural subsidies in the industrial countries and the declining and volatile terms of trade faced by Africa. The OECD countries' subsidy to agriculture is about the size of the combined GDPs of all Sub-Saharan African countries. This has two effects on Africa's production. First, OECD farmers have huge competitive edge and can afford to dump their output on Africa's markets at below market prices. Thus, even though Africa has static comparative advantages in agriculture, it loses competitive edge. All the complementarities that a booming agricultural sector is supposed to have with the nascent industrial sector (especially agro-allied industries) are weakened. Second, Africa has difficulty competing in the OECD markets in the light of the subsidies, thereby depriving the region the needed foreign exchange to import intermediate inputs and machinery for industrialisation. Furthermore, declining and volatile terms of trade for Africa's exports offsets about 70 percent of total overseas development assistance (ODA) to the region. This huge income loss hampers development generally and industrialisation in particular. What is needed, as a response, is a comprehensive strategy of diversification and not the biasing of incentives to confine Africa to primary commodity exports.

### **Prospects of Africa's Industrialisation in the WTO Framework**

So far, we have shown that Africa faces some atypical challenges in its quest for competitive industrialisation, and that the global trading system is part of the problem. The question now is how the WTO process can be used to provide a major solution. Put differently, the question is how the WTO framework can be integrated within a holistic domestic strategy for production diversification and

industrial competitiveness that also achieves the goals of poverty reduction. In the current structure, poverty reduction is not systematically addressed within the framework. Trade and investment liberalisation is sometimes discussed as if they are ends in themselves.

Increasingly, a coalition of international NGOs and analysts point to the need to bring issues of poverty to the centre stage of the WTO process. As with the conventional wisdom in addressing poverty at the national levels, the idea of a poverty-focused WTO process raises issues about *SDT* for poor countries, *empowerment* of the poor in negotiations and implementation, and *targeted interventions* and *social safety nets* that benefit the poor countries. (see Boxes 1, 2, and 3 for summaries of emerging agenda on the specific proposals). This stage of development seems not to be adequately captured within the existing framework.

The need for SDT is hardly controversial.<sup>16</sup> Since the inception of GATT, the clause to recognise the stage of development story has always been there, although the specific contents have varied over time. Earlier, we noted that the erosion of preferences leads to a net loss to African exporters. However, recent initiatives under the US-Africa Trade and Opportunity Act (AGOA), and the EU-ACP agreement (Lome V) underscore the increasing political commitment among the major economic blocks to address Africa's special constraints. What is missing is the formalisation and binding of these disparate preferences within the multilateral (WTO) framework. Binding of bilateral preferences (e.g., AGOA) within the WTO could serve two purposes: first, it eliminates the discretion to change or alter the preferences, and; second, it harmonises the preferences with existing WTO provisions and could, for example, modify the 'local content.'

Two other issues about the current S&D treatment clauses pertain to their adequacy, and the inability to take advantage of existing provisions due to more stringent requirements of the SAP. Those who question the adequacy of the existing provisions would want to see that deeper S&D preferences include positive discrimination in favour of developing countries, not merely longer time periods for implementation of the same obligations. As the governments of Cuba, the Dominican Republic, Honduras, Indonesia, and Pakistan have emphasised recently, "trade rules do not adequately take into account the unequal size of competitors in the global market. Slightly longer phase-in periods for developing countries to meet their obligations and modest 'technical assistance' do not 'level the playing field'."<sup>17</sup> As a concrete example of what can be done, a consensus seems to be emerging in favour of allowing poor African countries to export *all* products free of duties and other restrictions into the OECD markets, as well as mobilising resources and technical assistance to build basic infrastructure and capabilities (see Boxes 2 and 3).

The other issue about the current S&D on the books is the consistency with the SAP policies, which are pressing for deeper unilateral liberalisation. As the Government of Zambia has argued, while S&D provisions exist on the WTO books, many developing countries are also implementing SAPs with the IMF "which prevent them from taking advantage of some of the flexibilities built into the WTO agreements."<sup>18</sup> This observation calls for greater coordination among the various multilateral institutions. The rights and obligations embodied in the URAs help increase policy transparency and stability and enhance policy credibility, which in turn attracts domestic and foreign investors. Market access in African export markets is important to benefit from the opportunities provided by the multilateral agreements. Improved market access, in turn, increases the incentives for investments in tradable sectors. As such, the WTO Agreements could be useful complements to domestic policy reforms implemented by African countries since the 1980s. Unfortunately, policy initiatives are currently taking place at disparate centres and ultimately the ones that get implemented are the ones emanating from those institutions with the resources to leverage their preferred policies. This needs to change. Future negotiations should, therefore, aim at greater coherence in global economic policy-making and ensure that international institutions, especially those involved in SAP, pursue mutually supportive policies.

As evidenced in the Boxes 2 and 3, there is a growing call for the next round of negotiation to be based on thorough scientific research. First, research is required to evaluate the impacts of the existing agreement on poor countries. Second, more research and consultation are needed on what really is required by developing countries, and then the substantive rules should be re-negotiated accordingly. This

is more so as more evidence indicates that the SPS, TRIPS, and Customs Valuation agreements are unsuitable for many developing countries and skew their development priorities.<sup>19</sup> Related to the stage of development is the need for caution in pressing for further tariff liberalisation. The issue of the appropriate level of tariffs is controversial. Simply arguing that tariffs in Africa are higher than elsewhere is no sufficient basis to warrant further reforms. As indicated earlier, the average tariff rate in most countries falls well below the 40 percent range (above which Sachs-Warner indicates to be 'distorting'). The remaining issue therefore is how much further could tariffs be lowered. It is not clear, for example, whether a tariff rate of 25 percent is necessarily more distorting than a 20 percent rate. A litmus test is to demonstrate that such a lower tariff regime significantly contributes to productivity and diversification, and also consistent with the country's level of development--in particular compatible with the balance of payments and fiscal revenue objectives.<sup>20</sup> The IMF Research Director captures this empirical ambiguity when he argues that:

Although theory suggests that a small economy cannot influence world prices, and that the optimal tariff is zero, practical and political considerations make this impractical. We can therefore assume that tariff rates will be positive for purposes of domestic protection and to generate fiscal revenues. There is no magic formula to determine the appropriate level of tariffs pertinent to the implementation of a medium-term growth strategy in Sub-Saharan Africa, and ultimately the particular circumstances of each country will determine the extent and pace of reform.<sup>21</sup>

Implicit in the above is that initial conditions matter, and peculiar country circumstances matter. Despite all arguments to the contrary, there are still robust arguments in favour of the infant industry protection.<sup>22</sup> Having passed through the worst ('distorting') forms of trade restrictions, further reforms must be carefully designed to serve development/industrialisation objectives.

The effect of NTMs is less controversial. The ability of an African country to take advantage of the tariff and non-tariff reduction of the URAs and industrialise is significantly curtailed. Except for isolated cases, progress on quantitative restrictions was more limited during the URAs and indirect NTMs constitute major constraints to exports African countries.<sup>23</sup>

There are other more specific areas in which the WTO framework could be used to leverage the rapid industrialisation of Africa. Some of these are considered below.

#### Reduce Transactions Costs

A major impediment to Africa's industrialisation as outlined earlier is the ability to address supply-side constraints. Africa's industrialisation will especially require that countries overcome the infrastructure bottlenecks, especially transport. An example of such intervention could be in shipping.<sup>24</sup> International shipping has undergone a major transformation in which procedures for cargo utilisation, port operations, and related logistical functions have evolved into highly complex operations. Policy environment in a typical African country has prevented this from being translated into reduction in transaction costs. Trade liberalisation without significant reduction in transport costs and customs procedures will have limited effect. Reforms are required aiming at simplifying, harmonising, and automating trade transactions to make Africa competitive on local and international markets. Trade facilitation entails the liberalisation of NTMs in order to encourage cost effectiveness and efficiency.

It is important that trade facilitation instruments adopted in the WTO framework take into account those already developed by specialised organisations. A major problem with trade facilitation instruments is that they do not always take into account the capacity of firms, especially those in African and least developed countries. Trade facilitation is currently pursued through the Harmonised System (HS), the Customs Valuation Agreement and the Agreement on Rules of Origin. Besides identifying qualifying goods for tariff preferences, rules of origin can also be used to administer marking regulations, quota regimes, anti dumping duties and countervailing duties. Trade facilitation is closely linked to advances on electronic commerce. Electronic commerce can simplify, clarify, and harmonise market access techniques

and represents an opportunity to modernise existing procedures. Other agreements related to trade facilitation also include Pre-shipment Inspection (PSI).

Unfortunately, trade facilitation and customs legislation as currently conceived in the WTO framework is too costly and beyond the capacity of African countries.<sup>25</sup> A fundamental redirection would be required and this is probably one area where the single undertaking characteristic of WTO agreements should not apply until sufficient capacity has been built in such areas as impact of various rules of origin, procedures for PSI through a progressive introduction of modern management techniques, and expertise to implement the customs valuation agreements.

#### Antidumping and Competition Policies

Liberal trade and investment policies are crucial to exploit all opportunities associated with the WTO. Most African countries have long recognised the significant potentials of competition law and policy in sustaining their economic reform process. But, only a limited number of them have domestic competition law and policy or effective enforcement agencies. The primary reason behind this has been weak human and institutional capacity. The need for competition-related discussions in the WTO arises from the increasing use of anticompetitive measures as surrogates for direct protection. The list of widely used measures includes antidumping, safeguards, government procurement, intellectual property, and TRIMs.

A major challenge is to design a framework that can supplement domestic undertakings consistent with a smooth integration in the world trading system. It is, therefore, also necessary to define and analyse the development dimension of any possible multilateral rules on competition, as well as the feasibility of introducing competition provisions in different multilateral trading agreements. The relationship between competition and competitiveness should be studied, while assessing the impact of globalisation and liberalisation on developing countries' capacity to compete in the international market.

To facilitate the industrialisation of African countries, a focus also ought to be enhancing the operation of other measures that are being increasingly used as surrogate for trade protection and that are related to competition. For example, trade liberalisation has increased market contestability in Africa but governments do not have the expertise, capability, or resources to effectively use antidumping and countervailing measures to protect their firms. The Agreement should be amended to provide more flexibility to developing countries, especially in situations where the domestic industry is characterised by a large number of small producers.

In sum, active competition policies are essential but this does not need to be carried out in the WTO at this time. Because of the mercantilism basis of multilateral trade negotiations, the negotiations are likely to be dominated by market access issues, at the cost of a coherent competition policy. As a result, a better approach would be to mainstream competition policy provision in various multilateral trading agreements. Otherwise there is a need to condition the completion of an Agreement on Competition Policy to a technical assistance and capacity-building program that would prepare African firms to compete.

#### Reforming the Investment Framework

Given the level of capitalisation of African industrial sectors, foreign investment is important to sustain long-term industrialisation. Despite more than one decade of economic reform the level of investment is extremely low, and all efforts should be made to create a conducive environment for investment by both domestic and foreign residents. Measures used by African governments to attract and protect investments from domestic and foreign sources have been covered by investment codes. These codes have been of national or regional natures. For example member countries of CEMAC, UEMOA, Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), and Cross-Border Initiative (CBI) have or are formulating regional investment schemes. Countries also have bilateral investment treaties, and most African countries are also members of the Multilateral Investment Guarantee Agency (MIGA). All these undertakings are based on the assumption that there are desirable features specific to

foreign investment that would assist their development process. Some of these features include technological and managerial spillovers, and access to investment, markets, and distribution networks.

Simultaneously several African sectors are still considered strategic and hence not fully ready for the type of environment to be created by some international investment proposals such as the Multilateral Investment Agreement (MAI). This is not necessarily driven by protectionist motives. The typical African country faces a dilemma. On one hand, the benefits of openness are not questioned; on the other, despite the generous framework provided for FDI, except for some mineral rich countries/sectors, the level of FDI on the continent has been very low. An element of the positive agenda for Africa would be a set of studies to determine the set of investment incentives that would be effective in making the continent an attractive investment destination.<sup>26</sup>

Before such a review is done, further liberalisation, whether in the framework of TRIMs or a MAI, is not warranted.<sup>27</sup> Furthermore, these need to be coordinated with discussion on competition in the multilateral framework. The WTO could, therefore, play an important role in the improvement of the investment environment facing the African industrial sector through appropriately reformed TRIMs. The reform could include three main elements. The first would allow sufficient flexibility in using TRIMs, such as export performance requirements, in order to sustain the reform efforts and to ensure balanced economic development. Second, in order to sustain the market opening efforts of African countries, the WTO could lead the option to revise TRIMs notifications, and when necessary incorporate investment-friendly measures. This could be done through the determination of the length of transition periods for removing TRIMs appropriately linked to adequate graduation criteria. Before the appropriately determined threshold is reached, African countries would need to have the flexibility of channeling investments in a manner that fulfils their developmental needs. Third, a review could be made to allow host African governments to direct investment according to national priorities. Given an adequate review of TRIMs provisions, negotiations on a MIA in the WTO could be postponed until supply capacities have been enhanced such as to make African economies competitive and able to attract the type of investment most needed to meet their development objectives.

## Technology

Technology has become the most important determinant of economic development. The technology gap between developed and developing countries is widening. Effective transfer and dissemination of technology at fair and reasonable costs to developing countries constitute key elements in ensuring the industrialisation of Africa. The application of various aspects of the TRIPS agreement constitutes important constraints to industrialisation. These are mostly due to weak technological base. Urgent measures should be taken on the modernisation of the administrative infrastructure, the modernisation of the regulatory and legislative frameworks, the strengthening of institutions, the creation of a culture for the protection of intellectual property, and the creation of an appropriate framework for promoting R&D. To ensure effective transfer of technology to developing countries, the negotiations should ensure that developed countries provide incentives to their enterprises and institutions to encourage them to transfer technology to these countries. The TRIPS Agreement should, therefore, be reviewed to consider ways and means to operationalise the objectives and principles in respect of the transfer and dissemination of technology, at affordable prices, to African and other developing countries.

## Capacity Building

A crosscutting constraint to Africa's industrialisation is weak capacity for an adequate understanding of the contents, implications, benefits, and constraints of these agreements and the ability to internalise them in the formulation and implementation of development policies. Weak capacity assistance also concerns the ability of a given sector, country or region to address its supply-side constraints through adequate technical training, industrial development, sectoral capacity building, and support program.

To ensure an effective integration of African countries in the world trading system, it is crucial that an adequate capacity-building package that addresses each of these dimensions be designed. There is, therefore, a need to carefully consider the capacity building requirements and amend the existing programs accordingly. Capacity building should be considered in all issues discussed in the WTO. In particular there would be a need for enhanced and better coordinated trade-related capacity building. This could be done by obtaining that increased participation in international trade is designated as a priority objective of the WTO, with technical cooperation activities the fundamental means of achieving that objective.

## Conclusions

Africa has huge unexploited potentials in industrialisation and the challenges of a late industrialiser in today's world are daunting. Anecdotal evidence indicates that the current global trading system is part of the problem. But there is also latitude for the WTO framework to play pivotal roles in mobilising for special and targeted interventions towards African industrialisation. This would require deepening the SDT system. Such treatments, however, need to be predicated on solid research about the costs and benefits of the existing agreements and simulations about the implications of alternative new proposals. This should inform the synthesis of Africa's common negotiating positions. Such research should be the fulcrum of the unfinished agenda.

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<sup>1</sup> See Economic Commission on Africa (2000b).

<sup>2</sup> See Table 1 for the summary of market orientation of Africa's products.

<sup>3</sup> See World Bank, et al. (2000), p.215.

<sup>4</sup> See Elbadawi and Soludo (1999) and World Bank et al. (2000).

<sup>5</sup> UNIDO (1996) articulates a number of the daunting challenges to competitive industrialisation in Africa, including the facts that: Africa's main competitive strengths are in industries where demand growth is slowest and where international competition—especially from low-cost Asian suppliers is intense; the region is not part of any cluster to benefit from the kind of Japanese flying geese phenomenon experienced by the East Asians; the private sector is weak, dominated by a few multinational corporations at one extreme and by a mass of small enterprises at the other; technological terms of trade have shifted against late starters; the cost of acquiring new technology has risen both in money and, more important, in the skills of operators, technicians, and managers; the importance of labour quality in attracting foreign direct investment counts against Africa; etc.

<sup>6</sup> See Amsden (1999).

<sup>7</sup> See Soludo (1998).

<sup>8</sup> See World Bank, et al. (2000) for details of the domestic agenda.

<sup>9</sup> Except where indicated, the analysis uses results of case studies of the AERC project. The relevant papers include particularly, Boodhoo and Dabee (1998), Hartzenberg and Cassim (1998), Kasekende, Asea and Abuka (1998), Mwege and Muga (1998), Njinkeu and Monkam (1998), Oussou and Kanvaly (1998), Oduro and Yahya (1998), and Ogunkola and Agah (1998). Mwege (1999) summarises the results on domestic policies, and Njinkeu (1999a) those on market access.

<sup>10</sup> See Mwege (1999) for detailed review of domestic policies.

<sup>11</sup> Union Douanière et Economique des Etats de l'Afrique Centrale and Communauté Economique et Monétaire en Afrique Centrale

<sup>12</sup> See Soludo (2000).

<sup>13</sup> See UNCTAD (1996), p. 25.

<sup>14</sup> See Yeats (1994).

<sup>15</sup> See Laird (1998).

<sup>16</sup> See World Vision (1999), Bora, et al. (1999), Oyejide (1998), Sachs (1996), etc.

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<sup>17</sup> See Cuba, et.al. (1999), p.2.

<sup>18</sup> See Zambia (1999), p.4 and World Vision (1999), p.21.

<sup>19</sup> See Finger and Schuler (2001).

<sup>20</sup> See Soludo (2000).

<sup>21</sup> See Mussa (1998),pp. 27-28).

<sup>22</sup> See also Oyejide (1998).

<sup>23</sup> See Njinkeu (1999a).

<sup>24</sup> See Yeats et.al. (1997).

<sup>25</sup> See Messerlin and Zarrouk (2001) and Finger and Schuler (2001).

<sup>26</sup> The review could analyse the trend and structure of relevant trade and investment indicators. It would also need to carefully assess the component of various national and regional investment incentive schemes, including the investment and trade agreements. It should provide alternative options consistent with the overall development aspirations of African countries at the national and regional levels. Some of the concerns of African countries are shared by other developing countries (see Correa 1999 in the case of Islamic Development Bank member countries).

<sup>27</sup> This conclusion was also reached by the African Ministers of Trade meeting in Harare in 1998.