

**AFRICA IN THE MULTILATERAL TRADING SYSTEM:  
OPPORTUNITIES AND CHALLENGES**

**By**

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**I. Introduction**

A major focus of the Uruguay Round of talks was the liberalisation of markets and the development of rules and regulations to govern the flow of international trade in goods and services. The talks were hailed by many as a success in terms of improvement in market access. To what extent have African countries been able to take advantage of whatever market access opportunities may have been created? Implementation of many of the Agreements under the WTO is going to impose large financial costs on African countries. Implementation issues extend beyond the introduction of new legislation and establishment of new organisations to possible changes in the production process and marketing chains. The results of the Uruguay Round of talks present challenges to African economies. New opportunities have been created, as have new risks and responsibilities. How can Africa maximise its benefits in this very fluid and dynamic international environment? This is the issue that this paper seeks to address.

The next section of the paper presents a brief review of Africa's position in the world trading system. The third section examines market access conditions for goods exported by Africa. Section four reviews the market access conditions for trade in services. The TRIPs Agreement and the opportunities and challenges it offers Africa is the focus of section five. Section six concludes the paper.

## II. Africa's Position in the World Trading System

Africa's share of merchandise exports has been on a downward trend in the 1990s. Estimated at 3.1% in 1990, Africa's share of merchandise exports stood at 2.0% in 1999. The African experience contrasts with the rising share of exports from Latin America and ASEAN countries (Table 1).

<b>Table 1. Share of African Exports and Imports in World Trade</b>			
<b>Exports</b>	<b>1990</b>	<b>1998</b>	<b>1999</b>
Africa	3.1	2.0	2.0
Latin America	4.3	5.2	5.4
ASEAN countries	4.3	6.2	6.6
<b>Imports</b>			
Africa	2.7	2.4	2.3
Latin America	3.6	6.2	5.8
ASEAN Countries	4.7	5.1	5.2

Source: WTO. **International Trade Statistics**

The fastest growing category of merchandise exports is manufactures. The world exports of manufactures grew at 7% between 1990 and 1999, whilst world exports of agriculture products and mining products grew at a rate of 4% and 4.5% respectively during the same period. However African exports are biased towards primary products. In 1999, just about 30% of African exports were manufactures, whilst agriculture and mining products made up 19.8% and 47.2% of the value. Africa's declining share of world exports could be attributed partly to its concentration on exports in relatively slow growing sectors.

The European Union is Africa's largest export destination. However the share of exports going to the European Union has fallen since 1990. In contrast there has been an increase in the share of African exports going to developing country destinations. From approximately 12% in 1990, the share of African exports going to developing countries has risen to 24% (Table 2).

	<b>1990</b>	<b>1998</b>	<b>1999</b>
European Union	53	49.5	48.6
North America	15.4	15.2	14.9
Japan	3.0	3.0	3.0
Other Asia	4.8	10.3	10.8
Intra-Africa	6.0	9.5	9.9
Latin America	1.5	2.8	3.0

Source: WTO **International Trade Statistics**

Africa's contribution to trade in commercial services is quite small compared to other developing countries (Table 3). This is despite the fairly large services sectors in many African countries.

	<b>Growth in Exports 1990-99</b>	<b>Share of World Exports 1999</b>	<b>Growth in Imports 1990-99</b>	<b>Share of world imports 1999</b>
Africa	5	2.14	3	2.60
Latin America	7	3.92	7	4.60

Asia	8	19.55	7	24.98
European Union	5	42.51	5	45.29
North America	7	21.33	7	16.28
World	6		6	

Source: WTO **International Trade Statistics**

Analysis conducted by UNCTAD finds that Africa receives less foreign direct investment (FDI) inflows compared to its economic size. FDI flows per capita to Africa are the lowest compared to other developing areas (Table 4). Africa's share of FDI inflows going to developing countries has been declining over time. It averaged 6.96% in the period 1988-93. In 1994 Africa's share of developing country FDI inflows was 5.37%, it declined to 3.81% in 1996, rising to 4.31% in 1999.

<b>Table 4. Regional Distribution of FDI Inflows (FDI flows per capita) dollars</b>				
	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Africa	6.1	8.5	10.8	10.9
Latin America	69.7	96.2	140.1	144.8
Asia (excl. Japan)	20.7	24.5	28.1	24.6
Developed Countries	238.6	240.3	309.3	518.3

Source: World Investment Report, 1999.

Africa is a marginal participant of the world trading system. Unfortunately the data suggests that it has not been able to maintain its position in the last decade. Trade is recognised as an engine of growth. It is not the only engine of growth however. This is particularly obvious within the context of Africa. African economies need not only faster growth but also need to develop and improve the well-being of their citizens. The effectiveness of trade as a promoter of growth and development is dependent also on other engines such as investment in physical and human capital, the level of infrastructure development and the macroeconomic environment to name but a few.

The multilateral trading system has an important role to play in the growth and development process of African economies through the creation of a stable trading environment with

clear rules and regulations concerning the conduct of international trade and the reduction of barriers to trade. The multilateral trading system that evolves must recognise that countries are participating at different levels of development and different capacities. The negotiation of rules and regulations must be conducted within this context of unequal trading partners.

### **III. Trade in Goods**

#### **Market Access**

A result of the Uruguay Round of negotiations was the reduction in average tariff rates amongst developed and developing countries. Despite this however

- Tariff peaks remain on goods of interest to Africa
- There is tariff escalation
- In agriculture tariffication resulted in higher tariff protection for some agricultural products
- Substantial non-tariff barriers remain.

In the forthcoming Doha negotiations it is anticipated that there will be further cuts in industrial tariffs.

#### **Tariffs**

Most African countries have non-reciprocal duty-free access to the markets of industrialised countries through the ACP-EU preferential trade arrangements, the African Growth Opportunities Act of the USA and the recently proposed Everything But Arms by the EU for least developed countries.

Tariffs are not the binding constraint for many African countries in most of their trade with the developed countries. In the EU market for example, there are zero tariff rates on items such as coffee beans that are not roasted, cocoa beans, black tea (whether or not fermented), copper mattes and alloys and wooden office furniture. There are positive tariffs on fish products, and cocoa products for example. However because of the duty-free access status of most African countries these tariffs do not apply to their exports. Indeed the further reduction of industrial tariffs that is being proposed for the forthcoming Doha talks has two implications for African countries.

1. Preference margins will be eroded in the industrial country markets
2. Africa may need to reduce its own tariffs thus reducing protection of domestic industry. In many African countries there is little in the way of domestic support and export subsidies for the manufacturing sector. Thus reduction of tariffs may reduce a large chunk of the support that the sector receives. Second tariff reductions will have implications for revenue generation in the short run.

It is for these reasons that some developing countries are arguing for caution in the further reduction of tariffs that is being proposed.

### **Non-tariff barriers**

A major challenge for African countries is the persistence of non-tariff barriers. This is becoming increasingly important in industrial country markets as tariff barriers are reduced.

In the agriculture sector of many developed countries there still remains substantial protection provided to farmers through non-tariff barriers, domestic support and export subsidies. The forthcoming negotiations should provide the opportunity for review of the current situation and the presentation of proposals for a further cut in these non-tariff barriers. Domestic support and export subsidies give farmers of the industrialised countries an undue advantage over African farmers who do not receive such support. African farmers ability to compete is undermined in their own markets, the markets of the industrialised countries and in third country markets.

In the agriculture and food markets, food safety and standards are emerging as important issues in international trade. No one would dispute the need to ensure that food and raw materials going into the production of processed food are produced under hygienic conditions. In the production of manufactured goods quality standards must be met. However, the Agreement on Sanitary and Phytosanitary measures for example, could emerge as a potential barrier to Africa's ability to maintain its market share in agriculture goods. The Agreement provides Members with the right to take sanitary and phytosanitary measures necessary for the protection of human, animal, or plant life or health provided they are not inconsistent with the provisions of the Agreement. African countries are at a disadvantage compared to industrial countries and the more technologically advanced developing countries in terms of their ability to implement the SPS Agreement and their ability to take advantage of the opportunities for redress provided for in the Agreement.

Much of the discussion on market access tends to be concentrated on what should be done to prise open the markets of the industrialised countries. This is a legitimate concern since about half of African exports go to the industrialised countries with the EU being an important trading partner. There are also a not insignificant proportion of African exports going to developing countries (Table 2). Market access conditions in these countries are therefore going to be of growing importance. Tariffs tend to be higher in developing markets than in the markets of industrialised countries. For example, whilst there is duty-free access for some agricultural products in the industrialised countries, there are tariffs ranging from between 5-25% for the same products in developing country markets. The pressure for special and differential treatment for developing countries within the WTO has meant that their tariff rates are reduced by a lower extent and over a longer time period. In trying to protect domestic industry from what is perceived to be the unfair advantage that industrial country producers may have, African countries may not be opening up their markets fast enough to other African producers. Unless the WTO allows actions that

provide differential treatment in developing countries trade with industrial and other developing countries, this issue of developing country market access by other developing countries will have to be addressed within the context of free trade arrangements amongst these groups of countries.

In the last decade Africa's share of world exports has been declining (Table 1). This suggests that either market access conditions have worsened or else African countries have not been able to take advantage of whatever market access opportunities have been made available.

The production base of many African countries is weak and this has formed the basis of the demand for special and differential treatment in international trade. Even if preferential margins continue to exist Africa's share of world trade will not increase if the production base is not strengthened and if Africa is not able to diversify into the faster growing sectors of international trade. Domestic macroeconomic and sector policies are critical to facilitating the increase in production and supply that is needed to improve upon market shares. The Agreement on Agriculture for example allows for certain types of subsidies to be provided in agriculture. In many African countries, farmers do not receive much in the way of subsidies largely because of budgetary constraints. Increasingly there is agitation that if production and productivity in the sector is to improve there is need for assistance to African farmers. It is necessary that African policy makers have a clear idea of what options there are for support to African farmers. Subsidies are not costless. Their financing can result in the introduction of distortions in other sectors of the economy. The introduction of subsidies will cause a reallocation of resources. Policy makers must take into account all the effects of introducing subsidies to a sector. It is important that the costs associated with the introduction of a subsidy are weighed against the expected gains. Once the feasible options have been identified African trade negotiators must ensure that these options are not closed to them because of decisions taken at the WTO.

Significant investments will have to be undertaken by both the state and the private sector in African economies to meet the quality and health standards in industrialised country markets. Investments by the state will be required in the following areas:

- Physical structures and equipment.
- Ports and harbours will have to be fitted with the necessary facilities and services to ensure product quality and speed in delivery.
- Laboratories will have to be established and equipped for testing etc.
- Road and rail networks will have to be developed in terms of mileage and quality of the road surface to facilitate quick access to exit points and to ensure that the quality of the product is maintained during the transit period.
- Communication and information infrastructure need to be developed to ensure quick and easy access to information. Producers and exporters need to be informed about the SPS Agreement and this is a service that should be provided by the public sector to complement whatever efforts in that direction may be undertaken by the private sector.
- Water and sanitation infrastructure must be provided in the vegetable and fruit

- growing areas. This is to ensure clean water supply during the production period.
- **Capacity Building.** Staff in the relevant state agencies needs to be provided with training the SPS Agreement. The staff of state agencies and organisations responsible for quality control and standards may have to be trained in such areas as testing, and methods of risk assessment. Training will be important in those instances where the sanitary and phytosanitary standards of the importing country are different from international standards. In agriculture, extension workers may have to be trained to impart new skills to the farmers. In those African countries that have not fully developed their own SPS measures staff will have be trained.

In addition to these investments, domestic laws, regulations, grades and standards may have to be amended. Where the necessary laws, and regulations, do not exist they have to be drafted and enacted. If grades and standards for particular products are not established they will have to be set. Organisations responsible for plant health, animal health and food safety may have to be re-organised or re-structured and provided with the necessary financial and human capacity support to perform their functions effectively.

Investment by the private sector will be required in the following areas:

- **Physical structures and equipment.** Producers in agriculture, fishing and agro-processing may have to change production methods and processes and this may require investment in new physical structures and equipment. Exporters will have to invest in the appropriate transport and storage equipment to ensure that the produce arrives on time and the quality is not compromised during the transit period.
- **Capacity Building.** Changes in end product criteria, new production processes and methods will require the acquisition of new skills and knowledge by exporters and producers. Producers need training in management practices such as the documentation of production practices.

There is a need for greater co-operation between the state and the private sector. Indeed, prior to undertaking the investments, the state must confer with the private sector to ensure that the investments are complementary to the private sector activities and will contribute to improving upon the industries' competitiveness in the respective export markets. The investments that the private sector will have to undertake will add to production costs. Productivity needs to be enhanced if the firms are to remain competitive. Co-ordination between the state and the private sector could ensure that the state's investments are supportive of the actions taken by the private sector.

The private sector would have to organise itself in the form of product based producer organisations and trade associations. This would provide the institutional framework within which to co-operate with the state. Co-operation within the private sector is an important means to reduce costs and improve upon efficiency.

The requirements for implementing the SPS Agreement for example, require that African farmers and exporters must in less than a decade close the development gap between Africa and the industrialised countries.

In several of the agreements of the WTO there is an article that states that industrialised countries are to provide developing countries with the needed financial and/or technical support required to meet their obligations under the agreement. African countries in the forthcoming negotiations must seek to ensure that these processes are formalised within the WTO and not left to the discretion of the industrial countries.

#### **IV. Trade in Services**

The WTO talks moved beyond discussion on trade in goods to also include trade in services. A main objective of the negotiations is to liberalise trade in services through the reduction or elimination of the adverse effects on trade in services of measures. Although many African countries have fairly large services sectors, services exports are a minor proportion of the value of services that is produced. Micro and small-scale operators dominate the services sector in many African countries. They are involved to a large extent in the retail and wholesale sectors. In 1999 commercial services exports are estimated at \$29 billion compared to merchandise exports of \$112 billion. African countries are insignificant exporters of services, although there are some countries for which services such as tourism contribute a large proportion of foreign exchange earnings and employment.

During the GATS negotiations countries presented a list of sectors for which they made commitments for liberalisation. What are the expected benefits to African countries of liberalisation in services?

1. Inflow of foreign direct investment that could bring with it inflows of technology and new management and organisational methods.
2. Increased competition into the sectors that could lead to improved efficiency of domestic services suppliers.
3. Improve upon the competitiveness of the goods sector as a result of improved efficiency in the provision of support services.
4. Increased exports of services by African countries.

The supply capacity of the services sector in many African countries is not developed to provide the export of services to the developed countries. Thus these expected benefits of liberalisation of the services sector will not materialise if human and institutional capacity issues in the services sector are not addressed. Many African countries have weak regulatory structures that must be strengthened if liberalisation of the services sector is to yield the expected results. Technical assistance may be required to address these weaknesses and it is important that the process of providing such technical assistance is formalised within the WTO and is again not left to the discretion of the industrialised countries. A major concern is that the benefits of improved market access in the services sector will accrue entirely to the industrial countries because African countries have limited capacity to take advantage of whatever market access is provided by the industrialised countries. Second, domestic service providers may be crowded out of the local African

markets if improved market access in African economies results in entry of foreign service providers.

In addition to the domestic supply and capacity constraints that exist, developing countries still face market access barriers in those sectors that have been liberalised by the industrial countries. Some of these are:

- Subsidies granted in developed countries (for example in construction, communications and transport) that can have a distorting effect on exports from developing countries.
- Technical standards and licensing. In some professional business services the licensing and standard setting have been used to restrict entry into the industry. African countries may have to participate in mutual recognition agreements in order to facilitate trade in these services.
- Discriminatory access to information channels and distribution networks.
- Limited liberalisation with regard to the movement of natural persons as a mode of service delivery.

Prior to the negotiations African countries must conduct background preparatory work on the implication of liberalisation of the various sectors. This will provide them with the information on which sectors will yield the most net benefits if liberalised, the nature of the liberalisation