

**DEVELOPMENT POLICY OPTIONS FOR AFRICA IN THE  
CONTEXT OF THE NEW WORLD TRADE ORGANIZATION  
AGREEMENTS**

**By**

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## 1.0 INTRODUCTION

The world is changing and with it ideas about African development strategy. Developments in economic theory, research and empirical experiences both within Africa and in the rest of the world of different strategies of development are shaping African perception of its development options. From the dirigism of the 60's - 70's, there is an evolution towards a market-friendly approach. There is an increasing consensus towards an outward-oriented, private sector-based strategy.

Global revolutions in technology, information and communications seem to be creating a global village. The world through the WTO, also seems poised for a freer global trade regime. 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 consensus regarding 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 60's and 70's as an input into the appreciation of the extent of change taking place in African development strategy. In Section 3, we articulate and review the emerging consensus on the current development policy options/strategy and in Section 4, we discuss the role of trade policy and WTO.

## 2. THE OLD DEVELOPMENT STRATEGY AND THE CURRENT CONSENSUS

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 the colonial heritage.

Development through outer orientation, it would appear, was ruled out because of the structure of production in these countries, or of world market conditions. The production structure of African countries, as in other developing countries, was heavily concentrated on primary commodities. It was presumed that engagement in free international trade 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 these commodities 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 either because of 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, page 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 micro- economic 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<sup>1</sup>. In the specific case of Africa, because of its colonial history, we did not have the accumulated capital nor the entrepreneurial class. The state was therefore to play the role of both an entrepreneur as well as the regulator.

The resulting development strategy involved industrialization through import-substitution behind high protective barriers. With almost no exception, African countries adopted this strategy. The strategy 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, p5).

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<sup>1</sup> See Tony Killick (1989) A Reaction Too Far: for theoretical basis and shifts with respect to the role of the state.

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.<sup>2</sup> However, the rapid growth, transformation and improvements in the standard of living of the Asian 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-seeking (Krueger, 1978) and the growth retarding effects of rent-seeking in Africa (Gallagher, 1991) all demonstrated the high real costs of the import-substitution strategy of development.

As the economic crisis deepened, African countries have increasingly turned to the Bretton Woods Institutions for economic reform programmes. The commonality of the source of the advice, similarity in policy instruments has led Williamson (1994) to describe this view of the set of policy prescriptions as “the Washington Consensus”.

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<sup>2</sup> See Wade (1990) for the different theoretical underpinnings of different interpretation of the experience.

### 3.0 The Emerging Consensus

Development strategy in Africa is therefore changing from the dirigism of the earlier period to a private sector based, outward-oriented development strategy. This change in development strategy implies the acceptance of a number of principles. Whilst subject to debate, the emerging consensus implies that Africa has accepted:

- a) a market-friendly approach to development and economic management. This means a roll back of the state and where ever 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;
- b) that the private sector will be the engine of growth;
- c) that growth will be export-led implying an internationally competitive production base and in particular a diversified export base;
- d) a growth-based approach to poverty alleviation in the long-run rather than 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. With respect to trade policy various forms and measures of trade liberalization are essential. In general the objective is to avoid domestic policy distortions, open up the economy to the 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.

In this regard “..trade liberalization would imply transforming the trade regime from an “inward-oriented” stance that discriminates in favour of (and thus protects) import-substituting activities into a “neutral” regime whose incentive structure does not distinguish between exportables and importables or even into an “outward-oriented” trade policy regime that discriminates in favour of (and thus actively promotes) exports” (Oyejide, 1997 pp.6).

Leaving aside extremist positions, the emerging consensus on trade policy strategy involves:

- a) Replacement of quantitative restrictions with tariffs;
- b) reduction in the range of tariff bands;
- c) reduction in the overall levels of tariffs and the avoidance of excessive protection;
- d) simplification of import and export procedures;
- e) reduction in the taxation of exports particularly non-traditional exports; and
- f) institution of specific measures such as duty-drawback, exemption from input import duties, etc, to actively promote exports.

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

The extent of liberalization and the speed of liberalization according to the emerging consensus therefore will 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.

The above arguments would imply non-uniform tariffs across African countries. But even within individual countries, there may be a need for some tariff protection for certain industries or sectors. 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). The argument is clear; operationalising may be another matter.

“The infant-industry argument, is an excellent example of a theory that is non-operational because criteria for bureaucrats to identify cases have not been put

forward” (Krueger, 1997 pp 12). The broader issue relates to the role of the state in picking winners and the related problems of adverse selection and moral hazard.

There are also additional arguments for protection in the presence of scale economies and imperfect competition arising from developments in the new trade theory. However, the theory of economic policy design advises that interventions are best when targeted. In other words, the net benefits of a policy measure will usually be greater when it is targeted directly at the distortion which is the cause of the policy intervention. In the application of this principle, protection is rarely the optimal policy (Killick (1989), Bliss (1987)). There may, however, be the case identified by Krugman (1984) where as a result of the existence of decreasing costs of domestic production, temporary protection could lead to a decline in domestic costs of production and the promotion of exports.

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 implied in the emerging development strategy is to keep the levels of protection low.

The emerging consensus seems to be predicated on the assumption that the revised strategy could lead to a replication of East Asian style export-led industrialization in Africa. Recent research (Wood and Berge, 1997; Owens and Wood, 1997; and World Bank, 1993), however, has cast serious doubts on the scope of such replication in Africa and other developing countries. The problem according to these studies is that these developing countries have the wrong resource endowments. Specifically, they have too low a ratio of human capital to natural resources. In cross-country analysis of the manufactures/primary export ratios based on a modified version of the Heckscher-Ohlin model, these studies show that

whether a country's exports consist mainly of manufactures or primary products depends fundamentally on the skills of its labour force, relative to its natural resources endowment (Wood and Berge, 1997).

For countries where skills are low, such as in Africa, this result is independent of whether one uses the narrow or broad definition of manufactures (Owens and Wood, 1997). In such situations, Wood and Berge (1997) warn that it is wrong to expect East Asian trade policies to lead to East Asian trade outcomes or to diagnose failure when they do not.

What these studies imply is that there are fundamentals beyond macroeconomic stability and opening up, if Africa is to go down the East Asian road. In particular, the ratio of human capital to resources must not only be increased absolutely but also relative to the rest of the world. Thus both the coverage and technical content of education must be increased substantially as one of the pre-conditions of the African development strategy. These analyses are based on the assumption that capital and technology are footloose. This issue about the flow of capital and technology to developing countries must be taken serious by Africa in WTO negotiations. Part of Africa's negotiating strategy should be to ensure and encourage the freer flow of capital and technology to enhance its supply capabilities.

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. Both 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 of ways to facilitate the process of industrial and economic development (Wade, 1990). In applications of these lessons to Africa it must be recognised that the issue of state capacity and institutions to ensure their effectiveness is of critical importance (Harrold, P. et al, 1995).

It must however, also be recognized that in circumstances under which the private sector has been suppressed for a long period, inadequate infrastructural facilities and an increasingly competitive world environment will require instruments to increase the profitability of investment. The reality in the African context is that of high risks in industry and agriculture. The apparent unwillingness of banks to lend to the agricultural sector, for example, is due to the high risks associated with agricultural investment. Risk-adjusted returns in both industry and agriculture are low. There may be a need for state intervention to socialize and minimize the risks in those sectors. But the result could be massive debt and failure as the state itself is overwhelmed.

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, this strategy demands that firms must rapidly achieve economic and technological maturity in terms of international competitiveness.

## **4.0 WTO AND THE AFRICAN DEVELOPMENT STRATEGY**

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 for African development strategy.

The two main elements to the WTO agreement are:

- a) The general principles and agreed rules of trade; and
- b) the individual country's commitments.

### **4.1 Multilateral Trade Liberalization**

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 in 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 both by 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).

In general, these agreements should increase both market access and the security of markets for African exports. The bindings imply that tariff 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 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 spring board for exporting and creating a disciplined workforce. While the Multifibre Agreement 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 product 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 that 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 preferences and other OECD countries from which Africa enjoyed some advantages. Consequently, on the basis of current costs, Africa will lose “competitiveness”. This raises two questions in terms of Africa’s development strategy relating to the role of the external environment in the development of African exports and the second relating to the nature of domestic trade policy to increase competitiveness.

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 1 shows, over 50% of African exports go to Europe. The European Union-African Caribbean and Pacific countries 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 1: Sub-Saharan Africa: Structure of Merchandise Exports<sup>a</sup>, 1995**

	\$ bn	% of Sub-Saharan exports	% of World Exports
Total <sup>b</sup>	103	100.0	2.1
Intra-regional	10	10.0	0.2
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: Economic Intelligence Unit : 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 set of preferences to Africa. However, as Table 2 indicates, Africa lost competitiveness

and market share in the EU market. From a share of 6.0% of EU imports in 1976, Africa's share of the EU market declined to 3.3% in 1992 (A. Hewitt and A. Koning (1994)). Africa it seems, had cocooned itself within this framework into remaining specialized in primary products, in the event actually losing competitiveness even in these same product lines as a result of more aggressive efforts particularly from non-ACP Asia.

**Table 2: Value of EU Imports from ACP States in bn EU and Share of Total EU Imports (1976-92)**

	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 apriori and their importance to African development has been overplayed. There has never been an explicit demonstration of the importance of these markets for 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 for and received. African exports will have to diversify to take advantage of areas such as Japan, and South East Asia where there is improved access through the WTO Agreements. The main constraint to the development and diversification of African exports has

invariably been domestic economic policies. The earlier development strategy has clearly shown itself as not conducive to export development.

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 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 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 for firm locational 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 trade policy, the development of the 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 the demand-related to supply-related ones. For instance, 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 often are 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.

African commitments in terms of bindings were effectively meaningless. As Table 3 below indicates, most bindings are above 100%. These levels are much higher than actual existing tariffs. The only exceptions are the ACAU (consisting of South Africa, Botswana, Swaziland and Lesotho). These levels of bindings imply that no new trade liberalization can be expected from Africa.

This attitude reflects a perception common among African intellectuals and policy advisors that trade liberalization is a cost without an offsetting benefit. It may also reflect the pressures of domestic lobbyists, who have frequently complained about excessive trade liberalization following the adoption of structural adjustment programmes. What this position ignores is that high nominal tariffs do not necessarily imply high effective rates. In several African countries, effective tariff rates are much lower than the nominal rates. Second, complaints about excessive trade liberalization sometimes confuse the effect of real exchange rate appreciation with the effects of lowering tariffs. In several countries, after the initial real exchange rate depreciation following the adoption of economic reforms, real exchange rates have appreciated subsequently. This has tended to reduce the relative price of imports and to increase import demand. The real villain - real exchange rate appreciation is frequently not distinguished from the effects of trade liberalization. This is often deliberate. The export lobby is weak and import competing procedures seem to prefer overvalued and fixed exchange rates which confer rents on those that use political connections to gain access to underpriced foreign

exchange. The Ghanaian experience shows a close correlation between export performance and the real exchange rate.

Table 3: Commitments in the UR by Sub-Saharan African Countries

Country	GATT Status	SUMMARY OF URUGUAY ROUND COMMITMENTS IN					
		Agriculture		Industry			
		Average rate of Tariff Binding %	Average Applied Rates %	Previous Bindings (% of lines)	Share of Lines Bound 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	
Cote d'Ivoire	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		31d	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*	31d	68	17@	22!
Swaziland	D	40		31d	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*

Source: Peter Harrold (1995): Table 15

\* 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.

d Assumed same as South-Africa

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 pp. 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 inspite of its reforms and yet aid is falling off and savings ratio are low. Tying to an external anchor could also have reduced the pressures from domestic lobbyists. (Collateral Gunning, 1994).

## 4.2 Other Disciplines

Much more critical to the emerging development strategy for Africa are the WTO disciplines that affect Africa’s options with respect to 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 African may have to be used. The agreement on subsidies and countervailing measures imposes new disciplines with respect to 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 countries and other developing countries with per capita GNP below \$1000 except

**Table 4: Africa: Least Developed Countries**

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

Source: United Nations Conference on Trade and Development (UNCTAD): World Investment Report, 1999 - Foreign Direct Investment and the Challenge of Development, page 494 (United Nations, New York and Geneva)

for products in which they achieve export competitiveness defined as a share in world trade of 3.25% for two consecutive years.

Apart from the prohibited subsidies there are also the “actionable” subsidies. These are all “specific” nontrade subsidies (i.e., those specific to only certain industries or enterprises) that have an effect on export prices.

Actionable subsidies can be countervailed only when they cause or threaten to cause serious injury to the national production of another signatory (Agosin, Tussie and Crespi, 1995). Non actionable subsidies are general in nature.

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 discipline of these provisions. These consist of the 33 countries in Table 4 and 10 other countries with per capita GNP below \$1000 (Cameroon, Congo Cote 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.

As argued here, this is the one area that directly affects Africa's options in terms of developing its supply capabilities. While non discrimination in application of any subsidy schemes with respect to 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 is 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 the other provisions of the treaty with respect to national treatment.

The agreement on trade-related investment measures (TRIMs) provides that no member shall apply any TRIM that is inconsistent with GATT rules of national treatment and prohibition of quantitative restrictions. It requires notification of all non-confirming TRIMs and their removal within a specified period namely two years for developed, five years for developing and within seven years for the least developed countries. Countries are allowed to invoke the banned TRIMs only for

balance of payments purposes (Agosin, et al, 1995). These TRIMs comprise of regulations that restrict firms' imports to a certain ratio of their exports (export-import linkage), require them to utilize a certain minimum amount of domestic inputs (local content) or that force them to export a certain share of their output (Rodrik, 1995).

These measures were much more prevalent under the import-substituting regimes. With most of Africa liberalizing their economies, these measures are less important now. It still remains pertinent however, that the procedure required to apply QRs for balance of payments purposes will restrict African autonomy in policy formation, cause some delays when urgent action is required and may increase the role of the IMF in certifying member government's policies. Overall the provisions under TRIMs are very minor in terms of their effects on policy for most of the reforming African economies.

Much more important for the African development strategy are the provisions on intellectual property rights (TRIPs). There are two elements to the agreement on TRIPs: all members have agreed to recognise minimum rights for owners of intellectual property, and to establish national enforcement mechanisms. Members must provide within their existing legal systems procedures to enable rights to be enforced effectively by both foreign and national stakeholders.

Commenting on the implication of the TRIPs agreements for least developed countries, Weston (1994) observed "Most least developed countries, however, would likely lack the technological resources needed to mine the patents or develop biotechnological innovations for patenting. A few may lose domestic industries

development on compulsory licensing or reverse engineering but it is more likely that they will be affected by the costs of imported technology which are generally predicted to rise as a result of the new international IP regime.”

This comment is true for all African countries that require modern improved technologies within their emerging development strategy to gain international competitiveness. Though the developed countries have undertaken to provide incentives to their enterprises and institutions to transfer technology to least developed countries, the details remain unspecified.

The ambiguity in the agreement could lead some countries to take action against countries whose systems they consider inadequate or ineffective. Exports infringing a patent in an importing country could be illegal. The associated uncertainty could deter investment in Africa and developing countries in general.

## **5.0 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 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. 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 with respect to 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 had 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.

## **6.0 CONCLUSION**

The emerging development strategy requires freer and growing world markets. The WTO agreements, if successful, 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 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.



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