416998

Distr. : General

E/ECA/TRADE/93/3
April 1993

Original: English

UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

UNITED NATIONS

ECONOMIC COMMISSION FOR AFRICA

AFRICA'S EXPORT PROSPECTS: THE URUGUAY ROUND AND BEYOND

Paper prepared by
The United Nations Economic Commission for Africa
as Background Document for the
Tokyo Conference on African Development

Tokyo, Japan, October 1993

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I. INTRODUCTION

1. Africa has been in the grip of a serious socio-economic crisis during the past two decades. This crisis manifested itself in declining growth rates and per capita incomes; poverty, hunger and disease in many parts of the continent; declining terms of trade; and an excruciating external debt burden. All this was happening in an international economic environment where significant increases in world output and trade were taking place. Thus, Africa did not benefit from the increase in world trade that took place during the last two decades. On the contrary, the volume of Africa's trade, both exports and imports, declined progressively in the light of the severe problems that emerged in most African countries.

2. The most worrisome development over the years has been the progressive decline in Africa's shares in world markets for most of its major exports, particularly in its traditional exports. Only in a few cases was the continent able to hold its market shares.[1]

3. This paper examines the various factors that contributed to Africa's loss of competitiveness and evaluate the potential for future export growth in light of recent developments in the Uruguay round of multilateral trade negotiations. Section two examines both the endogenous and exogenous factors which contributed to Africa's declining share in world trade. Section three explores the implications for Africa resulting from the formation of economic-cum-trading blocks. Section four evaluates the potential impact on Africa's external trade stemming from the expected conclusion of the Uruguay Round of GATT negotiations. Finally, section five ventures some conclusions from the preceding analysis.

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[1] Africa's Commodity Problems: Towards a Solution, A Report by the United Nations Secretary General's Expert Group on Africa's Commodity Problems (the Frazer Report).

II. REASONS FOR AFRICA'S DECLINING SHARE IN WORLD TRADE

4. Africa's shares in world markets for most of its major exports have progressively declined. The continent's market shares for cocoa, coffee, cotton, and copper have fallen between 20 and 40 percent of its 1970 market share and only in a few cases was the continent able to hold its ground. The decline in the volume of primary product exports accounted for about one third of the overall world market loss for African countries, excluding petroleum exports; and the remaining two-thirds was attributable to failures to diversify production into new products.[2] The underlying reasons for Africa's dismal trade performance can be attributed to both endogenous and exogenous factors.

5. The analysis of endogenous factors requires a high level of introspection and soul searching, as it is an admission of the region's own shortcomings. It must be recognized and acknowledged that the first step towards the solution of a problem begins with its admission and a determination to address its roots. The exogenous factors affecting Africa's trade performance also require a careful process of identification and addressing them demands the full cooperation of Africa's partners in development.

A. Endogenous Factors

6. One of the reasons why Africa has fallen behind the rest of the world in trade can be attributed partly to its failure to expand its own intra-regional trade. Africa has invested significant efforts to establish the sub-regional and regional institutional framework to promote economic integration. Notwithstanding these efforts, intra-African trade has stagnated

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[2] Refik Erzan and Peter Svedberg, Protection Facing Exports from Sub-Saharan Africa in the EC, Japan, and the United States, Working Paper Series, WPS 320, August 1990.

at a low level of the order of 5-7 percent of total African trade.

7. Why has intra-regional trade stagnated? The reasons advanced for the stagnation of intra-African trade are various. Among the most serious and pervasive, we can mention the following:

- **the lack of adequate physical infrastructure** in the form of roads, rails, maritime and fluvial ports, and the scarcity of air transport and telecommunications linking the continent has severely affected the potential for expanded trade opportunities;

- **problems among African countries at the political and administrative level** regarding border transit of goods and protective trade regimes[3] have also created barriers and promoted evasion and unrecorded transactions;

- **African consumers' imitative consumption patterns**, that is their excessive bias towards preference for and consumption of "imported" goods from developed countries which has depressed demand for regionally produced goods;

- **insufficient sources and cumbersome procedures for trade financing** which restrict the ability of African entrepreneurs to take advantage of potential intra-regional trade opportunities;

- **low level of consumer and industrial product diversification** which has led to excessive similarity of goods and commodities available for intra-regional trade.

[3] Some progress has been made on tariff reductions within regional groupings in Sub-Saharan Africa.

8. Other endogenous factors responsible for the poor performance of Africa in world trade have interacted pervasively in a vicious circle. For example, instable political environments have often lead to inappropriate economic policies, rent seeking, corruption and the misuse of external resources. Most importantly, this situation lead to the failure of governments to pay enough attention to the development of human and institutional capacity. This, in turn, has lead to inadequate capacity for the absorption and development of technological advances and the consequent failure to transform and diversify the productive base of the African economies. As a result, inferior products with high production costs were brought to the market. Hampered in such a manner, African economies have failed to adapt to rapid changes in world consumption patterns and new product developments.

9. More specifically, in many African countries, misguided economic policies have engender a macroeconomic environment which was biased against exports. This translated into overvalued exchange rates, consumer and producer price controls, rent-seeking behaviour of productive agents, monopolies granted to inefficient marketing boards, and often, the neglect of the agricultural sector. The financial intermediation of the economic agents was also hampered by government directives fixing interest rates, domestic credit allocation and distorted pricing mechanism. As a result of these policies, private sector initiative was discouraged with the often common consequence of promoting capital flight and an exodus of qualified human resources. The African private sector has been very active in their efforts to promote further trade liberalization in the region.

10. While industrialized countries and other regions were developing substitutes for tropical products, the African continent was too slow to acknowledge the adverse impact such developments would have on its traditional exports. We have to admit that it is difficult, if not impossible, to stand in the

path of technological progress. We cannot pretend to request a halt to this progress only because we are being negatively affected. With the advent of electricity and the light bulb, many candle making industries went out of business, as the use of candles for illumination declined. However, that did not mean that candle making disappeared as an industry, it only adapted to the change.

11. African countries are being threatened by the increasing substitution of synthetic rubber for natural rubber, synthetic fibers for cotton, high fructose corn syrup for sugar cane, optical glass fibers for copper in telecommunication cable wires, and vegetable oils for groundnut and palm oil. As stated earlier, we cannot stand against technological progress. If optical glass fibers are posed to revolutionize the telecommunications industry, we will have to find alternatives to make our copper more competitive in other ways. However, in some cases, substitution takes place due to direct and unfair intervention in the market by industrialized governments. High fructose corn syrup could never compete against sugar cane if it was not for the protection afforded by tariff and non-tariff barriers against sugar imports from developing countries.

12. Africa has also lost competitiveness in a number of her traditional exports partly because of lack of research and development on production methods, inadequate extension and financial services to support production and poor infrastructure linkages and marketing services. For example, Malaysia developed into a major palm oil exporter after having imported the first seeds of the crop from West Africa, improved on the technology and strengthened its marketing practices.

B. Exogenous Factors

13. Exogenous factors are generally outside the control of African countries. Nevertheless, addressing the root of these factors requires the cooperation of African countries and their

partners in development. Many exogenous factors have contributed to the poor performance of Africa in world trade during the past two decades. Internationally determined terms of trade for African countries have deteriorated dramatically causing drastic reductions in the region's export earnings. This problem has been further compounded by the dismal performance of the various commodity agreements as well as the commodity stabilization funds. Protectionism in the markets of industrialized countries, through tariff and non-tariff barriers, have reduced the potential trade gains and opportunities for African countries. Serious climatological disturbances have caused severe droughts in various parts of Africa ruining crops and provoking widespread famine.

14. African countries have often argued that increased protectionism in markets of the industrialized countries, both in the form of tariff and non-tariff barriers, has in recent years significantly restricted access of African exports to these markets. The cooperation of the industrialized countries is essential to address this problem. The interests of developing countries in general and African countries in particular have to be seriously considered during international trade negotiations. Much has been said about the need to eradicate the continent's over-dependence on aid and what, in some quarters, is referred to as the "beggar mentality." African leaders agree! The region needs an opportunity to trade on a balanced, fair and non-discriminatory fashion, which takes into account its development needs and limitations.

15. The collapse of many commodity agreements of interest to African countries has contributed partly to the poor export performance of some African countries. This is particularly true in the cases of commodity agreements for cocoa and coffee where consensus has not been possible between producing and consuming countries. The disarray created by these developments has had a devastating impact on commodities prices which have plummeted to levels which, for many African countries, are below

production costs. As commodity prices progressively declined instead of following their expected cyclical pattern, which is the basis for the creation of such compensatory mechanisms, commodity stabilization funds were rendered ineffective.

III. THE CHALLENGE FOR AFRICA OF EMERGING LARGER ECONOMIC-CUM-TRADING BLOCS

16. Africa and the developing countries at large face another challenge posed by formation of larger economic and trading blocs. Among the most important are the completion of the Single European Market, the process of establishing the North American Free Trade Area (NAFTA) linking the United States, Canada, and Mexico, as well as the proposed creation of an Asia Pacific Regional Economic Organization or an East Asian Economic Group. These developments add a new dimension to the current Uruguay Round of Negotiations as well as to the international trading system that may emerge. First and foremost, these larger trading blocs stand to wield greater power in any future multilateral negotiations as they will negotiate as blocs rather than as individual countries. Secondly, the possibility exists that these economic-cum-trading blocs may erect new trade barriers to shelter their enterprises and further strengthen their competitive positions behind the guise of regional integration.

17. Regional trading arrangements, whatever their justification, are becoming a common feature of the international trading environment. African countries are concerned about the threat of a "fortress" mentality with serious consequences for non-members. African countries are concerned that, in addition to the potential trade diversion effects, inward-looking arrangements could also discourage investment flows non-members.

18. Notwithstanding the efforts by African countries to diversify their markets as well as their sources of development finance, the European Economic community remains Africa's

dominant economic partner both in terms of trade and aid flows. Nearly two thirds of Africa's total exports are absorbed by the European Community most of them under preferential schemes.

19. The elimination of border control and barriers in the European Community, such as the removal of national quotas in various countries of the EEC for imports of certain products from non-ACP countries could have ramifications on exports of certain African countries that have enjoyed preferential treatment under the Lome Conventions and/or the General System of Preferences (GSP). Similarly, elimination of technical barriers within the European Community could result in more stringent norms, standards and quality control which could prove serious stumbling blocs to Africa's exports to the area.[4]

20. The continent will need to respond to this challenge with pragmatism and foresight. Africa's adaptation to this new realities has to concentrate on short-term measures such as improving the quality of African products and ensuring that these conform to the more stringent environmental and safety standards of the European Community, NAFTA and other regional groupings. Likewise, African countries should attempt to shift production of fruits and vegetables towards out-of-season varieties where competition from producers within the temperate zone countries is minimal.

21. More generally, the region should redouble its efforts to diversify its export base. For this purpose, African countries should endeavor to strengthen their economic and political environment to reverse capital flight and attract sorely needed foreign direct investment to finance their diversification drive. In the longer run, the region should also make a stronger effort

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[4] Alfred Tovias, The European Communities' Single market: The challenge of 1992 for Sub-Saharan Africa, World Bank Discussion Papers, World Bank, Washington D.C., August 1990.

to hasten the pace of its own economic integration, as provided for in the Abuja Treaty.

IV. THE CONCLUSION OF THE URUGUAY ROUND: POTENTIAL IMPACT ON AFRICA'S EXTERNAL TRADE

22. The major accomplishments of the multilateral trade negotiations since the Second World War have been the drastic reduction of industrial country tariffs which have been achieved through seven rounds of negotiations, from the first one in Geneva in 1947 to the last one in Tokyo in 1979. African countries did not effectively participate in the negotiations of these rounds, nonetheless they benefitted from these multilateral trade arrangements through the Most Favored Nation Clause and preferential treatment protocols such as the General System of Preferences and the Lome Convention.

23. However, as tariffs were progressively reduced in industrialized countries, the emergence of non-tariff barriers, other forms of managed trade, and producer price support schemes increased significantly and became the main form of discrimination against imports from developing countries. The discriminatory measures used employed by industrialized countries have included use of non-tariff barriers; increased use of formally permissible non-tariff instruments such as producer support prices in agriculture; legitimization of such agreements as the MultiFibre Agreement (MFA) which discriminate against textile and apparel production from developing countries; and extensive use of "grey area measures" such as voluntary export restraints (VERs) and orderly marketing arrangements (OMAs).

24. Similarly, tariff escalation is still quite common and seriously affects the region's diversification efforts. A study that considered sixteen material groups of commodities revealed that, on average, tariffs increased by five to ten percentage points as one moved higher up the processing chain. This was the case for some of the commodities exported by Africa such as meat,

vegetables, fruit, vegetable oil, tobacco, sugar, cocoa, rubber, leather, wood, cotton, iron, phosphates, ores, and petroleum.[5]

25. The current Uruguay Round of multilateral trade negotiations is the most ambitious and comprehensive so far undertaken as it covers areas which were not included in previous GATT negotiations. The conclusion of the intricate negotiations that are taking place under this Round on issues of agricultural commodities, trade-related investment measures, trade-related intellectual property rights as well as on textiles and the continuation of the MultiFibre Agreement (MFA) will have a profound impact on the future of the international trading system.

26. The potential for African countries to expand their export markets as a result of the expected new arrangements that will emerge from the Uruguay Round will depend on the extent of the trade liberalization measures. It is hoped that the continent's delicate economic and social condition will be taken into account by special derogations and privileges provided in the new agreement.

27. The region expects that the Agreement would include set-aside clauses, special preferences, technical and financial support to African countries, so that they can continue to build their human and institutional capacities. In the future, the African countries will be in a position to assume greater obligations under the GATT. However, at the present time certain provisions of the agreements should allow African countries a reasonable grace period for adjustment.

28. **Uruguay Round negotiations on agricultural reforms** have centered on market access, domestic support schemes, export subsidies, and sanitary and phytosanitary measures. Agricultural protection, and the heavy use of subsidization

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[5] Refik Erzan and Peter Svedberg, Opcit.

schemes by industrialized countries has had serious implications on market access for exports of developing countries. For example, the European Community emerged from being an importer of sugar to a major producer and exporter of the commodity. As a result of producer support prices and export subsidies, the Community has been able to increase its share of the world market in sugar, wheat, flour and dairy products mostly at the expense of developing countries.

29. Successful conclusion of the Uruguay Round could result in substantial liberalization of agricultural trade. Agricultural trade policies of industrialized countries have greater ramifications for African countries beyond those affecting export revenues. As many African countries depend heavily on agricultural production, the potential gains from liberalization are quite substantial. It is a well known fact that agriculture in Africa is much more labour intensive than manufacturing. Therefore, the multiplicative effects of increased agricultural production through domestic employment creation will extend to improvements in standards of living, stronger balance of payments positions as well as enhanced capacities to honour their external obligations.

30. African countries could realize substantial gains in foreign exchange if trade barriers were lowered or removed for such products as tobacco, roasted coffee, coffee extracts, cocoa derivatives, oil and seeds. Furthermore, liberalization of agricultural trade could result in a reduction of world commodity price instability, particularly if non-tariff barriers were removed.

31. There is a fundamental concern that, if agricultural trade is liberalized, the short term effect could be that of diminished agricultural production, as export subsidies are reduced or eliminated in OECD countries, leading to increased costs on agricultural products. The latter, it is argued, will inevitably affect those African countries which are net importers of

agricultural products. While the validity of such an argument has to be acknowledged, it has to be pointed out that, in many African countries, agricultural production is being stunted because of artificially low international prices which, in fact, inhibit production. Africa possesses abundant agricultural land and water resources which could be economically utilized if the current distortions are eliminated.

32. **Trade in textiles and clothing** has over the years been governed by their Multi-Fibre Arrangement (MFA) and the international rules which govern much of the international trade in textiles and clothing. The proclaimed objectives of the Multi-Fibre Arrangement were stated as temporary regulation of the trade in textiles; promotion of orderly adjustment of trade in the industry; and overall long-term liberalization of trade in textiles. In reality the MFA, instead of promoting liberalization of the industry, imposed particular costs on the developing countries. It not only restrained trade but has also been discriminatory in its application. In a nutshell, the MFA restricts low-cost exports of clothing and textiles from developing countries to industrialized country markets.

33. What implications could the lifting of MFA restrictions bring for African countries? Before we attempt to answer, let us point out that the United Nations Conference on Trade and Development (UNCTAD) estimated that, if the European Community, Japan and the USA removed all non-tariff barriers on textile trade, this would generate additional developing countries' exports of nearly US$11.8 billion or 75 percent of their 1983 levels. Nobody would argue that that presents a better alternative to increasing bilateral and multilateral aid. In other words, it is a prime example that, if the developing world is allowed to "earn" its way, everybody will benefit.

34. Indeed, trade in textiles is one of the few product areas, outside of primary commodities, where developing countries reveal comparative advantage. There are some African countries that

have a well developed textile industry and would probably gain from increased opportunities made possible by liberalization, and also those who could gain from proximity with the EEC market. Additionally, this would present a clear opportunity for attracting foreign direct investment either in the form of joint ventures or as export processing zones.

35. **Negotiations on trade-related investment measures** have generated differences of opinion regarding the mandate of the current Round of negotiations on this issue and on the trade-restrictive and trade-distorting effects of investment measures.[6] African countries are principally concerned about the potential implications of foreign direct investment on their sovereignty and the ways to insure the maximum development impact of these flows. However, there is a clear willingness to foster the dialogue and negotiations in this important issue.

36. African countries realize the importance to their economies of foreign direct investment as a source of technology transfers and non-debt creating flows. The latter is particularly important for the region, given the fact that the current global situation is characterized by a scarcity of financial resources.

37. **Negotiations on trade in services** have proceeded on the basis of principles such as the gradual trade liberalization in services, reciprocity, non-discrimination, transparency of regulations, fair trade and use of quantitative restrictions only as an emergency tool. Certain aspects of services have been left out of the agreement such as air traffic, the allowance for discrimination with respect to financial services against all or some service producers; and permission to use quantitative restrictions for balance of payments purposes.

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[6] United Nations Conference on Trade and Development (UNCTAD), "Selected Issues in the Uruguay Round", Trade and development Report, 1991.

38. It will be difficult for African countries to capitalize on negotiated market access opportunities in trade services because the continent lacks large transnational corporations with global infrastructures, financial strength, mastery of advanced technologies, accumulated knowledge and established reputations. However, African countries could still benefit if concessions are obtained with respect to the movement of labour, access to distribution channels, information networks, and transfer of technology by foreign firms benefiting from market access concessions to Africa. In particular, service areas such as banking, insurance, communications, marketing and transportation are among the most essential components of the necessary support infrastructure required for the development of a strong international trade sector.

39. The use of **"grey area" measures and unfair trade provisions** has been an outstanding feature of protectionism by industrial countries in recent decades. Negotiations during the current Round have defined what constitutes dumping and what are termed "unfair trade" practices. Africa expects that greater discipline will be introduced in this important area. If the new rules for use of "grey area" measures are applied firmly, this could result in greater access for African exports to developed countries markets.

40. The "Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations" was tabled in Geneva on December 20, 1991 but conclusion of the Round has proved illusive because of disagreements among the major players in the negotiations. The target now is to reach a successful political conclusion of the Uruguay Round before the end of 1993.

VI. CONCLUSION

41. In conclusion, it should be pointed out that many African countries have, in recent years, made bold political and economic reforms to provide the necessary "enabling environment" for

economic take-off. At the political level, these reforms have included embracing political pluralism; accountability and transparency of governance; and respect for human rights. On the economic front, many of them are in the process of adopting market-oriented reforms aimed at liberalizing their economies by stimulating and releasing market forces. A large number of African countries are involved in implementing economic reform programs that include decontrol of consumer and producer prices; rationalization of marketing arrangements for a number of primary products, deregulation of marketing boards and privatization of certain public enterprises; realignment of the currency exchange rates; and restructuring and deregulation of financial sectors including decontrol of interest rates.

42. Africa's export prospects in the post-Uruguay Round depend, to a large extent, on the policies and programmes African countries will be willing to adopt to transform their economies and integrate them into the global economy. Africa is a continent in transition. This process is not painless. It needs the support of the international community as well as an open international trading system that permits the continent to sell its exports, thereby creating the enabling environment Africa needs to make the transition to sustainable socio-economic recovery and transformation.

43. Nonetheless, the task of achieving sustainable development in Africa rests primarily with the African people and will largely have to be based on self-reliance and cooperation within Africa and with the international community.