



Economic commission for Africa

# Mainstreaming Trade in National Development Strategies

An Issues Paper



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# 1. Introduction

The aim of this Issues Paper is to summarize and review the mix of policy actions—both on the domestic and international fronts—necessary to mainstream trade in national development strategies. Just as mainstreaming gender is intended to incorporate the gender perspective in the planning and implementation of development policies across sectors, mainstreaming trade should be understood in the broad context of trade reform and the appropriate complementary policies, including macroeconomic framework, fiscal policy, regulatory and institutional issues and safety nets.

The basic premise of this *Issues Paper* is that international trade is an important source of external finance for sustainable growth and poverty reduction. Without international trade, a poor country with low levels of capital accumulation will not be able to create sufficient wealth to grow out of poverty. By engaging in international trade, moreover, a poor country can borrow to finance its growth. Over time the exports generated by the investment from external finance will produce a trade surplus as the country exports more and better goods and services. Herein lies the importance of trade for gaining access to external finance.

However, trade interacts in complex ways with other domestic policies. Seemingly rational trade policies to, for example, protect national producers can often have unforeseen and undesirable consequences. For example, several years ago Ghana tried to protect the local garment industry by imposing import tariff on garments. The tariff, in fact, led to smuggling of “used” clothing, to the detriment of the local garment industry—the very group it was intended to protect (see ECA 2003a).

The issue of mainstreaming trade is an inter-ministerial one, touching on diverse governmental responsibilities and programmes. Different ministries have different tasks regarding the elaboration of effective policies to increase the competitiveness of African economies. Coherent policies are required across ministries, including trade, employment, education, agriculture, transport.

The Finance Ministry clearly has a fundamental role in allocating resources and providing inter-Ministerial coordination. We recognize that the challenge confronting Finance Ministries is enormous—the Finance Minister must deal with (often conflicting) requests for resources on a daily basis, against a backdrop in which there are strong constraints on their ability to finance different programmes and ministries. In such a context, it is especially important that Finance Ministers have a clear idea regarding priorities and are aware of the possible implications of their decisions with regard to international trade. Guiding principles for building long-term competitiveness and trading capacity are therefore clearly required. This paper represents a modest attempt to clarify those principles.

The *Issues Paper* starts by defining what “mainstreaming trade policies in national development policies” means and why it is of importance to Ministers of Finance, Planning and Economic Development. It then turns to review Africa’s current position in the world trading system. To lay the basis for the subsequent discussion, the *Issues Paper* demonstrates the challenges involved in devising a coherent trade policy strategy that is supportive of broad-based development.

The *Issues Paper* next provides a brief progress report on the Doha Development Round Trade Negotiations and identifies actions required on the multilateral front to conclude a successful Round and better integrate Africa into the global trading system. It notes that the Cancun impasse continues on several major issues, namely, agriculture, cotton, non-agricultural market access, special and differential treatment and the Singapore Issues. The paper then observes that although actions at the multilateral level are critical to bringing about better trade performance by Africa, there are also domestic bottlenecks that need to be addressed, including securing appropriate and predictable sources of trade finance, strengthening trade capacity, improving trade facilitation services, and addressing the fiscal implications of trade liberalization.

Finally, the *Issues Paper* argues that regional integration offers a route for Africa to stimulate diversification and more successful integration into global markets. It concludes that although there has been some progress towards setting up free trade areas and customs unions, progress has been slow and attention needs to be paid to removing non-tariff barriers, defining rules of origin and establishing a common external tariff.

## 2. What does “mainstreaming trade policies in national development strategies” mean and why is it of vital importance to Ministers of Finance, Planning and Economic Development?

Mainstreaming trade policies in national development strategies involves the systematic promotion of mutually reinforcing policy actions across government departments and agencies, creating synergies in support of agreed development goals. It is of vital importance for Ministers of Finance, Planning and Economic Development because trade can be an important driver of economic growth, and a source of finance and rising prosperity—a key responsibility of Ministers. In addition, Ministers play a key part in coordinating national development strategies through their role in approving spending priorities during the annual budget cycle, as well as, consultations with multilateral development agencies and other development partners. Therefore a deeper understanding of how trade policies can complement and reinforce policy actions across the board is an important step in achieving enhanced development results.

However, it is now being increasingly recognized that the mapping from trade policy to trade performance is complex. There are also complicated linkages between trade liberalization, poverty reduction and income inequality. While much effort has been put into improving market access and removing market-distorting domestic support measures and export subsidies in Organisation for Economic Co-operation and Development (OECD) countries, African countries need to deal with a host of other salient issues. For instance, how does one address supply-side constraints that inhibit export sector development? How can African countries' efforts to form regional economic groupings, intended to spur intra-Africa trade, square with the potential for lower government revenues due to resulting lower trade taxes?

### 3. How Africa has performed in the world trading system—lagging behind

This section reviews Africa's recent trade performance revealing alarming trends that show that the continent has been losing market shares in commodity exports, while at the same time it has not been able to diversify into manufactured exports. This section lays the groundwork for subsequent sections that identify how Africa can reverse the situation.

Although trade is an important component of Gross Domestic Product (GDP) for African countries, the continent has not reaped the gains from global integration to the extent of other developing regions. Africa's share in world merchandise exports fell from 6.3 percent in 1980 to 2.5 percent in 2000 in value terms. It recorded a mere 1.1 percent average annual growth over the 1980-2000 period compared to 5.9 percent in Latin America and 7.1 percent in Asia (UNCTAD 2003a).

The structure of developing countries' exports has changed significantly over the past two decades. The most market-dynamic products during the 1980-2000 period in world trade are manufactures. Manufacturing is a key driver of technological development and innovation. The share of manufactured exports in total exports is an important indicator of economic growth and development (Fosu 1990). Economies with higher shares of manufacturing in GDP and exports are less exposed to external shocks, price volatility and climatic fluctuations (Collier 2002).

About 70 percent of developing countries' exports are manufactures, yet Africa hardly benefited from the boom in manufactured exports. Seventeen of the 20 most important non-fuel export items of Africa are traditional primary commodities and resource-based semi-manufactures. Overall on the continent, and particularly in sub-Saharan Africa, progress on export diversification has been slow.

The region's share of manufactured exports in the total merchandise exports had increased only by 10 percentage points in two decades—from 20 percent in 1980 to 30 percent in 2000. The value

of manufactures grew at an average annual rate of 6.3 percent per annum during the 1980-2000 period. This is only about half the growth rates recorded by Latin America (11.5 percent) and Asia (13.6 percent) over the same period (UNCTAD 2003b).

The share of Africa's manufactures in world manufactured exports remained unchanged at 0.8 percent in two decades time. Latin America's share of global manufactures exports has risen from 1.9 percent in 1980 to 4.6 percent in 2000. Asia's performance has been even more significant, with its share in global manufactures trade reaching 21.5 percent in 2000 up from only 7.1 percent in 1980 (UNCTAD 2003b).

Africa needs to be more competitive in world markets. In addition it needs to take up more proactive measures to facilitate the structural diversification of its economies towards higher-value activities in manufacturing and services. The experience of the more successful diversifiers reveals that trade liberalization alone is unlikely to enable such countries to emerge as exporters of manufactures: in developing countries that are poor in terms of infrastructure development, sound macroeconomic policies, openness and fiscal incentives are not enough.

A few African countries, like Kenya and Uganda, have increased exports by diversifying into non-traditional exports, typically, vegetables, fruits, and flowers. Such achievements are not to be gainsaid. But particularly relevant are the experiences of a small number of diversifiers that have successfully promoted manufacturing exports, such as Mauritius and Tunisia (see Table 1). Although no particular experience can be directly extrapolated, these cases can still provide useful contrasts and lessons for other developing countries in Africa.

**Table 1:**  
***Manufactures as Percentage of Export Trade for Selected African Countries, 1980-2001***

|               | 1980 | 1990 | 2001 |
|---------------|------|------|------|
| Algeria       | 0.3  | 2.6  | 2.3  |
| Angola        | 12.9 | 0.1  | ..   |
| Cameroon      | 3.8  | 8.5  | 4.7  |
| Côte d'Ivoire | 4.7  | ..   | 14.5 |
| Egypt         | 10.9 | 42.5 | 32.7 |
| Ghana         | 0.9  | ..   | 15.8 |
| Kenya         | 12.1 | 29.2 | 20.8 |
| Mauritius     | 27.4 | 65.8 | 74.2 |
| Morocco       | 23.5 | 52.3 | 64.1 |
| Nigeria       | 0.3  | ..   | 0.2  |
| Senegal       | 15.1 | 22.5 | 28.8 |
| South Africa  | 18.2 | 21.9 | 59.4 |
| Tunisia       | 35.7 | 69.1 | 77.0 |
| Uganda        | 0.7  | ..   | 6.9  |
| Zambia        | 16.0 | ..   | 12.7 |
| Zimbabwe      | 35.8 | 30.9 | 28.1 |

**Note:** Figures in italics refer to data for 2000

**Sources:** World Bank, World Development Indicators (2003); UNCTAD, Handbook of Statistics (2003)

Learning from past experience and designing policies to help facilitate this process of structural transformation is the major theme of the *Economic Report on Africa 2004*, and in the following sections we will draw on some of the lessons from that Report.

## 4. Reaping the benefits of trade liberalization is complex

This section demonstrates the complexity of successfully integrating trade policies into national development strategies.

Although trade is an important driver of development it is now being increasingly recognized that trade liberalization is not a panacea. While import substitution was a failure in Africa, trade

liberalization has not generally produced the promised increase in growth rates or improved Africa's integration. In Africa, for the most part, trade policies have been static and applied indiscriminately with little reference to overall development strategies.

In contrast, the successful Asian countries built competitive advantages using dynamic trade policies based on complex combinations of selective openness and restriction within the context of overarching development strategies. These kinds of trade policies are proactive and strategic, evolving over time and differing across sectors according to development needs. The Asian experience shows that Africa's trade strategy should be based on finding an optimal and well-sequenced combination of openness and control within the context of overall development strategies.

The message for Africa is that effective trade policy is not a simple, static choice between openness and control but correctly sequencing these over time. The key policy problem is the ordering and sequencing of openness and control across different sectors over time rather than the extent of aggregate openness at a point in time. However, such an approach poses great challenges for African governments for reasons of both capacity and political economy.

In order to contribute effectively to development efforts, trade policies must be dynamic and must avoid giving constant and linear support to the economy as a whole or to certain sectors. On the contrary, they must be adaptable, and differentiated between sectors and between the various segments of a given sector. Consideration of this issue, therefore, must not be restricted to the sterile debate between openness and control; it must focus on seeking the optimal combinations of the different instruments of trade policy and on building the necessary institutions in order to support the economic development process and improve the competitiveness of national economies.

### **Box 1**

#### ***Agricultural Domestic and Export Subsidies***

One of the major breakthroughs of the Uruguay Round Agreement on Agriculture was the recognition of the direct link between agricultural subsidies and international trade. In terms of domestic support, agricultural policies that have trade-distorting effects were identified by an indicator called the "aggregate measurement of support" (AMS). The "amber box" was created based on this AMS. In addition, the agreement required countries to notify (identify) their export subsidies. While under GATT export subsidies for industrial products have been prohibited during the multilateral rounds, in the case of agriculture, such subsidies were only subject to limited disciplines and reductions. The table below shows the evaluation of domestic and export subsidy notifications of major trade players in the world. The United States has been increasing its domestic support in recent years, a trend expected to continue after the approval of the 2002 farm bill (the Farm Security and Rural Investment Act). The European Union and "like-minded countries" account for close to 90 percent of domestic support and export subsidies, although there has been a decline in European Union domestic support. Canada and other Western Hemisphere countries have very low levels of export subsidies.

**Table 2**  
**WTO Notifications in Domestic Support and Export Subsidies (Millions of US\$)**

|                            | Domestic Support |        |                        | Export Subsidies |       |                        |
|----------------------------|------------------|--------|------------------------|------------------|-------|------------------------|
|                            | 1995             | 19984  | (percent) <sup>2</sup> | 1995             | 1998  | (percent) <sup>2</sup> |
| United States              | 6,214            | 10,400 | 7.1                    | 26               | 147   | 1.5                    |
| Mexico                     | 452              | 1,258  | 0.8                    | -                | 4     | 0.1                    |
| Canada                     | 568              | 522    | 0.5                    | 38               | na    | 0.2                    |
| Venezuela                  | 542              | 211    | 0.4                    | 3                | na    | 0.1                    |
| Argentina                  | 123              | 83     | 0.1                    | -                | -     | 0.0                    |
| Colombia                   | 58               | 10     | 0.0                    | 18               | 23    | 0.3                    |
| Brazil                     | -                | 83     | 0.0                    | -                | -     | 0.0                    |
| Costa Rica                 | -                | -      | 0.0                    | -                | 123   | 0.8                    |
| FTAA                       | 7,957            | 12,567 | 8.8                    | 85               | 297   | 3.1                    |
| European Union             | 64,436           | 52,453 | 58.1                   | 6,292            | 5,843 | 88.0                   |
| "Like-minded" <sup>3</sup> | 44,716           | 11,479 | 31.1                   | 619              | 440   | 7.6                    |
| Others                     | 2,427            | 934    | 2.0                    | 116              | 62    | 1.3                    |
| World                      | 119,536          | 77,433 | 100.0                  | 7,112            | 6,642 | 100.0                  |

1 Notifications of total AMS (aggregate measurement of support) reduction commitments in the "amber box".

2 Average of the global value, for 1995-98.

3 "Like-minded" countries are the Czech Republic, Hungary, Iceland, Norway, Poland, Switzerland, Liechtenstein, Japan and Korea.

4 Most countries did not notify their subsidies after 1999.

**Source:** WTO

## 5. Reaping the opportunities provided by the world trading system will require actions on the multilateral front

This section provides a brief progress report on the Doha Development Round Trade Negotiations and identifies actions required on the multilateral front to conclude a successful Round and better integrate Africa into the global trading system.

The failure of the Cancun World Trade Organization (WTO) Ministerial Meeting on September 14, 2003 to reach consensus on modalities for negotiations on rich country agricultural trade barriers, export subsidies and domestic support policies has put Africa's relationship with the world trading system at a critical crossroad. African countries were important players in the negotiations at Cancun and must now chart a way forward based on a comprehensive assessment of the opportunities and challenges afforded by global and regional trading systems.

If Ministers of Finance, Planning and Economic Development are to mainstream trade policies into national development strategies, they need to understand what progress is being made in these important negotiations and the likely impact on their economies. For instance, dismantling market-distorting agricultural subsidies will require Africa to speak with a unified voice in the Executive Boards of the International Monetary Fund and World Bank (the remit of the Ministry of Finance and Planning) as well as in the WTO.

The Cancun impasse continues on several major issues, namely, agriculture, cotton, non-agricultural market access, special and differential treatment and the Singapore Issues. No real negotiations have been taking place in Geneva, nor have there been movements towards accommodation among different positions. Gaps, it is acknowledged, remain wide, not only among positions, but also between commitments, engagement and flexibility. African trade ministers, negotiators, and officials continue to be involved tirelessly to find a way out of the impasse, while safeguarding the continent's interests.

## Agriculture is key to deeper integration

Agriculture is a major pillar of African economies and is critical to achieving poverty reduction and the Millennium Development Goals (MDGs). For Africa, market-distorting subsidies and domestic support to farmers in OECD countries is the core issue in multilateral trade negotiations. Yet the United States has been increasing its domestic support in recent years, a trend expected to continue after approval of the 2002 farm bill. The European Union and "like-minded" countries account for close to 90 percent of domestic support and export subsidies worldwide (see Box 1) with little progress in removing the Common Agricultural Policy (CAP) of the European Union. The willingness of the international community to address these issues is a litmus test of their commitment to Africa's development.

Market access remains constrained by high tariffs on certain strategic products, for example 214 percent on cereals and 154 percent on maize. Fifty percent of tariff peaks apply to developing country products. Levels of agricultural support by developed countries remained high at US\$318bn in 2002. Ninety percent of export subsidies are applied in the European Union.

In Cancun, negotiations stalled on reductions in high tariffs and tariff peaks. On market access, provisions were included that allowed developed countries to designate a number of products to be exempt from market access obligations. Reductions in domestic support were limited and timeframes vague, and there was no commitment for developed countries to eliminate all forms of export subsidies.

Of concern to Ministers of Finance, Planning and Economic Development is the likely positive effect on household incomes, firms and ultimately poverty reduction of increased market access to industrial country agricultural markets. Budget proposals that encourage investments in the

agricultural sector, support research and development and finance agro-industrial development will be critical.

## High stakes in the negotiations on cotton

The resolution of issues relating to cotton in multilateral negotiations is critical given the sector's importance in employment, GDP and export earnings in several African countries. But developed countries' stance on cotton is symbolic of their decreasing commitment to the Doha Development Agenda as seen in Cancun. The cotton negotiations to remove developed country support began under the initiative of Benin, Burkina Faso, Chad and Mali. This support is substantial: US subsidies in 2001-2 paid their farmers prices 91 percent higher than equilibrium prices, seriously distorting the market. High cotton prices paid to farmers in the United States (as a result of subsidies) leads to overproduction; the excess is exported and ultimately drives down world prices. In Greece and Spain, producer prices were 144 percent and 184 percent higher than equilibrium prices as a result of subsidies. This comes against a background of falling cotton prices with real prices now half the level seen in the 1960s, a decline that is very costly to the African economy. In Cancun, no commitments were made to reduce subsidies and to provide financial compensation during a transition period.

## Reciprocal non-agricultural market access may wipe out industrial sectors

Industrialized countries have continued to export manufactured goods to each other; yet from developing countries, they still import only raw materials, not finished products. As a result, industrialized countries' average tariffs on the manufactured products they import from developing countries are now four times higher than the ones they impose on products that come mainly from other industrialized countries. Industrial countries maintain tariff peaks on industrial imports from developing countries, such as on textiles and clothing, automotive products and consumer electronics, with some peaks as high as 900 percent. The highest average tariffs are applied to African exports.

Despite this state of affairs, industrial countries have insisted that developing countries agree to reciprocal reductions in industrial tariffs—or non-agricultural market access (NAMA). The failure of developing countries so far to agree to substantial cuts in industrial tariffs was critical in “blocking” agreement in the WTO negotiations. The issue is the following. If Africa reduces its industrial tariffs, it risks having its “infant industries” wiped out by low-cost producers, such as those in Southeast Asia. Many countries have already experienced a flood of cheap imports from Southeast Asia as they lowered trade barriers. Producers in any economy often form an effective lobby group. Therefore, domestic political support in African countries for NAMA can only come after significant improvements in access to OECD agricultural markets cushions the potential economic dislocation as workers are laid-off, factories close, and government revenues diminish.

Of major concern to Ministers of Finance, Planning and Economic Development is how to mitigate the impact of reduced government revenues in the event of an agreement on NAMA. Ministers will also need to carefully consider the use of fiscal incentives to encourage infant industries in a resource-poor environment, as well as the targeted use of safety nets and other social protection schemes in the event of mass layoffs and unemployment. Ministers' attention will need to be directed towards increasing investments in critical infrastructure such that Africa's industrial exports can be competitive in the global market.

## More progress needed on special and differential treatment

The basic approach underlying multilateral trade negotiations—that of granting reciprocal concessions—though seemingly rational, poses considerable difficulties for developing countries and places them at a disadvantage in the process of negotiations. Reciprocity thus raises a key issue of whether developing countries should make the same concessions as developed countries and be subjected to the same rules. This has become a question of growing importance in view of the fact that developed countries increasingly press for negotiations on matters that are only indirectly related to cross-border flows of trade and hence impinge on domestic policy in numerous areas. If developing countries are to compete on the same (de facto highly unequal) terms (ironically called “level playing fields”) with the most powerful and highly competitive economies, gains from trade are likely to be particularly skewed, and risks or losses for national economies in the South pronounced.

Thus in multilateral agreements on trade and trade-related matters, from the point of view of the development of the South, the starting premise should be that special and differential treatment must be extended to developing countries, based on their particular economic circumstances and needs. The condition of underdevelopment makes it essential that developing countries have more flexibility and discretion in the use of policies in order to develop and diversify their productive capacity and ability to export, with a view to enhancing their overall economic growth and development.

For developing countries, special and differential treatment is now regarded as essential if they are to participate in and accept the additional obligations resulting from multilateral trade negotiations. Without it, many developing countries would find it extremely difficult to accept strict disciplines and higher liberalization commitments and be willing to join new negotiations. Special and differential treatment should give them more flexibility and discretion in the use of public policies to enhance their prospects for industrialization, diversification of production and exports, export promotion and overall growth and development.

Of concern to Ministers of Finance, Planning and Economic Development is that maintaining the flexibility that developing countries had enjoyed before the Uruguay Round through special and differential treatment has become increasingly difficult in view of the rising levels of growth in a number of developing countries, the growing gap among them, and the increasing pressure exerted by developed countries for reciprocal obligations and concessions from developing countries.

Another issue of great concern is the erosion of preferential tariff margins granted to African country exports under the GSP (generalized system of preferences) schemes. Such erosion was an inevitable consequence of the reduction of the overall level of tariffs under the Uruguay Round. Progressive and gradual liberalization is important and beneficial to developing and developed countries. It is not clear whether this concern has led to any gains in dealing with special and differential provisions or in negotiations in other areas. The benefits of GSP schemes have declined for other reasons too, including the increased use of non-tariff measures in them, additional conditionalities that are imposed by preference-giving countries and the unpredictability of the system. However, instead of criticizing the Uruguay Round Agreements for having brought about an erosion in preferences, priority consideration should be given to how to make that best use of the present GSP schemes and how they can be improved in practical ways for the benefit of African countries.

### Will Singapore Issues be the stumbling block?

The 1996 WTO Singapore Ministerial launched exploratory work on the following four issues: investment, competition, transparency in government procurement and trade facilitation. Because of the link to the Singapore Ministerial, the four issues became known as the “Singapore Issues”. At the 2001 Doha WTO Ministerial, Ministers gave individual direction for the advancement of work in each area and agreed that negotiations on each issue would take place after the Cancun Ministerial. With the collapse of the Cancun Negotiations, little progress has been made in launching talks in these areas.

Nevertheless, African Ministers and their developing country counterparts have raised three areas of objections to the Singapore Issues: the reluctance to enter into binding international commitments that could restrict their “policy space”; the apparent absence of negotiating capacity of some countries; and the reluctance to tie their hands to a multilateral—rather than a bilateral or unilateral—approach to investment and competition. In addition, Africa has pressed for technical assistance to help understand the linkages with economic performance prior to starting negotiations.

The Singapore Issues have the potential to determine the economic outlook of African economies in the medium term. In the short term, Ministers of Finance, Planning and Economic Development need to be particularly concerned about negotiations with respect to transparency in government procurement (aimed at improving efficiencies and diminishing the potential for corruption in government purchases) and trade facilitation (aimed at improving border procedures). A multilateral agreement on these issues will need to be consistent with capacity and institutional realities in African countries and should not impose an additional burden on National Treasuries.

## 6. Multilateral efforts must be supplemented by actions on the domestic front

Although actions at the multilateral level are critical to bringing about better trade performance by Africa, there are also domestic bottlenecks that need to be addressed.

Trade finance is critical to export success

Access to trade finance is a major constraint for African entrepreneurs who want to establish or expand export businesses. “Trade financing” refers to financial instruments and institutions to facilitate commercial transactions by exporters. A fully-fledged trade-financing infrastructure includes commercial banks and export credit agencies, private-sector credit insurance, and finance targeted at the informal sector. The establishment and strengthening of specialized export-credit, insurance and guarantee agencies, such as export-import banks is critical. But their efficiency depends on the development of the commercial banking sector, which provides the institutional backbone.

Efforts are needed by African countries, regional and international organizations and the private sector, to find ways of securing appropriate and predictable sources of trade finance. The following issues need to be addressed:

### ***Creating a transparent financial environment***

A good legal environment, adequate accounting standards, and international commitments for the enforcement of debt obligations are necessary for the healthy functioning of trade-financing facilities. Improving the financial environment requires ensuring macroeconomic stability, reforming domestic financial systems, fostering greater depth and liquidity in the banking sector, and facilitating competition and transparency.

### ***Promoting export development institutions***

Export development bodies can provide financing to exporters and reduce trade risks through insurance. Services can help to extend competitive payment terms and ensure payment, increase exporters’ access to working capital, give exporters credit and financial information to assess buyers, and access guarantees for export contracts without tying up cash. The services of export development bodies need to be clearly defined. Target groups should be identified.

### ***Involving regional development banks***

There is increased demand by private banks for the involvement of regional development banks in long-term financing, for example in providing credit enhancement facilities to help export credit

agencies in developing countries become more effective partners in the expansion of north-south trade. Regional partnerships should aim at making regional development banks more active in trade financing. Progress has been made towards a «global alliance» involving the Inter-American Development Bank, the Islamic Development Bank, and the African Development Bank in the provision of trade financing.

### ***Dealing with WTO issues on trade financing in the context of General Agreement on Trade in Services (GATS)***

The current round of negotiations under the GATS could increase the WTO's role in making trade financing more secure and readily available, particularly in developing countries. Commitments in GATS schedules help build a climate of predictability and legal certainty in the provision of trade financing by foreign banks, and allow WTO members to create deeper and more liquid domestic financial markets. Countries can benefit from the experience of large international banks, which can provide export credit services.

Trade-financing activities can be specifically identified in GATS schedules. Other financial services linked to trade financing can also be given similar treatment such as credit reference analysis, and the insurance of cargo or goods in transit. Although these commitments will not prevent foreign banks from cutting credit lines in periods of crisis, they foster local, regional and international financial activity and lead to stronger and more resilient markets that can encourage foreign banks to remain involved.

### **Faster integration requires strengthening trade capacity**

In order for African countries to maximize the benefits from trade liberalization, market access must be complemented by domestic policy reforms and trade-related capacity building. At Doha, trade ministers renewed their commitment to build the capacity of developing countries to participate in the world trading system. Capacity-building initiatives need to be coordinated across government agencies.

In past trade negotiations, African delegations were not able to adequately represent their needs. In order to fully benefit from the negotiation process, African countries must seek more effective representation in the WTO and participate in its processes more actively. Countries need to be represented by a resident delegation in Geneva. This delegation must be highly skilled in negotiation and diplomacy. Staff in home capitals with analytical and policy-making skills must provide operational support and guidance to the Geneva delegation. Other trade policy institutions in countries require personnel with technical, legal, political and legislative skills to supply ministries and the Central Bank with relevant information.

## Better trade facilitation

Delays at customs are a major obstacle to trade in Africa. Customs processing is hampered by lack of information on customs laws, complex regulations, excessive discretion in classifying and valuing goods, unnecessary inspection of cargo, and mandatory warehousing. This also leads to widespread corruption.

Efforts should be made to ensure that customs bodies make greater use of technology, place greater reliance on post-release audits, build up closer working relationships with Ministries of Finance, and work towards high levels of professionalism and integrity. Customs authorities should develop a service orientation and establish good relations with the trade community.

The implementation of the WTO Customs Valuation Agreement (CVA) will also improve customs efficiency. CVA sets out a fair, uniform and neutral system for the valuation of goods for customs purposes. The agreement provides a set of valuation rules, expanding on and giving greater precision to the provisions on customs valuation in the original GATT.

## Addressing the fiscal implications of trade liberalization

Trade liberalization is a potential source of fiscal instability for African countries because of their high dependence on trade taxes for public revenue. Taxes on international trade are an important part of fiscal revenue in African countries because when tax administration is inefficient, governments tend to concentrate on easy ways to collect taxes such as trade taxes.

Even with rising revenues, many African countries struggle to maintain sustainable fiscal positions. Between 1995 and 2002/2003 most African countries saw deteriorations in their fiscal positions. At the same time they pushed forward with trade liberalization. Over the late 1990s trade tax revenues as a percentage of GDP declined. An important policy issue is how countries should react to falls in revenue as tariffs are cut. This is critical for African countries because they have already carried out considerable liberalization of their trade regimes. The policy challenge is then how to maintain fiscal stability when liberalizing trade (ECA 2003b; ECA 2004).

### ***Buffering potential negative revenue impacts***

Firstly, trade liberalization should be coordinated with measures on the revenue and spending side of the budget, including raising domestic indirect and direct taxes, strengthening tax administration and collection, and improving the effectiveness of public spending. Many of the fast liberalizing African countries—such as Ghana, Morocco, Senegal and Tunisia—which have seen a fall in trade tax revenues over the late 1990s, managed to reduce their deficits or move from deficit to surplus. Most of these countries achieved this outcome by increasing domestic taxes on goods and services,

particularly value-added tax (VAT) increased in most countries, while several countries managed to raise revenues from direct taxes on income and profits.

### ***Guaranteeing macroeconomic stability***

A sound macroeconomic environment is critical to preventing fiscal distress during trade liberalization. During the late 1990s fast liberalizers generally showed good macroeconomic performance, with decreasing inflation and positive growth rates in per-capita GDP. However, the terms of trade deteriorated in most countries, because of falling international prices for most exportables. Overall, good macroeconomic performance helped fast liberalizers to contain the negative fiscal impacts of trade liberalization (ECA 2004).

## **7. Regional integration to spur intra-African trade**

Regional integration offers a route for Africa to stimulate diversification and more successful integration into global markets. But intra-African trade remains a small part of Africa's total trade, accounting for only 10.5 percent of total exports and 10.1 percent of imports, despite growing by 7.6 percent between 1994 and 2000. Trade within the continent averaged only 8.4 percent of GDP between 1994 and 2000 compared to over 50 percent of GDP for multilateral trade. Intra-African trade grew by only 0.5 percent over the period compared to 1.5 percent for multilateral trade. For Africa to attain intra-community and inter-African trade levels comparable to similar trade in other regions, it has to more than double current rates of growth of its internal trade.

An integrated continental market offers the best hope for Africa to build its manufacturing sector so as to diversify its economy away from primary products. National markets on the continent are small in population and purchasing power terms: of the 53 African countries, 38 have fewer than 15 million people; a third have fewer than 3 million; and of the 46 least developed countries (in per capita incomes) worldwide, 31 are in Africa. This is a critical constraint to diversification and to capacities for reaping the gains from international integration. Specialization and resulting economies of scale are limited by the small size of markets, leading to high- cost, uncompetitive industries.

Central to regional integration schemes is fostering intra-African trade and unifying regional markets by removing trade barriers within the continent. By creating free trade areas and customs unions, large internal continental markets can be created that can be used to reap economies of scale, so helping to build competitive industries destined for world markets. Higher volumes of intra-African trade in free trade areas can also help stimulate private cross-border investment and foreign direct investment.

A larger regional market combined with a stable investment environment, transport and communication infrastructure could provide incentives for large-scale investment in manufacturing. Developing physical infrastructure, removing commercial obstacles to the free movement of goods and inputs will vastly improve the operating environment for foreign investors. Expanded intra-African trade should also help spur growth and income convergence across the continent as sub-regional growth poles generate positive spillovers to less developed countries. As diversification speeds up, African countries will become less dependent on developed countries for manufactured products.

Although there has been some progress towards setting up free trade areas and customs unions, progress has been slow. In addition, success requires progress in improving infrastructure, particularly transport, communications and energy as well as rationalization of many of the regional economic communities.

## Removing non-tariff barriers

Non-tariff barriers remain prevalent in Africa. For example, new non-tariff barriers (eight-axel limits for trucks, for example) among Common Market of Eastern and Southern Africa (COMESA) member States are affecting trade flows in the sub-region. Non-tariff barriers also prevail in West Africa, including unofficial fees collected from traders at border crossings, administrative delays at ports, cumbersome customs formalities and roadblocks. Efforts to eliminate non-tariff barriers are essential to the success of free trade areas. There is currently no regional mechanism for monitoring non-tariff barriers.

## Defining rules of origin

Regional economic community programmes to promote trade and market integration are usually accompanied by rules of origin to define areas of eligibility to preferential tariff treatment. Origin requirements are generally defined by the share of domestic capital and imported inputs used and the share of domestic value added in total product value. But these criteria tend to differ among economic communities particularly when they have overlapping membership. As a result it becomes extremely difficult to determine applicable tariff rates on member country products. Clear rules of origin needs to be established to avoid such problems and enhance value-added activities in the regional economic communities.

## Establishing a common external tariff

Removing tariff and non-tariff barriers to intra-African trade and setting a common external tariff structure for trade with non-members of the free trade area would complete the requirements for the establishment of a customs union. The common external tariff ensures that all producers in

the community face the same cost in importing raw materials, and inputs necessary for successful investment and industrialization. A common tariff structure should also encourage foreign investors to locate their production operations in the community to enjoy the cost-reducing benefits of free trade. So far some regional economic communities have made some steps towards establishing common external tariffs.

## 8. Conclusion

International trade is an important engine of growth, and if used carefully, is capable of contributing to broad-based development and poverty reduction. Although Africa has attempted to increase its integration to global markets, the continent has not reaped gains to the extent of other developing regions. The continent remains heavily tied to its traditional pattern of primary commodity dependence in trade. Africa needs to take actions to boost its competitiveness and realize the benefits of globalization.

Actions are necessary in both international and domestic fronts. In the international arena, Africa needs to push the WTO to deliver on the promises made in Doha to focus on a Development Round that will provide greater access to industrial country markets. However, even if market access issues are resolved, the continent may not be in a position to fully exploit the opportunities because of serious domestic supply-side constraints. Providing trade financing, building trade capacity, improving trade facilitation, and addressing negative impact of trade liberalization are crucial in addressing these constraints. What is required now is to place trade issues at the center of development strategies. Ministers of Finance, Planning and Economic Development have a key role to play in this endeavor.

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