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**BILATERALISM AND REGIONALISM IN THE AFTERMATH OF CANCUN:
RE-ESTABLISHING THE PRIMACY OF MULTILATERALISM**

Note by the Economic Commission for Africa (ECA)



Economic Commission for Africa

Multilateralism: Current African Experience and Perspective

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Introduction: The Difficulties of Multilateralism Post-Cancún

1. In the past there was unanimous belief that multilateralism was the vehicle through which gains from free trade could be realized and shared equitably between nations. However, the failure of the Cancún WTO Conference of Trade Ministers and Representatives brought to the fore the difficulties multilateralism has, in playing its expected role of delivering gains from the international trading system. The failure of WTO Ministers to reach consensus on how to carry forward the Doha Work Programme severely undermined an already shaky confidence that some countries, especially the developing nations, had in the multilateral trading system.

2. Concerns have therefore arisen that the failure in Cancún could have inflicted serious damage on the future of multilateral trading system. This is more the case because the impasse occurred barely three years after another multilateral meeting failed to reach consensus in Seattle on key issues for negotiations. Varied reasons have been advanced as to why there was failure in Cancún. But the most significant thing is that despite efforts from all groups represented in the talks, WTO Ministers failed to reach consensus on a number of important areas, in particular agriculture.

3. This outcome in Cancún was made worse by the fact that the multilateral system had failed to make any significant progress prior to the conference in resolving key development issues that had been agreed as part of the Doha Work Programme. Deadlines for reaching agreement on issues that were of significance to developing countries, such as, Special and Differential Treatment, TRIPS and Public Health and Modalities on Agriculture had all been missed. Therefore, the multilateral negotiations process had failed to deliver the consensus expected before Cancún on major development issues that are part of the Doha agenda, which is significant to developing countries, especially those from sub-Saharan Africa.

4. The collapse at Cancún has therefore opened many questions that put a spotlight on the difficulties of multilateralism. The difficulties include the question of reforming the WTO to make the multilateral negotiation process more transparent and fairer with the voices of even the smallest and weakest trading nations being heard. Moreover, how can the multilateral trading system reconcile the different developmental aspirations of its membership, something it has failed to achieve to-date?

5. The multilateral trading system is therefore facing a severe test and enormous pressure to deliver to all countries both substance and a fair trading system. Unless both the processes and the procedures in the multilateral trading system are addressed and set right; and attention paid to substance and the interests of all countries, their people and their players, and not merely the interests of the major countries; it is being argued that the fate of multilateralism will be sealed. Evidence to this effect is being adduced by pointing to the vigorous activity aimed at establishing new bilateral and regional trade arrangements since the failure to reach consensus at the Cancún WTO Ministerial Conference. In particular, the proliferation of initiatives by both the EU and US separately to reach bilateral and regional trade agreements with both developed and developing countries is being seen increasingly as the result of a failing multilateral system. The United States has embarked on a new thrust to increase its participation in regional trading arrangements over the next few years. The regional priorities for the US have been to have regional trade agreements with Free Trade Area of the Americas (FTAA), Association of South East Asian Nations (ASEAN), and the Middle East. Its bilateral agenda has been the bilateral negotiations taking place with Morocco, South Africa and Australia. The unsettled debate from all this is whether this bilateralism and regionalism will further undermine an already discredited multilateralism.

This is even more important since the efforts to forge new regional agreements are taking place midway through the ambitious Doha Development Round of multilateral trade negotiations.

Africa's Perspective to Multilateralism Post-Cancún

6. Following the failure of Cancún, arguments have been advanced that the strong positions taken by African countries at the Conference contributed to its failure. In some instances the failure of the two WTO Ministerial Conferences in Seattle and Cancún is being seen as the direct outcome of the frustration of African countries and the continent's willingness to take a firm stand. This view misses the point African countries were trying to make at Cancún.

7. African countries had gone to Cancún convinced that the multilateral negotiations would focus on the developmental dimensions of the multilateral trading system, as had been stated in the Doha Declaration. This declaration was arrived at under a multilateral negotiations framework, so African countries were counting on a multilaterally agreed position being the focus in Cancún. The Doha Development Agenda, for Africans, would provide the concessions the continent has been seeking from the multilateral trading system; that would allow trade to contribute to the growth of its economies, and to overall development, in order to reduce poverty.

8. Unfortunately, the multilateral system failed African countries because what emerged at Cancún did not address many of their concerns. More specifically, there was lack of agreement on modalities to move negotiations in key sectors of interest to Africa, such as agriculture and non-agricultural market access (NAMA), as had been agreed in the Doha Work Programme. Many of the developmental issues, such as Special and Differential Treatment (SDT) received only minimal attention in the multilateral deliberations. The priority areas for Africa, including the Cotton Sector Initiative, were in general sidelined in favour of other issues, such as the Singapore issues, which were not viewed as pressing by African countries.

9. And even though African countries remained engaged prior to Cancún (in spite of clear lack of progress since Doha) and at Cancún, the continent's faith and patience with the multilateral system was being severely tested. However, in the final analysis, African countries were keen to ensure that they did not agree to a Ministerial Declaration in Cancún, which only increased their obligations in the multilateral trading system (as has happened in the past including the Uruguay Round), without conferring any tangible benefits to them.

10. In the post-Cancún era, African countries have remained engaged in the belief that the stalled Cancún trade negotiations can be resuscitated. During the various mini-Ministerial Conferences held in Africa in the post-Cancún period (such as those in Cairo and Mombasa), African countries have indicated willingness to positively engage their partners in the WTO in order to successfully conclude the Doha round of negotiations. African countries appreciate and understand the dangers of stalemate in the field of international trade relations, simply because such a situation translates into forgone opportunities and thereby fewer development opportunities. Africa believes it can reap the benefits of globalization and liberalization, given complementary and enabling factors. These enabling factors partly include the continent being provided with "policy space" in the multilateral trading system to undertake and implement trade policies that are consistent with its development strategies and programmes; to be provided with access to markets of developed countries; to take advantage of information and technological advances; and to benefit from transfer of technology.

11. In seeking policy space, African countries recognize the importance of “coherence” in the international economic, trade and financial architecture; as inconsistencies in policy advice to Africa emanating from various international organizations has often proved extremely costly in terms of lost opportunities and wasted resources. The extent to which the multilateral trading system is able to assist Africa to achieve these goals is fundamental to the survival of the global trading system as a fair and equitable framework for promoting global welfare.

12. But when all is said and done, Africa’s perspective is to have in place an open multilateral trading system that takes its interests into account by giving it some policy space. The continent would not like to see a multilateral system where developed countries are not willing to move on key issues of importance to Africa such as freeing up of agricultural markets. African countries would find it unhelpful, if the multilateral system aggressively pushes contentious issues, as was the case with Singapore issues in Cancun, at the expense of developmental dimensions of the negotiations. To avoid the kind of outcome that Africa received from the Uruguay Round, the multilateral system should in the future, not just pay lip-service or brush aside important initiatives such as happened in Cancun on the Cotton Sector Initiative. Lastly, as part of having an inclusive multilateral system, the drafting and re-drafting of documents should not ignore the views of developing countries. If that was to happen, then Africa sees the possibility of the emergence of a global trading system, where it is in a much worse situation than it is in today. This is a realistic fear, given current efforts to create bilateral and regional trading agreements that avoid resolving development issues raised by Africa.

Multilateral Negotiations Post-Cancún: Africa’s Concerns

13. Whereas policymakers and negotiators from the continent are committed to the commencement of post-Cancún negotiations, they are cognisant of lack of progress since Cancún on the continent’s main issues of concern; namely, agriculture, cotton, non-agricultural market access, special and differential treatment and the Singapore issues.

14. The three pillars of agriculture, namely, market access, domestic support, and export competition remain a priority to the continent and must be addressed simultaneously in any new negotiations under the Doha Development Round. No bilateral or regional arrangements are able to address the issues that Africa would like to see resolved in the international trading arena. To the continent, agriculture remains the core issue in the multilateral trade negotiations. The more trade-distorting measures should be the focus of greater reductions and in the case of market access for agricultural based products, Africa’s interest is on a clear differentiation through special and differential treatment in order to take care of development and food security needs of the continent. The continent would also like to see the multilateral trading system deliver on the elimination of all forms of unfair export competition with a clear end-date for phasing out all export subsidies.

15. The multilateral trading system was exposed seriously for its lack of sensitivity to the voice of small countries especially with regard to the Cotton Sector Initiative, which was presented by African cotton producing countries. The African countries that presented this case clearly wanted cotton to be treated separately to other agricultural issues given the significance of the cotton sub-sector in their economies. They also wanted to see the issue of domestic support for cotton by developed countries addressed and a clear compensation mechanism agreed upon to ameliorate the loss such domestic support impinges on African cotton producer. The development-related issues seeking financial and technical assistance under the cotton initiative remained an important issue for Africa.

16. On NAMA, the important issues remain the formula for tariff reduction; the treatment and definition of sensitive sectors that are of interest to Africa; the level of tariff bindings; and the concern with preference erosion. Of clear importance is that the agreed binding approach should give enough policy flexibility to African countries to be able to pursue their identified industrial policy. Empirical evidence has shown that the lack of flexibility from multilateral trade agreements, especially on liberalization versus strategic protection, possibly explains the differences in outcome between Asia and Africa from similar policy stances on openness to trade. In the same vein, developing countries should be able to seek a “credit” for autonomous liberalization undertaken by them in the past.

17. The Singapore issues in the multilateral negotiations are less of a priority for Africa given the other unresolved issues that were part of the Doha Declaration, and were clearly aimed at ensuring the multilateral trading system worked for Africa. Consequently, the proposals on unbundling the Singapore issues are not important in comparison to the lack of movement in agricultural, NAMA, and the Cotton Sector Initiative. The concern that faces Africa on these issues is the inclusion of some of the Singapore issues in the framework of the Economic Partnership Agreement Economic Partnership Agreements (EPAs) negotiations with the European Union.

Strengthening Trade at the National Level: A Way Forward towards creating a Credible Multilateral System

18. The major component of the multilateral trading system has been trade liberalization, which supposedly leads to greater openness of economies to other trading nations. This desire for openness and hence the justification for trade liberalization has for a long time been informed by the empirical link between openness, economic growth and development¹. This link has however been challenged on the basis of methodological weaknesses in the indicators that are constructed in the cross-country regressions to represent openness and hence act as proxies for trade policy².

19. In effect, the weak link between trade liberalization and growth has brought to prominence concerns that Africa has always had with the agenda of multilateralism, which have failed to countenance special circumstances of different economies. The concerns by Africa are based on three trends³: first, is the impact of trade liberalization reforms on the competitiveness of Africa’s economies. The result so far is that competitiveness has not improved in the continent. As the forthcoming *Economic Report for Africa (ERA 2004)* notes, the continent has become increasingly marginalized in international trade, with a significant fall in its share of world exports from 4.1 to 1.6 per cent of global exports between 1980 and 2000, the same period when the continent was expected to benefit from improved competitiveness as a result of trade liberalization. Yet, *ERA*

¹ The main contribution to this evidence have been:

- ⇒ Paul Collier and Jan Willem Gunning, Explaining African economic performance, *Journal of Economic Literature*, vol. XXXVII, March 1999.
- ⇒ Paul Collier and Jan Willem Gunning, Why has Africa grown slowly, *Journal of Economic Perspectives*, vol. 13, no. 3, Summer 1999.
- ⇒ David Dollar, Outward-oriented development economies really do grow more rapidly: evidence from 95 LDCS 1976-1985, *Economic Development and Cultural Change*, no. 40, 1992.
- ⇒ William Easterly and Levine Ross, Africa’s growth tragedy: policies and ethnic divisions, *Quarterly Journal of Economics*, vol. 112, no. 4, 1997
- ⇒ Jeffrey Sachs and Andrew M. Warner, Natural resources and economic growth, *Development Discussion Paper 517a*, Harvard Institute for International Development, Cambridge, MA, 1995

² See Dani Rodrik and Francisco Rodriguez, Trade policy and economic growth: a skeptic’s guide to the cross-national evidence, *Working Paper 7081*, National Bureau of Economic Research, April 1999.

³ See Economic Commission for Africa, Trade liberalisation and development, *mimeograph*, Trade and Regional Integration Division.

2004 notes further, most African countries have continued to pursue export policies that are consistent with their comparative advantage in abundant natural resources and unskilled labour. This outcome contrasts sharply to the Asian economies that managed to build competitive advantage using dynamic trade policies based on complex combinations of selective openness and restriction within the context of overarching development strategies. This then points to the need for an African trade strategy that is based on finding that optimal point and sequenced combination of openness and control within the context of the continent's overall development strategies. The key question becomes then whether the current multilateral trading arrangements have room for such a dynamic trade policy.

20. The second concern that has not received much attention in the multilateral system is the consequence on national revenues. The majority of countries in Africa have spending programmes whose financing component from domestic ordinary revenues depend heavily on import tariffs. The *Economic Commission for Africa* in its background papers to the *ERA 2004*⁴ emphasizes this point by noting that budgetary income for these countries is closely tied to customs revenue. As recently as between 1999 and 2001, customs revenue made up to about 34 per cent of State revenues in least developed countries of Africa, equivalent to 19 percentage points higher than the average for developing countries as a whole. Since the multilateral trading system has continued to call for further reductions in tariffs, from Africa's position, trade liberalization would then create a considerable gap in revenue and may ultimately lead to a worsening of the major macroeconomic imbalances⁵. Hence, liberalization, rather than improving the well being of African economies, may have led to further fiscal squeezes that have adversely affected social spending; worsening poverty in the process, as governments respond to the fiscal squeeze via reduced social spending and cuts in development expenditures, all which tend to be pro-poor.

21. The third worrying issue is that developed countries continue to protect their markets and their sensitive products, despite the commitments entered into in multilateral trade negotiations. The developed countries have continued to show insensitivity to multilateral agreements in particular through strong support to their agricultural producers. The export subsidies, market protection, and internal support for producers, at a time when developing countries, particularly in Africa have made significant cuts in support to their agricultural producers; is a slap in the face of the consensus principle of the multilateral system. Evidently, the fact that multilateral agreements can be vetoed at the national level display an unbalanced system since the smaller nations may not have the bargaining position to implement their national vetoes like the large trading nations of the developed world.

22. In short, the African experience with multilateralism in the context of trade liberalization is that the reforms implemented by African countries have not had the expected effects in terms of growth and improvement in global integration. On a comparative basis however, Asian economies achieved the exact opposite in outcomes to Africa. The Asian countries, particularly the South-East Asian countries have seen strong growth and more competitive integration over the same period when Africa's situation was deteriorating. And as noted above, when this comparison is looked at closely, it becomes evident that the Asian economies good performance were as a result of trade policies that had complex combinations of openness and restriction, with the optimal outcome sought by Asian governments being one of helping their economies build competitive advantages.

⁴ Economic Commission for Africa, *Economic Report for Africa 2004*, forthcoming.

⁵ This essentially points to the possibility of trade liberalisation leading to the classic case of the twin deficit in which case worsening internal fiscal balances leads to deterioration in the external balances, especially the current account. This would ultimately undermine the state of other macroeconomic targets such as foreign exchange; import covers etc. and may end up putting off balance macroeconomic frameworks drawn to address poverty issues.

23. The difference in outcomes for the Asian and African economies reinforces the concerns, that have been ignored, about the commitments that Africa has been pressed to implement from multilateral system. A key concern has been the failure to see trade policy as a component of the development strategy. The issue should not be, as it is today, one of the policy choice being exclusively between openness and excessive control. Rather, trade liberalization in the multilateral context should be one of allowing nations to achieve optimum combinations between openness and restrictions in order to consolidate development, the way Asian countries have been seen to do. Put simply, African countries are likely to maximize gains from trade liberalization under multilateral trade if they use dynamic trade policies that seek the appropriate timing for opening up national economies to the outside world or for introducing controls in order to sustain growth dynamics and build up national economic competitiveness. Such a dynamic trade policy would be part of an integrated development strategy that considers other growth promoting elements, including investment, financing, infrastructure and unique differences not only between sectors but also within sectors.

24. The question that arises from Africa's experience with the current multilateral trade system is whether the multilateral strategy holds the answer? Clearly, in this African perspective, it has been clearly expressed that Africa believes that trade policies are powerful tools that can support growth and development. But the critical issue is whether the current WTO rules allow the dynamic use of trade policy instruments to achieve developmental objectives. The feeling as noted in *ERA 2004*, the WTO rules are restricting the use of trade policy instruments for such purpose, leaving developing countries such as those in Africa with very little room for manoeuvre compared to what the South East Asian nations were able to enjoy in the past. It is therefore not an exaggeration the concern among African policy makers as to whether the birth of WTO, from a Uruguay Round that yielded very little benefits to the continent, heralds the end of national trade policies that other countries used with a mix of other economic policies to achieve their current level of development.

25. In conclusion, there is an important implication for the WTO multilateral trade negotiations from the need to have trade policies mainstreamed in development strategies for developing countries such as Africa. Essentially, the WTO should aim towards seeing Africa have in place trade policies that are consistent with the developmental aspirations of the continent. To date, as this paper has argued, the multilateral trading system has resulted in restricted use of trade policy, with developing countries having little room for manoeuvre in their development strategies. The WTO rules have had the tendency to reduce the latitude available to developing countries for using trade policy in constructing their development dynamics and improving their competitiveness. It therefore follows that an important issue for African countries from multilateralism is that of "policy space" needed to allow them to undertake policies that support their development goals and poverty reduction strategies. In this context, African countries call on their partners in the WTO to agree to provide instruments within the framework and modalities to be agreed which provide "special and differential treatment" to developing countries, in the form of exemptions from commitments and/or longer implementation periods, is not inconsistent to the continent's desire to reap more gains from the multilateral system.

26. This call to have trade policy as a dynamic tool for economic development does not in any way lessen the importance Africa attaches to the other issues on the table for multilateral negotiations. If anything, it puts in context the continent's call for a quick resolution at the multilateral level on other issues such as market access in developed countries, an issue that straddles across many other issues such as the administration of the tariff rate quotas, the non-tariff barriers and concern for preference erosion; the Cotton Sector Initiative; and agriculture, with its three pillars.