Enhancing Africa’s Trade: From Marginalization to an Export-Led Approach to Development

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Abstract

This paper reviews Africa’s role in the global trading system and discusses the constraints and options for Africa to move from its current marginalization to an export-led approach to economic development. It discusses the impact of regional economic integration on intra-African trade, reviews the WTO regime, analyses the internal and external constraints to African trade, including the controversy over Western agricultural subsidies and tariff and non-tariff barriers to African trade in Western markets. It then discusses new approaches to trade development in Africa with special emphasis on the role of export processing zones and concludes that there is urgent need for Africa to diversify its exports through a systematic structural transformation.

Résumé

Ce document examine le rôle de l’Afrique dans le système mondial d’échanges commerciaux et analyse les obstacles auxquels l’Afrique doit faire face ainsi que les options qui lui sont offertes pour passer de la situation de marginalisation où elle se trouve actuellement à une approche du développement économique tiré par les exportations. Ce document examine l’incidence de l’intégration économique régionale sur le commerce intra-africain, le régime de l’OMC, avant d’analyser les obstacles internes et externes aux échanges commerciaux africains, y compris la controverse à propos des subventions octroyées par les pays occidentaux à l’agriculture et les barrières douanières et non-douanières aux échanges commerciaux de l’Afrique avec les marchés occidentaux. Puis, il analyse de nouvelles approches pour développer les échanges commerciaux en Afrique, en mettant un accent particulier sur le rôle des zones de traitement des exportations. Pour conclure, ce document affirme l’urgente nécessité de diversifier les exportations africaines en procédant à une transformation structurelle systématique.

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Chapter I: Introduction

The socio-economic conditions in African countries deteriorated drastically during the 1980s, a decade that is widely regarded as Africa's lost decade of development opportunities. Available empirical evidence shows that, in sub-Saharan Africa, income per capita declined at an annual rate of 2.4%; Africa's real gross domestic product (GDP) per capita fell by 14.3%, investment contracted by 15%, while exports and imports declined drastically during the period. By 1990, the total external debt of African countries was in excess of US$270 billion, leading to a crushing debt-service burden and further aggravating Africa's development problems.

Many reasons can be adduced for the dismal economic performance of African countries in the 1980s. While domestic economic policy inadequacies cannot be ignored, it seems certain that external economic conditions played a significant role. According to the World Bank's World Development Report 1990:

> Adverse developments in the world economy also had a part in the falling growth rates of the 1980s. Weak external demand, declining terms of trade, a diminishing supply of external finance, and a great increase in the volatility of interest rates combined to produce an unusually adverse climate.

In fact, in the area of external economic relations, we can identify three main issues that have had significant impact on African economic performance. They are (i) the escalating external debt and crushing debt-service burden; (ii) rising trade deficits; and (iii) the declining inflow of concessional finance and deteriorating terms and conditions of loans. These issues are interrelated and inextricably linked. However, the issue of commodity trade seems to be the most fundamental. This is because it is invariably an imbalance in merchandise trade that leads to financing imperatives like borrowing. Specifically, any deficit in the trade or current account balance brings about the need to finance it either by external borrowing (leading to escalation of debt) or other non-debt creating financial flows.

The high susceptibility of most African economies to trade and current account deficits arise from the following:

- extreme volatility of primary commodity prices;
- high dependence on the exportation of a limited range of primary commodities;
- high external trade dependence;
- low world share;
- declining terms of trade; and
- excessive export earnings variability and falling export revenues.

Prices of primary commodities, particularly tropical products and food crops, fluctuate sharply in response to changes in global supply and demand. During the decade of the 1980s, prices of many primary commodities exported by African countries fell to their
lowest levels since the end of the Second World War. Many countries in Africa depend on
the exportation of a limited range of primary commodities. Some countries like Nigeria,
Algeria and Libya obtain the bulk of export revenues from oil. In fact, many African
countries obtain over half their export earnings from 1 or 2 primary commodities. In 1988,
Uganda derived 100% of its export receipts from primary commodities while sixteen other
countries obtained over 90% of their export revenues from primary commodities.

It has been found that exports account for almost one-third of the GDP in Africa while
imports account for a slightly higher proportion. The typical African country therefore
exhibits a high degree of "trade openness" which renders it unduly susceptible to external
shocks. The adverse effect of this on Africa is increased by the continent's low market share
of world trade. Indeed, Africa now accounts for less than 2% of the world export trade.
There is thus an unfortunate asymmetry -- because of its low market share, Africa has little
or no influence on international trade yet because of its openness, it is highly susceptible to
internationally transmitted shocks. The situation is further worsened by the phenomenon of
dimming terms of trade, which became quite pronounced in the 1980s when the prices for
many primary commodities collapsed. By 1989, average commodity prices were still 33%
that the fall in commodity prices during the 1980s cost sub-Saharan Africa 15% of the real
purchasing power of exports.

All these factors combined to bring about a drastic fall in Africa's export earnings and a
rising trade and current account deficit in the 1980s. In 1988, Africa's export trade totaled
US$65.3 billion while its imports amounted to US$65.9 billion. Therefore, in 1988, the
import surplus (or trade deficit) amounted to US$0.6 billion while the ratio of the import
surplus to total export earnings was an approximately 1%. In year 2000, exports of goods
and services totaled US$116.3 billion while imports amounted to US$106.6. Thus, the ratio
of export surplus to total earnings was 8.3 percent; see World Bank (2002).

It should be pointed out that the increasing marginalization of Africa in world trade has been
aggravated by the excessive dependence of African countries on the European export
market. In 1988, the European Community alone absorbed over 60% of exports of many
commodities from Africa. Yet, intra-African trade accounted for less than 6% of Africa's
total trade. This low degree of intra-regional trade compares unfavourably with Latin
America (15%) and Asia (43%). With the industrialized countries placing more and more
tariff and non-tariff barriers on the manufactured exports of developing countries and the
attainment of a single European market, it is obvious that continued over-dependence on the
European market will become even more unrealistic and counterproductive. In fact, until
African countries resolve to increase intra-regional trade, the continent will continue to be
marginalized in world trade and become increasingly irrelevant in global economic affairs.

A solution being considered by African countries is that of economic integration of the
continent, specifically, by the establishment of a Continental Customs Union or Common
Market. Believing that intra-African cooperation and trade are essential to the economic
survival of the continent in the years to come, the Heads of States and Government of the
Organization of African Unity signed a treaty in June 1991 to establish an African
Economic Community by the year 2025. The need for such economic integration is supported by many academic economists and some international organizations. According to UNCTAD (1994), there is little doubt that economic co-operation and integration, in the long-term perspective, is crucial to the economic development and survival of African countries. Indeed, very few African countries possess the resources and market size necessary for viable industrialization and accelerated development. Fewer still can participate on their own in the rapid technological revolution that is sweeping the world today.

The remainder of the this paper concentrates on a discussion of the impact of regional economic integration on intra-African trade (Chapter II); a review of the WTO regime, with special emphasis on the implications of the WTO regime for African countries and African trade expansion (Chapter III); an analysis of internal and external constraints to African trade, the controversy over Western agricultural subsidies, and tariff and non-tariff barriers to African trade in Western markets (Chapter IV); and a discussion of new approaches to trade development in Africa with special emphasis on the role of export processing zones (Chapter V). The final chapter provides some concluding remarks.

Chapter II: Regionalism, Trade and Development in Africa

Regional co-operation, using regional trade groupings or regional economic communities (RECs), has been a dominant feature in the development of trade policy since the end of the Second World War. Apart from the tariff reductions negotiated through the General Agreement on Tariffs and Trade (GATT) and, since 1995, under the World Trade Organization (WTO), the movement towards economic integration in Western Europe, Latin America, Africa, North America and Asia has been the most important development affecting the level and structure of international trade in the post World War II period. Many believe that integration of the economic (and ultimately political) systems of nation states is a way of bringing about not only rapid economic growth but also lasting peace through increased trade.

Jacob Viner’s seminal work on customs union theory titled *The Customs Union Issue*, which was published in 1950, has stimulated a lot of intellectual research and interest in customs unions. However, in practical terms, the European attempt at economic integration, legalized by the Treaty of Rome in 1957, has been an inspiration and stimulus to other regions to engage in economic integration. The success of the European Union (EU), culminating in the single market in 1992 and a single currency in 1999, has been the envy of other regions. By 1998, a total of 98 regional integration schemes or agreements were identified but none had developed to the level of the EU.

The concept of international economic integration is central to the issue of regionalism and regional economic communities. According to Hine (1994), “international economic integration” describes both a state of affairs and a process. As a state, international economic integration refers to a fusion of formerly separate national economies while as
a process it signifies the gradual elimination of economic frontiers between countries. Economic frontiers may be defined as any demarcation over which mobility of goods, services and factors of production are relatively low. Thus, following Iyoha (2004), we may postulate that international economic integration is the attempt by the governments of 2 or more countries to link together their economies through the removal of economic frontiers under specific integration schemes.

II.1 Forms of Regional Integration
We may identify five main types or forms of regional integration, classifying them by a rising degree of intensity. They are:

- Preferential Trade Agreement (PTA), which is formed with the reduction of custom duties (mainly tariffs) on trade among members relative to those on trade with non-members.
- Free Trade Area (FTA), which involves the elimination of tariffs and quotas on the trade among member countries.
- Customs Union (CU), which goes a step further than the FTA as in addition to free trade within the union, there is a common external tariff (CET) against non-members.
- Common Market (CM), which is a CU that allows for the free movement of factors of production among member countries. Thus, it encompasses intra-union free trade, a common external tariff against non-member countries and free movement of factors of production (labour and capital) within the union.
- Economic and Monetary Union (EMU), which is a common market in which there is a single currency and monetary policy, and in which major economic policies (particularly fiscal policy) are coordinated or harmonized. Often, there is a compensation policy, which involves transfer of income to poorer or disadvantaged members of the Union.

II.2 Benefits of Regional Economic Integration
Regional economic communities are formed because of the expected benefits from them. An important feature of the higher levels of integration is free trade among members. Free trade is expected to lead to rapid expansion of trade among members, which in turn is expected to lead to rapid economic growth. These gains result from the dynamic effects of a CU, which have been shown to overshadow the static effects, viz., trade creation, trade diversion and terms of trade effect. The dynamic effects, which are cumulative in nature, lead to growth. Indeed, the dynamic effects of a CU are often described as the long-run consequences for the economic growth of member countries as a consequence of increased market size and exploitation of economies of scale, increased competition, learning by doing, and increased investment, Cooper and Massell (1965), Iyoha (1977) and Kreinin (1964). Iyoha (1977) has shown that the larger the CU, the more likely it is to lead to growth since the larger the CU, the larger will be the market created. Also, the stronger the potential economies of scale are, and the more rapid the autonomous productivity advances, the more likely will the CU lead to growth. Thus, the contribution of a CU (or regional integration in general) to economic growth will be greater if the exploitation of scale economies, made possible by increased market size, takes place pari passu with learning by doing.
II..3 Regional Economic Communities in Africa

Regional economic integration has a long history in Africa. The South African Customs Union (SACU) was established in 1910 while the East African Community (EAC) was set up in 1919. The East African Community collapsed in 1987 but is now being actively revived. Currently there are 14 regional economic communities in Africa. They are:

- the Arab Maghreb Union (AMU) established in 1989;
- the West African Economic Community (CEAO) formed in 1972;
- the Economic Community of the Great Lakes Countries (CEPGL) established in 1976;
- the East African Community (EAC) formed in 1919;
- the Common Monetary Area (CMA);
- the Economic Community of Central African States (ECCAS);
- the Common Market for Eastern and Southern Africa (COMESA);
- the Economic Community of West African States (ECOWAS) established in 1975;
- the Mano River Union (MRU) formed in 1973;
- the Central African Customs and Economic Union (UDEAC) established in 1964;
- the Eastern and Southern African Preferential Trade Area (PTA) formed in 1981;
- the Southern African Development Community (SADC) formed in 1992 and formerly called SADCC, which was established in 1980;
- the South African Customs Union (SACU) formed in 1910; and
- the Indian Ocean Commission (IOC).

In addition, there is the proposed continent-wide African Economic Community, whose treaty was signed in 1991 (the Abuja Treaty) and which is expected to be in place by 2025. Even a cursory analysis shows that Africa has a multiplicity of RECs, characterized by overlapping memberships. Indeed, it is common to find a country belonging to 2 or more RECs. A case in point is Southern Africa where Lesotho and Swaziland are members of SACU, CMA, SADC, and COMESA. Also, Mauritius belongs to IOC, COMESA and SADC. Mauritania is a member of both ECOWAS and AMU. Many analysts believe that overlapping memberships in RECs could cause complications and inconsistencies due to the conflicting obligations and divided loyalty. In fact, the lack of progress or success with African integration schemes has been attributed in part to conflicting interests brought about by overlapping memberships in several RECs.

Osagie (1992) strongly decries this prevalence of overlapping memberships as it tends to encourage lack of commitment to any of the organizations. According to him, “The phenomenon of multiplicity of regional groupings within the same economic space is peculiar to Africa. It is probably only in Africa that one country belongs to 2 or 3 communities, to which it exhibits little or no political commitment”, Osagie (1992, p. 20). A possible explanation for the eagerness of countries to join integration schemes could be the political motivation or inspiration of regional integration arrangement in Africa. According to McCarthy (1999, p. 17) “the [African] experience has been that regional integration is driven by pan-Africanist ideology of continental unity and a desire to escape the constraints posed by the smallness of economies.”
Unfortunately, in spite of the proliferation of integration arrangements, there has been little or no success in regional integration in Africa, judging by the impact of RECs on intra-African trade. Intra-African trade as a share of total foreign trade has remained low. According to the *Economic Report on Africa 2003* by the Economic Commission for Africa (2003, p. 38):

Trade among Sub-Saharan African countries (Africa-to-Africa trade) accounts for only 12% of Sub-Saharan exports, up from 8% in 1989. The eight major established regional arrangements did not contribute to the increase; their shares of Africa-to-Africa trade were either stagnant or declining between 1989 and 1993.

A recent study of COMESA by Geda and Kibret (2002, p. 8) supports this finding as they find that “regional integration arrangements failed to positively affect intra-regional trade. In fact, intra-COMESA trade is not significantly different from its trade with non-member countries. This is the case whether imports or exports are used to measure bilateral trade.” The low share of intra-regional trade in total foreign trade probably reflects the high proportion of Africa’s trade with the European Union (EU) and the United States (U.S.) and the so-called “hub-and-spoke” pattern of trade. Baldwin (1997). Also contributing to this low share are structural factors like the competitive nature of primary-producing, small, low-income economies with little or no manufacturing capacity, and the existence of weak financial sectors and poor intra-state and inter-state transport and communications infrastructure in African countries. McCarthy (1999).

However, what is rather disturbing is that Africa’s regional arrangements have the lowest levels of recorded intra-regional trade of all such integration schemes in the world. Indeed, it has been found that shares of intra-regional exports are typically below 5% in African RECs; see Fouratan and Pritchett (1993). The two exceptions to this phenomenon of low intra-regional trade are CEAO and SACU, which both have shares of intra-regional trade in excess of 10% of total trade. In 1990, CEAO’s intra-regional trade amounted to 11.3% of total exports while in 1994, SACU’s intra-regional exports was an impressive 20.3% of total exports; see McCarthy (1999, p. 22). Also, several countries depend critically on trade taxes as a source of government revenue. They have therefore been reluctant to eliminate trade taxes without an assured compensatory source of revenue. In addition to the limited trade potential and the constraining structural features of the typical African country already alluded to, the low share of intra-regional trade in total trade of African RECs is attributable to many factors including:

- failure to implement reduction in trade barriers;
- inability to devise equitable arrangements for sharing the gains from integration;
- ineffectiveness of common external tariff due to requests for exemptions;
- failure to discontinue existing economic ties with non-members;
- wide differences in the degree of dependence on trade taxes as sources of revenue;
- lack of sustained political commitment;
- macroeconomic instability; and
- political instability and poor governance; see Lyakurwa *et al.* (1997) and Geda and Kibret (2002).
The barriers to intra-African trade are largely policy induced. Overcoming the barriers will necessitate changes in trade and commercial policy. Most importantly, tariff and non-tariff barriers to trade need to be dismantled. Also important will be improvements in macroeconomic policy management including the elimination of over-valued exchange rates. Within the regional economic communities, there is need for policy coordination especially in the areas of industrial production, and transport and communications infrastructure. In the long run, intra-African trade will no doubt expand with increased industrialization and rising income per capita in member countries of the RECs.

Chapter III: Africa and the WTO Regime

III.1 GATT and WTO
The World Trade Organization (WTO) is the successor to the General Agreement on Tariffs and Trade (GATT). GATT was established in 1947, after the 2nd World War -- as part of the architecture of the post-war economic landscape. The two Bretton Woods Institutions (the International Monetary Fund or IMF and the International Bank for Reconstruction and Development or World Bank, and the International Labour Organization (ILO) were all created at that time. The International Trade Organization was also to be created to oversee world-trading activities and settle trade disputes, but agreement could not be reached. GATT was therefore created as an interim organization to oversee world trade issues. It ended up existing for almost 50 years. Finally, at the conclusion of the Uruguay Round of multilateral trade negotiations (MTN) in 1994, an agreement to create the WTO was reached, and it then took off in 1995.

The legal instrument establishing the WTO consists of GATT 1994 (which includes GATT 1947), twelve Multilateral Trade Agreements (MTAs) on goods, the General Agreement on Trade in Services (GATS), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), the Understanding on Rules and Procedures Governing the Settlement of Disputes, and an agreement on a Trade Policy Review Mechanism.

The main functions of the WTO, as contained in article III of the Agreement are:(i) to facilitate the implementation, administration and operation of the Uruguay Round Agreements; and (ii) to provide a forum for negotiations among members concerning their multilateral trade relations. Many signatories to the Agreement, especially Canada, the European Community (EC; now the EU), and many developing countries saw WTO not only as a mechanism for implementing the results of the Uruguay Round of trade negotiations within a common institutional framework but also as a device for imposing more stringent discipline to preclude unilateral trade measures. According to UNCTAD’s Trade and Development Report 1994, the successful completion of the Uruguay Round of MTN and the signing of the WTO Agreement would lead to a substantial strengthening of the multilateral trading system by
• providing much more detailed rules to govern the application of a variety of trade policy measures;
• devising new multilateral trade rules to cover intellectual property and trade in services;
• achieving a substantial degree of tariff liberalization so as to maintain the momentum towards ever freer multilateral trade;
• reducing the discriminatory aspects of regional trade agreements;
• effectively raising the multilateral obligations of all countries to broadly comparable levels, with differential and more favourable treatment for developing countries being delineated in a more specific, contractual manner; and
• linking together the various agreements concluded within a formal institutional framework (i.e., WTO), subject to an integrated dispute settlement mechanism, see UNCTAD (1994: 119 and 121).

III.2 Implications of the New Agreement for Africa’s Export Trade
Note that contracting parties of GATT 1947 wishing to become original members of the World Trade Organization are required to accept all 12 MTAs on goods incorporated into the Agreement, without exceptions or reservations. They are also required to submit their schedules of tariff concessions and of specific sectoral and sub-sectoral concessions with respect to market access and national treatment for trade in service to the WTO for vetting. In essence, this has led to a substantial increase in the scope of obligations for all GATT contracting parties. The developing countries of Africa have been saddled with a quantum increase in the level of their obligations because of the fact that they have high tariffs on agricultural commodities. They have also been adversely affected since they face a higher level of obligations arising from the new General Agreement on Trade in Services and even more stringent obligations emanating from the agreement on intellectual property rights. In addition, the WTO Agreement has substantially reduced the flexibility hitherto enjoyed by developing countries under the multilateral trading system regarding their trade policies.

III.3 Provisions of Agreement on Agriculture
The long-term objective of the WTO Agreement on Agriculture is to establish a fair and market-oriented agriculture trading system. It is also aimed at initiating a reform process through the negotiation of commitments on support and protection and through the establishment of strengthened and more operationally effective GATT rules and disciplines. This long-term objective is to provide for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time, resulting in the correction and prevention of restrictions and distortions in world agricultural markets.

The WTO embodies provisions, as agreed on by developing countries, aimed at boosting developing countries performance in world trade in agricultural commodities. The WTO members agreed to have specific binding on the following three areas:

(a) market access,
(b) domestic support, and
(c) export competition and subsidies.
III.3.a Market access
An often-mentioned problem of developing countries’ agricultural export has been the lack of access to developed countries' markets, due to the institution of a myriad of import controls and other restrictions. This has largely undermined the growth prospects of developing countries whose development strategy relied on agricultural exports. In the WTO Agreement, developed country members, have agreed to take fully into account the particular needs and conditions of developing country members by providing for a greater improvement of opportunities and terms of access for agricultural products of particular interest to those members, including the fullest liberalization of trade in tropical-agricultural products,..., and for products of particular importance to the diversification of product from the growing of illicit narcotic crops.

Market access concessions relate to bindings and reductions of tariffs and to other market access commitments as specified in the WTO Agreement. The agreement further provides that members shall not maintain, resort to, or revert to any measures of the kind which have been required to be converted into ordinary customs duties. These measures include quantitative import restrictions, variable import levies, minimum import prices, discretionary import, licensing, non-tariff measures maintained through state-trading enterprises, voluntary export restraints and similar border measures other than ordinary custom duties. This is contained in Article 4 of the Agreement on Agriculture.

III.3.b Domestic farm support programs in developed countries
A basic source of distortion in the world market for agricultural commodities and primary products has been the differential level of domestic support that developed and developing countries can give to the production of these commodities. This has tended to reduce the price competitiveness of developing countries. Thus, the WTO provides for a commitment by each developed country to reduce its domestic support measures in favour of agricultural products. However, for developing countries, government measures of assistance, whether direct or indirect, to encourage agricultural and rural development are regarded as an integral part of their development programs. Hence, the WTO provides that investment and agricultural input subsidies (e.g. fertilizer) which are generally provided to low-income or resources-poor producers in developing countries shall be exempted from domestic support reduction commitments that would otherwise be applicable to such measures in developed countries. This is contained in Article 6 of the Agreement on Agriculture.

III.3.c Export competition and export subsidies
Domestic support and export subsidy policies have been employed largely by developed economies to protect their agricultural sectors. Under the Export Competition commitments, each member undertakes not to provide export subsidies or any financial contribution other than in conformity with the Agreement and with the commitments as specified in that member's schedule. The financial contribution may involve a direct transfer of funds, potential direct transfers (such as loan guarantees), the forging of revenue by the government, or the public provision of goods and services, other than infrastructure, or the government purchase of goods; or any form of income or price support. The Agreement prohibits subsidies contingent upon export performance or upon the use of domestic goods in preference to imported goods. GATT members have also entered into commitment to reduce those classes of subsidies specified in the Agreement as actionable with
accompanying target dates and a desired level of action required. The bound reduced of export subsidies are defined in Article 9(1) of the Agreement. These are to be reduced by 24% in terms of value (budget outlays) and 14% in volume over a 10-year period by developing countries. For developed countries, the corresponding figures are 36% and 21% over 6 years.

III.4 Assessment of Impact of the WTO Provisions on Africa's Agricultural Exports

Bold as the 1994 Uruguay Round initiatives were, scholars are not convinced that the real motive behind them is actually the revitalization of the developing countries' agricultural export trade. Most of the developing countries are of no significant consequence in their trade relations with the developed countries to whom their total trade is largely oriented. Indeed, despite the changes in the WTO, developing countries will continue to have a relatively weak bargaining position, as trade liberalization in the WTO remains dependent upon developed countries’ willingness to reduce tariffs and domestic support in areas of interest to developing countries. Moreover, trade in commodities has over the years been governed by Commodity Trade Agreements. There is no reference in the WTO of what will become of these Agreements. Their sustained use in the determination of commodity bargains side by side with the WTO Agreements will continue to impoverish commodity producers.

Aside from the observed internal weakness of the WTO, other factors contribute to Africa's poor competitiveness, and might hinder her ability to truly exploit opportunities presented by the WTO though the new system is expected to be problem free. These include:

- unfavourable supply conditions for cash crops,¹
- poor and unreliable infrastructure (energy, water supply, transportation),
- poor access to credit and foreign exchange, resulting in major supply problems,
- lower labour productivity in relation to most Asian countries,
- rural-urban migration away from agriculture to industrial and white-collar employment,
- pervasive poverty and poor health, and
- cumbersome export procedures.

All in all, the Uruguay Round of multilateral trade negotiations was not particularly favourable to African countries. This is to some extent related to the low level of participation by African countries in the negotiations. Also, the unfavourable results to some extent reflect imbalances whose overall effect penalized African countries. In particular, issues of great interest to African countries were not adequately covered in the Uruguay Round negotiations. Worse still, African countries accepted many binding obligations in exchange for non-binding promises from the developed countries of the North. Also, in retrospect, African countries did not fully understand the implications of many of the Uruguay Round agreements that they supported. Not surprisingly therefore,

¹ Unfavourable supply conditions for cash crops are due to (i) insufficient domestic production, (ii) relatively poor quality of outputs as a result of poor handling of crops, (iii) underdeveloped agronomic research and weakness in the link between research organizations and producers; and (iv) a lack of improved seeds and seedlings.
African countries have been faced with difficult administrative, institutional and financial problems in trying to meet the obligations which form integral parts of the WTO agreements. Many African countries have also encountered problems in trying to realize the benefits which the WTO agreements promised. A new round of negotiations, the Doha Round has been presented to developing countries as a means to redress the demonstrated imbalances and inequities of the Uruguay Round. The Doha Round has also been presented to developing countries as an opportunity to place more development-oriented issues and proposals on the negotiating agenda.

Note that expanding market access for its exports is particularly critical for Africa since it depends more on external trade than do other developing regions. In 2001, exports of goods and services accounted for 34% of the GDP of developing countries but they amounted to 40% of the GDP of sub-Saharan African countries. ECA (2003, p.20)

**Chapter IV: Barriers to African External Trade**

Attempts to expand Africa’s trade have been hampered by both internal and external constraints or barriers. Internal barriers to African trade include low per capita incomes, tariff and non-tariff barriers, overvalued exchange rates, inconvertible currencies, poor transport and communications infrastructure, anti-trade biased policies, civil wars, and poor macroeconomic policies. The external barriers to trade are those imposed by foreigners and include lack of access to Western markets and trade-distorting farm subsidies by Japan, the EU and the US.

On account of a host of factors including low productivity, lack of competitiveness, poor market access, falling terms of trade, and restrictive trade regimes, Africa’s relative market share in world exports has been declining for decades. According to the World Bank (2000, p. 192):

> Since 1970 Africa has suffered losses in its world market for agricultural exports – 55 percentage points for groundnuts, 27 points for cocoa, and 14 points for coffee.

Africa’s agricultural exports continue to be dominated by a few crops. Indeed, since 1970, nine crops, namely, cocoa, groundnuts, coffee, cotton, tea, rubber, banana, sugar, and tobacco, have accounted for approximately 70% of Africa’s agricultural exports; see World Bank (2000, p. 184). Between 1970 and 1997, Africa’s share of world trade declined for seven of its major export crops. These were cocoa, groundnuts, coffee, cotton, rubber, banana, and sugar. Africa’s relative share of world exports increased for the remaining two, viz., tea and tobacco. Overall, Africa’s share in world trade as measured by its share of world exports or world imports has steadily declined since 1970. In 1970, Africa’s share of world exports was 4.4% but by 1997, its share of world exports had declined to a minuscule 2.3%. Africa did not fare much better in imports as its share of world imports fell from 6.1% in 1970 to 3.9% in 1997.
What accounts for Africa’s declining share of world trade and declining market share of agricultural exports? First is the issue of restrictions on market access by the rich countries. This point has been well made by Sharer (2001, p. 15) who declared that “industrial country protectionism in the agricultural sector is particularly harmful to Africa, much of whose export potential is in agricultural products and processing.” However, even though industrial country trade policies and market access restrictions have played a role, the fundamental cause of Africa’s falling export could be ascribed to lack of competitiveness arising mainly from low productivity, undercapitalization, high transactions costs, inadequate market infrastructure, weak institutions and support services, inadequate diversification, and poor macroeconomic policies (including overvalued exchange rates). Thus, ultimately, it is Africa’s lack of competitiveness that has resulted in the steady marginalization of its agriculture in world trade. This is best demonstrated by comparing the agricultural export performances of Africa and Asia during the last decade of the 20th century. Asia was very competitive -- a result of high labour productivity arising from favourable economic and trade policies, high capitalization, use of modern techniques, and abundance of the requisite infrastructure. Consequently, Asia increased its market share in all the main agricultural commodities. In contrast, Africa’s market share in all the major commodities declined. An examination of African and Asian export market shares shows that between 1970 and 1993, Africa's export market share in cocoa fell by 20.2% while Asia's market share rose by 19.6%. For coffee, Africa's relative share fell by 10.3% while Asia's market share rose by 6.0%. As for cotton, Africa's export market share declined by 13.5% while Asia's share increased by 19.0%. It seems imperative therefore for African countries to produce agricultural commodities at lower costs, possibly by using new technologies, to ensure that Africa’s position in world markets is not further eroded.

Africa, of course, has comparative advantage in the production of primary agricultural commodities. Thus, ceteris paribus, Africa's exports of agricultural commodities could be significantly increased if there is a level playing field. The tariff reductions already agreed upon under the auspices of the World Trade Organization (WTO) are no doubt useful. But more needs to be accomplished in future rounds of trade negotiation to ensure that Africa's gains are maximized. In particular, efforts should be made to reduce non-tariff barriers by the Organization for Economic Co-operation and Development (OECD) countries on Africa's agricultural exports, and in general, to increase market access. According to Sharer (1999, p. 26), “[d]uring the round of talks launched in Seattle, African nations should join forces to persuade industrial countries to liberalize agriculture and open their markets to Africa's exports.”

It is true that a country’s export performance depends on many factors, including its natural endowments and its macroeconomic and structural policy environment, i.e., its domestic policies but the external environment is also often quite critical. Sharer (1999, p. 27) states the matter thus with particular reference to Africa:

Africa's export performance will be determined primarily by domestic polices. However, enhanced access to industrial country markets is also important and could provide African countries with additional incentives to reform their domestic polices.
In this context it is noted that industrial countries tend to have restrictions on imports of agricultural products, an area where much of Africa's export potential is concentrated. For example, in 1997, the average most-favoured nation tariff in the European Union (EU) was approximately 15% for imported unprocessed agricultural commodities and 25% for processed agricultural products. These were much higher than the 4% tariff that was levied on other goods; see Sharer (1999). Also, in the OECD countries, especially in the European Union, non-tariff barriers in the form of product price supports, export subsidies and marketing arrangements also help to fence out agricultural imports. It has been estimated that agricultural subsidies in the OECD countries amount to 1.5% of their total GDP; see Sharer (1999). Data contained in the UNDP's *Human Development Report 2003* show that in 2001, the OECD countries' agricultural subsidies totaled US$311 billion which exceeded sub-Saharan Africa’s GDP of US$301 billion; see UNDP (2003, p. 156).

Thus, in addition to the problem of lack of market access, there are the important issues of trade-distorting farm subsidies and trade-distorting export subsidies by the advanced developed countries. High farm subsidies encourage over-production of primary products like cotton in advanced countries. The resulting artificial increase in world supply in turn leads to falling prices and declining incomes in African countries that depend almost entirely on the exportation of these primary products. In addition, according to UNDP (2003, p. 12), “…agricultural subsidies in rich countries lead to unfair competition. Cotton farmers in Benin, Burkina Faso, Chad, Mali and Togo have improved productivity and achieved lower production costs than their rich country competitors. Still, they can barely compete. Rich country agricultural subsidies total more than US$300 billion a year – nearly six times official development assistance”. The World Bank has analysed OECD subsidies to agriculture and their effect on Africa and other developing countries. It found that transfers to farms in OECD countries reached staggering amounts in the late 1990s. According to the World Bank (2000, p. 177):

> In 1996, transfers were estimated at US$300 billion [...], about the same as Africa's GDP. These transfers are largest in the European Union, with Japan and the United States transferring income at just over half the EU level.

It is obvious that removing the OECD subsidies to agriculture would result in significant benefits to developing countries, including African countries. In the first place, production patterns would shift, with agricultural production falling in OECD countries and rising in developing countries. For example, it is estimated that meat production in Africa could increase by 20 per cent. Secondly, real income in Africa and other developing regions would rise. According to the World Bank (2000, p. 177), “[a]nnual per capita income would increase by US$1 in South Asia, US$4 in Southeast Asia, US$6 in Africa, and US$30 in Latin America.” The trade liberalization aspects of globalization therefore still have a long way to go. Clearly, proper implementation of the tenets of globalization would result in huge gains for Africa’s agricultural production.

Before ending this section, it would be helpful to provide an overview or summary of the constraints and challenges of agricultural production in Africa. It would seem that there are both external and domestic obstacles to reaping the full benefits of globalization. The external constraints arise partly from the region's excessive reliance on the exportation of
primary commodities whose prices tend to be volatile. This makes Africa to be highly susceptible to adverse external trade shocks and the vagaries of international trade cycles. Another constraint is the high tariff and non-tariff barriers to Africa's agricultural exports by OECD countries. Finally, there is the issue of excessively high farm subsidies and export subsidies for primary products by the industrialized countries. On the domestic side, constraints include supply bottlenecks arising from rigid land tenure systems, antediluvian farm technologies, poor infrastructure, low on-farm investment, and weak rural financial systems. Other constraints include socio-economic and political instability, and poor macroeconomic policies.

Arising from this analysis, the recommendations for enhancing Africa's agricultural production, exports, and economic growth include the need:

- for diversification both within agriculture and into manufacturing;\(^2\)
- to promote a conducive and favourable environment for domestic and foreign investment;
- to adopt stable, transparent, predictable and growth-promoting macroeconomic policies;
- to promote a stable social and political environment for sustainable economic growth; and
- to improve market access (preferably by granting across-the-board, bound, duty-free, and quota-free access to industrial country markets for primary products from African countries) and to reduce agricultural subsidies in the industrialized countries.

### IV.1 Export Subsidies by Developed Countries

While advocates of liberalization in the economies of the developing countries have called for reduction in subsidies, the high levels of subsidies in developed countries have increased significantly especially in the OECD countries. Subsidies have increased from US$247 billion in 1986-88, to US$270 billion in 1997 and US$274 billion in 1998. Similarly, US subsidy levels increased from US$41.4 billion in 1986-88 to US$50.0 billion in 1998. While the Uruguay Round advocates the reduction of subsidies in most developing countries, subsidies have been on the increase in OECD countries and the United States.

### IV.2 Removal of Barriers and Enhancement of Market Access

It is now widely believed that a major challenge to the expansion of trade by African countries is that of increasing access to developed country markets. In other words, if Africa’s external trade is to be significantly expanded, ways must be found to remove the external barriers to African trade, viz., lack of access to developed country markets, reduction of tariff and non-tariff barriers to African agricultural exports, reduction or elimination of trade-distorting domestic farm supports and elimination of export subsidies in developed countries.

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\(^2\) There is need to diversify both food crops and cash crops, particularly non-traditional export crops that can be profitably produced in Africa's agro-ecological conditions. Such commodities include horticulture and floriculture. Already, Burkina Faso, Kenya, Tanzania, Zambia, and Zimbabwe have started exporting these products. Other non-traditional export crops that have captured the interest of African countries include shrimps, tuna, fish, cashew nuts, Soya beans, and Arabic gum.
It had been hoped that the Doha Round of WTO would be used to solve the problem of improving access for agricultural products exported. Unfortunately, the Doha virtually collapsed as a result of the inability of Japan, EU, and the US to agree on tariff reductions. However, there is no choice but to continue to negotiate to bring down tariffs on agricultural products of developing countries and to reduce trade-distorting export subsidies and domestic subsidy to farmers in developed countries. These issues will now be addressed at the WTO meeting scheduled to hold in Hong Kong in December 2005.

An important initiative likely to improve market access for Africa is the US’ African Growth and Opportunity Act (AGOA). This initiative was introduced in 2000 and is designed to give most African countries preferential access to the US market for some categories of products, mainly petroleum products, agricultural commodities, and manufactured products such as textiles. Already, exports from Gabon, Lesotho, Madagascar, Mauritius, Nigeria, South Africa, and Swaziland have increased as a result of AGOA. More countries are expected to benefit in the future. While beneficial to Africa since it gives African countries an advantage over other regions, its benefits are rather limited as it does not cover all exports from Africa and there are some stringent “rules of origin” requirements enshrined in the Act of Congress.

Also, the EU’s “Everything but Arms” initiative, approved in 2001 has the potential to improve market access to the EU for African countries. The objective of the EU’s initiative is the elimination of quotas and duties on all products except arms imported from 49 least developed countries, most of which are in Africa. Proper implementation of this initiative is likely to significantly increase Africa’s exports to the EU in the years ahead.

Chapter V: New Approaches to Trade Development in Africa

One of the new approaches that can be used to foster trade development in Africa is establishment of export processing zones (EPZs). EPZs or duty free zones are areas where domestic and foreign firms locate their production facilities for manufacture, assembly or processing of goods. (Din, 1994) The advantages that EPZ creation offers include the rapid expansion of the industrial base, stimulation of the domestic sector through linkages with the rest of the economy, and alleviation of the problem of unemployment in the host country. The Asian and Pacific countries have used free trade zones as instruments of development more than any other developing nations. The establishment of EPZs has been a huge success in Hong Kong, Singapore, China, Taiwan and South Korea.

There are divergent views on the role of EPZs in stimulating and sustaining economic growth. Rondinelli (1987), in his review and reassessment of EPZ as a means of promoting growth, increasing employment, and promoting economic development in Asia, argued that EPZs have created new employment, generated foreign exchange,
expanded national revenues and increased export flows. He however added that large EPZs might promote undesirable in-migration from rural areas and produce more dependence on foreign-owned firms. Nevertheless he concluded that the benefits that EPZs confer are usually more than the cost.

Heron (2002) presents an assessment of the contribution EPZs in the Caribbean in terms of the costs and benefits associated with offering preferential treatment to export-oriented investment, the backward linkages fostered between assembly operations and the domestic economy, as well as the extent of technology transfer. He concludes that even though the EPZs offer the host country undeniable benefits in terms of employment and foreign exchange earnings, their contribution to industrial transformation is not substantial. However, in practical terms, it seems clear that the establishment of an EPZ would normally lead to the creation of new employment, generate foreign exchange, increase national revenue, increase export flow and also attract foreign investment. While, this is not without a cost, the benefits produced by EPZs are usually quite significant.

The success of the newly industrializing countries of South-east Asia (Hong Kong, Singapore, South Korea, and Taiwan) in developing through industrial export-led growth has demonstrated that this is a bone fide avenue for rapid economic development, Iyoha (2003). A pre-requisite for successful growth that is driven by the exportation of manufactured goods is domestic industrialization and vigorous export promotion. In addition to the production of high-quality manufactured goods, successful exportation requires creative marketing, attractive packaging, acquisition of information on demand conditions in foreign markets, flexibility, adaptability and zeal in penetrating foreign markets. Africa has the potential in terms of human resources, raw materials, and access to the requisite technology. What are needed are the will, organizational acumen and persistence to succeed.

For several reasons especially the success of export-led growth in South East Asia, the current international orthodoxy is in favour of export-oriented trade policy. A critical feature of such a strategy is export promotion. The policy of export promotion is being canvassed for many reasons including:

- the improvement of the balance of trade and balance of payments;
- a source of export-led growth;
- in order to promote capital inflows and improve the competitiveness of domestic industries; and
- a means of encouraging the diversification of production and exports.

V.1 Export Promotion Policies in African Countries

Export promotion is a wide-ranging policy initiative that has many components and dimensions. Policies and strategies for export promotion are designed to:

- enhance the marketability of exportables through product diversification and quality improvement;
- strengthen and improve the institutional framework for providing better support services to exporters and export-oriented industries;
establish backward linkages between export-oriented industries and primary sectors for the utilisation of local raw materials;
• attract an increased number of entrepreneurs for setting up export-oriented industries and encourage them through the provision of suitable incentive packages, as well as appropriate human resources development programmes for the promotion of entrepreneurial and managerial skills in the context of a competitive international environment;
• expand and consolidate existing export markets as well as create new markets for African exportables;
• ensure the removal of procedural and regulatory bottlenecks incompatible with the attainment of the objectives of an export-led growth policy;
• promote programmes for developing export-oriented knowledge-based resources, including computer software, Internet facilities and electronic commerce, engineering and consultancy services;
• diversify and increase the exportation of high value-added manufactured products, that depend on the natural resources where Africa has comparative advantage; and
• encourage the acquisition and adaptation of environment-friendly technologies to ensure that African products meet the required international standards.

V.2 Export Promotion Strategies for Primary Products
Many believe that agricultural exports can be made to once again contribute substantially to export earnings. In addition to the traditional export commodities, it is believed that Africa has significant potential for export of the following products: horticulture, Soya beans, shrimps, fish, cashew nuts, and gum Arabic. Note that in order to have a reasonable chance of success, government should vigorously promote improvements in rural infrastructure, enhance extension delivery services, undertake aggressive marketing, provide comprehensive agricultural trade information and offer other requisite incentive packages and trade support infrastructure.

V.3 Export Promotion Strategies for Manufactured Goods
It is well known that the gains from export of processed and manufactured goods are greater than those from exporting primary commodities largely because of the higher value added. Therefore most developing countries aim at supplementing the exportation of primary products with the export of manufactures, and eventually, like the Asian Tigers, concentrating on processed and manufactured exports.

It is apparent that specific steps and measures need to be adopted and implemented in order for African countries to be successful exporters of manufactured goods in an increasingly competitive global environment. To effectively pursue the trade policy in industry, a number of constraints which currently impede the export of manufactured goods must be addressed with the zeal they deserve. Among such constraints are:
• inadequate infrastructural facilities;
• excessive import dependence;
• lack of export awareness or culture of export among Nigerian manufacturing establishments;
• policy instability and lack of predictability;
significant price and exchange rate instability;
low level and high cost of funds for industrial development;
insufficient emphasis on R & D activities;
inappropriate technologies; and
ineffective regulatory institutions which manifest in e.g. ports difficulties, export bottlenecks, bureaucratic delays and rent seeking.

It is clear therefore that Africa currently has export potentials in many lines of products. Import of technology and adaptation of currently available techniques would permit entry to other areas like assembly of electronic products and exportation of metal products.

Chapter VI: Concluding Remarks

In the 19th and 20th centuries, trade has by and large been an engine of economic growth for the global economy. It has also acted as an engine of growth for particular national economies -- in the 19th century, Canada and Australia and in the 20th century, Japan. In recent years, trade has acted as an engine of growth for the newly industrializing countries of Southeast Asia, the so-called "Gang of Four", namely, South Korea, Taiwan, Hong Kong, and Singapore. Briefly, the dynamic gains from trade arise from the effects of trade on the level of investment, and on the state of technical knowledge in the country. The increase in investment and improvements in innovations and technical progress will then lead to increased productivity and competitiveness, and trigger a further increase in trade. This positive feedback effect continues and brings about a "virtuous circle" of increased trade and economic growth.

However, the marginalization of many African countries especially during the last two decades shows clearly that Africa needs to adopt and prosecute a policy of structural transformation in order to achieve rapid and sustainable economic growth, raise living standards, and reduce the incidence of poverty. Since African countries are generally primary producing, structural transformation involves diversifying into manufacturing for export. Export diversification refers to a deliberate policy to expand number and type of exported items. This is important for primary producing countries that obtain the bulk of their export earnings from one or two primary commodities. Dependence on one or a few primary commodities leads to instability of export receipts and foreign exchange earnings especially in a world of volatile primary commodity prices. Instability of commodity prices inevitably leads to balance-of-payments problems and inability to steadily finance development expenditures.

The obvious solution is to encourage exportation of other products or, more importantly, the exportation of manufactured goods. Dependence on manufactured exports is more beneficial as manufactured goods tend to have high price and income elasticities of demand. Consequently, foreign exchange earnings from manufactured exports tend to rise more rapidly over time and to be less volatile. Thus, a major benefit of export diversification is that the country will become less susceptible to internationally
transmitted shocks, particularly commodity trade cycles, and in general, the volatility of global primary commodity prices. This will enhance development programming and boost the rate of economic growth. Export diversification often goes hand in hand with export promotion, which refers to the set of measures and policies used by a country to boost the volume, value and variety of its exports in order to increase foreign exchange earnings, ensure balance-of-payments viability and promote economic development.

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