

# **Africa's Role in Multilateral Trade Negotiations: Past and Future**

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table 3

**Table 3 SSA countries as principal markets for EU exports, 1995**

Country	No. of headings	Trade flows in these headings, ECU million	These headings as % of total EU exports to the country	Exports to	Exports to SSA	Two Major products, (HS-2)
				principal market as % of total EU exports in these headings	as % of total EU exports in these headings	
Angola	17	201.6	25.2	62.4	64.6	starches ect, ships
Benin	4	30.0	11.1	18.3	48.6	cotton, pearls
Botswana	1	2.0	2.3	15.3	50.0	vehicles
Burkina Faso	1	1.3	0.7	18.5	31.3	machinery
Burundi	2	1.4	1.9	30.2	55.1	fertilizer, iron/steel
Cameroon	4	27.6	4.9	7.6	46.9	other textiles, zinc
Comoros	1	0.0	0.1	66.7	76.2	fats, veg/fruit pre.s
Congo	3	15.1	3.2	11.5	26.1	veg/fruit prep.s
Cape Verde	4	1.8	1.2	35.4	39.3	iron/steel, machinery
Cote d'Ivory	9	53.8	4.5	35.8	58.2	fish, iron/steel
Djibouti	1	0.0	0.0	33.3	66.7	cereals
Ethiopia	4	3.8	0.8	26.1	34.4	stone, machinery
Gabon	3	1.1	0.2	7.5	34.3	explosives, elec. eqpt.
Gambia	1	1.2	2.1	70.8	93.5	fats
Ghana	9	9.9	1.3	33.8	40.8	meat, railway eqpt
Guinea	1	0.3	0.1	31.9	36.7	beverages
Kenya	6	7.3	0.9	27.1	32.6	organic chemicals, machinery
Liberia	3	897.6	72.4	55.0	55.2	soaps, ships
Madagascar	1	0.7	0.3	36.0	37.0	silk
Mali	2	0.3	0.1	37.6	40.3	fish, organic chemicals
Mauritania	2	4.0	1.7	17.2	29.7	cotton, iron/steel
Mauritius	1	4.0	0.6	25.3	29.2	cotton
Mozambique	2	12.8	9.0	26.8	40.8	cereals, aluminium
Nigeria	32	110.9	5.4	23.5	34.8	fish, inorganic chemicals
Rawanda	1	0.0	0.1	20.7	41.5	photo/cine products
Reunion	26	25.1	1.7	21.7	29.3	iron/steel, ships
S. Africa	69	298.9	3.5	22.0	24.9	machinery, elec.eqpt.
Senegal	8	2.8	0.4	20.3	39.9	fats, misc. chemicals
Sudan	2	0.8	0.3	10.5	13.4	inorganic chemicals, glass
Tanzania	2	0.5	0.2	7.9	29.8	veg/fruit prep.s, machinery
Togo	1	0.1	0.0	30.5	34.7	meat preparations
Uganda	4	3.1	1.7	13.6	33.1	essential oils, stone
Zaire	9	2.4	0.7	29.7	68.3	meat, other textiles
Zimbabwe	2	3.5	0.9	29.2	42.8	staple fibers
<b>SSA</b>	491	4526.6	18.6	22.1	22.1	

Table 2 Sub-Saharan African Countries as Principal Suppliers to the EU, 1995

(A)

Country	no. of headings for which principal supplier	Trade flows in these headings, ECU million	These headings as % of total exports to EU	Average share of principal supplier in EU imports in these headings	Average share of total SSA countries in EU imports in these headings	EU average post-UR bound tariff in these headings	two major products, (HS-2)
Angola	1	1.0	0.2	32.4	50.9	1.5	fish
Benin	2	10.6	18.3	76.3	94.4	0.0	meats and oil seeds
Burundi	1	51.9	35.9	34.1	42.9	0.5	gold
Cameroon	7	160.3	13.8	57.7	99.3	0.0	wood
Congo	1	10.7	1.5	62.0	92.7	0.6	sheets for plywood
Cote d'Ivoire	24	1129.8	54.6	45.5	75.6	3.7	cocoa, wood, fish
Gabon	5	162.5	20.3	60.6	78.9	6.3	manganese ores
Ghana	7	59.5	7.1	22.3	49.0	10.7	cocoa, oil seeds
Guinea	1	169.8	56.9	58.0	61.7	0.0	aluminium ores
Kenya	17	204.5	31.6	34.8	50.0	6.4	tea, fruits, vegetables
Liberia	1	578.2	90.7	12.4	33.9	0.0	diamonds
Madagascar	10	79.8	23.1	47.1	61.1	5.2	fruits, clothing (hats)
Malawi	1	32.6	23.1	83.3	87.2	0.0	unmanufactured tobacco
Mauritania	1	4.9	1.9	8.5	39.7	0.0	frozen fish
Mauritius	7	308.3	30.2	28.5	51.6	14.0	sugar, clothing (shoes)
Namibia	7	46.3	12.6	38.4	62.3	15.5	fish, meat
Niger	1	83.7	69.2	68.4	84.6	0.0	radioactive chemicals
Nigeria	11	78.0	2.3	46.6	63.2	2.8	sheep skin leather
Reunion	7	1.7	1.4	34.9	35.0	4.4	prepared meats, cereals
S. Africa	143	4289.8	55.7	35.1	38.5	0.8	gold, fruits, wine, cereals
Senegal	5	84.3	22.8	48.9	64.4	7.9	nut oil, oil-cake and meal
Somalia	1	0.7	3.6	53.3	80.8	0.0	molluscs
Sudan	4	43.2	25.1	38.2	62.2	0.0	oil seeds and natural rubber
Tanzania	6	3.4	1.7	36.8	47.1	22.3	dried leguminous products
Togo	1	1.1	1.5	26.8	69.1	0.0	other goods
Uganda	2	14.6	4.1	35.4	75.4	4.6	fish, raw hides and skins
Zaire	4	505.0	60.0	53.2	54.2	10.6	diamonds, plants
Zambia	1	51.8	28.5	45.6	51.2	0.0	others goods
Zimbabwe	10	18.2	2.9	38.7	56.0	0.0	pepper, powders

(B)

	no. of headings for which principal supplier	Trade flows in these headings, ECU million	These headings as % of total exports to EU	Average share of principal supplier in EU imports in these headings	Average share of total SSA countries in EU imports in these headings	EU average post-UR bound tariff in these headings
CEAO	37	1434	47.9	45.6	71.5	5.1
ECOWAS	63	3218	38.1	37.5	49.7	3.9
UDEAC	14	427	14.7	71.6	89.1	1.7
COMESA/PTA	67	1108	22.2	42.8	52.1	9.2
SADC	176	5055	50.1	36.0	38.2	5.5

Sheet1

<b>CBI</b>	73	1179	27.9	44.5	52.4	9.1
<b>SSA</b>	326	13615	53.5	40.9		

Note: West African Economic Community (**CEAO**)—Benin, Burkina Faso, Cote d'Ivoire, Mali, Mauritania, Niger and Senegal.

Economic Community of West African States (**ECOWAS**)—all seven members of CEAO and Cape Verde, Gambia, Guinea, Guinea-Bissau, Liberia, Sierra Leone, Nigeria and Togo.

Central Africa Economic and Customs Union (**UDEAC**)—Cameroon, Central African Republic, Chad, Congo, Gabon, Equatorial Guinea.

Common market for Eastern and Southern Africa (**COMESA**)/Preferential Trade Area for Eastern and Southern African States (**PTA**)—

Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Rwanda,

Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe

South Africa Development Community (**SADC**)—Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa,

Swaziland, Tanzania, Zambia and Zimbabwe.

Cross-Border Initiative (**CBI**)—Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Tanzania,

Uganda, Zambia and Zimbabwe.

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table 1

**Table 1 Major importers' MFN tariff reductions on exports<sup>1</sup>****(A) from Sub-Saharan Africa**

% of exports GATT bound Average levels and changes weighted by countries' exports

	Total pre-UR	increase due to the "Round"	% of exports affected	Tariff reduction <sup>3</sup>	Post-UR bound rate	Post-UR applied rate
Agriculture, exc. Fish: Estimate1 <sup>2</sup>	80.8	19.2	4.1	0.7	18.6	14.9
Agriculture, exc. Fish: Estimate2 <sup>2</sup>	79.1	20.9	55.3	2.4	10.0	4.8
Fish and Fish Products	79.0	20.5	51.2	2.5	7.7	6.6
Petroleum oils	50.0	1.0	10.4	0.6	1.9	3.1
Wood, Pulp, Paper and Furniture	83.8	8.1	30.5	1.4	2.7	2.7
Textiles and Clothing	90.4	4.2	73.6	1.6	10.6	9.8
Leather, Rubber, Footwear	85.6	8.6	47.0	0.8	4.4	4.8
Metals	87.6	6.6	17.4	0.5	2.0	1.7
Chemical & Photographic Suppl.	70.4	16.2	45.4	2.5	7.7	6.0
Transport Equipment	94.8	3.0	27.0	0.8	6.4	6.0
Non-Electric Machinery	91.3	5.4	69.1	2.4	2.5	1.8
Electric Machinery	88.3	4.4	67.7	1.8	5.6	4.4
Mineral Prod.,Prec. Stones & Metal	88.3	4.4	8.9	0.2	1.3	1.1
Manufactured Articles nes.	83.7	9.7	18.3	0.6	5.8	2.7
Industrial Goods	86.7	8.9	18.5	0.4	3.2	2.2
All Merchandise Trade	78.4	13.5	29.7	1.4	4.1	2.7

**(B) from other low-income developing countries**

% of exports GATT bound Average levels and changes weighted by countries' exports

	Total pre-UR	increase due to the "Round"	% of exports affected	Tariff reduction <sup>3</sup>	Post-UR bound rate	Post-UR applied rate
Agriculture, exc. Fish: Estimate1 <sup>2</sup>	59.9	39.8	9.9	1.0	28.5	15.9
Agriculture, exc. Fish: Estimate2 <sup>2</sup>	55.1	44.7	27.7	1.2	19.9	9.0
Fish and Fish Products	68.2	25.9	51.8	1.7	4.4	3.7
Petroleum oils	38.8	3.8	0.3	0.0	6.7	1.7
Wood, Pulp, Paper and Furniture	62.0	32.3	42.4	2.1	6.0	3.2
Textiles and Clothing	83.8	7.0	72.2	1.6	11.8	10.8
Leather, Rubber, Footwear	74.4	20.2	51.2	1.0	9.0	5.6
Metals	74.5	13.2	20.3	0.7	7.1	3.4
Chemical & Photographic Suppl.	66.8	24.7	45.7	2.6	12.4	7.8
Transport Equipment	60.1	8.4	21.1	0.4	9.2	8.6
Non-Electric Machinery	64.8	24.3	48.3	1.5	6.5	3.9
Electric Machinery	55.9	21.0	28.8	0.8	8.9	5.2
Mineral Prod.,Prec. Stones & Metal	63.0	14.7	21.9	0.7	3.9	4.3
Manufactured Articles nes.	81.2	14.3	38.5	1.5	7.0	2.1

table 1

Industrial Goods	76.4	14.2	39.5	1.1	7.4	5.9
All Merchandise Trade	70.5	18.3	36.0	1.1	8.9	5.8

**(C) from other developing countries**

% of exports GATT bound Average levels and changes weighted by countries' exports

	Total pre-UR	increase due to the "Round"	% of exports affected	Tariff reduction <sup>3</sup>	Post-UR bound rate	Post-UR applied rate
Agriculture, exc. Fish: Estimate1 <sup>2</sup>	57.4	42.6	7.3	1.4	30.3	19.7
Agriculture, exc. Fish: Estimate2 <sup>2</sup>	59.6	40.3	32.7	1.5	19.0	9.5
Fish and Fish Products	72.2	24.7	39.2	1.5	5.8	4.5
Petroleum oils	52.4	9.1	4.0	0.1	7.3	3.0
Wood, Pulp, Paper and Furniture	75.7	20.4	39.5	2.1	6.9	3.1
Textiles and Clothing	85.5	10.5	73.9	1.9	14.9	13.3
Leather, Rubber, Footwear	78.5	16.3	47.9	1.2	10.5	9.5
Metals	75.9	17.5	28.6	1.1	6.4	3.0
Chemical & Photographic Suppl.	66.4	27.0	41.3	2.2	11.8	6.7
Transport Equipment	74.7	12.3	27.5	0.7	10.5	7.0
Non-Electric Machinery	75.6	19.4	55.1	1.7	7.9	4.3
Electric Machinery	74.3	17.9	51.9	1.6	9.8	6.2
Mineral Prod., Prec. Stones & Metal	75.2	15.1	27.1	0.7	5.9	3.6
Manufactured Articles nes.	81.6	14.3	38.2	1.7	6.5	2.9
Industrial Goods	78.3	15.8	40.2	1.2	8.3	5.8
All Merchandise Trade	70.6	18.7	31.2	1.0	9.2	5.7

**Source:** Authors's calculations based on J. M. Finger, M.D. Ingco and U. Reincke (1996)

**Note:** 1. Unweighted averages across countries.

2. See p.5-6 of Finger, Ingco and Reincke 1996 for the explanation of differences between estimate1 and estimate2.

3. Weighted average tariff reduction measured by  $dT/(1+T)$  in percent.

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## 1. Introduction

There is now a very broad consensus that open economies grow faster than closed ones and nowhere is this message more important than in Africa. While opinions differ about exactly what constitutes openness and integration with the world economy, there is also little disagreement that most African economies need to liberalise their international trade regimes significantly over the next decade. Multilateral trade negotiations can not lead or force that process of reform but they can almost certainly assist it. Thus this paper looks at the role of African countries in the last, Uruguay, Round of multilateral trade negotiations and their potential role in the next one. It also argues that in terms of access to partners' market trade preferences are no substitute for bound most-favored-nation (MFN) tariff reductions, and that Africa should focus its negotiating efforts on the latter rather than the former.

The paper is organised as the follow. Section 2 briefly presents the background to the study. It reviews the arguments and evidence that African economies need to open up to world trade in order to stimulate their economic growth, drawing and elaborating upon a major program of research in the World Bank — Amjadi and Yeats (1995a, b), Amjadi, Reincke and Yeats (1996), Ng and Yeats (1996), and Yeats (1997a).<sup>1</sup> The evidence suggests that it is African countries' own trade policies and not those of their partners that must be changed in order to promote growth.

Section 3 analyses the African economies' role in the Uruguay Round. It briefly notes that they undertook rather little liberalisation themselves and then quantifies the concessions that they received from their trading partners in the Round. It concludes that, while African countries achieved less in the Round than did other developing countries (possibly because they offered less), they still emerged from it facing fewer or lower trade barriers than others.

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<sup>1</sup> In addition to their printed forms the later papers of this series are available on the International Trade Division's web site <http://www.worldbank.org/html/iecit/archive.html>.

Section 4 asks what role African countries might play in the next Round of trade negotiations. Despite their very small size economically, they still have negotiating rights, under GATT/WTO “Principal Supplier” conventions, on the tariffs levied on between one-third and one-half of their exports to the European Union. By offering suitable reciprocal concessions they should be able to achieve significant liberalisation in these areas. Following section 2, we believe that ideally trade reform should be started—or, rather, accelerated—unilaterally as soon as possible in Africa. Nonetheless, it is still useful to consider the role that multilateral trade negotiations could play, for they can support domestic reform efforts by providing reciprocal concessions from trading partners that help to turn exporters into a more coherent force for import liberalisation. Negotiations probably also improve the general atmosphere for liberalisation and, of course, generate some direct benefits as well. We consider, therefore, how African countries have, and might in future, use concessions in periodic Rounds of trade negotiations to underpin their own reform efforts.

Section 5 notes that African exports receive tariff preferences in their major markets. It argues that preferences are not a constructive way of pursuing long-run integration with the global economy and that, instead, African countries should use their negotiating rights to achieve unfettered access to markets on a bound MFN basis. Finally section 6 concludes.

One important caveat is in order. Analysis of the type conducted here is very data intensive and thus depends critically on data availability and quality. It is widely recognized that data on SSA are weak not only in terms of collection and quality within the SSA countries themselves, but also in terms of reporting to international organizations. Indeed, the failure of many SSA countries consistently to report their international trade data to the United Nations—see Yeats (1997b)—and their trade and trade barriers to the WTO and UNCTAD is itself one aspect of their weak commitment to integrating with a world in which ‘information is king’.<sup>2</sup> The failure of SSA countries to collect and report

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<sup>2</sup> We recognize that data collection and reporting entails costs, but these are not huge relative to the benefits of understanding the economy.

data undermines efforts to understand the nature of African economic problems and opportunities, and could clearly lead to misperceptions in important areas such as the effectiveness of policy, the sustainability of growth and the eligibility for debt packages. To pressure governments to give higher priority to data collection and reporting—including seeking relevant technical assistance—would be a feasible and useful contribution that the African research community could make towards African well being.

Throughout this paper we define “Africa” as Sub-Saharan Africa (SSA), not because North Africa is unimportant, but in order to keep the topic manageable. We use the World Bank definition of SSA.<sup>3</sup>

## **2. Background: Open Economies Work Better**

Many scholars have analyzed the impact of openness on economic growth and the majority have concluded that more open or liberal regimes achieve higher rates of economic growth than closed ones. Among the more recent studies are Dollar (1992), Sachs and Warner (1995), the World Bank (1996). These have used different countries, different periods and different measures of openness, but all have concluded that outward orientation fosters growth. All also argue that one element of openness is the trade regime and that at some level, having lower and fewer barriers to trade is likely to enhance growth.

Nowhere are growth-enhancing policies more important than in Sub-Saharan Africa. On average SSA’s GDP per head was about \$509 in 1995 (\$297 excluding South Africa) and it has hardly changed over the last three decades. SSA accounts for approximately 1.1% of world GDP (0.6%) and 1.4% of world exports (0.8%)—World Bank (1997). SSA’s poor growth performance has been reflected not only in static income per head, but also in a rapidly declining share of world commerce. Ng and Yeats (1996)

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<sup>3</sup> Sub-Saharan Africa comprises countries of : Angola, Benin, Botswana, Burkina Faso, Burundi, Côte d’Ivoire, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mayotte, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zaire, Zambia, Zimbabwe.

show that the decline in the SSA share of world exports between 1962-4 and 1991-3 has reduced the absolute value of its exports by over \$11 billion per year. This result reflects declining shares in nearly all sub-sectors of world trade, plus a tendency for SSA exports to be concentrated in products whose share of world trade is declining. The top thirty 3-digit SITC(R1) commodity groups that accounted for the largest shares of SSA's exports in 1962-4 had displayed huge losses of market share by 1991-3, with shares of OECD imports falling from 20.8% of these commodities to 9.7%.<sup>4</sup>

Ng and Yeats' result might be taken as evidence of poor performance, but it could equally well reflect great dynamism in SSA export bundles; after all, Hong Kong's current shares in the products it exported in 1962-4—toys, clothing, etc.—have fallen dramatically. Unfortunately, however, the latter interpretation does not hold up for SSA. We have examined SSA's performance in the 30 commodities that had the largest shares of SSA exports in 1991-3.<sup>5</sup> These are the region's major exports at the present time, and if dynamism explained the decline in market shares for traditional exports, these newer ones should show spectacular growth rates. (Also, just as any randomness in market shares would tend to reduce the growth rates of the exports that were largest at the start of the period, it would tend to exaggerate those that were largest at the end of the period.) These 30 commodities accounted for 42% of SSA exports in 1991-3, compared with 72% in 1962-4, which evidences considerable export diversification. Unfortunately, however, even in these "newer" commodities SSA's shares of OECD imports have fallen more often than not, and its overall share in them has fallen from 9.4% to 6.3%.

Thus the loss of SSA market share in OECD stems from a generalized loss of competitiveness, rather than the emergence of a particular competitor or a particular change in circumstances. This is important in seeking to understand and address the problem. It is also important to recall SSA's very small size. Together these two features mean that even major improvements in SSA's export performance will be pin-pricks to the

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4 Part of SSA's loss of share to OECD countries in products such as cocoa, coffee and tea presumably reflects an increased tendency to trade processed varieties between OECD countries rather than the displacement of raw product exports.

5 We are grateful to Alexander Yeats for making these calculations.

rest of the world and hence should be easy for it to accommodate. We do not argue that it is up to others to turn SSA around—indeed, just the opposite—but it is comforting to see that a turnaround will not generally have serious adjustment consequences for other countries and hence stimulate their opposition.

Having stressed the poor economic performance of the SSA countries and the general importance of openness in stimulating exports and growth, it is natural to ask whether the two phenomena are related. The answer is ‘almost certainly so.’ It is well known that over the periods for which analysis is available, most SSA countries have maintained extremely restrictive trade regimes. Many studies suggest a strong anti-export bias in SSA countries’ trade policy, which is frequently further compounded by domestic tax regimes and monopoly marketing arrangements, both of which typically impinge disproportionately on agriculture—SSA’s major export sector. Moreover, although since the mid-1980s considerable progress has been made in liberalisation—see, for example, World Bank (1994), Foroutan and Nash (forthcoming), and Oyejide, Ndulu and Gunning (1997)—SSA countries are mostly still substantially less open than those of East Asia and the western hemisphere. Updating data in Ng and Yeats’ Appendix suggests that tariffs average 26% in SSA compared with 17% in other developing countries, total charges on imports average 33% compared with 26%, and NTB coverage ratios average 34% compared with 18%. Also, as Oyejide, Ndulu and Gunning observe, even the reforms that have been achieved to date are subject to reversal. In some cases this has already occurred—e.g., Nigeria and Côte d’Ivoire—but even where it has not, questions remain about the credibility and sustainability of the reforms.

An understandable and instinctive reaction to the evidence on SSA’s falling trade shares is to believe that OECD markets are, if not actually closed, hostile to SSA exports. There is clearly some truth to these claims so far as temperate agricultural exports are concerned, for they face explicit and, frequently, high barriers in most OECD countries—for example, on beef or sugar. There are doubtless also some cases of tight restrictions on manufactured exports—for example, US quantitative restrictions on Kenyan exports of shirts. However, as a general explanation of the failure to industrialize and supply

manufactured exports, the ‘hostile markets’ hypothesis is not adequate. Several pieces of evidence lead to this conclusion.

First, access to OECD markets is fairly uniform across developing countries, especially when one recognizes that many simple manufactures are footloose in the sense of being as well suited to one developing country location as another. Thus market access cannot, by itself, explain the huge variance in performance across countries.

Second, the tariffs facing developing country exporters now are far lower than those ruling in the early 1960s when the first “Asian tigers” took off. To be sure, the Multifibre Arrangement (MFA) was not as deep or as broad then, but few SSA countries are subject to the MFA today and there are other manufactured goods than clothing. Moreover, in these other goods it is probably true that OECD countries were more likely then than now to resort to non-tariff barriers—for example, in footwear.

Third, most SSA countries receive preferential access to OECD markets through the GSP and/or the Lomé Convention. We shall argue below that these schemes are less beneficial than they seem at first blush, but they do, nonetheless, offer low, and frequently zero, tariffs on many SSA exports. Fourth, SSA countries appear to fare relatively better than other developing countries in the face of OECD countries’ non-tariff barriers—Amjadi, Reincke and Yeats (1996).

To conclude, there is, in fact, rather little evidence that hostile markets are the primary cause of SSA countries’ poor export performance. Indeed, much evidence points to the alternative of the SSA countries’ policies themselves. However, if it does not detract from the important business of reforming its own policy stance, trade liberalisation abroad will generally confer benefits on a trading country. Regardless of its own policies, lower tariffs abroad will generally allow more trade and/or better terms of trade. For this reason, therefore, and because many commentators link SSA liberalisation with that of its partners, we now turn to the question of what SSA countries did achieve, and might in future achieve, through international trade negotiations.

### 3. Africa and the Uruguay Round

One hears regularly that Africa got little or nothing out of the Uruguay Round—see, for example, Weston (1995). Statements like this depend heavily on what elements of the Round one considers and how one evaluates their benefits. For example, the Single Undertaking—which means that all members of WTO are now bound by more or less the same set of rules—newly constrains trade and related policies in Sub-Saharan Africa (SSA). To some commentators this is a cost, whereas to others, including ourselves, it is a benefit—Blackhurst, Enders and Francois (1996) and Finger and Winters (forthcoming).

Turning to dimensions that can be quantified relatively easily, a major study conducted by the World Bank concluded that SSA will make a small loss from the Round, reflecting its lack of liberalisation, the small increases in world prices for some foods and the higher prices of imported textile and apparel products (Martin and Winters, 1996, p. 13). There is now a wide body of evidence that suggests that open economies prosper more than closed ones—Section 2 above, so it is not surprising that the first factor, which essentially denies SSA countries the main benefits that others reaped in the Round, should be important. The second and third factors—food and clothing prices—are quantitatively less significant; they reflect the fact that SSA has previously benefited from the costs which other countries imposed on themselves by protecting agriculture and textiles/clothing and thus driving down world prices in those sectors. No one would wish to argue that the rest of the world should not seek to correct these manifestly large distortions, and so while the (small) income losses for SSA are real enough, they do not really constitute grounds for criticizing the Round *per se*. At most they are ammunition for arguing that the transfers implicit in the previous policies should be continued by other, more efficient, means. Overall, therefore, while SSA may have fared poorly in the Round, this was not because the process was biased but because SSA on the whole stood aside from the general liberalisation.<sup>6</sup>

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<sup>6</sup> Harrison, Rutherford and Tarr (1997) argue that to generate gains SSA liberalisation would have had to address not only tariffs but also domestic taxes on agriculture. Indeed they suggest that reducing the former but not the latter would have slightly reduced economic welfare.

The results of the previous paragraph are, of course, predictions, and thus reflect what economists think will happen rather than what has actually happened on the ground. In this section we ask a simpler, and more empirical, question about how SSA did in the Uruguay Round. We ask whether, on average, there were larger or smaller cuts in the tariffs on the goods that SSA exports than in those exported by other developing countries. Drawing on the analysis of Finger, Ingco and Reincke (1996) we base this analysis on the tariff concessions made by the 40 major markets that reported data on the Uruguay Round to the WTO's Integrated Data Base. These include all the industrial and transition economies that took part in the Round plus 26 developing countries: they cover 100% of the non-oil imports of North America, Western Europe and GATT members in Central and Eastern Europe, 90% of Asia's, 80% of Latin America's and 30% of Africa's.<sup>7</sup> The last figure is small because only three African countries, Senegal, Tunisia and Zimbabwe reported data, a fact which, in itself, is indicative of Africa's weak integration with the world economy.

In table 1 we report five measures of liberalisation from the Round for three groups of countries: SSA, other low-income countries (OLICs) and other low- and middle-income countries (OLMICs) as defined in World Bank (1996). The figures are simple averages of the corresponding measures for individual countries. In summarizing information over countries we prefer simple to weighted averages because we are interested in how the typical SSA country fared relative to other countries rather than in how SSA as a whole fared relative to other continents or blocs. Thus each country is an observation of equal value for our purposes. The data for each country, however, are averages weighted by the value of trade undertaken in each tariff code heading or tariff line. Finger, Ingco and Reincke (1996) report the corresponding weighted averages over countries, which, for SSA, differ significantly from our figures because they are dominated by South Africa.

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<sup>7</sup> High-income economies: Australia, Austria, Canada, European Union, Finland, Hong Kong, Iceland, Japan, New Zealand, Norway, Singapore, Sweden, Switzerland, United States; Eastern Europe: Czech and Slovak CU, Hungary, Poland, Romania; East Asia: Indonesia, Republic of Korea, Macao, Malaysia, Philippines, Thailand; Latin America: Argentina, Brazil, Chile, Colombia, El Salvador, Jamaica, Mexico, Peru, Uruguay, Venezuela; North Africa: Tunisia; Rest of Europe: Turkey; South Asia: India, Sri Lanka; Sub-Saharan Africa: Senegal, Zimbabwe.

The first two columns of table 1 report the percentage of SSA (OLIC or OLMIC) exports that entered partners' markets under bound tariff rates before the Round and the increase in this percentage as a result of the Round. The trade data all come from 1988, the negotiating 'base' year for the Round, so the changes in the coverage of bindings reflect only the increases in the numbers of tariff lines that partners bound and the amount of trade in those lines. Since bound MFN tariffs apply to all exporters (the data exclude trade occurring within FTAs), the differences between exporters reflect only the differences in their export bundles. But if we take the latter as given, we might view the increase in bindings as a *prima facie* measure of success in—or at least a measure of the returns to—negotiating in the Uruguay Round.<sup>8</sup>

The striking thing about column (2) is that SSA achieved less by way of new bindings on its exports than did either the OLICs or the OLMICs. Indeed, in no cases in our aggregations of goods did SSA do better and in the majority of cases it did significantly worse statistically.<sup>9</sup> But the reason for this is perfectly clear in column (1): in every case, SSA started off from a more favorable position, i.e., with a higher percentage of exports already bound, and these differences were also frequently statistically significant. The Round more or less brought other developing countries up to parity with SSA with respect to bindings. If we consider the percentage of exports bound after the Round (i.e., the sum of columns (1) and (2)) there are only five statistically significant differences between SSA and OLICs (all in SSA's favor) and one between SSA and the OLMICs.

The remaining columns of table 1 give similar statistics for other dimensions of the Uruguay Round outcome; again, they are simple averages across countries. Column (3) is constructed from country data on the percentage of exports affected by a reduction in a

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<sup>8</sup> Let us reiterate that winning concessions in partners' markets is only one way--probably a minor way--in which trade negotiations raise welfare generally. Far more important is the degree of liberalisation that a country undertakes itself.

<sup>9</sup> This is based on a statistical test of the difference in means between two samples assumed to have equal variances. Since the change in the percentage of exports bound for each country is derived by weighting together export flows (assumed to be stochastic) across many tariff headings (with weight one if there is a new binding and zero otherwise), we can assume that the individual country data are Normally distributed. Thus the group averages will also be Normal and the test is justified.

partners' tariff; it pays no heed to the depth of the reduction. Column (4), on the other hand, is based on the reduction in tariffs faced by countries' exports, averaged (weighted by exports) across all export headings for which a reduction is made. Unlike in WTO documents, percentage tariff reductions are measured here by their effect on the landed price of imports,  $[dT/(1+\bar{T})]*100$ , where  $\bar{T}$  is the mean of the 'before' and 'after' tariffs; hence a halving, say, of a tariff of 2% is 'worth' five times less than halving of one of 10%. To illustrate these two columns, the 'average SSA country' obtained tariff reductions of 51.2% on its exports of fish and fish products, and these reductions potentially reduced the landed prices to customers of those products by 2.5%. The average reduction in the landed prices of all fish and fish products was the product of these two numbers, viz., 1.3%.

In terms of the coverage of tariff reductions at commodity-group level there is no systematic difference between SSA, the OLICs and the OLMICs: SSA does better in some classes and worse in others, with about half of the differences being statistically significant. One interesting and statistically significant contrast, however, is for all industrial goods, in which SSA obtains only about half the coverage of reductions of the other groups (20% compared with 40%). This reflects SSA's heavy reliance on product groups with low coverage rates generally, such as wood, metals, minerals and manufactures. In this sense, SSA countries achieved less on average in the Round than did other developing countries, because its principal exports received cuts less frequently than did other products.

This story is compounded by a similar one on the depth of the cuts. There are no major differences at the level of commodity groups, and SSA obtains larger cuts than the other groups as often as not. However, taking industrial goods overall, SSA's concentration on sectors with weak liberalisation leaves it with an average tariff cut of 0.4% compared with 1.1% or 1.2% for the other aggregates.<sup>10</sup> Averaging the tariff reductions over all exports of industrial goods leaves SSA looking even more worse with cuts of 0.07% compared with 0.45% for the OLICs and 0.48% for the OLMICs.

One should not get carried away with these apparent disadvantages, however, for two reasons. First, once we turn to the aggregate of all exports (and, why focus exclusively on industrial goods?), SSA does not appear to be unduly discriminated against: on the coverage of cuts compare 29.7% for SSA with 36.0% for the OLICs and 31.2% for the OLMICs; on depth, compare 1.4% with 1.1% and 1.0% respectively, and on the average over all exports, 0.42% with 0.40% and 0.31%.

Second, turning to the final two columns of table 1 we report the levels of tariffs faced by different exporters after the Uruguay Round: column (5) is constructed from the average of bound rates (weighted by each country's exports), and column (6) from that of applied rates projected for the end of the transition period. For each trade heading, the latter equals the minimum of the post-Uruguay Round bound and the pre-Uruguay Round (1988) applied rate, which we assume would continue indefinitely into the future if the Uruguay Round binding did not force it down.<sup>11</sup> Here the story is very clear. Africa faces lower bound tariffs on average than do other developing countries—i.e., its exports are concentrated, on average, on low-tariff products—and the differences are all significant. At the aggregate levels, for industrial goods compare 3.2% for SSA, with 7.4% for the OLICs and 8.3% for the OLMICs, and for all goods 4.1% with 8.9% and 9.2%. Similarly for applied rates, the corresponding triples of (significantly different) figures are 2.2%, 5.9% and 5.8% for industrial goods, and 2.7%, 5.8% and 5.7% for all goods, although the individual goods aggregates do not display many significant differences.

In a real and quantifiable sense, the countries of SSA achieved less in the Uruguay Round than did other developing countries. Following Finger (1979) we might speculate that this is because they gave less by way of their own concessions. On the other hand, however, we must also recognize that they had less to achieve, because they started the Round with 'better' treatment than other countries. Moreover, they finished it in the same

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<sup>10</sup> These differences are not significant, however.

<sup>11</sup> In fact, since 1988 many importers have further reduced their applied rates, so this column overestimates the average tariffs that exporters face now and at the end of the Uruguay Round phase-in period.

condition, facing lower MFN tariffs on their exports on average than did other developing countries.

#### **4. The Next Round**

Rather than considering the last Round, this section looks forward to the next Round of trade negotiations and asks whether the SSA countries can reasonably expect to achieve anything. It considers whether they are significant enough partners for other countries to make it worth the latter's while negotiating with them at all. Given our previous comments about how small SSA is economically, it would not be surprising to find that there was no significant way in which they could participate. But, in fact, the answer is not completely negative. SSA may well be able to achieve some useful objectives by contributing actively to the Round.

We focus on two measures of the significance of a country to trade negotiations. First, to what extent are SSA countries, either singly or jointly, the largest, or principal, suppliers of particular goods to the major trading powers of the world. Second, to what extent are those powers' own exports oriented towards SSA? The former statistic reflects SSA countries' 'rights' to negotiate; the second their power or leverage in doing so. In discussing both we adopt the common, but at best very partial, mercantilist yardstick which sees exports as good and imports as necessary evils, and that interprets reducing one's partners' tariffs as a victory, and reducing one's own tariffs as unavoidable collateral damage.

The WTO's predecessor, the GATT, developed two approaches to tariff negotiation. In the Kennedy Round (1963-67) and the Tokyo Round (1972-79), as well as in the recent Information Technology Agreement, tariffs on industrial goods were reduced by formula subject to a complex negotiation (usually bilateral) of exceptions, exemptions and transitional periods. Small countries benefited from the general reduction in tariffs without having to take any specific action, but would, of course, have little power to prevent or discourage a large power from claiming exceptions on their main exports if other major powers did not object.

The technique used in the earlier GATT rounds and also used in the Uruguay Round for tariffs on industrial goods, was the so-called request and offer system, whereby one country made a specific request of another to reduce a particular tariff in return for a reciprocal concession. From the early days of the GATT the convention grew up that only the principal supplier of a particular good to a particular country could request the latter's government to reduce the relevant tariff—see Dam (1970). Thus a vital part of getting tariffs on your exports reduced was being the principal supplier of those goods. This suggests that small countries would have only a minor role in the process, since they would rarely be principal suppliers. Even if a particular good figured very highly in a small country's export bundle to a market, the small country could not initiate negotiations if some other country supplied absolutely more, even if that flow accounted for a minor proportion of the latter's total exports—see Winters (1987).

In table 2 we report on SSA countries' principal supplier status to the European Union.<sup>12</sup> We use 1995 data from the EU's Comext data base which defines products at the 8-digit level of the Harmonized System (HS). The situation varies somewhat from year to year, but the data analyzed here are probably fairly representative. A full listing of the affected trade headings is available from the authors.<sup>13</sup>

In all, 29 SSA countries are principal suppliers of at least one product (heading) and together they account for 289 (out of approximately 9,000) headings in the 8-digit HS trade classification. The distribution over countries is much as expected, with half of the headings stemming from South Africa. The bulk of the headings are in food and agriculture, but, of course, given that this is where the highest tariffs are to be found, this might be an advantage rather than the contrary.

It is striking in column (3) of table 2 how large a proportion of certain SSA countries' total exports to the EU fall into the principal supplier headings. This reflects the commodity concentration of SSA exports noted above, but it also indicates the strong

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<sup>12</sup> Europe takes over half of SSA's exports, so the EU is clearly the principal partner to concentrate on.

<sup>13</sup> We are grateful to Lin Ying for help with these calculations.

interest, at least on the basis of current trade, that SSA countries have in the advantageous treatment of this subset of their exports.

It is also notable (column 4) that, on the whole, SSA principal suppliers account for between one and two-thirds of EU imports in the relevant headings. These are relatively high numbers (cf Finger, 1979, table 5), which is usually viewed as an advantage in trade negotiations, for it maximizes the degree of internalization in any concession that the EU makes. Internalization is the proportion of the total benefits of a concession that accrues to the negotiating partner requesting that concession. The higher it is the higher the proportion of the concession that is working towards obtaining reciprocation from the requester, and the smaller the spill-over to partners who are not required to offer direct reciprocation when the concession is extended to all partners through the MFN clause. Thus negotiators are attracted to highly internalized concessions because they offer greater returns per unit of concession than do diffuse ones. In the GATT's mercantilist tradition, 'benefit' is the product of the proportionate tariff cut and the trade it affects. Clearly the distribution of benefit over partners is proportional to their shares of total imports. The conclusion is, therefore, that generally speaking, a fair proportion of the benefit of EU tariff cuts in these products will accrue to the SSA principal suppliers; this will set up fairly strong incentives for the latter to reciprocate, which, in turn, will help to make the EU correspondingly more sympathetic to requests for tariff reductions.

Column (5) explores the spill-overs more directly. It calculates the share of EU imports in headings with an SSA principal supplier that come from SSA as a whole. The difference between columns (5) and (4) is the spill-over from each SSA country's potential negotiation that accrues to other SSA countries. In general in goods for which one SSA country is the principal supplier, SSA supplies at least half of EU imports. Thus this is a set of commodities in which SSA has quite a strong collective interest.

The final column reports the EU's (weighted) average post-Uruguay Round bound tariff in each SSA country's principal supplier exports.<sup>14</sup> This column suggests that in several cases there is little left to negotiate, for MFN tariffs are already nearly or actually zero. On the other hand, there are also cases where substantial tariffs on substantial trade flows remain to be negotiated downwards—for example, for Mauritius, Namibia and Tanzania. The goods, in these sets on which Africans have more or less exclusive negotiating rights, are the important opportunities for SSA negotiators in the next Round.

Part (A) of table 2 treats SSA countries as single entities negotiating separately, but part (B) combines them into blocs based on current regional trading agreements. If the principal regional blocs in SSA negotiated as blocs they would have stronger principal supplier rights in the EU. Whenever one of their member countries was a principal supplier in its own right, and hence included in part (A) of the table, the bloc would automatically be a principal supplier and would have a market share no less, and probably greater, than that of the individual country. In addition, there would be trade headings for which the bloc collectively was a principal supplier without any individual SSA country having that status<sup>15</sup>.

The results in Part B confirm that, by acting in concert, blocs of SSA countries would have a few more negotiating rights and a somewhat greater degree of internalization. Two blocs—UEMOA and SADC—have about half of their exports in principal supplier categories and thus have, in some sense, significant influence over the treatment of their exports. The degree of internalization for all blocs is relatively high, as is the spill-over to the rest of SSA in the case of Western Africa. As might be expected from above, the major EU tariff barriers that are 'vulnerable' to SSA bloc-based principal

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14 The tariffs are taken from the WTO's Integrated Database and refer to the bound rates at the end of the transition phase of the Uruguay Round—i.e., to the base for the next Round. Applied tariffs are occasionally lower. Since the tariff data are on a 1988 classification and the trade data on a 1995 classification, there are some principal supplier commodities for which we cannot identify bound tariffs. We ignore these in the averaging.

15 One way in which the blocs might negotiate jointly is by forming a customs union--the expressed intention of most of them. Another way, however, is for them to coordinate negotiation on particular headings *ad hoc*. All that the GATT requires for such coordinated negotiation is that each member of the bloc offer reciprocation for the concession so obtained—Dam (1970, p. 62).

supplier negotiations are for Eastern and Southern Africa, including, especially, those on fish.

One theoretical complication evident in the notes to table 2(B) is multiple bloc membership. The countries of UEMOA are also members of ECOWAS while many from the CBI and some from SADC also belong to COMESA. These countries would need to decide with whom to combine. In fact, however, neither ECOWAS nor COMESA looks sufficiently coherent or active to negotiate with the EU, so this problem will probably not arise for some time.

The last row of part (B) treats SSA as a single negotiating unit. Again, it is clear that negotiating collectively would give SSA countries somewhat greater negotiating 'rights,' but, again, the difference is not huge. Even acting as a single SSA bloc they would have only 326 principal supplier items accounting for \$13.6 billion of exports compared with 289 accounting for \$8.2 billion of exports acting individually. Given the complexities of coordinating bloc positions, it is not clear that the bloc approach would be worthwhile.

Negotiations are, almost by definition, about reciprocity. When SSA negotiators approach those from the EU to negotiate on the principal supplier headings just identified, the latter will seek reciprocity in headings for which the EU is the relevant SSA country's or group's principal supplier. We do not have SSA data with which to identify these headings (presumably SSA negotiators will have them), but we are confident that many will exist and that they will have tariffs sufficiently high that the EU will have reasonable incentives to negotiate.

Table 3 looks at EU exports to SSA countries from a different perspective which is somewhat informative even if it has no formal role in GATT/WTO traditions. It asks in which commodities (again defined at 8-digit level of HS) is an SSA country the EU's principal market. That is, in which commodities will the EU be relatively most interested in liberalizing SSA rather than other markets? Note that we persist with the GATT mercantilist calculus which values concessions by the volume of existing trade that they

affect. Note also that the comparison here is of the relative market sizes for a given export commodity, and not of the relative values of exports of different commodities to a given market, which would be another valid metric.

Table 3 presents similar information to table 2 on SSA imports: the number of ‘principal market’ commodities, the value of trade within them, the percentage of the EU’s total exports to the country falling in those headings, the average percentage of total EU exports of these headings going to the principal market, the average percentage of these exports going to SSA as a whole, and the main commodities. Perhaps the most striking fact about table 3 is that it has any entries at all: it turns out that, after all, SSA matters to the EU in a mercantilist sense in at least some trade headings. Unfortunately, however, these headings are mostly for very small trade flows—even by the standards of EU-SSA trade. Frequently less than 1% of EU exports to an SSA country fall in headings for which the country is the principal market, and very commonly less than 5% does. The main exceptions to this are Angola, which, in 1995, was dominated by imports of drilling equipment (HS 89052000) and Liberia which was dominated by imports of passenger ships (HS 89011010).

The next two columns show that individual SSA countries accounted for quite large shares of EU exports of the ‘principal market’ headings and that in some cases SSA as a whole accounted for well over half. These include the major exports to Angola and Liberia.

While SSA countries are principal markets for some 238 trade headings in EU exports (491 if we take SSA as a whole), these are mostly quite insignificant. Nonetheless, exporters of these commodities are natural allies for SSA countries in trade negotiation and should be mobilized to seek concessions on EU imports in return for SSA liberalisations on these exports. SSA countries should also identify major imports from the EU in absolute terms and consider how liberalisation of these may also be used to improve their access to EU markets. Note yet again, however, that the principal benefit from such

exchanges of concessions would be from what SSA countries ‘gave’ on their own barriers rather than from what they ‘gained’ on EU barriers.

It would be foolish to view the results of this section as showing that SSA countries will have significant power in the next Round of trade negotiations. It does show, however, that even on the most bilateral of issues (tariff negotiations) and even with the old-fashioned operating rules (which were frequently criticized for excluding developing countries—e.g., Johnson, 1967), SSA has some role. To us, at least, this was a surprise.

Building upon the base of request and offer tariff negotiation we believe that SSA countries have much to gain by understanding and actively representing their broader interests in the next Round. Following the Uruguay and Tokyo Rounds we would expect this to be fairly heavily focused on multilateral activities such as formulaic approaches to liberalisation and the negotiation of rules, and there are good reasons to believe that these offer more scope to well-informed small players than do bilateral negotiations. It is a challenge to policy economists in Africa and to those elsewhere who care about Africa to provide the necessary information. The Development Economics Vice Presidency of the World Bank is committed to doing so, but the job will be much more effectively achieved locally than from Washington.

## **5. Preferences**

The previous two sections have argued that SSA countries emerged from the Uruguay Round facing lower tariffs than other developing countries and that according to GATT conventions SSA countries might be expected to have at least some negotiating rights over their major partners’ tariffs in the next Round. But both pieces of analyses considered partners’ MFN tariffs rather than the tariffs which SSA countries actually face. The latter are currently mostly governed by arrangements under the Generalized System of Preferences (the GSP) or, for the EU, the Lomé Convention, and are, as a result, fairly commonly zero. Thus our analysis of the Uruguay Round might be considered irrelevant and that of the principal supplier relationship actually perverse in the sense that it suggests

that SSA countries should be pleased to have the opportunity to negotiate down the tariffs that apply to their competitors but not to themselves!

We respond on two level. First, on preferences in general — or perhaps on the “concept” of preferences — it should be noted that they generally deliver very little. First, for most goods, particularly for manufactured ones the margin of tariff preference granted to SSA (and other developing) countries is very small. Amjadi, Reincke and Yeats (1996) shows that, at the end of the Uruguay Round transition period, SSA countries will have preference margins averaging slightly under 2.5 percentage points. (One should consider preferences in terms of the price advantage they confer—i.e., percentage points—rather than, as is quite common, the percentage of the tariffs they remit. To have 100% remission of a 1% tariff is worth far less—1 percentage point—than a 50% remission of a 10% tariff—5 percentage points.)

Moreover, even putting aside their low average level, preferences will be eroded by future multilateral liberalisation. The Uruguay Round cut the measured average margin of preference for SSA countries from 4.3 percentage points to 2.5. We interpret this not as further evidence of the hardship that the Round imposed on SSA, but as evidence that, in the long run, preferences will be squeezed even further. As the evidence that openness promotes economic performance becomes more deeply and widely accepted around the world, no one is going to arrest the removal of MFN trade barriers for the sake of the SSA countries’ preferences.

Second, there are cases where tariffs are higher and where, as a result, preferences are deeper and potentially more valuable. Among these cases there are undoubtedly some for which short-term interests dictate against seeking to erode present agreements (see below on longer-run aspects of preferences), but these are not as common as they may appear on the surface. Consider, for example, textiles and clothing. This simple and labor-intensive sector is one in which developing countries clearly have some competitive advantage, and which as a result of having some of the highest MFN tariffs potentially offer the greatest margins of preference. Unfortunately, however, the United States does

not grant preferences on textiles and clothing, so that SSA countries face the full average tariff of 16.75% on all their exports. The EU does grant tariff preferences to SSA textile and clothing exports under Lomé Convention, but they are subject to strict rules of origin. Strict and clumsily enforced rules of origin under the Lomé, for example, which allow duty-free access only if at least 85% of a product's value originates from a beneficiary country, have the effect of denying effective preferences even where the latter exist formally on the books.<sup>16</sup> In addition, the complicated procedures of the rules of origin cost poor country exporters dearly in terms of paperwork.

It is also worth noting that while the Lomé Convention places SSA textile and clothing exports to the EU outside the purview of the MFA, such commitments have not in the past prevented the EU from seeking and receiving “voluntary” restraint agreements on such exports, as it did with Mediterranean Associated States.

Turning to agriculture, the EU applies tariff quotas to SSA agricultural products covered by Common Agricultural Policy (CAP). Tariff quotas restrict the volume of imports that receive preferential treatment, so that once a country has exhausted its quota the preference it receives on marginal exports is zero. In addition, primary exports face even “stricter” rules of origin than manufactures under Lomé. For example, 100 percent of origin—all materials for manufacturing must originate from ACP countries—applies to fish products and processed fish, a product in which SSA countries such as the Seychelles and Cape Verde have comparative advantage. It is true that derogations from these rules of “originating products” are sometimes granted, as for example for the Seychelles, but only at the cost of facing an annual quota limit<sup>17</sup>.

Even if preferences are small on average, some economists argue that they are desirable or, even, important. We disagree. First, preferences to SSA countries do nothing to enhance the consumption of the goods concerned in a preference-granting market. In

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16 UNCTAD (1994) reports that in the EU only 68% of dutiable imports from beneficiary countries qualify for GSP preferences, of which only 33% (slightly below half) actually take them up. The corresponding figures for Japan are 35% and 16%, and for the United States 36% and 18%.

<sup>17</sup> For more detail, see Official Journal, L137, 31.12.1994.

almost all cases the latter continues to import some of the good from non-preferred sources and so experiences no decline in its internal price. All that the preferences do is (a) transfer tariff revenue to the SSA country on the exports that it would have made in the absence of preferences and (b) allow it to displace some exports from other sources as it expands up its supply curve in response to the higher price received for its exports.<sup>18</sup> As the SSA country's supply expands, its costs increase, so that the effect of the preference is to induce inefficiency—to transfer to SSA the production inefficiencies created by protection in the preference-granting market. If there were no difficulty in reversing such inefficiencies or in restructuring economies when the preferences are removed, it might still be advantageous to SSA to take advantage of preferences while it may. But, in fact, policy-makers generally argue that such restructuring is painful—perhaps very painful, for example, moving out of bananas in the Windward Islands—and so it is arguably best to avoid the distortion in the first place.

Second, and closely related to the previous point, preferences are granted unilaterally, usually one year at a time<sup>19</sup>. This makes them very insecure and also opens the recipient countries to considerable pressure to meet various conditions—e.g., labor standards—in order to continue them. Such insecurity encourages short-termism among SSA entrepreneurs and governments. Another insecurity derives from the Article 177 of Lomé Convention IV which allows the EU to take “safeguard measures” if imports from the ACP countries cause “serious disturbances” in a sector of the EU or a sector of one member country, or if they may result in a deterioration in “external financial stability” of a member. These are less restrictive than the conditions for safeguards protection under GATT Article XIX.

Thus overall preferences represent a very poor basis for investment, and thus probably have very little effect on the incentives for industrialization. They create incentives quite foreign to the notion of long-term development—e.g., for investment, learning, efficiency, etc.—and, instead, foster behavior designed to seek and perpetuate

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<sup>18</sup> The simple analytics of preferences are set out in Box 1.

<sup>19</sup> Lomé preferences are more secure than this.

the rents that they generate. In the past, developing countries, including many in SSA, have focused disproportionate diplomatic effort on achieving and maintaining preferences at the expense of identifying and pursuing constructive long-term objectives. For example, the internal politics of trade policy and trade negotiation are far easier to handle if they are focused on trying to persuade OECD countries to provide a free-lunch for certain exporters with no obvious costs to anyone else<sup>20</sup>. They are much more difficult if the policy involves liberalizing your own trade. Worse, preferences not only distract attention from SSA's own liberalisation, but have, sometimes, led SSA commentators to oppose other countries' liberalisations as a means to preserving SSA preferences.

Third, the various quantitative limits, exclusions and tight rules of origin that we have noted already not only reduce the average depth of preferences but do so in a quite perverse fashion. They apply mostly to sensitive items such as clothing, leather, agricultural products, which, being relatively simple and labor-intensive, are the very goods in which one would expect developing countries to have comparative advantage. These are the products that one typically associates with the first steps in industrialization and development, and thus it appears that the system of preferences tilts relative prices, and hence resource allocation, in developing countries away from rather than towards the critical sectors for development. To our knowledge no estimates exist of the extent of distortions such as these. However, de Melo and Winters (1990, 1993) study the related problem of the effects of VERs on certain developing countries' footwear exports and find that the costs arising from the distortion of the production structure can easily outweigh the benefits of the increased rents that are collected.

To summarize, the preferences granted to SSA countries under the GSP and Lomé Convention seem to confer little benefit on them<sup>21</sup>. They are not particularly deep quantitatively, but to the extent that they are effective they are probably perverse. To be

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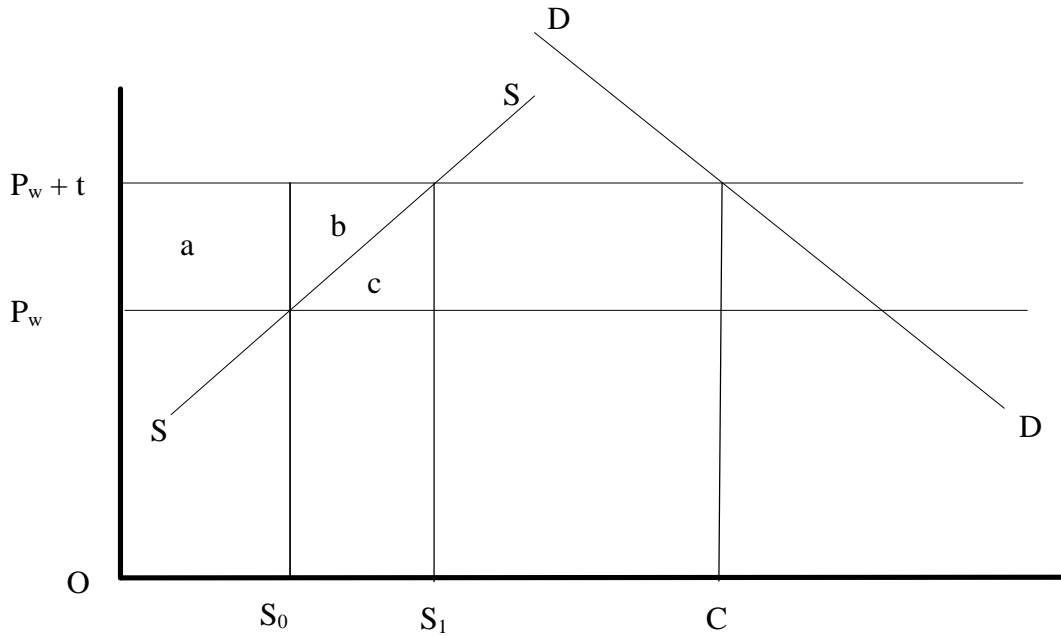
<sup>20</sup> We do not say 'with no costs,' for other industries will suffer as resources are bid away from them into the preferred sectors.

<sup>21</sup> In spite of over two decades of Lomé preferences, the ACP countries have generally failed to diversify and even unable to maintain their share of the EU market, which has fallen from 6.7% in 1976 to 3.4% in 1994. Meanwhile some less preferred developing countries have actually gained market share.

sure, preferences transfer some tariff revenues from OECD tax payers and other exporters to SSA exporters, but they do so in ways that could subvert long-run development. They divert resources from critical sectors, create inefficiencies, encourage rent-seeking rather than productive investment and undermine incentives for trade liberalisation.

This analysis of the difficulties created by preferences throws the previous sections into perspective. Both on positive grounds (because preferences are not particularly deep), and on normative grounds (because they are probably harmful in the long run), the SSA countries should turn away from the GSP and Lomé and focus instead on their partners' MFN tariffs and non-tariff barriers. They should ask how these barriers affect their development aspirations and whether they are amenable to negotiation. Those are the tasks initiated in the previous two sections.

### Box 1. The Simple Analytics of Preferences



Consider the market—in, say, the EU—for a single good supplied by imports from two sources: an SSA country with supply-curve  $SS$  and the rest of the world (RoW), which is large enough to have a horizontal supply curve at price  $P_w$ . If the EU levies a tariff  $t$  on both suppliers and has demand curve  $DD$ , consumption  $C$  is met by imports  $OS_0$  from SSA and  $(C-S_0)$  from RoW. Now exempt SSA from the tariff. Since imports from RoW continue, the EU's internal price remains  $(P_w+t)$ , but now the whole of this price accrues to the SSA exporters rather than, as previously, just  $P_w$  with  $t$  going to the EU authorities. That is, SSA exporters receive a higher price. On exports  $OS_0$ , this is pure rent, amounting to area  $a$ . In addition, however, SSA exporters can now afford to increase their exports to  $S_1$ , diverting an equivalent amount of imports from RoW. The extra exports drive up SSA's marginal costs to  $P_w+t$ , above the efficient level in the absence of preferences. Total cost increases by  $c$  and producer surplus increases by  $b$ —both at the expense of EU taxpayers, who would otherwise have received  $(b+c)$  in tariff revenue—and the SSA export industry has now expanded beyond its sustainable level.

## 6. Conclusions

Our conclusions are very simple:

- ◆ Sub-Saharan Africa's small size economically and the generalized nature of its decline in competitiveness mean that attempts to improve its performance should not unduly disturb other members of the world economy.
- ◆ Openness and liberal trade policies are associated with higher exports and economic growth. SSA countries are mostly closed and one of their top priorities should be to open up. With some (important) identifiable exceptions, African exports are not disproportionately restricted in OECD markets.
- ◆ SSA countries won fewer concessions in the Uruguay Round than did other developing countries—possibly because they seem to have offered fewer. Nonetheless they still emerged from the Round facing fewer or lower restrictions than other developing countries.
- ◆ In the next Round of trade negotiations SSA countries have some 'rights' to negotiate (according to GATT/WTO traditions) and a little leverage. They should be active in this Round, both giving and requesting concessions, and economists should help them to prepare the ground.
- ◆ Preferences are not the route to integrating with the world economy.

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