

Kappel, Robert

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Robert Kappel*

Africa's Marginalisation in World Trade

A Result of the Uruguay Round Agreements

Since 1975 the Lomé Conventions have granted trade preferences to African exports to the European Union, Africa's main trading partner. The liberalisation of trade foreseen by the Uruguay Round means that these preferences will disappear, leading to net reductions in African exports. What lessons should the countries of Africa draw from this?

Although Africa achieved relative progress in the sixties and seventies in the form of rising per capita incomes, increasing industrial production, an expansion in education and the mobilisation of savings, the continent's development continued to be dependent on a narrow product range. Most countries were able to diversify their production base only marginally, so that external shocks combined with rising oil prices for part of the period and falling growth rates in the OECD countries plunged the African economies into serious difficulties. The external shocks included the fall in commodity prices, which caused their export earnings to decline. Interest payments on their foreign debt rose, and capital transfers to Africa declined and turned negative at the end of the eighties. The World Bank estimates that capital flight amounted to more than \$ 40 billion during the eighties.¹ Of this, around \$ 27 billion related to Nigeria alone.

Given the structural weaknesses of African societies, the exogenous shocks were bound to lead to tremendous problems of adjustment. These structural weaknesses can be summarised as follows:

The *unfavourable composition of trade*: African countries' exports consist mainly of two or three products. In view of the low price elasticity of demand for most of their products and low income elasticity, price reductions could not lead to increases in the volume of sales or in earnings. The price elasticity of demand for imported goods was also relatively low, as imports were needed primarily for use in production. Local producers were generally not able

to make these products to an equivalent standard. Intra-African trade grew only slowly. The composition of exports and imports has barely changed since the sixties.

Africa's *industrial base* is weak and hence an unfavourable platform for the continent's development; industry's share of gross domestic product at the beginning of the nineties was 9%, compared with 23% in South-East Asia. Attempts by the World Bank to reverse Africa's further decline by means of an export-oriented strategy have not (yet) proved successful in most countries because of structural distortions and inadequate economic reforms. Markets in Europe, the USA and Japan shield themselves from competition by means of tariff and non-tariff trade barriers. At the same time, industry is protected in almost all the countries of Africa. The result of tariff barriers is increasing inefficiency. Industrial goods are rarely produced for export and are seldom competitive in the world market;² they are manufactured mainly for the domestic market. The formal industrial sector is often dominated by foreign companies, whose links with local industry are generally tenuous. The foreign companies are also heavily dependent on imports and rarely re-invest their profits in Africa.

The narrowness of the export range limits the

¹ See Ishrat Husain and John Underwood (eds.): *African External Finance in the 1990s*, Washington, D.C., 1991.

² See Ronald L. Parker, Randell Riopelle and William Steel: *Small Enterprises Adjusting to Liberalisation in Five African Countries*, World Bank Discussion Papers, No. 271, Washington, D.C., 1995; Roger C. Riddell: *The Future of the Manufacturing Sector in sub-Saharan Africa*, in: Thomas M. Callaghy and John Ravenhill (eds.): *Hemmed In. Responses to Africa's Decline*, New York 1993, pp. 215-247.

* University of Bremen, Germany.

prospects for developing international trade, for several reasons:³

□ *Low demand for mineral raw materials* and agricultural products in world markets. The demand for raw materials is tending to diminish. *Low price elasticity of demand* will also make it difficult for commodity and income terms of trade to rise over the long term.

□ The *structural adjustment programmes (SAPs)* launched since the beginning of the eighties have created the conditions for economic reform in many African countries, but they have also increased the production of goods in which these countries enjoy comparative cost advantages (traditional products, i.e. raw materials and agricultural products) and hence accentuated the fall in prices and earnings.

□ The extremely *low level of "human resources"* became an obstacle to productive activities in agriculture, handicrafts and industry.

□ The *inadequacy of infrastructure* (transport, communications, energy) leaves little scope for a breakthrough diversification into non-traditional products and exports.

□ In view of the *limited availability of land*, difficult climatic conditions, inadequate infrastructure and unfavourable credit terms for small farmers, agriculture has not been modernised sufficiently to ensure adequate food supplies for the population. Subsidised food exports from OECD countries have often hindered domestic production.⁴ The deteriorating terms of trade between urban centres and agriculture reflect the discrimination against the rural areas of Africa. The state has given rural areas no incentives, and today many regions are experiencing a rapid decline in per capita incomes, soil erosion and a flight from the land.⁵

³ See Frances Stewart: Are Short-term Policies Consistent with Long-term Development Needs in Africa?, in: Giovanni Andrea Cornia and Gerald K. Helleiner (eds.): From Adjustment to Development in Africa, New York 1994, pp. 98-128.

⁴ See Hartmut Brandt: Auswirkungen von Exporterstattungen der Europäischen Union auf die Rindfleischsektoren westafrikanischer Länder, DIE Berichte und Gutachten 1/95, Berlin 1995.

⁵ See Sara S. Berry: No Condition is Permanent. The Social Dynamics of Agrarian Change in sub-Saharan Africa, Madison, London 1994.

⁶ Thomas M. Callaghy and John Ravenhill (eds.), op. cit.

⁷ See Dirk Hansohm and Robert Kappel: Schwarz-weiße Mythen. Afrika und der entwicklungspolitische Diskurs, Münster/Hamburg 1994 (2nd edition).

⁸ For a detailed analysis, see Paul Collier: The Marginalization of Africa, Centre for the Study of African Economies, Oxford 1994.

□ *Rapid population growth* has wiped out productivity gains in most countries. Population growth is one of the main reasons for underdevelopment in Africa.

In many sub-Saharan countries the state sector simply pursues its own interests. The term "crony statism"⁶ can therefore be applied with reason to many countries.

Nevertheless, the reforms inaugurated in recent years give grounds for hope of a change for the better.⁷

Asymmetrical Trade Developments

From an international perspective, Africa as a whole is being increasingly marginalised.⁸ Most Africans have a very low per capita income and the continent is now of only minor importance in international trade, except as regards oil and some foodstuffs. In 1994 Africa accounted for under 2% of world trade. Flows of direct foreign investment are also low. On the other hand, official development assistance (ODA) has doubled since 1986; ODA to Africa (excluding South Africa) amounted to \$16.3 billion in 1992 and ODA as a percentage of GDP increased from 6% in 1986 to 11% in 1994.⁹

Table 1
Basic Economic Data on Groups of African Countries (1993 or 1992)

Countries	Manufacturing as % of GDP	Per capita GDP (US\$)	Investment as % of GDP
Export-processing areas			
Mauritius	23	2,700	25
Countries with import substitution industrialisation			
Zimbabwe	25	570	21
South Africa	25	2,670	19
Countries exporting minerals & raw materials			
Nigeria	5	320	18
Cameroon	22	820	-
Countries producing agricultural products for export			
Côte d'Ivoire	13	670	14
Kenya	12	310	15
Ghana	9	450	13
Sub-Saharan Africa – total including South Africa		520	17.5
Sub-Saharan Africa – excluding South Africa	9	310	17.9

Source: World Bank and IMF.

Nevertheless, it is now possible to distinguish very different levels of development. Whereas the majority of African states are still among the least developed countries, some have a higher per capita income, a high investment ratio and a rising level of industrialisation. Some countries have reached the take-off phase (such as South Africa, Zimbabwe, Ghana, Mauritius and Nigeria), while others are still constrained by structural difficulties. Table 1 shows the different levels of industrialisation and investment according to country group.

At the time of independence, most countries were very heavily dependent economically on their former mother country. Trade was primarily with France, the United Kingdom, Belgium, Portugal and Spain. Subsequently, however, the USA and Germany were able to improve their position in Africa, followed by Japan in the eighties. As a result, France's share of the foreign trade of its former African colonies fell from about 70-90% to 30-50% (depending on the country). Today, imports from Africa and exports to that continent are of minor importance to France, amounting to 5% and 7% respectively. By contrast, the EU's share of Africa's exports has continued to rise,

Table 2
Africa's Imports from Industrialised Countries, 1955-91
(percentage shares)

Year	Japan	European Community	Western Europe*	USA
1955	4	n.a.	87	8
1965	11	56	76	13
1975	15	68	74	11
1980	10	69	80	10
1985	8	67	79	13
1991	7	68	80	9

* European Community plus EFTA.

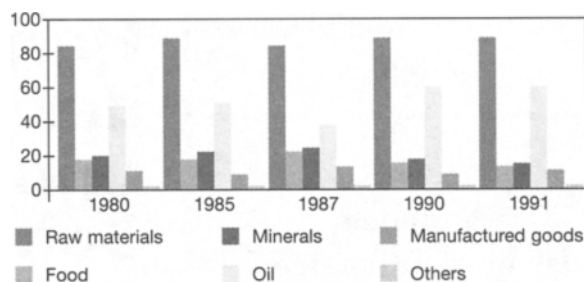
Source: UNCTAD: Monthly Bulletin of Statistics.

Table 3
Africa's Exports according to Region, 1980-93
(in billions of US dollars)

	1980	1988	1989	1990	1991	1992	1993
World	94.9	51.8	56.3	66.5	70.0	70.1	69.4
EU	43.9	29.8	31.8	39.2	40.2	40.8	40.7
USA	29.7	7.6	9.4	12.3	12.9	12.7	12.5
Japan	2.0	1.4	1.6	1.4	1.4	1.6	1.8
Third World	13.0	8.5	8.7	8.8	10.1	10.6	10.4

Source: UNCTAD: Monthly Bulletin of Statistics.

Figure 1
Africa's Exports by Product Group: Percentage Share



Source: UNCTAD.

from 46% in 1980 to 58% in 1993. Since 1975 more than two-thirds of Africa's imports have come from the EU.

The *crisis in Africa's foreign trade*¹⁰ is particularly evident in the lopsided composition of exports and imports, which continue to exhibit the typical pattern of specialisation, namely exports of agricultural, mineral and fossil raw materials and imports of capital goods, machinery, finished goods and petroleum. In recent years foodstuffs have been added to the list of imports owing to countless emergencies and wars. A small degree of product diversification is discernible in some countries. Figure 1 clearly shows the almost unchanged composition of African exports overall.

Most African countries have seen *no change in the composition of foreign trade* over the last 30 years or have become increasingly dependent on one or two products. In those countries where the composition of foreign trade has changed dramatically, the change has been due to the discovery of *new raw materials*. This is the case of Nigeria (96% dependent on oil since the early seventies), Cameroon (oil 38% since the eighties), the Congo (increased dependence on oil, 90% in the eighties), Botswana (diamonds 78%) and Niger (uranium 85%).

However, there is no general trend towards ever greater concentration on the production of raw materials. Some countries show positive growth rates in *manufacturing industry*. Manufacturing industry is relatively well developed in Zimbabwe (24% of GDP), Mauritius (23%), Zambia (25%), Côte d'Ivoire (13%)

* For a detailed analysis see Michael T. Hadjimichael, D. Ghura, M. Mühleisen et al.: Sub-Saharan Africa. Growth, Savings, and Investment, 1986-1993, IMF Occasional Papers, No. 118, Washington, D.C., 1995.

¹⁰ See Dirk Hansohm and Robert Kappel, op. cit., pp. 15 ff.

and Senegal (17%). These countries export mainly to Europe and to other African countries. Africa's share of the industrial imports of Japan, the USA and the EU has nevertheless declined (see Table 4). The composition of imports has remained relatively constant for decades; finished products and capital goods predominate (Table 5).

The Trade Regime of the Lomé Convention

Since 1975 Africa has had ties with its most important trading partner - the European Union - under the Lomé Conventions.¹¹ The trade regime established under these treaties grants preferences to the Africa, Caribbean and Pacific group of countries (the ACP states).

As a result of the GATT rounds, the *Lomé Conventions* provide for *non-reciprocal trade relations*, in other words the African countries no longer have to undertake to grant equivalent concessions for EU exports to Africa.¹² Almost all of the countries of Africa have made extensive use of the concessions. Non-signatories to the Lomé Conventions, by contrast, find their exports to the EU impeded by tariff and non-tariff trade barriers. The customs arrangements in force since 1975 favour goods originating in the ACP countries by allowing them to be imported free of customs duties and taxes. There are nevertheless a few exceptions and restrictions:

- ☐ All agricultural products subject to the EU's Common Agricultural Policy (CAP) are excluded.
- ☐ The *rules of origin*, which are difficult to meet, can be an obstacle to the further expansion of new exports. With regard to the textile sector, Sheila Page has stated that "the EC rules are considered a serious obstacle in manufactured trade because they supplement the usual requirement that there be a change of tariff classification by:

Table 4
Industrial Imports of Japan, the USA and the EU from Africa and the Developing Countries, 1980 and 1990
(percentage shares)

	1980			1990		
	EU	USA	Japan	EU	USA	Japan
Third World, total	100	100	100	100	100	100
NICs	26.9	69.0	82.4	56.7	73.8	89.8
ACP countries	6.9	2.7	4.1	3.3	2.2	0.3
Africa	5.7	0.3	3.4	2.8	0.4	0.1
Latin America	7.3	19.0	5.5	6.5	21.2	3.7

Source: World Bank.

Table 5
Africa's Imports According to Product Group 1980 and 1990
(percentage shares)

	1980	1990
Foodstuffs	14.3	13.0
Cereals	3.9	3.2
Raw materials, total	13.6	13.4
Petroleum	9.3	8.5
Other raw materials	4.3	4.9
Chemicals	7.9	8.6
Manufactured products/capital goods	68.6	64.0
Machinery	37.4	37.6
Cars, lorries	2.7	2.8
Other manufactured products	28.5	23.6
Total, in US\$ bn	84.4	81.9

Source: UNCTAD: Monthly Bulletin of Statistics.

- excluding 'simple assembly', requiring 'the last substantial process' to occur in the country receiving preference;
- setting a maximum percentage for outside materials of 40-50%;
- requiring textiles and clothing products to start from yarn".¹³
- Agreements to lower tariffs between the EU and third countries and the EU's Generalised System of Preferences reduce the advantages for ACP countries in relation to non-member Mediterranean countries and the Eastern bloc, for example.

Despite the preferential tariff system, imports from Africa have declined as a proportion of the Union's total imports.

A number of studies of trade between the EU and the ACP countries since 1975 have examined whether the trade policy decisions contained in the Lomé Conventions have helped expand and diversify African exports and hence have contributed to improving economic structures. On the whole, the

¹¹ See John Ravenhill: *Collective Clientelism: The Lomé Conventions and North-South Relations*, New York 1985; Enzo R. Grilli: *The European Community and the Developing Countries*, Cambridge 1993.

¹² See Olivier Cadot and Jaime de Melo: *The Europe Agreements and EC-LDC Relations*, CEPR Discussion Paper Series, No. 1001, London 1994; Paul Collier and Jan Willem Gunning: *Trade Policy and Regional Integration: Implications for the Relations between Europe and Africa*, in: *The World Economy*, Vol. 18, No. 3, 1995, pp. 387-410.

¹³ Sheila Page: *The Outlook for Textiles and Clothing*, in: Christopher Stevens and D. C. Faber (eds.): *The Uruguay Round and Europe 1992*, ECDPM Occasional Paper, Maastricht 1990, p. 106.

findings are not very encouraging, but there are a few areas in which very positive developments can be reported: there has been growth in a few new products, although it must be borne in mind that these exports account for a small proportion of the total.

In general, the claim that EU tariff preferences are the critical factor in determining whether a product is exported or not (e.g. exports of flowers from Kenya), as opposed to product price and the exploitation of comparative advantage, cannot be substantiated. In my opinion, a further reduction in tariff barriers and

accession to the calls for an improvement in the rules of origin under the Lomé Convention would not accelerate diversification, because the problem of African producers is not the lack of market access but excessive production costs, inadequate knowledge of markets, poorly developed product ranges and the obstacles placed in the way of export-oriented manufacturing industry by states incapable of reform. It is now possible to speak of the "unimportance of being preferred".¹⁴

Things are different in trade with the USA and Japan and in intra-African trade. First, trade with these two country groups is less important¹⁵ (see Tables 3 and 4), and secondly customs tariffs were higher and preferences lower.

Will Africa Lose?

It is forecast that the overall effect of the Uruguay Round will be to boost world trade by between 0.5 and 1.4% a year until the year 2005. The OECD and the World Bank calculate that it will lead to additional trade creation of \$235 billion a year, of which \$179 billion will benefit the industrial countries and \$56 billion the developing countries.¹⁶ Estimates of Africa's gains and losses vary. Some authors consider that Africa has suffered trade losses as a result of the loss of preferences and terms-of-trade losses owing to higher food prices, whereas others see welfare gains.¹⁷

¹⁴ Michael Davenport: Africa and the Unimportance of Being Preferred, in: Journal of Common Market Studies, Vol. 30, No. 2, 1992, pp. 233 ff.

¹⁵ Except for the oil-exporting countries of Nigeria, Angola and the Congo, which ship respectively 49%, 45% and 33% of their exports to the USA, and for Mauritania and Zambia, which each send 27% of their exports to Japan (fish and iron ore in the one case and copper in the other).

¹⁶ There are various models, such as the RUNS model, the standard version of which considers only changes in "border protection" and "reductions in domestic support for agriculture" on the assumption of perfect competition. The BANK model works with different elasticities of demand for traded goods, while the GATT model assumes imperfect competition. As a result, different benefits or losses are calculated. See Ian Goldin and Dominique van der Mensbrugghe: The Uruguay Round: An Assessment of Economywide and Agricultural Reforms, Paper presented at the World Bank Conference "The Uruguay Round and the Developing Countries", 26-27th January 1995, Washington, D.C., 1995; Joseph F. Francois, B. McDonald and H. Nordström: Assessing the Uruguay Round, Paper presented at the World Bank Conference "The Uruguay Round and the Developing Countries", 26-27th January 1995, Washington, D.C., 1995.

Helen Winter

Interdependenzen zwischen Industriepolitik und Handelspolitik der Europäischen Gemeinschaft

It is worth analyzing the various and often subtle connections between industrial policy and trade policy, because these policies are becoming more important and they are used as substitutes or as complements to one another. After defining both policies and their relationships, the study examines the industrial and trade policy of the EC as a whole.

The key targets of industrial policy are to prevent or promote structural change and to improve international competitiveness. The various instruments of European industrial policy are designed to deal with international problems, but they also influence the trade relationships between other countries.

In addition to that, the EC uses trade policy instruments as some kind of industrial policy, or to protect industrial policy. This is sometimes cheaper as subsidies. But in some cases industrial policy substitutes trade policy because the application of traditional trade policy instruments is restricted by international agreements.

■ The book is published in German.

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(Integration Europas und Ordnung der Weltwirtschaft, Vol. 4)



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Africa's main trading partner is the EU, which has granted Africa special preference under the Lomé Conventions. Almost 100% of African exports can enter the EU completely free of customs duty. For example, 25 of the 134 product groups exported by Angola are subject to most-favoured-nation tariffs of zero and a further 106 product groups enjoy preference rates of zero. Hence 131 product groups, or 98%, enjoy preferences. The same applies for all countries in Africa: "In short, Angola could experience trade gains from MFN tariff cuts on these two products and experience export losses on 131 tariff line items".¹⁸ By contrast, Taiwan and South Korea are eligible to a zero rate on only 4% of their exports under most-favoured-nation arrangements and no preferences on imports into the EU.

If MFN arrangements were completely liberalised, Africa would have reason to fear trade losses overall on the basis of existing preferences. The liberalisation under the Uruguay Round will lead to net reductions in African exports,¹⁹ although the scale of the reduction will depend on the extent of liberalisation, that is to say the extent to which the decisions are translated into action, which is the reason for differences in assessing the impact of the Round. The abolition of preferences for African states removes the obstacles for other countries. For Africa, eroding preferences bring the danger of further marginalisation in world trade.²⁰ There is trade diversion as a result of the loss of preferences and trade creation

Table 6
Africa's Trade Diversion and Loss of Export Revenue resulting from the Erosion of Preferences in EU Trade

	Trade diversion ECU m	Loss of export revenue ECU m	Percentage of total exports Trade diversion	Loss of export revenue
ACP countries, all goods	72	144	0.4	0.7
Manufactures	19	41		
Tropical products	20	40		
Plants, vegetables	7	13		
Fish and wood	13	27		
Metals and minerals	9	17		
Total Africa	62.2	124.6	0.3	0.7

Source: Michael Davenport, Adrian Hewitt and Antonique Koning: The Impact of the GATT-Uruguay Round on ACP States, ODI and ECDPM, London, Maastricht 1994.

owing to general liberalisation. Table 6 shows the impact of Uruguay Round tariff changes on African exports to the EU. The diversion of exports due to reduced EU preferences for African countries means that other suppliers will gain and African export earnings will probably decline.

Although the losses amount to only a small proportion of total exports, they are nonetheless of great importance in some sensitive areas. Exports of manufactured goods by countries with a developing industrial sector, such as Kenya, Nigeria, Cameroon and Côte d'Ivoire, are adversely affected.

The Uruguay Round agreement is expected to have a particular impact on African agriculture in view of the special rules of the CAP. Trade-distorting subsidies and import restrictions are to be reduced within six years. Non-tariff barriers are to be converted into equivalent customs duties (tariffication) and reduced in stages by an average of 36% for all agricultural products.²¹

In addition, domestic subsidies are to be reduced by 20% within six years. There are exemptions for measures with only minor trade-distorting effects (research, training, environmental protection measures) and measures to promote agricultural development in developing countries. Export subsidies are also to be cut by 36% of the 1986/90 level and the volume of subsidised exports reduced. Food aid is excluded. Least developed countries are not required to take liberalisation measures.

The main effect of agricultural liberalisation will be a decline in international dumping and a rise in world

¹⁷ There are many methodological problems in quantifying the effects. The results should therefore be viewed as descriptions of trends; see Alexander J. Yeats: What are OECD Trade Preferences Worth to sub-Saharan Africa?, World Bank Policy Research Working Paper No. 1254, Washington, D.C., 1994; Christopher Stevens and Jane Kennan: How Will the EU's Response to the GATT Round Affect Developing Countries?, IDS Working Paper No. 11, Brighton 1994; Piritta Sorsa: The Burden of Sub-Saharan African Own Commitments in the Uruguay Round – Myth or Reality?, IMF Working Paper WP/95/48, Geneva; Michael Davenport, Adrian Hewitt and Antonique Koning: The Impact of the GATT-Uruguay Round on ACP States, ODI and ECDPM, London, Maastricht 1994; Peter Harrold: The Impact of the Uruguay Round on Africa: Much Ado About Nothing?, Paper presented at the World Bank Conference "The Uruguay Round and the Developing Countries", 26-27th January 1995, Washington, D.C., 1995; Sheila Page and Michael Davenport: World Trade Reform. Do Developing Countries Gain or Lose?, London 1994.

¹⁸ Alexander J. Yeats, op. cit., p. 9.

¹⁹ Alexander J. Yeats, op. cit., pp. 24 f.

²⁰ See Christopher Stevens and Jane Kennan, op. cit.; Michael Davenport, Adrian Hewitt and Antonique Koning, op. cit.; Jürgen Wiemann: Entwicklungspolitik nach der Uruguay-Runde. Ergebnisse der GATT-Verhandlungen und Schlußfolgerungen für die deutsche Entwicklungszusammenarbeit, DIE, Berlin 1994.

²¹ Different percentage reductions apply to particular product groups, for example 25% for dairy products and 51% for spices, flowers and plants. The industrial countries' customs duties on tropical products will be reduced by 40%.

agricultural prices. Exporters of agricultural products will benefit, while importing countries will have to bear higher costs. Over the long term, these developments could bring about a change in trend for Africa, as subsidised food imports from Europe were an obstacle to raising African food production. There will be an incentive for domestic producers to increase production and productivity if the rise in earnings is passed on to producers and not retained by the state as a rent. In these circumstances, agricultural liberalisation would contribute to the development of domestic economic activities that have been impeded hitherto, as it would raise incomes in agriculture, which is a consumer of craft and industrial products (agricultural demand-led industrialisation, ADLI).²² Higher food exports are also considered possible.

Expected Short and Medium-term Effects

The following developments are expected in Africa in the short to medium term:

□ Estimates of the effects of the EU volume guarantees for sales of sugar (Sugar Protocol) and meat (Beef and Veal Protocol) for the duration of the Lomé Convention show that some countries (such as Mauritius and Botswana, which send a high proportion of their sugar and meat exports to the EU) will see their earnings decline as a result of a fall in prices caused by reductions in CAP intervention prices. The net effects for African food importing countries such as Nigeria, Angola, Mozambique, Senegal and Côte d'Ivoire will be substantial. Overall, however, it can be assumed that rising import costs will not have a dramatic effect. Losses of export earnings will tend to be small, although in some countries they will be significant.²³

□ The phasing-out of the Multi-Fibre Arrangement (MFA). Over the next ten years all bilateral import quotas are to be abolished in three stages and customs duties in the OECD countries reduced by 22%. For African countries, the liberalisation of trade in textiles and clothing means an erosion of existing preferences in relation to other developing countries, but here again the effects are not particularly pronounced for the continent as a whole. Individual countries, such as Mauritius, Zimbabwe and Côte

d'Ivoire, will be affected as they are exposed to keener competition. On the other hand, the phasing-out of the MFA opens up opportunities for African exports of clothing and textiles to the USA and Japan. It is not just a question of potential future sales, but market niches that already exist; textiles are already exported from Sudan, Chad, Burkina Faso and Mali to Japan and from Mauritius to the USA: Africa can compete.²⁴

□ During the Uruguay Round a General Agreement on Trade in Services (GATS) was negotiated, despite reservations on the part of developing countries. There are numerous issues that the agreement does not cover, including many of importance to African countries as well, such as maritime transport. Overall, the GATS provides that developing countries are not required to make any concessions in the direction of liberalisation. In seven African countries more than 50% of export earnings come from services: Cape Verde (88%), Comoros (53%), Ethiopia (50%), Kenya (53%), Lesotho (89%), Mozambique (57%) and Seychelles (91%). It is not possible to predict the extent to which liberalisation will increase or reduce export earnings, as studies on African countries are not available.

It is expected that the Uruguay Round agreements will cause Africa to lose part of its share of the EU market in products hitherto subject to preferential tariffs. As a consequence of the reduction of MFN tariffs, African countries will not only lose income from the export of tropical products (in contrast to all other developing countries), with Kenya, Malawi, Côte d'Ivoire and Zimbabwe being the largest losers, but will also lose market share in exports of industrial goods: "Almost all the individual sub-Saharan African countries lose (because of the combined effects of losing preference on tropical products and manufactures and facing higher costs for their temperate imports). With most of their exports, and all of those to their dominant market, the EU, already tariff-free, it is difficult to see how they could have gained, especially given the dependence of many on the distortions caused by past protection in agriculture."²⁵

Mauritius is an exception, in that it will benefit from the liberalisation of the MFA. Yeats puts Africa's

²² See Irma Adelman and Steven J. Vogel: The Relevance of ADLI for sub-Saharan Africa, in: African Development Perspectives Yearbook 1990/91, Vol. II, Münster/Hamburg 1992, pp. 258-279.

²³ See Michael Davenport, Adrian Hewitt and Antonique Koning, op. cit.; Sheila Page and Michael Davenport, op. cit.

²⁴ See Tyler Biggs, G. R. Moody, J.-H. van Leeuwen and E. D. White: Africa Can Compete: Export Opportunities and Challenges for Garments and Home Products in the U.S. Market, World Bank Discussion Papers, No. 242, Washington, D.C., 1994.

²⁵ Sheila Page and Michael Davenport, op. cit., p. 63.

aggregate loss at \$4 billion a year excluding Mauritius and \$3 billion including it.²⁶

In conclusion, it can be seen that Africa is marginalised in world trade and even in trade with the EU owing to its narrow range of products and exports. Despite trade preferences under the Lomé Conventions, African countries have seen their share of exports of industrial goods to the EU decline (see Table 4). With few exceptions, the Uruguay Round agreements are now accentuating their marginalisation in world trade.

However, there appears to be little sense in continuing to give Africa the special treatment laid down in the Lomé Convention and for which African countries have consistently called (through increased compensation payments, for example),²⁷ for the compensation funds established under the Lomé Convention (such as the Stabilisation Fund for Mining Exports (SYSMIN) and Export Stabilisation for Agricultural Products (STABEX)) have contributed to an ossification of export structures. Whether a relaxation of the rules of origin would help increase exports to the EU must also be doubtful. Product diversification will hardly be achieved by means of trade policy measures or new preferences in the agricultural field. Questions are being raised about the preferences that have already been granted; sooner or later they will become the subject of further consultation between the GATT and the EU. The same applies to the hotly contested arrangements for bananas.

Experience has shown that successful exporting countries such as Mauritius do not rely primarily on compensation funds and preference seeking but on comparative advantages, the achievement of high productivity and internal economic reform.

Prospects

Non-reciprocal trade relations have not prevented the erosion of African trade; indeed, the asymmetry has become more pronounced.²⁸

Africa's non-reciprocal trade co-operation with Europe is unilaterally dependent on the EU. This is the

main problem facing African trade. On the one hand the existing discrimination against other states under the Lomé Convention has been reduced and on the other co-operation between the EU and other country groups in the Third World is being intensified. These trends pose a serious threat to Africa's trade prospects. If the EU loses interest in Africa, Africa will not only lose its present preferential status but also the framework for reciprocal trade relations. Non-reciprocal trade preferences have not brought Africa much benefit, and are now being eroded by international liberalisation. Africa's position will deteriorate only slightly as a result, however. The ACP countries need a new form of trade co-operation - on a reciprocal basis.

What lessons should the countries of Africa draw from this?²⁹

□ Reshaping of development co-operation with the EU on a reciprocal basis, in other words the liberalisation of African markets. A reduction in quantitative import restrictions and the change-over to a system of moderate import duties are just as much a part of this as more far-reaching tariff reform and liberalisation of foreign exchange markets.³⁰

□ As a second step, African countries should establish an African customs union,³¹ which

□ forms a customs union with the EU.

Institutional arrangements between the EU and African countries should be decided jointly. Such a customs union between the EU and Africa would have three advantages:

1. Participation would be completely voluntary.
2. The institutional arrangements would be decided regionally and not imposed from outside (as with the intervention of the World Bank and IMF in Africa since the beginning of structural adjustment measures).
3. The credibility of African trade policy (and hence investment policy) would be enhanced.

²⁹ See Paul Collier and Jan Willem Gunning, *op. cit.*

³⁰ See Judith M. Dean, Seema Desai and James Riedel: Trade Policy Reform in Developing Countries Since 1985, World Bank Discussion Papers, No. 267, Washington, D.C., 1994.

³¹ The failure of attempts at regional integration in the past is not just the result of national egoism and attitudes but primarily due to economic factors. Intra-African trade cannot be expanded at a stroke, given existing production structures, different currency systems, the problems of export finance, underdeveloped institutions, and so forth. Nevertheless, there is considerable potential here; see Faezeh Foroutan and Lant Pritchett: Intra-sub-Saharan Africa Trade: Is it too Little?, in: *Journal of African Economies*, Vol. 2, No. 1, 1993, pp. 74-105.

²⁶ See Alexander J. Yeats, *op. cit.*, p. 18.

²⁷ See Peter Harrold, *op. cit.*, p. 53; Sheila Page and Michael Davenport, *op. cit.*; Michael Davenport, Adrian Hewitt and Antonique Koning, *op. cit.*

²⁸ See Robert Kappel: Afrikas Randsituation in der Weltgesellschaft und die Perspektiven für strategische Kooperation, in: Wolfgang Hein (ed.): *Umbruch in der Weltgesellschaft - auf dem Wege zu einer „Neuen Weltordnung“?*, Hamburg 1994, pp. 191-236; Paul Collier, *op. cit.*

The CFA franc zone could serve as a model for such a customs union.³² A (voluntary) link with the stronger EU trading partner (as practised by the EFTA countries and some Eastern European countries) would follow.³³

Reciprocal trade relations and the creation of an African customs union are necessary conditions for Africa to find a way out of the development impasse, but not sufficient in themselves. Different development paths must be followed, depending on the level of development, the progress with economic reforms and the degree of industrialisation. South Africa will adopt a more export-oriented and regional strategy and will thus perform a locomotive role for Southern Africa in general. The raw-material-exporting countries will continue to exploit their comparative advantages, but they will be able to reduce their dependency on demand in OECD countries only by systematically promoting agriculture and diversifying production, in other words promoting small and medium-sized industrial companies, which are central to the development of domestic potential.

Fundamental reform will have to be carried out at various levels in Africa:³⁴

□ Continuation of structural adjustment programmes, which are unavoidable and point in the right direction. There is a need for stronger commitment within Africa itself so that external conditionalities become domestic reform measures. This entails, among other things, overcoming the "Dutch disease" - in other words correcting internal price relationships between agricultural and industrial goods - and eliminating "crony statism", by means of political reform, for example. Key to the process, however, are reforms to develop endogenous potential. Numerous aspects can be mentioned here, such as the development of labour-intensive industry, the modernisation of agriculture to overcome marginalisation, the formation of industrial clusters and the promotion of foreign direct investment in Africa.

□ Reform of development aid. For decades Africa has received the highest allocations, and many state budgets are entirely dependent on such aid. In many instances, a clientelistic relationship has developed

between the donor community and the African state bureaucracy. A "Dutch disease" of development aid has existed for some time. This must be reduced.

Analysis of the marginalisation and economic weaknesses of Africa shows that strategies to make development an endogenous phenomenon will be difficult to put into practice. Long-term strategies are required to eliminate structural weaknesses. As Wassily Leontief has demonstrated, a self-sustaining development strategy requires savings ratios of 30-40% of gross domestic product, extraordinary self-discipline on the part of the population and/or an extractive and repressive state.³⁵ The African countries have not gone down this road of development nationalism pursued by South Korea, for example, and instead have adopted a strategy of co-operation with the EU in order to close the development gap. Globalisation and the simultaneous decoupling of Africa are exerting pressure on Africa to carry out internal economic reforms. The Uruguay Round is pushing Africa further towards the periphery. Trade reforms and additional preferences from the EU will not enable African countries, save for a few exceptions, to make a breakthrough in diversifying production and securing export niches. Ways of pursuing independent development must be promoted. It is becoming ever clearer that external conditionalities cannot be a catalyst for truly internal reforms. The potential for reform will have to develop internally in each of the African countries. It will be necessary to examine the extent to which development aid can foster this process.

The experience of the newly industrialised countries shows clearly that development co-operation cannot take the place of a country's own efforts. This is perhaps one of the lessons of the successful industrialisation of Asia. Africa's marginalisation from the world economy will ultimately be solved by Africans. This acknowledgement was not expressed in the Uruguay Round of negotiations or in the mid-term review of the Lomé Convention. In the Lomé negotiations the African countries made their case for higher aid and additional preferences, while they barely participated in the Uruguay Round. None of the African countries except South Africa undertook to liberalise customs protection or non-tariff barriers. Their theme is still the achievement of preferences. They are demanding special treatment and complaining about the mechanisms of globalisation. This too shows that they give priority to political methods and lack the will to strive for economic change.

³² Robert Kappel: Future Prospects for the CFA Franc Zone, in: *INTERECONOMICS*, Vol. 28, No. 6, 1993, pp. 269-278.

³³ See Paul Collier and Jan Willem Gunning, *op. cit.*

³⁴ See Robert Kappel: *Afrikas Randsituation ...*, *op. cit.*; Jürgen Wiemann, *op. cit.*

³⁵ See John Ravenhill, *op. cit.*, p. 14.