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Multilateralism and regionalism Trade opportunities for sub-Saharan Africa*

Introduction

Sub-Saharan-Africa's (SSA) integration with world markets is not as low as sometimes suggested. The exports to GDP ratio of the region is higher than the world average. SSA exports 30 percent of its GDP, whereas Latin America only exports 18 percent of its GDP and South Asia 15 percent. The ratio of exports to GDP across the world was 24 percent in 2001. Thus, although it does not reach the levels of countries in the East Asia and Pacific region (with an average of 42 percent), the degree of dependence of SSA on world markets is relatively high.

However ---as can be seen from Figure 1--- the increase in the exports to GDP ratio in SSA has been slower than in other regions during the period 1970-2001. If one excludes Nigeria and South Africa from the SSA aggregate the trend is even flatter. In any case, there has been a serious erosion of Africa's share in world markets. Exports from SSA represented more than 3 percent of world trade in the 1950s, but were only slightly above 1 percent in 2001. Moreover, if one excludes fuel exports, whose share increased from 3 to 6 percent during the period, the decline of Africa's share in world market is even steeper. Indeed, the share of SSA in world trade of non-fuel primary commodities went down from almost 9 percent in 1970 to less than 3 percent in 2001.[1]

Several explanations can be advanced for the decline of SSA share in world markets (e.g., badly managed economic and institutional reforms). In this paper we focus exclusively on the role that multilateral and regional trade agreements may have had. We do so not because they may be the main explanation behind the declining trend, but because several opportunities are offered today in multilateral and regional trade negotiations to try to reverse this trend. The objective of this note is to review the trade opportunities facing SSA

* We are grateful to Maurice Schiff, Javier Suarez and participants at a seminar in HWWA, Hamburg for very helpful comments.

1 See World Bank (2000).

both at the multilateral and the regional level. Section 2 focuses on the opportunities for SSA at the multilateral level. Section 3 addresses the regional opportunities. Section 4 concludes.

Multilateral opportunities

Out of 47 countries in the SSA region only 11 are not WTO members.[2] The 36 WTO members represent 93 percent of SSA's GDP and 95 percent of its exports. In any case a quarter of WTO members are in SSA and an observer unfamiliar with the history of the GATT/WTO could expect an important presence of SSA countries in GATT/WTO decisions. This has not been the case so far.

Historically the participation of SSA in multilateral trade negotiations consisted mainly of benefiting through the Most-Favoured-Nation (MFN) clause of concessions granted among developed countries and passively expecting further unilateral concessions through the Generalized System of Preferences (GSP). This is a "negotiating strategy" that SSA shares with most developing countries. Part of the reason for this passive behavior was that many SSA countries did not have representation in Geneva during previous rounds of multilateral trade negotiations due to the high costs of maintaining a delegation in Geneva.[3]

As useful as Article I of GATT and its MFN clause may be for countries with little bargaining power, this type of strategy has its limits. GATT and WTO negotiations being purely mercantilistic, developed countries search for concession in products in which they have an export interest. As a consequence, the most important trade barriers remaining across all WTO members are in agriculture and labor-intensive manufacturing (e.g., textiles and clothing); products in which SSA has a natural comparative advantage.

Thus, an important part of the decline in SSA share in world markets might be attributed to a relative deterioration of its market access both in developing and developed countries. In general, even though developed countries tend to have a much lower average tariff than developing countries (see Figure 2), the presence of tariff peaks is much more noticeable and mainly affect products exported by SSA countries. Indeed, rest-of-the-world exports to the QUAD face tariff peaks (tariffs above 15 percent) in only 4 percent of their exports to the QUAD.[4] SSA (potentially) faces tariffs above 15 percent in more than 30 percent of its total exports.[5] Tariffs above 100 percent on agriculture products are not

2 The eleven countries are: Cape Verde, Comoros, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Liberia, Sao Tome and Principe, Seychelles, Somalia and Sudan.

3 The case of Mauritania is a good example. Mauritania did not have a delegation in Geneva until after the Uruguay Round. Its concessions were decided by a delegation sent to Marrakech to sign the WTO agreement with the assistance of the Technical Cooperation Division of the GATT.

4 The QUAD is composed of Canada, the European Union, Japan and the United States.

5 See Hoekman et al. (2002).

uncommon in the QUAD. Indeed, imports of butter face an MFN tariff of 340 percent in Canada. Some types of beef face tariffs above 250 percent in Europe. Sugar imports in Japan face tariffs of 170 percent and rice can only be imported through government authorization. Groundnuts exports to the United States face tariffs around 350 percent.

Many developing countries also have excessive tariffs on imports of agriculture and labor-intensive manufacturing. Indeed tariffs above 200 percent are present in the tariff schedules of Bangladesh, Costa Rica, Egypt, India, Mexico, Morocco, Pakistan, Poland, Ukraine and Zimbabwe. Tariffs at such high levels are obviously quasi-prohibitive and do not only affect exports from other countries, but have a high cost in terms of resource allocation in countries imposing those tariffs. Moreover many developing countries have other tariffs and taxes levied at the border that can reach very high levels (Tanzania for example imposes "suspended tariffs" of up to 55 percent on top of the statutory tariffs). These other taxes are generally bound under GATT, but at levels usually above 200 percent. These "hidden" tariffs could be an important barrier for intra-developing country trade, as they are usually levied on products for which there is potential for South-South trade.

However, the presence of tariff peaks is much more noticeable in developed countries. Figure 3 shows the ratio of the maximum tariff to the average tariff in different regions of the world. The highest ratio is to be found among QUAD countries with an average ratio of 55. This suggest that on average among QUAD countries, the highest tariff is 55 times larger than the average tariff in the QUAD. The lowest ratio is found in Sub-Saharan Africa with a ratio of around 5 (a maximum tariff 5 times higher than the average tariff).[6]

Moreover, many of these tariff peaks in QUAD countries are specific tariffs, expressed in dollars per unit, which suffer from lack of transparency. The incidence depends heavily on the export price. And developing countries which generally export products in the lower end of the quality spectrum will be taxed relatively more heavily than other countries that export high quality products at high prices.

The GSP preferences granted by developed countries after the introduction of Part IV of GATT in 1965 could in principle allow developing countries to waive these high MFN tariffs through preferential access to developed countries market. In practice very little access has been obtained through the unilateral preferential concessions granted under the GSP. First, trade under GSP schemes remains very small and has been declining through the 1990s.[7] Second, and helping explain the first observation, preferences are generally granted in products with already relatively low MFN tariffs. In 1999, the preference margin granted to Least Developed Countries (LDCs) under the GSP, for products with MFN tariffs above 15 percent, was 25 percent in Canada, 31 percent in Japan and the United States and 69 percent in the European Union, whereas for products facing MFN tariffs below 15 percent the average preference margin is above 50 percent in all QUAD countries.

6 Average tariffs (i.e., the denominator of the ratio) are higher in SSA than in QUAD members (16 percent versus 5 percent), but this only explains a small part of the difference in the ratios of maximum to average tariff in the QUAD and in SSA.

7 See Grether and Olarreaga (1999).

Recognizing these deficiencies of GSP schemes in providing better access to developing countries, all QUAD members and other OECD countries have recently deepened their GSP schemes, especially with respect to Least Developed and African countries. The two most recent publicized schemes are the European Everything But Arms Initiative and the United States' Africa Growth and Opportunity Act (AGOA). The former grants duty free and quota free access to the European market for all products (except arms, bananas, rice and sugar for which duty free access has been delayed –or excluded in the case of arms) exported from Least Developed Countries (37 out of the 49 Least Developed Countries according to the UN classification are in Sub-Saharan Africa). The latter has extended US GSP preferences to African countries by an additional 1837 tariff lines. It is probably too early to judge the success of any of these initiatives with certainty but there has been very little improved access through these initiatives. In the case of AGOA most of SSA exports that fall under the AGOA regime are oil-related products –more than 90 percent-- benefiting mainly oil exporters (Nigeria and Gabon). In the case of apparel products for which special provisions are granted that soften rules of origin, only six SSA countries have significant exports of apparel (above $1million) in 2001. These are Mauritius, South Africa, Lesotho, Kenya, Malawi and Swaziland. In the case of EBA the main users of the preferences are Bangladesh and Cambodia; countries outside SSA.

Complex rules of origin with high administrative costs are probably also to blame for the poor results. The limited institutional and customs capacity of countries in SSA is a major barrier to any initiative that is based on preferential access to developed countries' markets and that involves fulfilling rules of origin requirements.[8]

Thus, unilateral preferential schemes provided under GSP can only be a partial solution to the market access problems faced by SSA. Simpler steps could be taken at the multilateral level that could provide important market access gains for SSA.

In the months preceding the WTO Ministerial meeting in Doha that launched a new round of multilateral trade negotiations in November 2001, several calls were made for this new round to be a "Development Round". Indeed, after the conclusion of the Uruguay Round, several governments, firms, and non-governmental organizations in developing countries underlined the asymmetry in the benefits associated with the Uruguay Round and received by developing and developed countries. The objective of the new Round should, in principle, be to shift the balance in the multilateral trading system towards developing countries. If one judges by the number of times the words "development" and "technical assistance" are mentioned in the Doha declaration, the negotiations are heading towards that objective: those two words appear more than 60 times in the 10 pages of the Doha declaration.

Two simple propositions can be derived from the discussion above. It is important, given the lack of the negotiating and implementation capacity of most developing countries and especially those in SSA , for any proposition to be easy to implement. The first

8 See Brenton and Manchin (2002).

proposition relates to the existence of specific tariffs in OECD tariff schedules and other taxes in developing countries customs. The former should be transformed into ad-valorem equivalents and the use of specific tariffs should be banned. The latter should be included in the tariff schedules and be within the tariff bindings. The cost of implementing such a reform are almost nil and it will add a lot of transparency to the system.

The second proposition is to reduce excessive levels of tariffs across all countries. Hoekman and Olarreaga (2002) suggest the introduction of a "super MFN rule". This would require WTO members to have all tariffs in their nationals schedules within 5 times the average tariff in their country. This would bring the maximum tariff that could be applied in the OECD to 25 percent. And in developing countries the maximum tariff would be 85 percent. In a sample of 113 WTO members for which we disposed of tariff information, 70 are above the 5 times rule. The application of such a rule could have a significant effect on exports of developing countries as many of the tariff peaks occurred in products in which developing countries have a comparative advantage. Such a rule would reduce the existing asymmetries in the international trading system in terms of benefits obtained by developing and developed countries. If the maximum tariff has to be within a short distance of the average tariff, SSA with very little bargaining capacity to reduce tariffs in products in which they have a comparative advantage could nevertheless see these tariffs reduced in OECD (and developing-country) markets as a consequence of tariff reductions in other tariffs that would bring the average down; and by the "rule of 5" the tariff on products of interest for SSA exporters would also decline.

Regional opportunities

In the African context, economic integration remains a key strategy for overcoming the problem of a highly fragmented continent with 48 relatively small high-cost economies, and promoting economic diversification and inter-linkages among production units in various countries.

Acknowledging this Africa has set-up more than 200 regional cooperation schemes in the last 30 years, most of them trade-related. However, regional integration, with its complex and numerous agreements and institutional arrangements, and political declarations and rhetoric has produced very limited concrete results. Intra-African trade remains very low (see table). In 2001, 90 percent of SADC exports, 95 percent of COMESA exports and 85 percent of UEMOA exports went to countries outside the region.[9] There are at least three potential explanations behind the lack of regional trade integration in spite of proliferating agreements. First of all, there is a huge gap between formal agreements and actual implementation: The

9 Some may argue that these low numbers are consistent with the small size of SSA or the fact that they have a comparative advantage in similar products.

record of implementation, by various countries, of treaties, protocols and agreed decisions is far from satisfactory. Even today governments continue committing themselves to unrealistic and unfeasible dates for regional agreements (i.e. EAC Customs Union by 2003, ECOWAS Customs Union by 2003) that blow up expectations and damage the credibility of the overall trade integration process. Much of the failure to implement the agreements has to do with concerns about losing much needed customs revenue. To top it off, most regional organizations in charge of enforcing the ambitious mandates entrusted to them in their treaties and protocols lack the resources to do so.

A second problem lies in the existence of multiple, overlapping and often conflicting regional integration arrangements within the same region which continues to be a problem making implementation very difficult and imposing a heavy burden on limited administrative resources in the member countries. Rationalization and harmonization of agreements is therefore essential if merging is not possible for political reasons.

Finally, although important progress has been made in removing tariff barriers through the regional trade agreements, much less attention has been devoted to the numerous non-tariff and non-border measures that most countries impose on one another preventing any substantial increase of intra-regional trade flows.

Let us illustrate all of this with some examples:

- In Southern Africa only Mozambique is a member of only one regional trade agreement (SADC), but has 8 bilateral trade and investment agreements, making it very difficult to implement. In general the job of an SSA customs official could be a nightmare if he had to implement all existing agreements (see Figure 4 which illustrates the web of regional agreements in Eastern and Southern Africa).[10] The solution for the customs official is the non-implementation of these agreements making them irrelevant.
- In UEMOA (Union É conomique et Monetaire Ouest Africaine), there has been almost perfect convergence to the CET (Common External Tariff), but there is no internal free trade. The average tariff collected in Senegal on imports from the rest-of-the world is 13 percent. The average tariff collected on imports from UEMOA partners is 9 percent. Internal free-trade has still a long way to go. Part of the reason is the arbitrary rules of origin system of UEMOA.
- Ethiopia is chairing COMESA since earlier this year. Ethiopia only grants a 10 percent preference to its COMESA partners. In spite of this Ethiopia is chairing discussions regarding regional cooperation in the areas of competition policy and investment policy.
- Kenya, Tanzania and Uganda are members of EAC which is supposed to become a customs union by November 2003. They are also members of COMESA which is

10 For a similar figure for regional agreements in West Africa see Schiff and Winters (2003), chapter 3, figure 3.1.

supposed to become a customs union by 2004. There is very little –if any-- coordination between the two regional blocs and it is not clear how Kenya, Tanzania and Uganda will be able to implement different "common" external tariffs.

- Namibia and Swaziland are SACU members and therefore implement SACU's CET. They are also members of COMESA, so by 2004 they would also have to implement two different CETs.

New momentum has been given recently to the regional integration agenda, particularly through the New Partnership for African Development (NEPAD) since two of the eight NEPAD priorities have regional dimensions: (i) regional infrastructure and (ii) intra-African trade. Among the top priorities for the short run, there is an important need for rationalization of regional trade agreements in SSA if countries in the region are to reap the benefits from these agreements. The negotiation of the Economic Partnership Agreements (EPAs) stemming from the Cotonou Agreement with the European Union that are supposed to be concluded by 2007 offers a window of opportunity to do so. The decision of the EU to negotiate with groups of countries based on their regional integration processes forces African countries to face some of the issues related to these overlapping and conflicting agreements. A possible path could be the following. First, each African country should preferably be a member of only one customs union –or *plan* to be a member of only one customs union. Also customs unions and FTAs should be made compatible, so that all members of the same customs union are also members of the same FTAs. This is particularly important for Eastern and Southern Africa, where there is one current customs union and other two are currently under negotiation with over-lapping FTAs.

Second, the focus of the negotiation for African countries should not be on market access into the EU market; on paper most African countries already enjoy quite a good access through the EBA initiative. It should rather be on transforming these access already obtained "on paper" into reality by obtaining financial and technical assistance that will allow them to take advantage of the preferences that have already been granted on paper through the EBA initiative to most countries. Efforts should be put on simplifying existing rules of origin and customs requirements and granting the capacity to customs and tax administrations in Africa to implement those rules.

Third, the EU should give equal treatment to all African countries regardless of their development status. Fostering and strengthening regional integration is hardly compatible with the concept of differentiation for the poorest, as in the case of EBA which provides better access to EU markets for LDCs mostly at the expense of other non-EBA African countries. Thus, the most generous treatment, like EBA or any other concessions offered by the EU should be extended across the continent.

Finally, careful consideration should be given also to what concessions Europe should seek from African countries under the EPAs. If preferential tariff concessions are granted, then long transition periods for African countries' tariff phase out should be considered to avoid large reductions in customs revenue, which are an important source of

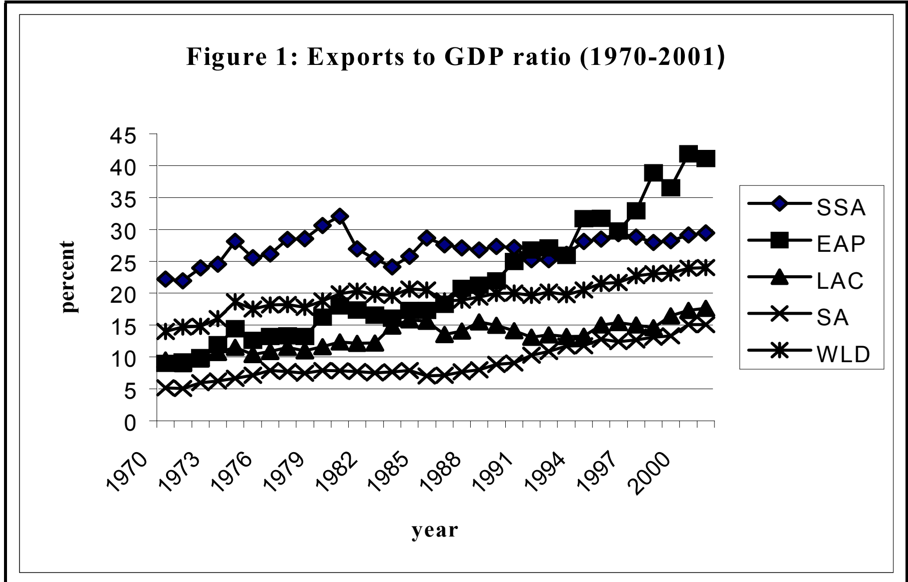
government financing in SSA. In order to prevent part of these tariff revenue loss and the associated welfare losses, Europe may want to negotiate MFN tariff reductions by SSA rather than preferential tariff reductions. A proposition along these lines has been suggested by Messerlin (2001). An elimination of other taxes and duties at the MFN level by SSA could also be the objective of European negotiators.

Concluding Remarks

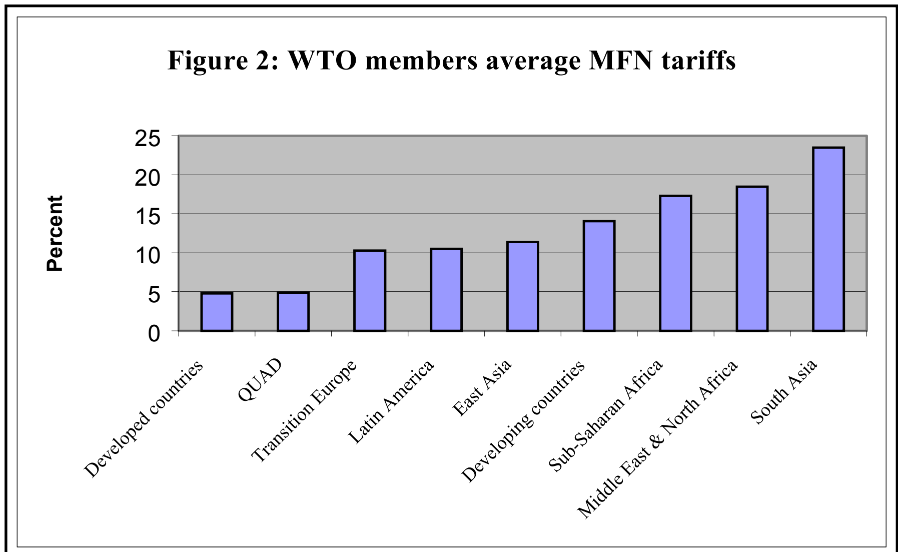
The decline in SSA participation in world markets can be partly attributed to the relative deterioration of its market access both at the multilateral and regional level. This note suggests some small steps that could be taken in order to reverse this trend.

At the multilateral level, the focus should be on simple rules being introduced in the WTO that could enhance the relative bargaining capacity of SSA countries. Two main suggestions are made. First, specific tariffs in OECD countries schedules should be transformed into ad-valorem equivalents and other taxes and duties levied at customs of many developing countries should be included in their tariff schedules and be subject to tariff bindings (and not other taxes and duties bindings). These two simple changes would add much needed transparency to international taxation. The second suggestion is the introduction in the GATT of a “super MFN rule”, which would require all WTO members not to impose a tariff that is more than 5 times the average tariff of that country. This would allow SSA countries to see tariff reductions in products in which they have a natural comparative advantage without any major negotiating effort.

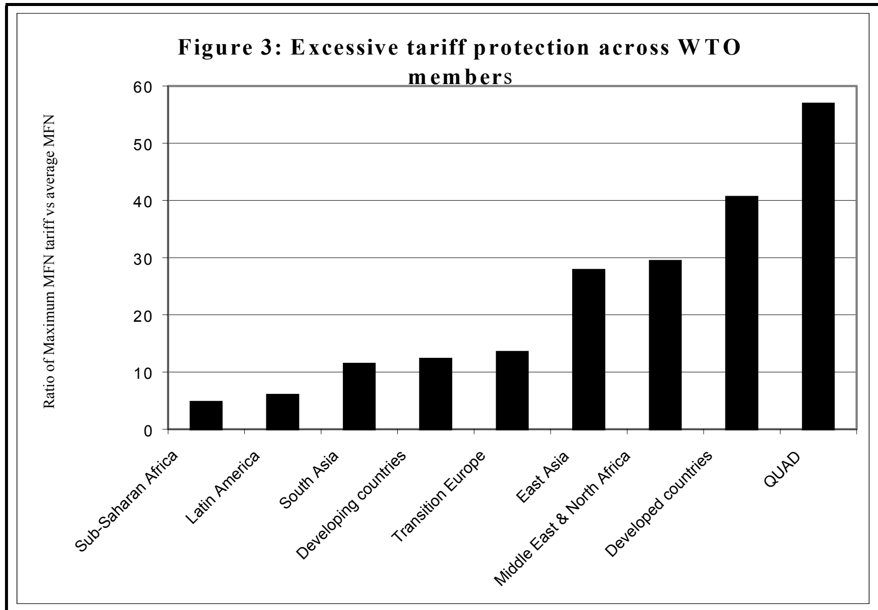
At the regional level, the new momentum given to regional integration by NEPAD should help overcome some of the political constraints and push forward the regional trade agenda. In the short run, the focus should aim at addressing the problems posed by the existence of multiple, overlapping and conflicting trade agreements, especially in Eastern and Southern Africa. By forcing African countries to negotiate in groups, taking into account their regional integration processes, the EPA negotiations with the EU offer a window of opportunity to rationalize and simplify the RTAs. African countries should not miss it.



Source: World Development Indicators, The World Bank.



Source: Hoekman et al (2002).



Source: Hoekman et al (2002).

Table: Intra-regional Trade in Selected sub-Saharan African Regional Trade Arrangements in 1999

Regional Trade Arrangements	Imports (Percent of total imports)	Exports (Percent of total exports)
SADC	11.7	8.3
COMESA	3.7	7.6
EAC	18.6	6.9
RIFF (CBI)	8.4	11.5
UEMOA	3.6	8.9
CEMAC	NA	2.0
ECOWAS	13.1	8.4

Source: IMF, Direction of Trade Statistics.

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