Trade: a key force for Africa’s development

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Progress in the Doha Development Agenda round of global trade negotiations is crucial for Africa. But G8 leaders need to inject real momentum into the round if there is to be a deal in Hong Kong in December.

This week, eight of the world’s most powerful men bring their collective attention to the problems of the world’s poorest and weakest. British Prime Minister Tony Blair, who will host the Group of Eight summit in Gleneagles, made clear early on his intention to devote this meeting to the problems of Africa. The objectives are clear – poverty alleviation, eradicating disease, social stability, clean water, reduced infant mortality, sustainable development – but the task of achieving them is anything but easy.

The Prime Minister is to be congratulated on his initiative. In an increasingly integrated world, we can no longer turn our backs on the crisis confronting 700 million of the world’s citizens. There can be no question that a global effort is needed if we are to reach the United Nations’ Millennium Development Goals and sharply reduce the number of Africans who live in poverty. Among the most important contributions we can make to a healthier Africa is an agreement to improve our global trading system.

There is no single remedy for the problems of Africa. A mix of financial assistance, sound policies and reforms will be essential to any recovery plan. But trade has a vital role to play. Countries that trade tend to do much better than those that do not. More liberalism in trade enhances economic efficiency, consumer welfare, helps root out corruption, assists in attracting foreign investment, and facilitates the transfer of technology. Trade leads to a more efficient use of resources and can help create jobs.

The strong growth in world trade in recent years has been a catalyst for economic growth globally. But Africa’s share of world trade has lagged behind. While nominal export figures rose 22 per cent in 2004 and 21 per cent in 2003, African trade was only 2.4 per cent of the global total last year.

A combination of measures is required to bring Africa in from the sidelines of the multilateral trading system. Lower trade barriers in the rich and emerging market economies, greater capacity to trade, enhanced technical assistance and sound trade policies are necessary elements in any sound trade strategy for Africa.

In a recent speech at the WTO, Rwandan President Paul Kagame spoke of the importance of trade for African development and of the technical and financial aid needed to make trade work for the continent’s citizens. “While the correlation between trade liberalisation and economic development is self-evident, reforms must be coupled...”
with aid to facilitate adjustment and integration into the global trade system,” he said.

Mr Blair’s Commission for Africa devoted a great deal of attention to the question of trade and development and has made a welcome contribution to this debate.

Clearly, before any economic development strategy can be implemented, there must be social stability. A trading system cannot function in a war zone. Peace on the continent is essential and one way to promote regional stability would be to break down barriers between countries in Africa: intra-regional trade in Africa represents only about 12 per cent of overall trade. Trade between African countries has languished for a variety of reasons including poor infrastructure, bureaucratic entanglements and suspicions between members. Fostering better trade relations with your neighbours can bring about better diplomatic relations between countries. It has worked in the European Union and there are signs that it can work in Africa too, as the Common Market for Eastern and Southern Africa has shown. The formation of the New Economic Partnership for African Development (NEPAD) offers new hope that enhanced regional co-operation in Africa is becoming the reality.

But while greater regional integration holds obvious attraction for Africa, the answers to African economic woes lie in multilateral solutions. The World Trade Organization, together with other international organisations, is working to provide some of the answers. From the WTO perspective, the most important contribution we can make to Africa is a successful conclusion to the Doha Development Agenda round of global trade negotiations.

Launched in the Qatari capital in 2001, these negotiations aim to improve the rules of the game in international trade so that developing countries can more readily benefit from trade. The round is complex and encompasses a vast number of areas but the basic thrust is to increase market access and to render international trade rules more just, particularly for developing countries.

Farm subsidies
One important way to do this would be through the reduction of trade-distorting farm subsidies. All G8 countries supply their farmers with assistance that is considered trade distorting. Through budgetary allocation and price supports, the rich countries extend more than US$300 billion annually to their farmers. These subsidies not only make it more difficult for developing countries to penetrate rich country markets – they also lead to overproduction and the dumping of surplus output onto world markets. Fortunately, this is an area in which we have made progress in our Doha negotiations. Last July, our members reached an historic pact when they agreed to eliminate all forms of agricultural export subsidies by a date as yet to be agreed. They have also agreed to slash trade-distorting domestic support by 20 per cent, from the first date of the accord’s implementation. Such a reduction would be equal to the entire reduction in such support during the Uruguay Round.

Duties and tariffs
But trade-distorting subsidies are only part of the problem. Barriers to trade in agriculture – the field of economic activity employing more Africans than any other – are higher than in manufacturing. Products like fruits and vegetables face duties in G8 countries that are twice as high as those applied to manufactured goods. The duties are higher still on other products of export interest to developing countries such as sugar or dairy products. In fact, in G8 countries, bound tariffs for agriculture products are about twice as high as duties on manufactured imports. The G8 countries have a special responsibility in this area of the negotiations but so too do the large emerging developing countries that have been so crucial in driving this round forward.

In developing countries the bound duties for many agricultural products are 100 per cent and higher. Average farm tariffs are far higher in developing countries than in developed countries and if south-south trade is to flourish, these duties must fall.
Cotton
Reform of cotton trade must also be part of any agriculture agreement. Cotton producers in West Africa are efficient enough to compete in the global marketplace but trade barriers and high subsidies to rich country farmers have combined to deprive West African cotton farmers of some US$250 million in annual income and have placed African cotton production in jeopardy. Failure to reduce trade distorting support for rich country cotton farmers and the high tariffs that keep African cotton out of many markets risk undermining agreement in agriculture and the entire package of Doha negotiations.

To date our progress on opening markets to agriculture products has been minimal and without movement here, the whole round risks failure. Negotiators must make progress this month (July) if we are to secure a positive outcome from our Ministerial Conference in Hong Kong this December.

Market access for non-agricultural products
Better access for manufactured products is also important for Africa, because here again developing countries face barriers, not least through a concept called tariff escalation, where importing countries affix a higher duty at each stage of production, thereby undercutting efforts at adding value and developing a manufacturing base. Again, products of interest to developing countries – textiles, leather products, footwear – face higher tariffs on average than products produced in rich countries. And again, these tariffs are higher still in developing countries, including the large and fast-growing emerging economies.

Progress in the non-agricultural market access talks has also been slow and we need to pick up the pace if Hong Kong is to succeed. A large majority of WTO members have stated that any final Doha agreement should result in duty-free, quota-free access for all products coming from Least Developed Countries (LDCs), the majority of which are in Africa, and our agreement in July reflects this strongly held view.

Services
The services negotiations have been lethargic. This too is an area which holds promise for Africa. For example, greater access to labour markets for African workers would lead to additional income for Africans of roughly US$14 billion, according to the Commission for Africa’s report. Africans can also benefit by opening their markets to foreign services providers. This could help in tourism, but also in transportation, where costs in Africa are among the highest in the world. Deregulation in ocean transport could reduce freight rates by 25-50 per cent, according to the Commission, and more competition among airlines would certainly help to hold down air freight charges.

Trade facilitation
Trade facilitation is another area of our negotiations that holds great promise for Africa. Essentially, the objective of these negotiations is to boost trade by reducing transaction costs that stem from bureaucratic red tape and other less malign hindrances. By simplifying procedures and making them more transparent, by educating customs officials, and by utilising new technologies, countries can greatly reduce the cost of doing business. An average transaction in the developing world, for instance, involves 20-30 parties, 40 documents and 200 data elements, 30 of which have to be repeated at least 30 times. This translates into wasted time and money. When the average customs delay in sub-Saharan Africa is 12.1 days, it is not surprising that transport costs in this region are twice as high as the global average. One APEC study says cutting these impediments to trade could boost income in the Asia Pacific by US$115 billion a year – nearly one per cent of the region’s GDP.

Building trade capacity
More technical assistance is needed to enable African trade officials to make better use of existing global trade rules and more successfully to negotiate new and better rules. Last year, the WTO spent CHF 25 million on some 500 technical assistance programmes. We can and will do more in the future. Clearly donors must begin to consider ways in which financial assistance can bolster Africa’s capacity to trade. The Aid for Trade Initiative calls for supplementing our existing resources under the Integrated Framework of trade-related technical assistance for Least Developed Countries. This
programme is very much welcomed by the WTO because it would allow us to widen the coverage of those who benefit from this programme, which involves a co-ordinated approach to assistance involving the WTO, the IMF, the World Bank, UNCTAD, the UN Development Programme and the International Trade Centre.

Infrastructure
The Commission says, moreover, that improvement in infrastructure – roads, ports, telecommunications networks – would require a doubling of financial assistance from US$20 billion to US$40 billion annually. Bilateral donors and our partners at other international organisations surely understand the importance of helping Africa to help itself. Funding for projects of this kind would be investments in the future.

Flexibility and sequencing
Of course, not all African countries are pursuing the same negotiating strategy. Nor do all African countries possess the same level of capacity to trade. The framework agreements we have in place allow for flexibility in the way African countries would implement any Doha agreement. For example, there is an emerging consensus among WTO members that LDCs would not be required to make any reductions in tariffs or subsidies either for agricultural products or manufactured goods. Allowances will be made such that net food-importing developing countries will continue to have access to food aid. Given their different levels of development, LDCs and other countries in Africa may need to sequence their trade reforms as they implement their development programmes. Such sequencing should be accompanied by targeted technical assistance that can help countries to accelerate the pace of reform. Agreement on a balanced and ambitious Doha accord is not enough: there must be funds available to assist countries in Africa and elsewhere to implement the terms of the agreement.

The negotiators must make progress on agriculture for a positive outcome in Hong Kong

In September Supachai Panitchpakdi will become the Secretary General of the United Nations Conference on Trade and Development (UNCTAD).